Press Release

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Transcript of Chairman Frank's March 5th Press Conference

Washington, DC - The transcript of Chairman Frank's press conference held on Thursday, March 5, 2009 on financial regulation reform and the committee's March agenda:

FRANK:

Afternoon. Sorry I'm a little late. The voting was going on.

What I want to do is to announce what the committee's agenda will be for the next few months.

We became the majority in 2007. I became the chairman then and began a reform agenda in many areas, subprime lending, executive compensation, credit cards. We were working on those, Fannie Mae and Freddie Mac reform. Some of that passed both houses; some passed the House and not the Senate. But the Federal Reserve began to act on it.

What then happened was, just before the session adjourned, as we were planning blissfully to go home, Chairman Bernanke and Secretary Paulson came up and said we had this serious crisis. And beginning, really, in the last part of September, the focus of the Financial Services Committee, along with much of the rest of the Congress, has been on responding to the crisis and trying to provide first the Bush administration and now the Obama administration with the tools to stabilize.

That continues to be an important goal, although I think much of this is now in place. For example, one of the things we'd been looking at was mortgage foreclosure.

But it is time explicitly now to get back to the uncompleted reform agenda and, in fact, even add to it. And I think it's especially important right now, because to a lot of citizens, what they see is the financial institutions, which collectively caused a lot of the problems we are now in, being the beneficiaries of government assistance.

Now, it seems fair that, if you want to get the credit system functioning again, you have got to do some things that are going to help resuscitate the current institutions. But we have the problem that political support for doing some of this is lower than it should be.

And, you know, one of the things that I think is fairly clear is that, if the Obama administration decides that it's going to need more money to try to restore the credit system, as, in fact, Secretary Paulson had concluded -- and it's clear that Secretary Paulson, before he left, thought that was going to be the case. It may well turn out to be the case.

At this point, it's not clear that the political support would be there to do it. I think that would be a mistake. I don't want the right kind of remedies constrained by the political fear, and it may be a case where, if you don't put enough into it at the beginning, in terms, for instance, of the toxic assets, you wind up costing more. All the more reason to emphasize that the reform agenda that we had is being brought back with some -- some new elements.

So we want to make it clear: The Financial Services Committee will go back to unfinished business from 2007-2008, specifically and very relevant to the need to forestall a recurrence of this, I expect us soon to bring to the floor of the House a tougher version of the bill dealing with subprime, irresponsible lending from 2007.

I say "tougher" because, frankly, I wanted to do a few more things than we did, but we didn't have the votes for it. The political climate has changed. I mean, I go back to 2006 when I was about to become chairman, and I was told by a great majority of the financial community, and the Bush administration, and some others that what we most needed to do was to deregulate further, that if we didn't weaken Sarbanes-Oxley, everybody would go to England and nobody would be home left in America.

When we brought out the subprime bill, for example, the Wall Street Journal had an editorial that said we were creating a Sarbanes- Oxley for housing and that our effort to restrict irresponsible subprime lending was going to deprive people of the ability to own homes.

And we weren't able to get the votes for a couple of things that I had hoped to -- to toughen up. I think the votes are there now for it, and we're going to take advantage of that.

Secondly, after the subprime bill, where simultaneously -- because they come out of different -- we can do them simultaneously -- we are going to re-pass in the House the consumer protection bill we did in 2008 regulating abuses in the area of credit cards and we will also be looking at overdrafts.

And once again, these are important things on their merits. We were doing these in -- in the previous Congress. They have a particular importance now, and the financial community needs to understand this, and the bankers aren't going to like this, and they have to understand this.

There will not be the political support in this country to do further things to try and get the credit system flowing, which will inevitably involve some cooperation with the existing entities, unless you also show the American people that it is not all simply worrying about their psyches and there is some need to protect people from some of these consumer abuses.

I think it's as substantively important as it was, credit card reform, banning subprimes, and politically even more important.

In that connection, in addition to legislation, we're going to have some very important hearings. One -- and I -- somebody told me. What's the date on the enforcement?

(UNKNOWN)

(OFF-MIKE) March 20th.

FRANK:

March 20th. We had to reset it, because the regulators were going to be out of town. On the 20th of March, I am asking very firmly the attorney general -- and I've checked with the Judiciary Committee, and we have a cooperative effort here. They'll be working on this, as well -- where we are going to have a hearing with the attorney general and the FBI, the Securities and Exchange Commission, the bank regulators, the representatives of the state attorneys general and the state securities administrators, and we have a question that they are being asked now: What are your plans to prosecute those people whose irresponsible and, in some cases, criminal actions helped bring about this crisis?

That will be both criminal and civil. We want to know what proposals there are to recover funds from people who caused this loss of taxpayer dollars and investor dollars and we want to know what kind of restrictions on their ability to go forward and we want to know whether or not there are going to be criminal prosecutions.

We're not going to be asking for individual names. That's not our function. But I do want all the people with enforcement power, state and federal, in that room outlining what their plans are to do these recoveries.

That's also important in trying to prevent a recurrence. One way you prevent a recurrence is to punish people who did what they shouldn't have done in the first place and recover funding. Rules don't work if people have no fear of them.

And we will be asking all of them whether or not there are obstacles in the way of their doing it. That would include whether or not they are sufficiently staffed up to do it and whether there are other impediments.

Now, when you are talking about going after things that have already happened, you can't change the law retroactively in substantive terms, and we won't try to do that. That's an important principle in American law. As angry as you might be, you simply cannot go back under the rule of law, change terms under which you take legal action against people. But there may be other things that we can do that would advance that.

And then, of course, we have what we've already talked about, which is beginning the process -- and there's a hearing going on right now on the Capital Markets Subcommittee under Paul Kanjorski, and we'll have some with the full committee -- adopting a set of rules at the national level that will prevent or make it very less likely that this will happen again.

Now, I think what we saw, because the current crisis -- metaphors are inescapable, as much as I am opposed to them in principle, I've got to keep using them -- we had bullets and guns.

The bullets which helped destroy the financial system were primarily the irresponsible subprime mortgages. Now, we tried to ban those -- some of us tried to ban them in 2005. The Republicans wouldn't allow that to go forward. We did pass the bill in 2007, while it couldn't pass the Senate. Chairman Bernanke, to his credit, has used authority that Alan Greenspan explicitly refused to use and that's promulgated some rules to do that.

But the most important thing to do is to make sure that the kind of subprime loans that were made to people who should not have been getting loans don't get made again.

But there will be other irresponsible things people will do if we don't step in, so we have to not just stop them from making the bullets. We have to make sure that they don't start misdirecting the guns again.

And the guns were the instruments by which these irresponsible loans were distributed throughout the financial system, the collateralized debt obligations and then the credit default swaps that were brought up to -- to deal with them.

So we have got to empower some entities that don't now have it to restrain risk-taking that is irresponsible. And there's one particular part of this that cuts across this that I feel very strongly about. I think a large part of the problem came from the phenomenon of securitization, which does a lot of good, because it allows money to be circulated more quickly.

But it substantially diminished the constraint of people not lending money to people that they didn't think could pay them back. The discipline of the lender-borrower relationship has been lost or substantially weakened by securitization. So I will be pushing for legislation that will make it illegal for anybody to securitize 100 percent of anything.

Now, what percentage of retention is there is open for debate. I do think it is clear that whatever the percentage of retention is, it should follow the principle that the first dollar of loss goes to the securitizer. I think that was part of the problem with the rating agencies.

Once thousands of mortgage originators have made loans that they shouldn't have made because they were going to securitize them and didn't worry about whether or not they would be repaid, there's no way in the world anybody can go back and tell you whether they were good or bad loans.

I -- I have become convinced, as we looked at rating agencies' quantitative models, diversification, whatever the proposals were, if enough bad loans, if enough bad decisions are made initially, there's virtually no way to undo the harm. You can diminish it. You can't get rid of it.

The only way to do that is to try to stop the bad loans originally, and that means, as I said, not allowing people to securitize 100 percent of anything, but to make sure that people retain some loss. That was the principle we did follow in our subprime bill, because we put liability on the securitizers, because they were the ones who had to do some checking, but we also put liability on the -- we put some restrictions on the originators. And that's our goal.

So just to recap, I can understand -- I think a lot of people -- look, some of the stuff we do, subprime loans, credit cards, it's not the stuff of headlines. A number of people in this country have their own jobs to do, families to take care of, their own hobbies to pursue. They were not following everything we did as closely. They don't know who was in power when and who did what when.

For many people, their first look at what the federal government was doing through the financial system was to see the elected officials and appointed officials extending aid to the people that they were told caused the problem in the first place. Not surprisingly, that has made them angry.

That's why I want to call attention to the fact that that's not the beginning of the movie. And we are going to go back to where we were when that part came up.

Yes, we have to respond to the need to restart the financial system, and that includes being nicer than a lot of people would like to some of the people in the financial institutions, although by no means all of them, but there's that problem.

That cannot, however, be allowed to be the only thing that people see us doing. So banning subprime loans, pressing the authorities for prosecutions, both criminal and civil, both to talk about sentencing people who committed crimes, but also trying to recover funds that should be recovered, and also reforming consumer practices, like credit cards.

It is annoying to people to see that the bank that they feel has treated them unfairly on their credit cards or their overdraft is now getting billions of dollars of taxpayer money. And, in some cases, they are correct; they have been treated unfairly.

And we will also, most equally importantly, be looking at trying to put the rules in effect that keep this from happening again. So it is important that people see the whole picture.

And with that, I'm ready to throw it open, except to say we are keeping a running tally now of how much money we're getting back for the federal government. From what I see now, we're up to $7.6 billion of TARP money that has either been returned or is going to be returned. We -- and -- and that's one of the things that we'll -- we'll take credit for.

When the Bush administration asked us for the TARP money, one of the things that they insisted on being put in there was a restriction on people who received the money paying it back without going through several hoops. Subsequently to that, the administration also insisted -- and I understand why, I think with good -- with good reason -- that a whole lot of people take the TARP money at first so it didn't look like there was some stigma to taking it.

I think we're beyond that now. And when we decided that we needed to put some of these restrictions on what banks did that received the TARP money, we were told, "Well, we hate this. We said we'll give it back." They said, reasonably, before this past month, "We'd like to give it back. We can't." We explicitly in the recovery bill removed obstacles for the return of TARP money.

And so we want to make it very clear: We are very serious. And the public has a right to be very -- for us to be very tough in how recipients of TARP money spend it. And if they don't like those restrictions, we are glad to take it back.

With that, we'll throw this open.

Yes?

QUESTION:

(OFF-MIKE)

FRANK:

$1.6 billion from Northern Trust, and who just said $6 billion? Somebody -- I was just reading it in the -- somebody offered $6 billion back. I -- I don't remember which bank it was, but we will get that to you. Somebody -- that's -- $1.6 billion I know Northern Trust said they were doing. And another one of the recipients just said they're about to bring -- give back $6 billion.

QUESTION:

How much of the regulatory reform hearings will focus on potentially combining the SEC and CFTC?

FRANK:

Virtually none, because I think that is an issue that causes a lot of political heat. In fact, our intention on the House side is to do this in two steps.

The first step is to create a systemic risk regulator. And, frankly, that means giving some entity power that neither the SEC or the CFTC fully has right now.

I think you can conceptualize a difference, and obviously there's a great deal of overlap, between systemic risk and market integrity and investor protection. Those are the primary roles for the SEC and the CFTC.

I think what you're likely to see is that both of them will be strengthened in their ability to do that and that another entity will be given the systemic risk protection.

I think the -- look, there was -- you know, we should be very clear, and I want to reassure people: No, we are not going to be abolishing credit unions. No, we are not going to be revoking the state role in banking. There were some things that were in some people's ideal plan that just make a lot of trouble.

At this point, a reallocation of existing power between the SEC and CFTC is not on the agenda. We are talking about some new power and strengthening both of them.

QUESTION:

Congressman, do you have any concerns (OFF-MIKE) might not pass (OFF-MIKE)

FRANK:

No.

QUESTION:

Mr. Chairman (OFF-MIKE) work on an international level (OFF-MIKE)

FRANK:

Well, it's essential that we do. It's not going to be one plan. There is no supranational plan that's going through. Nobody's going to ignore sovereignty.

But, you know, when the Soviet Union fell to the -- well, when the -- when Russia became the Soviet Union, Lenin had a problem, which was, according to Marx, communism was supposed to sweep the world and there was a great theoretical debate as to whether you could have communism in just one country.

So Lenin wrote a pamphlet called "Socialism in One Country," in which he made the case that you could. You cannot have regulation in one country, whatever you say about socialism.

That is, given the -- we are talking now about the most mobile of elements internationally, and that's capital. And if we have widely disparate regulations in one part of the developed world from the other, then you -- you don't -- you -- you -- you will have regulatory arbitrage, which is a fancy term for taking the money and running, going from the place where you're regulated to a place where you're now.

Now, you can regulatory arbitrage within a system. We had that when Countrywide decided to decamp from the Office of the Comptroller of the Currency to the Office of Thrift Supervision, because they felt they would be less regulated there. And we're going to have to straighten that kind of situation out.

But there will have to be cooperation internationally. And, in fact, when the president asked Senator Dodd, Senator Shelby, Congressman Bachus, and myself to the White House last week with Larry Summers and Tim Geithner and Rahm Emanuel, we agreed that it would be important to try to get, on the systemic risk piece in particular, conceptual agreement on how we're going to do that so the president and his people can take that to the G-20 summit in early April.

So, yes, we look for great cooperation.

Is that UBS?

QUESTION:

USB.

FRANK:

Oh, United States Bank? Yes. The $6 billion is coming from the U.S. Bank. They've planned to return the $6 billion.

Yes?

QUESTION:

(OFF-MIKE) having the ability to unwind companies (OFF-MIKE)

FRANK:

Very important. That's very important. That's something that -- there's been agreement from Hank Paulson and Ben Bernanke and now Tim Geithner. Here's the problem. Not Citigroup -- here's the -- because, well, we have in the federal system now a pretty good way to unwind failed banks. And the FDIC has done a pretty good job with that.

What we don't have is a similarly orderly way to unwind failed nonbanks. That's why you have this problem with -- it's been -- it's been an intervention in Bear Stearns, non-intervention in Lehman, problem with Merrill and the consequent need to ask Bank of America to take more TARP money.

So in addition, the systemic risk regulator will have -- I think there are certain elements that you need. First of all, I believe strongly you have to have this limit on 100 percent securitization so that you limit it across the board.

Secondly, the systemic risk regulator is clearly empowered to stop people from getting over-leveraged, from getting so indebted that they can't pay their debts, and the fact that they can't pay their debts threatens other people.

Third, you need the power that you just raised to unwind failed institutions in ways that don't -- don't make it a choice of either total bankruptcy or paying off everybody's debts. You need an orderly way to unwind institutions.

And, no, that's why -- for example, Wachovia, when that went under, it was less traumatic than when Merrill Lynch or Goldman went -- not Goldman, Merrill Lynch or -- or Bear Stearns. Let's not have a stock run on Goldman. They're fine. I just misspoke.

And then the fourth one, I believe, that's essential here is reforming executive compensation, not from the overall dollar amount, from the perverse incentive. I think it is now clear -- there's a consensus, too much executive compensation took the form of people making extra money if a bet paid off and losing nothing if the bet disastrously failed. So there was an incentive to take too much risk, a kind of "heads, I win, tails, I break even," so you keep flipping the coin.

So those are the four. Limits on 100 percent securitization, systemic risk regulator being able to curtail leverage, excessive leverage, doing the -- allowing the system to resolve, i.e., unwind failed nonbanks, and executive compensation.

Then you also will have (inaudible) your question -- and we will be then looking -- and it's all in one bill. I mean, it may -- the Senate is talking about doing just one bill, Senator Dodd said. It's hard enough for the Senate to pass any bill, so we -- we have an option of passing a couple.

But we're talking about all of this being done this year. And then we get to the question of what more happens with the SEC for us, the CFTC.

One of the things that we have to revisit is the notion of investor protection. It was, when I first looked into this in 2007, they said, "Oh, here's how we protect investors." You cannot invest in a hedge fund unless you have at least $1 million to invest, the theory being that, if you had $1 million to invest, you were smart enough and sophisticated enough to take care of yourself. Well, tell it to the Madoff investors or the people who bought auction-rate securities.

So it is clear that we need a great deal more investor protection than you had before. That includes protecting pension funds. This will all be in one package. But that's -- that's separate from the systemic risk, although related.

QUESTION:
(OFF-MIKE) Senate today (OFF-MIKE) credit default swaps (OFF-MIKE)

FRANK:
That's part of what we're talking about with the systemic risk regulator.

QUESTION:
(OFF-MIKE) backdoor TARP (OFF-MIKE)

FRANK:
What?

QUESTION:
(OFF-MIKE) bailing out AIG (OFF-MIKE) are you really bailing out (OFF-MIKE) counterparties...

FRANK:
Oh, no. In every case, you're bailing out the counterparties. That's -- look, the shareholders of the institutions lose out. Bear Stearns' shareholders lost out, as they should. AIG's shareholders should be -- have lost out.

The -- the argument for the interventions has been precisely for the (ph) counterparties, that they owe so much to so many that the failure would then resonate downward. And you want to do a couple of things.

First of all, you don't want them -- you don't want to let them get so indebted. That systemic risk regulator is there to stop them from getting over-leveraged, like people who issued credit default swaps as if they were Halloween candy, giving them to anybody who comes through the door, with no sense of being able to pay them off.

And so you -- you limit the leverage in the first place, but then you also have an orderly way of resolving this, which means you don't have a situation where a collapse reverberates throughout the system.

QUESTION:
(OFF-MIKE) who these counterparties (OFF-MIKE) to know who the counterparties are?

FRANK:
Well, in which situation?

QUESTION:
(OFF-MIKE) AIG (OFF-MIKE)

FRANK:

I haven't looked at it. I -- I haven't focused on that, as to who -- who could do it. I mean, I think, with the orderly resolution, I would assume you would, but I haven't focused on that.

QUESTION:
(OFF-MIKE)

FRANK:
But I would say this, by the way. If the assumption -- if the suggestion is, oh, well, it's -- the motivation is to favor this group or that group, that one I would reject.

It would be bad for the whole economy if you had a total default. So this -- none of this is done to protect Counterparty A or Counterparty B. I mean, I do not think that the intervention of Bear Stearns was to protect Goldman Sachs, if that's the particular suspicion that dare not speak its name.

I think that you were talking about, as Hank Paulson said, people too interconnected to fail and -- and you want to limit that impact across the board.

And -- and (inaudible) last point. In a number of these cases, by the way, you know, you don't like the big, bad investment banks, and there's reason to be angry at some of them, but pension funds are deeply involved here, municipalities. And what we've seen is the victims of our failure to pay, that falls on the just and the unjust alike.

QUESTION:
(OFF-MIKE)

FRANK:
Well, I can't give you (inaudible) we will be including that in the hearings. As I've looked at this, I -- I -- I mean, I will tell you, there was, you know, primarily (inaudible) before I became the ranking member when the whole issue hadn't come before me, as I have studied this, I think some -- prohibiting 100 percent securitization is an essential element.

Once -- because it's 100 percent securitization that allows bad originations, because people make loans and don't have to worry about getting paid back off.

Thirty years ago, twenty years ago, even, volatility was in equities. That was considered conservative. That's reversed now. Debt has become much more volatile than equity. Why? Because the main constraint against excessive, bad debts was the fear that, if you lent money to people who didn't have any money, they couldn't pay you back. Securitization has substantially diminished that constraint.

And so what we're going to say is, I hope, you can't securitize it all. You cannot make loans without worrying about whether or not that individual has the capacity to pay it back.

Now, at what level you should be retaining that, I'm open to discussion on that. I do think it has to be a significant deterrent.

QUESTION:
Does that mean (OFF-MIKE) portion (OFF-MIKE)

FRANK:
Gee, I thought that's what I just said.

QUESTION:
(OFF-MIKE) I'm not exactly clear on -- on (OFF-MIKE)

FRANK:
Well, I can't make it any clearer. I'll try it one more time.

You lend people money. You then sell the right to be repaid. I do not think you should be allowed in the future, as you are today, to sell 100 percent of the right to be repaid. Maybe you should sell some percentage, but you should retain some minority percentage so that, if there was a failure to be repaid, you get hurt, as well as the other person.

QUESTION:
What are your thoughts about (OFF-MIKE)

FRANK:
Oh, they're very important, and I should have mentioned this. One of the things that I think was a mistake that the Bush administration did that I intend to try to persuade the Obama administration to undo -- and I will be at my most coercively persuasive, I hope, in this regard -- is the -- the Bush administration, actually with a Clinton appointee -- let's put the blame -- Jerry Hawke, who was the comptroller of the currency, wildly over-pre-empted state law. They pre-empted all state consumer protection law that applies to national banks.

And even where they said some state law might apply because it was a general application, they restricted state administration of that. I think that was a grave error, particularly since the comptroller of the currency at the time had nothing to put in its place. That is, they canceled out some consumer laws.

I spoke to, by that time, John Dugan, who was the comptroller, and who has been reasonable in his exercise of the power -- I don't blame him for this -- but he said, well, we'll go after any bad practices on the grounds that they don't contribute to safety and soundness.

Well, that's really not sufficient, because, unfortunately, if you mistreat consumers in a smart way, it probably helps your safety and soundness. I mean, that's not the only -- the only problem.

And here's the complication. And, well, a large part of this goes back to Alan Greenspan's refusal to use regulatory authority he was given. It's the biggest single part of the subprime problem, because he was given the authority in '94 by the last Democratic Congress before this previous one and flatly refused to use it. We tried to get him to use it; he wouldn't do it. We then tried to get Congress to act, and the Republicans wouldn't allow it. It wasn't until we took back over that we were able to do that in 2007.

But the Federal Trade Act gave the Federal Reserve the right to promulgate a code of unfair, deceptive bank practices. The Federal Reserve refused to do that. The most pro-consumer governor at the time, Ned Gramlich, tried to get Greenspan to do it. Greenspan refused to do it.

So here was the problem. And John Dugan could legitimately say to me, "Look, I don't have this, but it's not my fault. Greenspan, you know, and the Fed wouldn't do it."

We then passed a law in the House saying, OK, the Fed can't do it. They can. They then began to promulgate it. So we're working on that.

But the role of the states, to go back, is -- I believe that we should be restoring some state consumer power, in particular, over the national banks. The states do not have a role as systemic risk regulators. You can't have 10 or 20 or 30 different systemic risk approaches.

But consumer protection can be done at the state level. And federal consumer protection can set a floor. They can go above that. So I -- I -- we will be revisiting that, and I've told Secretary Geithner I'm going to be asking the attorneys general -- in fact, we're already working on this -- we've asked the National Association of Attorneys General and states' bank commissioners to give us a couple of people who can help negotiate some restoration of state powers in the consumer area.

QUESTION:

(OFF-MIKE) to those who have concerns about (OFF-MIKE) independence of the Fed (OFF-MIKE)

FRANK:

Legitimate concern. In fact, we're going to be working on parallel tracks. Mel Watt is chairman of the subcommittee on intelligence -- on domestic monetary policy, and he will be having some hearings on how you do that.

Now, by the way, it's a little late to worry about the absolute purity and virginity of the Fed, given the role they have played with the TALF and the TALC and whatever. And I -- I don't think that there's any necessary compromise.

You know, look, the Fed's played a very active role in intervention in the economy, a more active role than I think you would expect them to do with regulation. That does not appear to have impinged on their monetary policy function, but it's still an important thing to -- to look at.

And I think the answer you do it carefully and you are aware that there's a potential danger. As to the Fed -- and there's not been a decision, but somebody has to be the systemic risk regulator. And here's where I have requested -- how do I get to the Fed? Some of you may have heard me invoke the man I refer to as one of the great 20th- century philosophers, Henny Youngman, and his great apercu was, "How's your wife?" "Compared to what?"

When you talk about who's going to be the systemic risk regulator, you can talk about problems at the Fed, compared to what? Now, you could say we're going to start from scratch and get a brand- new regulator. I don't think we can stop the world long enough for that to happen.

Some suggest that you have a committee of existing regulators. It's not been my experience that committees of existing regulators work well. And so you look at picking somebody existing. I think the Fed is the one with the best capacity to do this. And you just simply try and set it up so they have different roles.

And they have some of that -- now, remember, the Fed is now a regulator. As a matter of fact, Alan Greenspan argued somewhat the opposite of that. When previous people argued that we should do for the Fed what they did in England, where the Bank of England lost regulatory authority the Financial Services Authority and kept monetary power, Greenspan said that losing regulatory authority would diminish the Fed's capacity to set monetary policy, that the setting of monetary policy should be informed by some regulatory function, probably because, you know, the Fed doesn't push a button and then the interest rate magically is that number. It tries to influence the financial system so that it will arrive at that result. And knowing how things work is an important part of that.

So I -- I understand that's a concern. I think, knowing that it's there, we can deal with it.

QUESTION:

Mr. Chairman, what (OFF-MIKE)

QUESTION:

Mr. Chairman, Chairman Waxman has talked about some concerns that you have regarding

(OFF-MIKE) legislation.

FRANK:
That's not true.

QUESTION:
That's not true?

FRANK:
No, I'm -- I somehow got, I think, misstated or misreported. I am -- and the first I heard of my concern was when people asked me about it. It had not occurred to me.
It is the case that any leveraging, any investment should be regulated so people don't take excessive risk. But the substance of the climate legislation isn't relevant to that.
I mean, if there was a financial instrument that involves anything, then it should be subject to the rules that people don't take excessive risks, that they don't have too much leverage. But we don't have any concern about the substantive policy.

QUESTION:
(OFF-MIKE) was going to be consulting with you on the bill. Is there some role (OFF-MIKE)

FRANK:
Only the one I'm talking about, which is -- any security that is traded -- and that would include, I suppose, when you're talking about a cap-and-trade -- it's subject to uniform regulation. And the answer would be nobody should be taking more risk than he or she can pay off reasonably.
Let's put it this way: You want to restrain anybody, any entity who's taking so much risk that we have no choice but to pay off their debtors, lest it cause this chain reaction. But what the nature of the debt is doesn't make any difference to that. So, no, there's no special concern about the environmental stuff.

QUESTION:
You were talking about lackluster political support for -- for the bailout. What does the White House need to do to increase the political support? Is it reaching (OFF-MIKE)

FRANK:
They've started. First of all, the mortgage foreclosure piece, I think that was the biggest single mistake in the Bush administration. Secondly, while the White House didn't totally enthusiastically adopt it, it was a compensation restriction that Chris Dodd put in there.
Also, the restrictions on people who get TARP money engaging in lavish entertaining (inaudible) Northern Trust obviously was upset, but you just have to be aware of the abuses there.
Finally -- and we will be hearing from this soon, and I think people were unduly critical of Tim Geithner. They said, "Oh, well, he should have told us right away," you know, been -- been secretary about six weeks -- the mortgage plan, I think, was a very good one, not just for people in trouble, but, as you know, that -- that includes people whose house prices have deteriorated through no fault of their own and can't take advantage of low mortgage rates and there's a part of that to help people in that situation. I think the -- what they do about the toxic assets, that that will be -- that will be very helpful.
Then there are other things that can be done, by the way, and that we're doing them. Stop people from being abused with their credit cards. Stop the retroactive increase in people's credit card debts because of some other dispute there with the merchant.
Make it clear that we are banning subprime loans. Making it clear that people who were abusers in the past, they're going to be held to account, in some cases criminally, other cases civilly, all the things I announced today. These are things that we will be doing in conjunction with them.
Finally, most important, people need to see that some of this money is, in fact, being re-lent, and that is an important thing. It's a hard thing to quantify, but there's got to be continuous pressure on there. And I will be having a hearing, by the way, on the question of mixed messages.
We hear people complain they can't get loans. We talk to the banks. They say, "Well, we'd lend money, but the regulators won't let us." So we're going to have a room full of bankers and regulators and have them hash that out in front of us and see what's going on and whether there's any validity to that.

QUESTION:
Do you think the bailout fatigue applies to the automakers, as well? G.M.'s auditor came out today and said (OFF- MIKE) concerned (OFF-MIKE)

FRANK:
Yes, there is some -- there is some of that, as well. I mean, it's somewhat separate, because

there are people who are critical of what the auto manufacturers did (inaudible) the same situation as the -- as the -- as the credit. But it -- there's a generalized sense of fatigue. With the auto companies, they're going to have to show that things will get better in terms of future performance.

QUESTION:
Will -- will the (OFF-MIKE) be on the agenda at all?

FRANK:
Yes, it will be. What's going to happen is this. We are going to -- we will be talking to the president. We'll be talking in April, and he's already -- we're having conversations.

I've been meeting with people from the European Parliament about -- again, it's very important that we not have the kind of regulatory arbitrage so people can escape.

But when I became -- was about to become chairman in November of 2006, I was told that we'd better repeal Sarbanes-Oxley or cut our way back, because everybody's going to go to England. It turns out I must have been hallucinating that, because nobody admits to having said it, but I have a clear recollection that there were people who were.

But the -- we will talk to the Europeans about having coordination, not a supranational regulator. But there's got to be some similarity. And as we talk about international coordination, I know from experience one of the first things we will hear from the English and the people in the European Union is, what about an optional federal charter for insurance because they say, you know, this is -- you can go get insurance for -- for, you know, one shot, and we've got to do 51 separate jurisdictions.

I do think it is like -- overwhelmingly likely -- it's not a guarantee that it comes out one way or the other, but it's about life insurance. Life insurance has increasingly become a financial product. I do not see Congress getting in the automobile insurance business.

I love my fellow citizens from Massachusetts, but worrying about how they drive is one of the things I hope was left behind when I left the legislature, and I do not look forward to resuming my responsibility for it.

But I think, because of our European and British -- or European allies' concerns that, yes, we will have to think seriously about whether or not to do an optional federal charter for life insurance.

QUESTION:
(OFF-MIKE) you mentioned overdraft (OFF-MIKE) do you think it's reached the point where...
(CROSSTALK)

FRANK:
Yes, I think things have changed, you know, the credit card bill and the overdraft. With regard to overdrafts, the banks themselves did clean up some of what we had talked about doing. I mean, we had the situation where people could go to the ATM machine, ask -- do an inquiry about how much -- what their balance was, be given a balance which included, unknown to them, overdraft protection, and they then wrote a check to that amount and got hit with an overdraft fee. Well, they stopped doing that.

But, yes, I think the -- the -- look, we're in a situation now where people perceive the federal government as being nicer to the banks than they deserve to have been -- than they deserve, and that means that efforts to try and provide some consumer protection get less political opposition and more support.

And overdraft -- much of the -- some of the overdraft abuse may have been curtailed, but -- but you can't guarantee that it won't happen again.

I mean, it's -- the point is this. Overdrafting is clearly a profit item for the banks. It's not simply a break-even. And there's, I think, a concern about that that we're going to address.

QUESTION:
(OFF-MIKE) mark-to-market changes, accounting changes (OFF-MIKE) timetable (OFF-MIKE)

FRANK:
There is a timetable and discussion. I do not think it is a good idea for Congress to legislate accounting. You know, there is a principle that, if you think a subject should not be dealt with to some extent politically, you should not ask 535 politicians to decide it.

The -- when we do our mixed message hearing that I mentioned, there are two components to that. One is, are the regulators telling the banks not to lend and we're telling the banks to lend? Are they being given a mixed message from the -- from the regulators?

Secondly, what's the effect of mark-to-market? My own view is this. There are two issues here. One is, what -- is -- whether or not you have mark-to-market. But the second question is, what are the consequences of telling someone they have to mark their assets down?

If these were assets that they hadn't planned to sell right away, I -- think you can -- what I want the regulators to tell me is, can you show some discretion in how you react to a mark down to market, that there are different levels from which you might say the capital went down? And we will be exploring at that hearing whether there can be some flexibility in the application of mark-to-market.

I don't think if you were to abolish it or -- you know, one of the things we need to do here is to get investor confidence back up. That's one of the important reasons for the -- doing the regulation this year. People have been badly burned, and they're not going to go back into the water until we tell them we've killed most of the sharks.

I think if you were to abolish mark-to-market -- nobody's, I think, seriously expecting that to happen -- you would get a negative reaction again on the investor side.

So what I hope to do -- and we will talk about that at that hearing -- is look at the question about whether there can be some flexibility in applying the consequences.

QUESTION:

In addition to the ongoing (OFF-MIKE) and backlash from Main Street to Wall Street and in documented excesses of Wall Street (OFF-MIKE) inevitability of reform (OFF-MIKE) what is your message to financial markets about why a fairly significant reform effort like you've outlined today is really -- what's in it...

(CROSSTALK)

FRANK:

Well, a couple of things. First of all, it's what I just said. The right kind of reform is pro-market (inaudible) save the stock market, because people were worried about the -- bad quality. You have a serious problem now with investors being afraid to put money in.

Look, that's why you have this flight to safety with Treasuries. I mean, what are people doing? They're putting more money into Treasuries than historically they ever have because they're afraid to put it anywhere else.

And so one argument for the -- and the financial people understand this -- if we don't have a set of rules that give the investor some confidence, both in systemic risk -- you don't get over-leveraged -- and in a more specific sense of investor protection -- you don't get anything like auction rate securities that aren't going to work well -- then people aren't going to invest. There are going to be some real, problems in that regard.

Two, a lot of the people in the financial industry would like to be responsible. You have competitive pressures. If I'm in a business, I want some rules so that I am not under competitive pressure to take risks I shouldn't take.

For (inaudible) people say, well, listen, why should I invest with you? I can get 15 percent from Bernie Madoff. And, in fact, as I understand, you know, what -- where Harry Markopolos came in, he was asked by some people he worked for, how come Madoff can do that? Why can't we do that? And he began to study Madoff's operation from the standpoint of -- of a competitor, saying, "Well, I'm getting killed because this guy has been doing this well." So you -- -- you do that, as well.

Third -- and I should have put this first -- what good -- they shouldn't -- they can't exist if there's no system. I mean, this is individual behavior that may be seen to be in their self-interest, but it's (inaudible) maybe it would be the case that if everybody else in the world was following rules, you didn't have to, you'd be OK, but that's clearly not what's happening.

So that's the -- that's the override reason, this -- where you kind of have this kind of systemic collapse.

QUESTION:

(OFF-MIKE) you indicated earlier (OFF-MIKE) toxic assets.

FRANK:

Yes.

QUESTION:

Are you hearing (OFF-MIKE) more TARP money?

FRANK:

No.

QUESTION:

(OFF-MIKE)

FRANK:

I said what I said, which is, the next thing is he's going to have to tell us what he does about the toxic assets. I -- it's -- as I said, Hank Paulson thought they were going to need more money, and at this point, though, that's academic until there's a -- some of the things that we've talked about to set that basis.

QUESTION:

(OFF-MIKE) toxic assets (OFF-MIKE)

FRANK:

No.

QUESTION:
(OFF-MIKE)

FRANK:
What do I know from that? I mean, I -- have -- I try very hard to resist the temptation to tell you more than I know. I'm not an expert on how to do that (inaudible) I will say, look, you do know there are two extremes. One is what they -- what the banks would like them to be worth and, two, what they might be worth today. You want to set the price somewhere in the middle.

And I do think it's an unfair criticism to say that the federal government might be paying more than they are worth today at market, because that doesn't accomplish any kind of a goal. But on the other hand, you don't want any kind of unjust enrichment.

The key is, can you work out some system where you acquire these assets in a way that will allow some of them to regain some value and build in a system whereby we will get some of that regained value? But that's the tricky part, because you have to -- you pay a certain level now to get things unstuck hoping that will raise the value.

And there's -- you know, those are technical questions that I -- do not feel competent to deal with. And I do have some confidence in the people in the Obama administration who are doing it.

QUESTION:
What's the outlook for Internet gambling (OFF-MIKE)

FRANK:
I'm going to be pushing it, but I -- I'll talk about it at some other -- in some other conference.

QUESTION:
Are you concerned about the diminishing deposit insurance fund? And do you plan (OFF-MIKE) legislation (OFF-MIKE)

FRANK:
Well, we have that in there. We have in the bill that's, I hope, going to pass today the authority for the FDIC to increase its -- its borrowing authority.

There is a concern I want to address, and that is the recent announcement of the -- of the increased assessment is hurting some of the community banks, and I think they have a legitimate concern.

The -- we are also going to make in the bill today the higher deposit insurance limits permanent. That has some impact on insurance, but that's not the major problem. The major problem is the -- is the failures.

I think it's legitimate for the community banks to say that they didn't cause the failure and shouldn't have to pay for it. The bill that we passed today will stretch out from five to eight years the recovery period for that. And I'm going to be talking to the chair of the FDIC about whether we can do some further things.

The bill also gives them the ability to do some special assessments so that, when they do raise that money, they can assess some of the riskier people more than some of the less risky. So I do think that community banks have a legitimate issue that we're going to deal with.

QUESTION:
What other things can you do?

FRANK:
(inaudible)

QUESTION:
Regulators kind of used Fannie Mae and -- and Freddie Mac to...

FRANK:
Help with mortgages.

QUESTION:
... help with mortgages (OFF-MIKE) some tension (OFF- MIKE) Fannie and Freddie might be more (OFF-MIKE) are these companies going to be (OFF-MIKE)

FRANK:
You have to differ...

QUESTION:
(OFF-MIKE)

FRANK:
As a (inaudible) you have to differentiate between what we're doing to get out of the current

hole and what's good public policy going forward. It is clear that, given the federal investment in Fannie and Freddie, they are playing a useful role as part of our effort to diminish foreclosures, and that should be stressed.

The major reason for diminishing foreclosures is not being nice to the people who are going to be foreclosed. That is a byproduct, almost. The major reason is that, given the centrality of bad mortgages in causing this problem and exacerbating it, if you do not reduce foreclosures, you do not get out of the hole.

Fannie and Freddie have been enlisted in the effort to deal with, particularly including for people who were not themselves facing foreclosure, but they are being very useful. In no way does that have any impact on what the future will be.

It is clear now, looking back, that there was a tension between their public mandate and their private-sector form, and we will have to sort that out going forward.

So, yes, they are being used in a useful way right now. If Mr. Moffett thinks he can't make enough money for Freddie, then he should leave. That's appropriate for him. You know, we have a lot of people in this government working very hard for a lot less money than Mr. Moffett was making. If that's not enough for him, then goodbye.

I'll take the last question. I'll take the last two. Yes.

QUESTION:

Just briefly, Mr. Chairman, you mentioned auction-rate securities. Are those -- is that market going to be included in the (OFF-MIKE)

FRANK:

Everything's going to be included. Why would you -- I mean, everything is -- and I should make clear. First of all, when we go forward on systemic risk, the systemic risk regulator will be regulating any financial activity that could cause a problem. It's not going to be by institution.

People say, "Well, is it going to hedge funds and private equity or" -- yes, is the answer, because if you start regulating any one institution, then there will be three new institutions that nobody ever heard of. Similarly, you go investigate everything, not singling out any one thing, but the investigatory look will be at everything.

Yes, last question.

QUESTION:

(OFF-MIKE) the banks say that (OFF-MIKE) going beyond (OFF-MIKE) increase (OFF-MIKE)

FRANK:

I'd say two things. First of all, they said that before the Fed did it. I mean, they thought what the Fed did was so terrible.

And, secondly, they have a right to do legitimate risk-based pricing. I think they are grossly exaggerating that. But if, in fact, it costs more not to cheat people, then it'll have to cost more. I mean, I -- you know, I'm skeptical of that.

But I will say, you know, they -- they -- they did tell us nothing was done. And then, when the Fed did, they didn't like what the Fed did. Well, the Fed wouldn't have moved if we hadn't have passed the bill. And I think what we're talking about is a matter of -- of absolute fantasy.

This notion that you can go back retroactively and raise the rates on people is -- is just -- makes people crazy. And some are saying we have to save them from their own worst instincts.

Thank you.

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