



# U.S. Senate Committee on Banking, Housing, and Urban Affairs

U.S. SENATOR RICHARD C. SHELBY, AL, RANKING MEMBER

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EMBARGOED UNTIL BEGINNING OF HEARING

Contact: Jonathan Graffeo at (202) 224-0894  
Jonathan\_Graffeo@banking.senate.gov

## STATEMENT OF SENATOR RICHARD C. SHELBY

*The State of the Banking Industry*

June 5, 2008

“Thank you, Mr. Chairman.”

“There have been some significant developments in the banking sector since our last hearing, making this meeting timely and important. The most significant development has been the collapse of Bear Stearns, including the Federal Reserve’s efforts to intervene and its willingness to open the discount window to the nineteen primary securities dealers. While this action provided a source of stability for the financial system, it also raised a number of policy questions which we can explore further today.”

“Since March, the ‘problem bank list’ has also grown. As these numbers rise, I am concerned that the deposit insurance fund reserve ratio is at its lowest level since 1996. I believe that it is critical to ensure the fund remains healthy as we work through this period of stress.”

“Finally, there have been a large number of earnings restatements in the banking industry for the fourth quarter of 2007. Earnings were originally reported at \$5.8 billion, but sizable restatements by a few institutions caused fourth quarter net income to decline significantly. If the credit crisis has demonstrated anything, it is that there is no substitute for sound risk management. In this time of turmoil, we must be confident that the nation’s financial institutions are operating in a safe and sound manner. This requires vigilance and clear guidance from the regulators.”

“As the credit crisis continues to affect many of our nation’s financial institutions, I am also interested to hear what the regulators believe may be on the horizon. I am particularly

interested to hear about the exposure of financial institutions to commercial real estate and construction lending tied to the mortgage market. I would also like to hear how they are ensuring that banks – operating in some of the most overheated markets – are adequately prepared to deal with the stresses of the next several months.”

“As we discussed in March, banks have been well capitalized coming into this period of stress which is good news. As we transition to new capital standards, however, we must continue to examine how Basel II will hold up in periods of stress. I believe it is important to look at a number of factors including general liquidity, the risk weighting of securitized assets, as well as a host of other factors. With the list of troubled financial institutions growing, there is little doubt that bank failures will rise. The question for our witnesses is, how do they intend to mitigate the fallout?”

“I welcome all of our witnesses back, and look forward to hearing from them. Thank you, Mr. Chairman.”

