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U.S. DEPARTMENT OF THE TREASURY

Press Center

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Washington, DC-- Last night, Federal Reserve Chairman Ben Bernanke, SEC Chairman Chris Cox and I had a lengthy and productive working session with Congressional leaders. We began a substantive discussion on the need for a comprehensive approach to relieving the stresses on our financial institutions and markets.

We have acted on a case-by-case basis in recent weeks, addressing problems at Fannie Mae and Freddie Mac, working with market participants to prepare for the failure of Lehman Brothers, and lending to AIG so it can sell some of its assets in an orderly manner. And this morning we've taken a number of powerful tactical steps to increase confidence in the system, including the establishment of a temporary guaranty program for the U.S. money market mutual fund industry.

Despite these steps, more is needed. We must now take further, decisive action to fundamentally and comprehensively address the root cause of our financial system's stresses.

The underlying weakness in our financial system today is the illiquid mortgage assets that have lost value as the housing correction has proceeded. These illiquid assets are choking off the flow of credit that is so vitally important to our economy. When the financial system works as it should, money and capital flow to and from households and businesses to pay for home loans, school loans and investments that create jobs. As illiquid mortgage assets block the system, the clogging of our financial markets has the potential to have significant effects on our financial system and our economy.

As we all know, lax lending practices earlier this decade led to irresponsible lending and irresponsible borrowing. This simply put too many families into mortgages they could not afford. We are seeing the impact on homeowners and neighborhoods, with 5 million homeowners now delinquent or in foreclosure. What began as a sub-prime lending problem has spread to other, less-risky mortgages, and contributed to excess home inventories that have pushed down home prices for responsible homeowners.

A similar scenario is playing out among the lenders who made those mortgages, the securitizers who bought, repackaged and resold them, and the investors who bought them. These troubled loans are now parked, or frozen, on the balance sheets of banks and other financial institutions, preventing them from financing productive loans. The inability to determine their worth has fostered uncertainty about mortgage assets, and even about the financial condition of the institutions that own them. The normal buying and selling of nearly all types of mortgage assets has become challenged.

These illiquid assets are clogging up our financial system, and undermining the strength of our otherwise sound financial institutions. As a result, Americans' personal savings are threatened, and the ability of consumers and businesses to borrow and finance spending, investment, and job creation has been disrupted.

To restore confidence in our markets and our financial institutions, so they can fuel continued growth and prosperity, we must address the underlying problem.

The federal government must implement a program to remove these illiquid assets that are weighing down our financial institutions and threatening our economy. This troubled asset relief program must be properly designed and sufficiently large to have maximum impact, while including features that protect the taxpayer to the maximum extent possible. The ultimate taxpayer protection will be the stability this troubled asset relief program provides to our financial system, even as it will involve a significant investment of taxpayer dollars. I am convinced that this bold approach will cost American families far less than the alternative – a continuing series of financial institution failures and frozen credit markets unable to fund economic expansion.

I believe many Members of Congress share my conviction. I will spend the weekend working with members of Congress of both parties to examine approaches to alleviate the pressure of these bad loans on our system, so credit can flow once again to American consumers and companies. Our economic health requires that we work together for prompt, bipartisan action.

As we work with the Congress to pass this legislation over the next week, other immediate actions will provide relief.

First, to provide critical additional funding to our mortgage markets, the GSEs Fannie Mae and Freddie Mac will increase their purchases of mortgage-backed securities (MBS). These two enterprises must carry out their mission to support the mortgage market.

Second, to increase the availability of capital for new home loans, Treasury will expand the MBS purchase program we announced earlier this month. This will complement the capital provided by the GSEs and will help facilitate mortgage availability and affordability.

These two steps will provide some initial support to mortgage assets, but they are not enough. Many of the illiquid assets clogging our system today do not meet the regulatory requirements to be eligible for purchase by the GSEs or by the Treasury program.

I look forward to working with Congress to pass necessary legislation to remove these troubled assets from our financial system. When we get through this difficult period, which we will, our next task must be to improve the financial regulatory structure so that these past excesses do not recur. This crisis demonstrates in vivid terms that our financial regulatory structure is sub-optimal, duplicative and outdated. I have put forward my ideas for a modernized financial oversight structure that matches our modern economy, and more closely links the regulatory structure to the reasons why we regulate. That is a critical debate for another day.

Right now, our focus is restoring the strength of our financial system so it can again finance economic growth. The financial security of all Americans – their retirement savings, their home values, their ability to borrow for college, and the opportunities for more and higher-paying jobs – depends on our ability to restore our financial institutions to a sound footing.

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