

SPEECH

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Senator Robert Menendez (D-NJ) Addresses Conferees at ICI's Equity, Fixed-Income & Derivatives Markets Conferences

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It seems like we haven't had time to breathe over the last few weeks and months, because our financial system itself has been running out of air.

We all know the chain of events that led us here. It started with a foreclosure crisis in the housing market. Some financial institutions were so heavily tied to the failed mortgage products that they, too, began to fail. And others tied to them started to follow. The interest rates at which banks lend to each other started to rise, because lenders wanted to hold on to their cash.

With banks leery of lending to each other, credit markets contracted, making it harder for businesses to get loans or cover their bills. Credit card interest rates rose. People couldn't get car loans, so automakers saw their sales decline.

And all that forced markets to shed jobs, creating more unemployment. Consumers scaled back on spending, and then everything from giant banks to little shops in communities all over America began to shut their doors as well.

The events of last month—really of the last year—have shaken our economy to its core, and mutual funds have not been isolated from the storm. The ripple effects have not only been felt across this room, but in offices and living rooms across this country, as adults sit down in front of their computers or with their financial planners to see how much of a hit they've taken. The decline that we saw was not only financially detrimental but flat-out frightening.

Mutual funds are a bedrock of our economy. And, money market funds, in particular, play a vital role in our financial market—they have as your CEO quite rightly said—provided a “safe haven for millions of investors.” Since they were considered to be one of the safest investments, they have been the core of many families' retirement plans and the backstop for many personal investors—a vehicle for average people to create wealth and prepare for the future. Their role in our markets simply cannot be understated.

A tough year for mutual funds has meant a tough year for a couple in the twilight of their

lives, who had been careful planners for years but now see the future they planned for in deep jeopardy. It's been a tough year for a man who just announced his retirement, thinking his savings were safe, and now has to contemplate reentering the labor market at age 65. It's been a tough year not just for mutual funds, but for all the institutions, small businesses and individual investors who rely on them.

So the message we've been trying to send is, the crisis isn't just about Wall Street—it stretches across every street in the country. People in my home state of New Jersey have been feeling this for a long time. To start with, as much as a third of New Jersey's economy depends on the financial industry, and now thousands of New Jerseyans fear for their jobs.

In Newark, there's a single mother who lost her job and now has to hold down 3 part-time jobs to make up for it, while her three kids are home by themselves.

In Clifton, there's a couple who work two jobs and bring in \$4000 a month, but when the mortgage payment, the car payment, the PSE&G bills, the grocery bills and the credit card bills come in every month, they worry that they just can't make ends meet.

In Lodi, there's a builder who's finding it almost impossible to get funding to keep his business going. Banks want bigger deposits, bigger monthly payments and stricter payment deadlines. All because of credit markets that seem remote to people, but can change their financial health like a remote control.

The Administration thought its economic and regulatory policies allowed this crisis to develop for several years, and then on the night of September 18th, they came to Congress and told us we had about 7 days to solve it. Warren Buffett hit the nail on the head when he said, "Chains of habit are too light to be felt until they are too heavy to be broken."

Once we saw centuries-old financial institutions fail, once we saw credit markets freeze up and Americans' savings begin to disappear, the question wasn't, does Congress have to act, the question was how to craft a plan that would work, and would give maximum protection to the taxpayers who're going to fund it.

What the administration originally sent us was a plan with no accountability, a plan where the idea of checks and balances was: Congress signs the check, and they fill in the balance.

The term that caught on was "Wall Street bailout," which contributed to people's outrage, because it created a perception of the rescue plan for those whose risky behavior and or greed created a crisis, with nothing in return for taxpayers except the bill.

The message that in today's economy, Main Street and Wall Street are deeply connected simply didn't connect—and the consequences were catastrophic. The failure to make that case tied in directly to the failure of the House of Representatives to pass the bill the first time, and to the stock market dropping 777 points, vaporizing \$1.2 trillion dollars of wealth.

Over the past two weeks, Congress has taken the administration's original blank-check plan and made significant improvements. We instituted oversight and accountability, added protections for the taxpayers, and provided targeted relief for the middle class. Congress boosted the FDIC limit to \$250,000.

And I was pleased to see the Treasury Department step in and establish a temporary guaranty program for U.S. money market mutual funds. This move was critical in not only preventing further deterioration but an important step towards restoring trust and

confidence in the money market industry.

By insuring the holdings of any publicly offered eligible money market mutual fund that pays a fee to participate in the program, we can boost confidence in the market and address the concerns investors have about money market mutual funds' ability to absorb losses.

Last week, I voted for the economic rescue. It wasn't perfect. I still have significant reservations about the proposal and will work with Chairman Dodd to ensure proper oversight and accountability. But doing nothing was not an option.

What we ended up with was a balance of protecting our financial system and protecting the taxpayer. The rescue package was about keeping small businesses running, keeping people in their jobs, and making sure loans for a car, an education or a home are available.

The economy won't be revived overnight, and today's selloffs in Asia and Europe as well as the rocky start to the trading session today on Wall Street is an example of that fact, but it now has the opportunity to stay afloat, calming the waters for recovery.

So now that we've passed the rescue plan, the question is, where do we go from here?

First, we still have a long way to go toward tackling the root of this crisis, which is the housing market. While homeowners struggle, the stock market will struggle; while families are in financial distress, the credit markets will be distressed. I'd like to see us set the goal of saving at least 1 million families from foreclosure.

That's going to take a broad range of measures, and it's also going to take a broad range of support, from the financial sector as well as from federal, state, and local governments. We all have to realize that measures to prevent foreclosures deserve that support.

They're in everyone's best interests; when there's one foreclosure in a neighborhood, it brings down values of every house in the neighborhood, and it sends a negative ripple through the broader economy—eventually landing on Wall Street.

Stabilizing the housing market now and keeping our economy stable in the future is going to require appropriate regulatory reform and those regulations must be robustly enforced, so we never find ourselves in this position again—otherwise, we'll send the message that it's acceptable for firms to behave recklessly, and we'll be forced to contemplate another rescue further down the line.

As a member of the Banking Committee, I look forward to the hearings Chairman Dodd has promised to hold—they'll be a critical opportunity to monitor the progress of the program, prevent abuse and take whatever further steps may be necessary.

I also look forward to working with all of you as we set out to perform a full autopsy on what went wrong; such as the Securities and Exchange Commission's April 28, 2004 decision to grant an urgent plea from big investment banks to exempt their brokerage units from a regulation that limited the amount of debt they could take on. An exemption which would unshackle billions held in revenue as a cushion for losses on their investments. Not only did the SEC grant them that risky exemption, but they relied on the investment bank's own computer models to determine the riskiness of their investments. In essence, they outsourced the job to the very banks they were supposed to be regulating; and attempt to develop a new path forward. If nothing else, these past few weeks have taught us how

interconnected we are.

Stock brokers were at a stand-still watching the House and Senate vote, and many in the halls of Congress were constantly checking in on how the markets were doing. Working together and listening to each other—and Main Street—is going to be critical in the weeks and months ahead.

But along with teaching us how interconnected we all are, we've also learned how disconnected things might seem. American families are taking a direct hit in this downturn. Hundreds of thousands are losing their jobs, millions are receiving foreclosure notices, and untold numbers are struggling to balance their checkbooks.

But the fact is, most Americans didn't understand the connection to their lives, and why the rescue plan needed to be passed. And that was in part because the people and institutions on the other end didn't explain it to them very well.

It was a sad echo of the situation in the mortgage market itself—where a widespread lack of financial understanding was the foundation for widespread failure.

With so many employers moving from defined benefits to defined contributions, more and more workers and their retirement are directly connected to the market. So if people didn't figure out the connection this crisis has to their lives, they will soon, when they open their quarterly 401(k) statements, or when the company they work for has to cut back on benefits or even close its doors.

After seeing the meltdown in the housing market and the misinformed opinions about the rescue plan, never have there been more clarion calls for us to get serious about financial literacy in this country.

One of the most fundamental steps we can take to empower families in the midst of national financial unease and the home foreclosure crisis is to provide them with the information and knowledge to help them make the best decisions about their financial future.

Many Americans don't know the ins and outs of IRAs, mutual funds, money market accounts, etc., And a great many don't think to go out and seek a financial advisor/counselor to explain their options.

So we need to become more creative about getting those resources to work in places where the bulk of people are, or into neighborhoods where people need them most.

A good start was a provision I championed in the Housing and Economic Recovery Act that Congress passed in July, to create a pool of money by allowing states to use their administrative expenses to improve financial literacy, expand housing counseling services and create pilot projects to determine the most effective methods of financial education.

This was just a first step. Government has its part to play—but the private sector also has to do more to educate the public. In these coming days and months we should all think about what public-private partnerships on this front would be in everyone's best interest.

Next, it's time for a new economic stimulus package, targeted to create hundreds of thousands of good-paying jobs and prevent cuts in critical services for millions of Americans. The initial stimulus package failed to garner enough votes in the Senate but we

must try again to get the necessary support.

The proposal would fund ready-to-go infrastructure projects, an energy aid program, as well as assistance to states that are pulling back but need to invest now more than ever in their citizen's unemployment insurance extension.

That package should be coupled with a loan program to help jumpstart one of the most important economic engines in America: small businesses. Because of the trouble businesses are having finding credit on the private market, emergency loans should be available along the lines of what we provide during a natural disaster. This is a pretty big financial storm, and temporary relief can make a big difference.

And third, we need to strengthen our efforts to promote savings and investment, not just at the institutional level, but among all American families.

It's hard to focus on saving in tough economic times, but some could argue that there wasn't enough focus on it during better times, and that contributed to the depth of the current crisis.

I've been involved in efforts to address this issue since my days in the House of Representatives when, as the Chairman of the Democratic Caucus, I proposed AmeriSave, a dollar-for-dollar match for the first \$1,000 contributed to an IRA, 401(k), or similar retirement plan.

When I came to the Senate, I introduced the Saver's Bonus Act. That legislation would give low-income Americans an incentive to save by providing a match for contributions to savings accounts, bonds and 401ks, and would help those without bank accounts open up an account automatically by checking a box on their tax return.

When we talk about banking the unbanked, providing access to capital in disadvantaged neighborhoods, diversifying participation among pension fund management—this isn't just about social justice, it's about economic prosperity.

It's about expanding markets, broadening the client base for financial services and harnessing the biggest resource this country has: our people. If we're going to have an economic recovery, we need as many people as possible to participate.

I think Thomas Friedman put it well: if our economy were a car, the financial markets would be the transmission, but they're not the engine. The engine of our prosperity is innovation, and until we get that engine revved up again, investing in higher education, advanced energy, and incentives for small businesses, we're going to be driving over a rough stretch of road.

As tough a situation as we find ourselves in, I want to temper it with a little perspective. In this time of crisis, we can't lose sight of our strengths, despite our present challenges.

The United States of America still has one of the broadest and diverse economies in the world, and the hardest-working and most productive people on earth. Nowhere on the face of the planet is there more money invested in research and development, and in terms of innovation, we are still second-to-none.

Some of the fundamentals of our economy need repair, in a big way. In the credit markets, and on Main Street, one of the biggest things that have gone missing is trust. In

Washington and on Wall Street, from New York harbor to the San Francisco Bay, trust is the coin of the realm.

Our supply of trust has taken some pretty big hits lately. And we'd better get it back. I think we can get it back, and I think appropriate regulation and oversight, along with our best efforts to promote innovation and expand prosperity to every corner of our country, will help us tremendously.

So many people are depending on all of us. If we keep up the hard work, and believe in what we're working for, then progress is always within our reach, change is always within the realm of possibility, and a better world is ours for the making.

Thank you very much.

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