

**OPENING STATEMENT OF
CONGRESSMAN PAUL E. KANJORSKI
COMMITTEE ON FINANCIAL SERVICES
HEARING ON CURRENT CONDITIONS
IN THE CREDIT MARKETS
WEDNESDAY, SEPTEMBER 5, 2007**

Mr. Chairman, I commend you for convening this timely hearing. As we begin our fall legislative session, it is very appropriate for us to examine what transpired in our capital markets during the last month or so. The apprehensions of many participants in our financial markets about their exposures to financial products backed by American subprime mortgages helped to trigger significant volatility in our credit markets at home and abroad. This instability affected not only housing markets, but it also seeped over into many other commercial sectors.

Today's hearing will help us to understand at least some of the factors that contributed to this turmoil and the response of our regulators to these problems. It will also help us to discern whether Congress needs to take further steps to restore the confidence of investors in America's dynamic capital markets. Although I have not yet arrived at any conclusions, I have already identified at least three concerns that I expect we will begin to address today.

First, I would like to learn more about the transparency of our capital markets related to subprime mortgage-backed securities, consolidated debt obligations, credit default swaps, and the parties that package and hold these increasingly sophisticated financial products. From what I have read, it appears that the participants in our capital markets, as well as their regulators, have had significant difficulties in determining exposures to subprime mortgages that have defaulted or will likely default. We know from past experience that transparency and access to information provide the lubricant for our capital markets to work well.

Second, I am like you, Mr. Chairman, very interested in exploring the role that credit rating agencies played in contributing to these events. Many have already criticized their assessments of the creditworthiness of the financial products backed by subprime loans. Some have also suggested that their actions may have contributed to the engineering of faulty financial products. While we took action last year to reform the oversight of rating agencies, we may still need to do more. The testimony provided by our witnesses today will help to shape the hearing that the Capital Markets Subcommittee will hold on this issue in the coming month.

Third, I am very interested in examining how well the regulators created in the last century are responding to the problems of the new century. Our capital markets have significantly evolved since the creation of these overseers. After all, no one had conceived of mortgage-backed securities at the time we created the Federal Reserve and the Securities and Exchange Commission. Moreover, banks traditionally engaged in the role of making mortgages based on the amount of assets they held on their books. Today, financial companies accessing our capital markets often help families to buy a home.

As a result, the traditional lines between prudential regulation, investor protection, and consumer protection have blurred. Regulators now have multiple missions, such as the Commission's safety-and-soundness oversight of investment banks. In other instances, regulators are responding to problems in our capital markets using indirect means, such as the

decision last month of the Federal Reserve to lower the discount rate in response to marketplace uncertainty.

Consequently, I intend to focus increasingly on whether our present regulatory architecture can anticipate and manage the risks of the modern financial system as the Capital Markets Subcommittee proceeds with its business during the remainder of the 110th Congress. I look forward to working with everyone interested in these issues in the coming months and invite them to share their ideas on these matters.

In sum, Mr. Chairman, we live in an increasingly complex and interconnected financial marketplace. We need to move deliberately and strategically to explore whether we need to update the regulatory architecture of our financial system. If we come to the conclusion that we do need to pursue such a change, we must also move carefully to modify the system in a way that protects investors and ensures the long-term stability and viability of our financial system. These are complex problems and questions, and I look forward to exploring them.
