



Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

EliScholar – A Digital Platform for Scholarly Publishing at Yale

YPFS Resource Library

4-3-2008

Under Secretary for Domestic Finance Robert K. Steel Testimony

Robert Steel

<https://elischolar.library.yale.edu/ypfs-documents/7406>

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact ypfs@yale.edu.

U.S. DEPARTMENT OF THE TREASURY

Press Center



Under Secretary for Domestic Finance Robert K. Steel Testimony

4/3/2008

HP-904

Before the Senate Committee on Banking, Housing and Urban Affairs

Washington – Chairman Dodd, Ranking Member Shelby, Members of the Committee, good morning. I very much appreciate the opportunity to appear before you today to represent Secretary Paulson and the U.S. Treasury Department, and to join the independent regulators leading the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, and the Federal Reserve Bank of New York. As you know Secretary Paulson is on a long-scheduled trip to China.

Chairman Dodd, Ranking Member Shelby, Members of the Committee, good morning. I very much appreciate the opportunity to appear before you today to represent Secretary Paulson and the U.S. Treasury Department, and to join the independent regulators leading the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, and the Federal Reserve Bank of New York. As you know Secretary Paulson is on a long-scheduled trip to China.

You have invited Treasury here today to discuss the ongoing challenges in our credit markets, and specifically the agreement between JPMorgan Chase & Co. and the Bear Stearns Companies Inc. The Treasury Department continues to closely monitor the global capital markets, and the past several months have presented to us many important issues and situations to evaluate and address.

As Secretary Paulson stated earlier this week, a strong financial system is vitally important – not only for Wall Street, not only for bankers, but for all Americans. When our markets work, people throughout our economy benefit – Americans seeking to buy a car or buy a home, families borrowing to pay for college, innovators borrowing on the strength of a good idea for a new product or technology, and businesses financing investments that create new jobs. And when our financial system is under stress, all Americans bear the consequences.

Mr. Chairman, as you appropriately noted in your letter to Secretary Paulson, "it is important to maintain liquidity, stability, and investor confidence in the markets." The recent events in the credit and mortgage markets are of considerable interest to this Committee, other Members of Congress, and most importantly, the citizens of this country.

For several months, our financial markets have gone through periods of turbulence, followed by periods of improvement. A great deal of de-leveraging is occurring, which has created liquidity challenges for financial institutions and thereby compromised our credit markets' ability to help be an engine of economic growth.

It took a long time to build up the excesses in our markets, and we are now working through the consequences. Market participants are adjusting, making disclosures, raising capital, and re-pricing assets.

We have continued to engage with our fellow regulators and market participants, so that collectively, we work through these challenges to limit the spillover effects to our economy and make our markets even stronger.

During times of market stress, certain issues may hold the potential to spill over to the broader markets and cause harm to the American economy. This was the case with the events surrounding the funding capability of Bear Stearns between March 13, 2008 and March 24, 2008.

The funding condition of Bear Stearns had deteriorated rapidly, and by March 13, 2008 had reached such a critical stage that the company would have faced a bankruptcy filing on March 14, 2008 absent an extraordinary infusion of liquidity. During this period, regulators were continuously communicating with one another, working collaboratively, and keeping each other apprised of the changing circumstances.

Our focus was not on this specific institution, but on the more strategic concern of the implications of a bankruptcy. The failure of a firm that was connected to so many corners of our markets would have caused financial disruptions beyond Wall Street. We weighed the multiple risks, such as the potential disruption to counterparties, other financial institutions, the markets, and the market infrastructure. These risks warranted a very careful review and thorough consideration of potential implications and responses.

Our role at the Treasury Department was to support the independent regulators and their efforts with private parties as credit markets were operating under considerable stress, and we believed that certain prudent actions would help to mitigate systemic risk, enhance liquidity, facilitate more orderly markets, and minimize risks to the taxpayers.

The Treasury Department supports the actions taken by the Federal Reserve Bank of New York and the Federal Reserve. We believe the agreements reached were necessary and appropriate to maintain stability in our financial system during this critical time.

Obviously, each independent regulator had to make its own individual assessment and determination as to what actions it would or would not take. While the Treasury Department was not a party to any agreements, we have a great deal of respect for the leadership of each regulator and appreciate their efforts during this extraordinary time.

Upon assessing the Bear Stearns' situation, the Federal Reserve decided to take the very important and consequential action of authorizing the Federal Reserve Bank of New York to institute a temporary program for providing liquidity to primary dealers. Recent market turmoil has required the Federal Reserve to adjust some of the mechanisms by which it provides liquidity to the financial system. Its response in the face of new challenges deserves praise.

At the Treasury Department, we will continue to monitor market developments. We remain focused on the issues surrounding the recent developments, including the important responsibility of safeguarding government funds.

Recent events underscore the need for strong market discipline, prudent regulatory policies, and robust risk management. The Treasury Department and our colleagues comprising the President's Working Group on Financial Markets are addressing the current and strategic challenges, and are doing all we can to ensure high quality, competitive, and orderly capital markets. We seek to strengthen market discipline, mitigate systemic risk, enhance investor confidence and market stability, as well as facilitate stable economic growth.

Thank you and I am pleased to take your questions.

-30-