Statement by Rep. Michele Bachmann
House Financial Services Committee Hearing
The Administration's Proposals for Financial Regulatory Reform

September 23, 2009

Thank you, Mr. Chairman.

And thank you, Secretary Geithner, for being here today.

Holman Jenkins, Jr. noted in the Wall Street Journal last week, "The time to worry about moral hazard is now, between crises, when we have an opportunity to change the incentives of the system to make future crises less likely." This is good advice. But instead of addressing the issue of moral hazard, and thereby putting us on a path away from the likelihood of future bailouts, your regulatory overhaul plan actually codifies a path toward more such action.

I don't believe that anyone wants to relive the events of the past two years – probably few want to relive it as little as you, but future taxpayer bailouts are a centerpiece of your plan. Labeling large financial institutions as "systemically risky" and creating a "resolution authority" to wind them down are just code words for a planned and permanent system of taxpayer bailouts. And, thus moral hazard remains unaddressed. Until the federal government makes a commitment to end the cycle of bailouts, the marketplace will continue to respond with risky behavior, knowing that it will continue to be rewarded.

On the other hand, the Republican alternative to your proposal (H.R. 3310) both addresses the core problems in our financial system and promises American taxpayers that they will not be on the hook for Wall Street behavior in the future. Three key principles guide our proposal: ending government bailouts of "too big to fail" financial institutions; getting the government out of picking winners and losers; and restoring market discipline by removing moral hazards that exist today.

Our plan uses the bankruptcy code to direct the timely and orderly resolution of non-bank corporations and financial institutions – no matter how large or small. We make it clear that bankruptcy is the end-game for those that make mistakes or make risky bets. Our plan would strengthen market discipline by making it clear that a failing institution's creditors and counterparts will bear the cost of financial mistakes – not American taxpayers.

The Republican plan also takes on Fannie Mae and Freddie Mac – two of the most significant contributors to the financial crisis – and ends their taxpayer subsidies within a set time frame. This would remove a flaw inherent in government sponsored enterprises –they will no longer be considered government sponsored! The marketplace will no longer view them as backed by a bottomless taxpayer ATM. Unfortunately, your proposal avoids this critical issue.

Our bill also creates a Market Stability and Capital Adequacy Board that would monitor all sectors of the financial system, how they are interconnected and whether their size and scope could jeopardize the safety and soundness of our system. Rather than creating a government behemoth, as you propose in the Consumer Financial Protection Agency, our proposal would enhance consumer protection without restricting access to credit and individual choice.

Our plan would consolidate regulatory and enforcement authority into a single regulator with both consumer protection and safety and soundness duties. This should clearly be a guiding principle in any reform. Many of the regulators who will be testifying later today have made that very point. Comptroller of the Currency, John Dugan, has stated, "[T]here are critical issues in bank supervision for which consumer protection and safety and soundness cannot be separated." And Sheila Bair, Chairman of the FDIC has stated, "Separating the examination and supervision of insured depository institution consumer protection compliance from that of safety and soundness could undermine the effectiveness of both."

Thank you for being here today, Secretary Geithner, and I look forward to today's hearing.

Thank you, Mr. Chairman, and I yield back the balance of my time.