U.S. Senator Judd Gregg (R-NH)
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Floor Statement on the Budget Impact of Financial Rescue
Unofficial Transcript

Gregg: Mr. President, I want to take a half an hour to discuss at some length and in some depth the situation we're in right now as I see it -- relative to the financial markets and as those affect Main Street -- because there is a lot of confusion out there and this issue is about Main Street. It's that simple.

Why is it about Main Street? It's about Main Street because if our financial markets become totally destabilized, that leads directly to the ability of people to keep their jobs, to keep their savings, and to create more economic activity on Main Street. How does this work? It's very simple. If you're working for a small or even medium-sized company, certainly if you're working for a large company, it's very likely that those companies borrow money. They may borrow money to buy the materials they need to create their product. They may borrow money to pay their suppliers. They may borrow money to pay their payroll every week, to pay your paycheck.

That's just the natural order of commerce. That's the way banks work. That's the way Main Street works. You have a little mom and pop restaurant that didn't make quite enough this week to pay their payroll. They go to their local community bank. The person makes a reasonable amount of money, they take that money and put it in their bank as a savings account, or maybe they put it in a money market account because they get more interest on their money market account. And that becomes a big asset in their lives.

A person wants to go out and buy a car. Most likely they're going to borrow money to do that. They're going to borrow money from their local bank through their car dealer or they're going to borrow money from a major financial entity like GE or GMAC. The same is true if you're buying a house, obviously, or for buying a lot of things. If you're adding on to your house, you're probably going to go try to get a home equity loan to expand your kitchen, put on a play room for the kids, or if your kids are going to college, you're probably going to want to borrow to pay for their college education.

The ability to borrow, the ability to use credit, is at the essence of the economic life blood of our system. Every person in this country is affected by it.

What we're confronting and what we almost saw last week is a total seizing up of our financial industry. Not just the big banks in New York that you hear so much about. Not just the Lehman's and Bear Stearns, but the mom and pop bank in your local town, and the medium-sized bank in your county or state. All of these are under huge pressure. And why was that? It's because the underlying banking system is the business of trading and exchanging credits, of buying and selling debt between banks.

And one of the main elements of buying and selling debts was a debt instrument called a mortgage-backed security. A mortgage-backed security is a debt instrument. If you went to your local bank and borrowed money, only it's a big set of debt instruments and the security for those debt instruments are mortgages.

And what has happened, because of the real estate meltdown due to the subprime event and collapse of real estate in a number of areas of this country, primarily in our bigger states -- Arizona, California, and Florida -- it has become extremely hard to value those mortgage-backed securities because the underlying value of that asset has reduced so much.

The housing market price has reduced so much and because a lot of the loans underlying those securities were made to the person who lives in the house or to the person who speculated and bought the house as part of their investment, were made at a time when money was so cheap to borrow, that they were made at interest rates on adjustable-rate mortgages which were extraordinarily low which are today being reset at a much higher interest rate and at an interest rate which the person who lives in the home or has invested in the home can't afford to pay.

And there's also lots of variations of that by the way. And so the person who's responsible to pay that mortgage note first has an asset which probably isn't worth what the note was issued for because of the drop in value. And second, they find themselves with an adjustable rate mortgage which they can't afford to pay because the interest rates have jumped so much. And that translates into tens of hundreds of thousands of situations which have merged together in these mortgage-backed securities which were then sold and then insured and then reinsured and reinsured -- through something called credit default swaps -- in order to avoid failure, in order to give coverage. And now all of that system has essentially frozen up so that those mortgage-backed securities are no longer tradeable because nobody knows the value of them, and the insurance that was issued on them is at risk also. Because of the fact that the asset has depreciated and the revenue to pay the cost of that debt has depreciated.

And how does this affect the person on Main Street, the person in Epping, New Hampshire or Raymond, New Hampshire? The way it affects them, the way it affects all Americans is that when that system freezes up and the banking system needs to raise capital because it can no longer get full value for the loan assets that it has on its books and it has to start writing down that value, then lending starts to contract dramatically, because the assets of the bank system are depreciating radically, and, as a result, the financial ability to extend credit contracts and dries up.

And people react to that. And they did last week. This is not a theoretical event, by the way. This type of destabilization is upon us, unfortunately. What we're trying to do is avoid it becoming an epidemic, but last week in response to the fact that people couldn't get money and didn't have confidence in lending money or borrowing money, was that we had $335 billion taken out of money market accounts and basically moved over to treasuries.

What did that do? It was essentially a run on money market accounts. Well, if you have a run on money market accounts, you've got a real serious problem. And last Wednesday night we had that problem because what happens when there is a run on money market accounts? The managers who have those money market accounts have to pay them off, which means they have to horde their cash in order to support and defend their money market accounts, which are in distress so they can't lend anymore money. They have to actually start calling in accounts and so when somebody comes into their office and says -- and this is a very simplified explanation-- okay, I need some commercial paper, some financing to get through my next payroll, which is going to be this week, because I didn't make enough money on my business this week; it's maybe a seasonal event or just a slowdown – but I need to get some commercial paper to make my payroll. Well, they can't get it because the bank can't lend it to them because the bank is holding their money or the financial house is holding their money for the purposes of supporting their own capital position or for the purposes of defending themselves against the fact that so much of their money markets are being called in.

And the practical effect of this is that you create the potential for massive destabilization. Destabilization of the economy at a level that we have never seen potentially.

Now, some might say that's hyperbole. I don't think it is. Mr. Greenspan doesn't think it is, the former Chairman of the Fed. Warren Buffet doesn't think it is, a Democrat. I'm citing him because he said this morning he'd never seen an event like this in his life. I think anybody who is honest about it recognizes that the last few weeks have been an extraordinary threat to our economy and to the everyday life of Americans has been immense.

And what has happened to try to address this? Well, fortunately we have had a very activist, very bold and very creative Federal Reserve Chairman and Secretary of the Treasury. Leading up to where we are today, we had three major fiscal crises that were addressed and aggressively.

The first financial of those to go down was, of course, Bear Stearns. And that was aggressively addressed by an infusion of support, not for Bear Stearns. The stockholders of Bear Stearns lost all their money, as did their debt holders, but for the underlying financial institutions that depended on the debt structure which was built around Bear Stearns.

The second, of course, was Fannie Mae and Freddie Mac. Here again, the federal government and Congress acting in a very responsible bipartisan way passed a piece of legislation which allowed us to stabilize those two entities.

Why do we need to stabilize those two entities? Because they own $5 trillion dollars of the mortgages in this country. 70% to 80% of the mortgages in this country are run through those two companies. And had they been allowed to collapse, had they been allowed to totally implode or to massively become dysfunctional, the entire credit market would have frozen up, the mortgage market would have frozen up and a lot of people would have lost their homes. And so again, the Congress, acting in an extraordinarily responsible way with the Secretary of Treasury, created the authorities to move forward to settle that.

And then the third event was last Tuesday night, AIG, an insurance company. Now, why would you say we need to step in to defend an insurance company? Well, we didn't need to step in to defend the insurance company. What we needed to do was to defend the insurance which they had issued. Why? Because almost every bank of any small or medium size in this country uses insurance issued by AIG. To insure what's known as much of its capital assets so that those capital assets can be used against lending. And whether or not a bank can lend depends on how much never capital assets.

Had AIG gone down, the rating agencies would have rated that insurance as nonperforming for all intents and purposes -- simplifying it, but that's what would have basically happened -- which would have meant that the banks would have had to contract their capital immediately and that would have meant less lending.

Dramatically less lending and good loans being called. People who could pay their loans would find their loans no longer existing as the banks had to collect more capital to get their capital requirements up. Many banks might have even failed as a result of that event. It was a systemic problem because the insurance was so pervasive throughout the system and it so supported the banking and financial houses, to say nothing of the money market area, where it also played a major role.

So, again, Chairman Bernanke in this situation stepped in to stabilize that insurance; didn't bail out AIG. Didn't say to Mr. Greenberg -- who is the primary stockholder in AIG and who lost $5.8 billion in one week, I think it was -- that he was bailed out. No, the stock basically went down to $1, I think. It's down to $1 or $1.50. The senior debt was replaced by debt owned by the Federal Reserve, which is paying 11%. And I think everybody agrees that in the end the Federal Reserve will make money on it.

And now we're at the fourth event of this very tenuous and difficult financial dislocation that we confront and that is the request by Chairman Bernanke and Secretary Paulson to give Secretary Paulson the authority to basically use up to $700 billion of federal debt to go in and buy debt off the books of various lending agencies and financial houses which is not performing so that the market can begin to perform.

This goes back to those mortgage-backed securities I talked about. To get that freeze which has occurred, that logjam to break up so that the markets can function in an orderly way and people can borrow money and people on Main Street can finance their payrolls, can finance their homes, can finance sending their child to college and the economy grows rather than contracts. And instead of losing jobs, we add jobs. Instead of losing net worth, we add net worth. That's what this is about.

Now, there's been a lot of misrepresentation, exaggeration, and political statements made around here, and especially in the talking heads area of the media, that has said that basically we're going to take $700 billion of taxpayers' money and throw it at financial institutions across this country. And get the fat cats off the hook, so they say.

Well, we need to go back and talk about what really happens to the taxpayers in all four of these events. And I will represent upfront that I don't know exactly what's going to happen, and nobody else does. But I will also represent upfront that the cost to the taxpayer will be dramatically less -- dramatically less -- than any of these numbers which are being thrown out there in a most irresponsible and inappropriate way.

When somebody says this is going to cost the taxpayers $700 billion to $1 trillion, they are being dishonest when they make that statement. Because it's never going to cost that type of money. It's not even going to be close to that type of money. And, in fact, in a number of instances, the taxpayers may come out of this by making some money because we will replace other investors. And if those investments pay off, we'll make a little money.

So let's go through all four of these items as to how much it's going to cost the taxpayers. Bear Stearns -- $29 billion. That's what the Federal Reserve put into Bear Stearns. That's the Federal Reserve, remember. This is not off the federal budget. It's not from the federal taxpayer dollars. The Federal Reserve is an operating corporation. It has about $895 billion of assets. Every year it makes $25 billion to $30 billion which it pays to the federal government as income.

Chairman Bernanke has decided to take $29 billion and invest it in various bonds that were issued by Bear Stearns to give those bonds stability. It is very likely that the Federal Reserve will get all that money back or a large percentage of it back. It is totally unlikely that the federal taxpayers will end up with any type of a bill from this exercise. That's probably a zero cost to federal taxpayers.

The only thing that could possibly happen that would affect federal taxpayers is that the Federal Reserve might make less money this year and, thus, pay less to the government when it turns over its annual profit to the Treasury. But it's also possible that Fed profits will be higher because they'll be getting the money back on the Bear Stearns deal on a large percentage. So that wouldn’t cost us money. When someone says that's a $29 billion bailout with taxpayers' dollars, that's just plain wrong. It's not.

The second event I want to talk about, because it's similar and significant is AIG. $85 billion. In this instance once again, it's the Federal Reserve investment. It's not taxpayers' dollars being invested. The Federal Reserve has taken $85 billion and essentially bought AIG. In buying AIG, they got the parts as well as the holding company. The holding company is where the problems were. The parts, the subsidiary insurance conditions, of which I think there are 150 or 160, are actually quite economically strong and viable.

In buying that company, not only did they wipe out the stockholders, not only did they kick out the management, not only did they eliminate the golden parachutes, but they took back securities which guarantee an 11.5% payment to the Fed before anybody else. So as AIG starts to make money again -- which it certainly will because it is a very viable company and because of its subsidiaries -- the Fed is going to make 11.5% at a minimum.

I don't think there's anybody who's looked at that exercise who hasn't concluded that this is going to be a financial benefit to the Fed. That the Fed is actually going to make money off of this in the sense that over the long run over the two-year repayment period for this loan, they will have a return on that purchase of AIG, which will exceed the $85 billion they put up. And so when somebody says that was a bailout with taxpayers' dollars, once again, they are totally inaccurate, they are misrepresenting and trying to scare people by saying that.

So now we come to the two big items. Big investments—the others are pretty big items. $85 billion would fund the state of New Hampshire for—I don't know how long—probably 20 years or so. Now we come to the two really large exercises. The first was Fannie Mae and Freddie Mac. In those instances, the Congress in a bipartisan and extraordinarily constructive way, joined with Secretary Paulson and said, "Secretary Paulson, we're going to give you $100 billion of authority for each company, $200 billion total, that you can use to stabilize those two institutions."

Why so much money?

Because we had to make it clear to the people who were dealing with Fannie Mae and Freddie Mac that the government would there be to stabilize them. And by stabilizing them, it would cost us a lot less.

If we allowed them to unravel, if we allowed them to basically go into a destabilized situation, then the contraction to the economy would have been so overwhelming—because the mortgages would essentially have been called all over this country and mortgages would not have been able to be obtained—we would have seen a massive contraction on top of the already serious situation we have in the real estate industry. And that would have had a huge impact not only on Main Street and on John and Mary Jones who want to buy a house or stay in their house, but on the Federal government in the way of revenues because taxes would have fallen off precipitously.

By stabilizing those two companies, we were able to keep the ordinary business of lending for mortgages in this country going forward and moving in a constructive way.

And we had to put enough money on the table, or represent that we were willing to put enough money on the table, so that nobody could question that we weren't going to be able to stabilize those two institutions, and that's why the numbers were picked.

How much has actually been spent, though? How much has actually been spent of taxpayers' dollars? $5 billion. That's what the Treasury has had to put in so far. And as a result of putting in that $5 billion, we are seeing mortgage rates actually come down because we're actually getting Fannie Mae and Freddie Mac to function again. So that's all good news. I don't know how much more will have to go in, but it's certainly not going to be $200 billion or anything near that number.

Furthermore, once again, with that $5 billion, we are buying assets that have value. How much value is still up in the air, but we will get some sort of return on that $5 billion. Thus, under the scoring rules that we work under in our budget, because this is a credit action, this isn't going to score as a $5 billion hit on the Federal deficit, even though $5 billion has been spent, because CBO is going to say some percentage of that $5 billion is going to come back to us as these assets mature and as people make payment on those assets, and, thus, maybe it will only cost $1 billion. Maybe we'll get $4 billion back. So the effect on the Federal deficit will be $1 billion. I don't know how CBO is going to score it, but there's going to be a score dramatically less than $5 billion as a hit on the deficit.

And at the same time, we've been able to stabilize, to some degree, the Fannie Mae and Freddie Mac situation because we took aggressive and bold action. Which brings us to where we are now, this whole issue of whether or not we need to move forward with a major effort of stabilization and recovery for the financial industry generally by having the Federal government come in and buy up a lot of securities which today cannot be traded on the market because nobody can value them. That was what I was talking about earlier.

You can't value these securities because nobody understands what the underlying equity that supports these securities is, the value of that home. And nobody knows whether or not people paying on that debt originally are going to be able to make their payments as these mortgages reset. So what Treasury Secretary Paulson has asked is to have the authority for the Federal government to go in and start buying up these securities in classes and groups across the board.

And the question becomes: will he have to spend $700 billion to stabilize the financial markets? And how much will that cost the American taxpayer?

Well, first off, the easy answer is, it is not going to cost anywhere near $700 billion, even if he uses the whole $700 billion authority, which he will probably not do. But even if he were to use all that authority, he would be buying assets. He would be buying notes that have security behind these notes at a value that might be less than face value. Let's say somebody borrowed $100,000 secured by a house and nobody knows what the house's value is now and the person who borrowed the money can't repay that because the reset interest rate is too high -- that note will sell for something less, maybe $70,000, maybe $60,000. It's not clear what the Treasury will buy that for right now.

I will get into that in a second, but whatever they buy it for, they will be getting an asset. The question will be: is the price they paid for that asset above or below what they can, in the end, get for that asset?

Now, the big advantage in that situation is the Federal government has what is known as "mark to market," we don't have to write down the assets the way a bank or financial house does as the assets become unstable. We are the Federal government.

We can hold that asset until it's paid off at face value; for example, not only would we get the 70 cents back but we could also get 100 cents back on the dollar. So we can put ourselves in a position where if we pay a reasonable price for the asset we may make money on the asset. We don't know that will happen, because this is not the purpose.

The purpose is to stabilize the financial market and give them the ability to free up trading and free up activity so that the credit markets start to move back and forth once again.

But if we're successful, and we will be if this plan is approved, then the credit markets will start to move once again, and that will raise the economy. And as the economy improves, then these mortgages that we will have bought, these mortgage-backed securities and their other things like loans, will start to improve in their performance. And the chances of us getting a good portion of, or all of the money back, will be pretty high.

What is the effect of that is—if that means instead of costing $700 billion we may get $600 billion back; we may get $500 billion back; we may get $800 billion back—whatever we get back is a net figure. So when CBO scores this, they will not say the deficit will increase by $700 billion, they will say it will increase by the net difference between the $700 billion and what they estimate we'll get back from the assets that we purchased.

I don't know what that estimate is going to be, but it certainly won't be anywhere near $700 billion. It (the estimate) will be a shot in the dark because no one knows. We know we will get some value for this investment and, in fact, if things were to work out, we might get as much value back as we put in or maybe more. That is not the expectation, and that's not the purpose but clearly when somebody gets on the public airwaves and says we're putting $700 billion of taxpayers' money into this and we are throwing it at the big companies, they are being demagogs. They're being dishonest. They're heightening the problem.

The deficit will not be aggravated by anything near that number. Now, will the Federal debt go up? Yes. But then it comes back down as we get the money back, so that also isn't a legitimate argument. If you've got a legitimate complaint, here's this as a conservative: when we make this investment and we start to get this money back, which we will over the next five years, so that money is really flowing into the Treasury at a pretty big rate- $500 billion, $600 billion or $700 billion, we better make sure that goes to the debt of the nation and not getting spent around various projects around here. That's what I'm concerned about.

I'm hopeful that whatever the final agreement is around here that there will be language in it that says as we start to get this debt repaid and the Federal government starts to receive monies as a result of the investment we've made, those monies will go directly to reduce the debt of the Federal government and the debt that we're passing on to our children.

But what's the practical effect of putting this type of commitment to stabilization out there? The practical effect is we stabilize, hopefully, the financial markets.

What's the effect of not doing this?

We're playing with fire. We're rolling the dice. We're confronting potentially one of the most significant economic events in the history of this country and it's not a good event if we don't take action.

There are a lot of very thoughtful people here who know that. Last week, we almost saw that event occur when there was $335 billion of money market funds pulled out of the market, and we basically saw the banks unable to continue to operate in an orderly way because of that, until the Fed and the Treasury came in to basically stabilize the situation.

We do not want to take that gamble as a nation. And the cost of not taking that gamble is not that high. It's not $1 trillion; it's not $700 billion as I've just run through the scenario. It’s virtually no dollars in the Bear Stearns and AIG events, and potentially a marginal number of dollars in the Freddie Mac and Fannie Mae event. And in the next Paulson-stabilization event, the $700 billon, we don't know what the cost will be, but we know it will be dramatically less than $700 billion because we know we will recover a large amount of the assets and the net costs of that activity will be well below $700 billion, assuming there is even a net cost over a five year or ten-year period as we work the loans out.

But the cost to us if we don't do this is potentially staggering to everybody in America. This isn't about Wall Street. This is about Main Street. This is about people keeping their jobs; about small mom-and-pop businesses being able to borrow money to operate; about people being able to send their kids to college; about a healthy economy being able to be a growth economy rather than a contracting economy. That will affect everyone -- everyone -- in America. So I think it's time to put an end to the theater, the politicization of this and to the hyperbole.

I want to congratulate a lot of the folks on the other side of the aisle. I congratulate the Chairman from Pennsylvania for being responsible. Senator Schumer is a leader in this area and has offered some extraordinarily constructive ideas. Senator Dodd is trying to be constructive. We need mature action here, and that's our responsibility as a government.

We have a crisis upon us, but there are ways to avoid it. We have a responsibility to pursue a course of action which gives us the best chance of avoiding that crisis for the American people.

Mr. President, I make the point of order that a quorum is not present.

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