

CONGRESSIONAL OVERSIGHT PANEL

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Opening Statement of Richard H. Neiman

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Good morning. Thank you all for appearing at this hearing today on lending to families and small businesses.

Ensuring access to safe and affordable credit is one of the key factors in resolving the economic crisis and is a top priority for me personally, both as a member of this Panel and in my work as Superintendent of Banks for New York.

Through Town Hall meetings across New York State and in my role on Governor David Paterson's Economic Security Cabinet, I have heard firsthand how the financial crisis and the recession are impacting hardworking people. Focusing on the needs of working families, including the need for continued credit access and responsible lending terms, is high on my priorities as responsible people are finding it increasingly difficult to obtain the credit they need to power their businesses and run their households. I am interested to hear your personal stories on the situation here in Wisconsin and the Midwest.

From the earliest days of the financial crisis, I have been consistently urging banks to continue to make good loans. The Treasury's most recent snapshot report of major TARP recipients shows that mortgage lending increased, but other forms of consumer lending decreased from January to February. In some cases, such as student and auto loans, the month-over-month decline was a sharp 47%. There may be seasonal and other demand factors at work, but clearly we need to get to the bottom of these results. The Panel's next report will look closely at the issue of bank lending, as well as the role of the secondary market and securitization in the funding process.

It may come as a shock, but only about 46% of consumer loans are currently held by banks and other depository institutions. About 25% of all such consumer loans are in pools that have been securitized, and the remaining 29% is held by non-bank finance companies, businesses, and Sallie Mae. These facts demonstrate the critical importance of the secondary market, which has been largely frozen since last fall, in sustaining credit availability.

So we need to attack the problem from both sides - banks need to do their job in the primary market, and continue to lend. That's their business. But banks can't do it alone - we need a functioning secondary market to purchase loans, recycling the capital for banks to lend again.

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Some point to the securitization process as a contributing factor in the current crisis. There were excesses and breakdowns, primarily related to deterioration in underwriting standards, and I agree that reforms are needed. But, an effective, well-modulated securitization system is necessary for financial recovery, to keep the credit cycle in motion. The primary market on Main Street and the secondary market on Wall Street are part of the same neighborhood.

And despite our current difficulties, I remain confident that we can renew our financial system and preserve the credit tools that allow Americans to send their children to college, to buy a car, or to start a business or their own that will create new jobs. In short, the tools to prosper.

But serious challenges remain - a lot of damage has been done to our economy, and we have more hard days ahead. But even so, I believe that we are on the right track and that with the public's support we can emerge from these challenges stronger than ever. I welcome your contribution to the recovery process through your testimony today.