YET MORE HOUSE FINANCE HEARING GEITHNER LIVEBLOG

If I understand the rules Barney Frank laid down on Tuesday, the members who waited patiently but never got a chance to ask questions on Tuesday (people like Alan Grayson) get to go first.

You can follow along at CSPAN3 or the committee stream.

Here is Geithner's statement.

Frank: When Geithner and Bernanke here on Tuesday, these members were here when they had to leave: After myself and Sub Chair. (Reads a list of name, including Grayson), they will be the first ones to ask. Systemic risk. Long had ability to wind down banks. Do we need authority to regulate excessive leverage? Innovations that have no value die of their own weight. But innovations that have values, thrive. By definition there are no rules. Securitization a set of innovations on par with earlier set. Greatly magnifies value of money. Problems when there are no rules.

Bachus: I have been informed AIG trying to force creditors to accept 70% reduction. Foreign bank paid dollar for dollar in bailout. **Essential that any new regime not rely on taxpayer funding**. What was released yesterday relies on taxpayer funding. This is unacceptable and will perpetrate moral hazard.

Kanjorski: We need to do this before these entities are close to death. Need to do this to prevent unknown calamities down the road. We must include regulation in the resolution authority. And we must regulate insurance—which is only regulated at state level. Particularly reinsurance.

Garrett: In light of Chinese and Russian calls for reserve currency, you might want to clarify your remarks [not sure if this was directed to Barney or Tim]. What are roles of current regulators. Federal reserve created to avoid asset bubbles, but they do. Forgive me if I'm still a skeptic if you say systemic regulator will prevent this from ever happening again. We will only be encouraging that it will happen again.

Geithner: [Note, this is NOT precisely what was in his statement] Here's the list he just gave:

> - *First, we need to establish a single entity with responsibility for systemic stability over the major institutions and critical payment and settlement systems and activities.*
> - *Second, we need to establish and enforce substantially more conservative capital requirements for institutions that pose potential risk to the stability of the financial system, that are designed to dampen rather than amplify financial cycles.*
> - *Third, we should require that leveraged private investment funds with assets under management over a certain threshold*

register with the SEC to provide greater capacity for protecting investors and market integrity.

- *Fourth, we should establish a comprehensive framework of oversight, protections and disclosure for the OTC derivatives market, moving the standardized parts of those markets to central clearinghouse, and encouraging further use of exchange-traded instruments.*
- *Fifth, the SEC should develop strong requirements for money market funds to reduce the risk of rapid withdrawals of funds that could pose greater risks to market functioning.*
- *And sixth, we need to establish a stronger resolution mechanism that gives the government tools to protect the financial system and the broader economy from the potential failure of*

> *large complex financial institutions.*

Scott: As we rush to save our economy, we do not suffocate our economy. AIG problem not insurance. [tell that to their reinsurance side] But here we come with the insurance companies. Regulated by states.

[Bring back Glass Steagall!!!]

TG: Costs of weaknesses and gaps. Multiple regulatory bodies. Just didn't work. Does not mean we should take away state insurance regulators and bank regulators.

Scott: Rein in hedge funds. They say they are regulated. How will this change where we are now?

TG: Province of SEC.

Campbell: 6-1 leverage ratio on bailout plan. A lot of the problems we had, too much leverage. Encourages more risk taking.

TG: What FDIC suggested. Substantial less than banks use today. We think leaves taxpayer much better protected. Stretch taxpayer resources prudently.

Campbell: Open to less leverage?

TG: [doesn't really answer]

Campbell: Receivership authority. Asking now prior to comprehensive reform.

TG: In context of proposals for more accountability. They need to be viewed together. We'll work with committee on best legislative vehicle. Understand can't do this piecemeal.

Campbell: Why move on this separately. Are you expecting additional non-bank failures.

TG: [Again no real answer] It would be in the interest of the country to make sure we've got broader rules. Less costly for the taxpayer.

Campbell: Fixed income in general?

TG: Over the counter, where there's been huge amount of standardization. Moved into clearinghouse.

Green: Too big to fail is the right size to regulate. Moral hazard, paralysis of analysis. What happend to long term capital. Prevented us from doing analysis that would have prevented AIG.

[Jeebus. Congressman, do you have a question?]

Frank: Foxes don't want us to protect the henhouse–I've been watching television some and I think that's right.

Lance: I wish you and President best. [cue Rush to beat him up] Do CDS require statutory change here and in the world.

TG: Looking at existing authority. Don't want multiple global institutions. Don't want balkanized system at global level.

Lance: My concern is that money will go to those centers of commerce. Regarding Money Market Mutual Funds which I thought were safe. You indicated SEC should strengthen. Does this also have to occur in London or Asia.

TG: We could do a lot here, but we'll look at what needs to be done elsewhere too.

Ellison: Stress test?

TG: Resiliant diverse financial system. Parts have capital. Assessment is run by fed, not treasury, potential losses might face in event of deeper recession. Able to provide capital. Most institutions are going to want to raise capital. **Govt will be there with capital if necessary**. Giving a market will make it easier to raise private capital.

Ellison: Capital requirements for systemic firms.

TG: **No capital requirements for hedge funds**. Large institutions held to set of requirements.

If they get big enough then regulated like banks.

Ellison: Consumer protection.

TG: I can’t address it today.

Ellison: Warren’s CPSB for finance.

TG: One of the things we’re looking at.

Ellison: Authority over systemic?

TG: FDIC would have central role. As now, banks and thrifts, concurrence of Treasury is necessary for a range of actions.

Ellison: Why not independent?

TG: Complicated set of checks and balances.

TG: Expand role FDIC would play.

Marchant: New PPIP. I am generally in favor. Concerns PIMCO and blackrock and several of the large money managers.

TG: Not yet, we haven’t made those judgments yet.

Marchant: Given ratios of leverage, actual investors have more skin in the game than proposed. If they just take hedge fund partners out and AMerica put their money in and management fees, not adequate incentive. They don’t have enough skin in the game.

TG: Want them to have interests aligned with ours. Better way of protecting taxpayers.

Marchant: Concept I agree with. Equity. Capital. Enough to plug hole? Allow response time between bank and FDIC. You may end up freezing the whole system.

TG: 6 month window. Throughout that time, they can sell assets into these type of new funds. Make a choice of what mix of asset sales.

Marchant: Will market have ability to look back and say, will regulator say "this sale can’t take place. Too devastating to FDIC. Does the

FDIC have any function in saying this sale we can’t bear the loss of."

TG: Requires more thought and care responding to. Walk you through in more detail.

Frank: Clearly calls for cooperation of all regulators. At his suggestion will be consulting with minority with all of those who have a piece of action.

Klein: Join gentleman from TX about markets overseas. Fully support integrated system. Every day that passes, more money being spent, less confidence in place. Working quickly to get this organized. Criticism that sometimes no bid contracts used. Certain organizations given priority. Open competitive bidding process. A lot of qualified companies around the United States.

TG: Confidence in basic integrity.

Klein: Bonuses. Very important that these contractors, yes there will be fees, but the taxpayers have to feel there’s an upside. Taxpayers feel it’s on our dime.

TG: Agree completely. A dollar of taxpayer alongside private investment.

Klein: Very clearly articulated every step. Too big too fail. Smaller banks can’t get TARP. Other companies get huge check on click of a dime. Antitrust built on consolidation. Antitrust not enforced on level people would like to see. Anticompetitive activity, disaster we have to put money into. There has to be a definition of how we avoid getting too big to fail.

TG: Nation of 8-9000 banks. Much stronger bc of smaller banks. Access to capital. Hold to stronger standards on investments. Effective antitrust enforcement. Share of deposits that any single institution can have.

[not answering the question]

Bachus: Klein, too big to fail, you want to get away.

TG: I do.

Bachus: Draft legislation authorizes FDIC to spend unlimited amount of taxpayer cash to unwind systemically important fund. Isn't that what taxpayers are so upset about?

TG: Who bears losses, important. Have to look at how costs are shared. Right now smaller banks forced to absorb disproportionate cost to protect system from larger institutions. Like to put in place fee structure that is more fair.

Bachus: Wouldn't fairer be not prop up with taxpayer money?

TG: Cheaper for taxpayer over time for govt to take some risk in preventing greater cost.

Bachus: Is there really no alternative than saddling future generations for the mistakes of a few institutions? "Such sums as are necessary" is too open ended. Billions went to foreign banks.

TG: Purpose of action to ensure they can make their commitments.

Bachus: Even if it was a few days. Allow them to not default. They have obligations to a lot of Americans: pensioners, municipalities, banks? How about obligations to banks now?

TG: I need to look at it and get back to you.

Bachus: What was paid off dollar for dollar, CDS.

Donnelly: If auto dealers aren't working, nobody's working. Floor plan loans. Could you tell us where they are?

TG: Working on it. Exploring range of options. Important, helpful as part of overall solution. Will be able to tell you in next couple of days.

Donnelly: If dealers can't get floorplan financing, there's no point to GM and Chrysler.

TG: Found something to do on supplier side. Want to take best shot.

Donnelly: Want to have innovations with value added. Naked credit default swaps. Do these naked swaps provide any value added or is it just gambling?

TG: My own sense is that banning NDS wouldn't help. Too hard to distinguish. If we could find a way to separate out gamble from hedge.

Donnelly: To me those are just simple bets. Take money out of truck driver and waitress pockets to pay off bets on Wall Street. TO me, from the Midwest, on Main Street, it just seems like gambling.

TG: My feel is we don't need to ban this.

Donnelly: Mutual funds allowed to participate. A chance for people to get back some of the money in programs as opposed to just hedge funds.

TG: Absolutely.

Garrett: Need for comprehensive regulator. If we had something like that in place prior to what happened to GSEs? Would they have done something different.

TG: GSEs allowed to build up huge exposure. Balance of moral hazard and constraints completely wrong. Like in many things it would have been better for it to happen sooner.

Garrett: Fed here to try to get that done, didn't happen soon enough. Had we had it ten years ago, they could have taken action?

TG: Let me make a broader point. Across the broader system.

Garret: I'm just looking at that.

TG: More generally our country did not have means to prevent build up of risk.

Garrett: FDIC has a set class of people. Not a set class of people. Not so clear who it is we're trying to protect. Doesn't that create some perverse incentives? More moral hazard. We regulate hedge funds now. I don’t think we do. If hedge funds come into it. Don’t you say now we create a perverse incentive. Same GSE explicit guarantee which is now implicit?

TG: I agree, if a class that will get a guarantee, that will create a huge moral hazard. How we balance that. On the other hand, true that firms can develop to point where their fate can threaten systemic stability.

Garrett: Wind down, foreign subsidiaries. Might other countries look at that and say "we’re going to seize these assets here before the US does." Have to do that at exact same time.

TG: Don’t want to leave our country vulnerable bc of time it takes to develop these things globally.

Kilroy: Treasury at that time (Lehman) had no plan B. We’re scrambling. AIG bonus uproar did offend a sense of justice. What we need to hear a lot more is how this will help Main Street. How would this help them.

TG: More stable, much likely in future that a working family could be taken advantage of by mortgage broker.

Kilroy: One of issues that arose in terms of getting toxic assets was issue of pricing them. We could be overpricing. Windfall for hedge funds.

TG: Two concerns. Too generous to bank, and to investor. Both can’t be true.

[Huh?]

TG: Leaves investors getting more reward. Not going to do that. Leaves taxpayer better protected.

Break for vote. Will start a new thread.