

HON. WM. LACY CLAY (MO-1)

JUNE 1, 2011 OPENING STATEMENT

SUBCOMMITTEE ON DOMESTIC MONETARY POLICY AND  
TECHNOLOGY

HEARING ENTITLED "FEDERAL RESERVE LENDING DISCLOSURE:  
FOIA, DODD-FRANK, AND THE DATA DUMP"

THANK YOU MR. CHAIRMAN

FOR HOLDING THIS HEARING TO EXAMINE INFORMATION DISCLOSED  
BY THE FEDERAL RESERVE IN COMPLIANCE WITH THE DODD-FRANK  
WALL STREET REFORM AND CONSUMER PROTECTION ACT AND THE  
FREEDOM OF INFORMATION ACT. ALSO, I WANT TO THANK THE  
WITNESSES FOR APPEARING.

DUE TO THE U.S. FINANCIAL CRISIS, THE UNITED STATES CONGRESS  
PASSED THE DODD-FRANK WALL STREET REFORM AND CONSUMER  
PROTECTION ACT OF 2010. THIS LEGISLATION WAS CRAFTED AS A  
RESPONSE TO THE FINANCIAL CRISIS WHICH HAS COST NEARLY 10  
MILLION AMERICAN JOBS AND OVER \$10 TRILLION IN HOUSEHOLD  
WEALTH. NEARLY 4 MILLION FAMILIES HAVE LOST THEIR HOMES TO  
FORECLOSURE AND AN ADDITIONAL 4.5 MILLION HAVE SLIPPED  
INTO THE FORECLOSURE PROCESS OR ARE SERIOUSLY BEHIND ON  
THEIR MORTGAGE PAYMENT.

ACCORDING TO THE FINANCIAL CRISIS INQUIRY REPORT; A COMBINATION OF EXCESSIVE BORROWING, RISKY INVESTMENTS, AND THE LACK OF TRANSPARENCY PUT THE FINANCIAL SYSTEM ON A COLLISION COURSE OF SELF DESTRUCTION.

IN THE YEARS LEADING UP TO THE CRISIS, TOO MANY FINANCIAL INSTITUTIONS, AS WELL AS TOO MANY HOUSEHOLDS, BORROWED TOO MUCH, LEAVING THEM VULNERABLE TO FINANCIAL DISTRESS; IF THE VALUE OF THE INVESTMENTS DECLINED EVEN MODESTLY.

FOR EXAMPLE, AS OF 2007, THE FIVE MAJOR INVESTMENT BANKS WERE OPERATING WITH EXTRAORDINARILY THIN CAPITAL. BY ONE MEASURE, THEIR LEVERAGE RATIOS WERE AS HIGH AS 40 TO 1, MEANING FOR EVERY \$40 IN ASSETS, THERE WAS ONLY \$1 IN CAPITAL TO COVER LOSSES. LESS THAN A 3% DROP IN ASSET VALUE COULD WIPE OUT A COMPANY.

LEVERAGE WAS OFTEN HIDDEN IN OFF-BALANCE SHEET ENTITIES; IN DERIVATIVES POSITIONS; AND THROUGH "WINDOW DRESSING" OF FINANCIAL REPORTS AVAILABLE TO THE INVESTING PUBLIC.

WITHIN THE FINANCIAL SYSTEM, THE DANGER OF THIS DEBT WAS INCREASED BECAUSE TRANSPARENCY WAS NOT REQUIRED OR DESIRED; UNDERCOVER CORPORATE DEALINGS ASSISTED IN THE FINANCIAL MELTDOWN WHICH STILL PLAGUES US TODAY.

IN ORDER FOR DEMOCRACY AND CAPITALISM TO EXIST CORRECTLY, TRANSPARENCY MUST BE AT THE CORE; TRUST, TRANSPARENCY AND THE RULE OF LAW ARE FUNDAMENTAL TO THIS NATION SUCCESS.

BUSINESS DEPENDS IN SOME WAY ON TRUST; A TRUST THAT BUSINESS PRODUCES GOOD PRODUCTS AND A TRUST THAT BUSINESS WILL DELIVER GOOD SERVICES.

DEMOCRACY DEPENDS IN SOME WAY ON TRUST. TRANSPARENCY PROMOTES GOVERNMENT ACCOUNTABILITY, FREE AND FAIR ELECTION, COMPETITION AND FREE MARKETS, AND THE RULE OF LAW ARE CRITICAL TO IT.

THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT ADDRESSES THESE ISSUES BY REFORMING THE FEDERAL RESERVE: 1) IT LIMITS THE FEDERAL RESERVE'S 13(3) EMERGENCY LENDING AUTHORITY BY PROHIBITING EMERGENCY LENDING TO AN INDIVIDUAL ENTITY. THE SECRETARY OF TREASURY MUST APPROVE ANY LENDING PROGRAM, PROGRAM MUST BE BROAD BASED, AND LOANS CANNOT BE MADE TO INSOLVENT FIRMS. COLLATERAL MUST BE SUFFICIENT TO PROTECT TAXPAYERS FROM LOSSES. 2) IT REQUIRES THE FEDERAL RESERVE TO DISCLOSE COUNTERPARTIES AND INFORMATION ABOUT AMOUNTS, TERMS AND CONDITIONS OF 13(3) AND DISCOUNT WINDOW LENDING, AND OPEN MARKET TRANSACTIONS ON AN ONGOING BASIS, WITH SPECIFIED TIME DELAYS. THESE ARE JUST A FEW EXAMPLES OF THE IMPORTANCE OF THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT.

THANK YOU AGAIN MR. CHAIRMAN AND I LOOK FORWARD TO THE WITNESSES COMMENTS!