Paul Morales were all instrumental in reaching state champion status. I commend the Sodus basketball team for their determination and exceptional season. Their outstanding achievements have set a standard that other teams should follow. Congratulations and good luck on future seasons.

HONORING THE RETURN OF SOLDIERS FROM IRAQ

HON. JEB HENSARLING
OF TEXAS
IN THE HOUSE OF REPRESENTATIVES
Tuesday, April 5, 2005

Mr. HENSARLING. Mr. Speaker, today I would like to honor several members of our Nation’s military who have recently returned home after serving our country with distinction in Iraq.

Specialist Rocky Padgett, Specialist Chad Sumner, Specialist James Tyson Zigler, Specialist Bud Rath, Specialist Bradrick Graves, Specialist James Arnold, Specialist Jason Yanna, Specialist Michael Easdon, Corporal Jason W. Fitzgerald, Sergeant Christopher Callaway, and Sergeant John L. Tetty all deserve our deepest appreciation and respect. In the face of tremendous danger, these 11 men bravely answered the call of duty to fight our enemies abroad so that we would not have to fight them here at home. Because of their efforts, America is safer today than it was just 2 years ago.

On behalf of the grateful citizens of the Fifth District of Texas, it is my pleasure to welcome these heroes home. America owes these men, and all who serve beside them in the War on Terror, a tremendous debt, one that we will probably never be able to fully repay. Today, we thank them for their courage, their patriotism, their service, and their sacrifice.

As these men return to their families, friends, and the lives they left behind, I want to ensure that they do so secure in the knowledge that it is through their service that America will one day be free from the horrors of terrorism. It is because of their service, that future generations of Americans will be able to enjoy freedom, peace, prosperity, and the many other blessings that God has bestowed upon this great land, the United States of America.

Gentlemen, on behalf of a grateful Nation, welcome home.

JOHN LAFAULCE’S VIEWS ON BASEL II

HON. BARNEY FRANK
OF MASSACHUSETTS
IN THE HOUSE OF REPRESENTATIVES
Tuesday, April 5, 2005

Mr. FRANK of Massachusetts. Mr. Speaker, my predecessor as the Ranking Minority Member of the Committee on Financial Services, John LaFalce, made enormous contributions during his tenure in Congress and U.S. bank regulators will decide whether to adopt new capital regulations that would impact the entire U.S. banking system.

Current discussions about Basel II are focusing on the minute details, rather than the more important question of whether the proposed accord makes any sense at all. In my view, Basel II is fundamentally flawed, and actually dangerous, for numerous reasons.

First, it is based on a fanciful premise that sophisticated risk-management models enable banks to accurately assess risk. If that is not too low, nor too high, but just right.

I hope my former colleagues and others do not gamble the stability of our domestic and global financial system on this theory.

Recent financial crises, such as at Long-Term Capital Management, should serve as a stark reminder. Accurate risk assessment, how sophisticated, are subject to unpredictable market forces and, most important, human judgments, mistakes, and even manipulation.

With every large bank in the world lining up to play the Basel II capital game, and a financial system that is increasingly interconnected, the consequences of an inadvertent mistake could be devastating. The odds are too high that Basel II, if adopted, could trigger a systemic financial crisis.

Second, Basel II’s proponents have been too quick about the most fundamental tenet of banking regulation—safety and soundness—and the critical role that an adequate capital cushion plays in the safe and sound operation of our banks and banking system. A Basel II regime would be reckless, unsafe, and unsound, all because.

It would allow banks to use complex risk-based models that few if any corporate executives or directors will ever understand. Executives or directors will ever comprehend how sophisticated, are subject to unpredictable market forces and, most important, human judgments, mistakes, and even manipulation.

It is an ominous sign that the regulators recently published a formula that would have caused banks to underestimate their capital needs for retail credits by 60 to 70%. Banks will implement Basel II only if they know the net result. That will also create powerful incentives, competitive pressures, and irresistible temptations for the nation’s largest banks to rejigger their capital adequacy standards.

The new capital regime will undermine banks’ competitive viability of small or medium-size banks because of the dramatically lower capital levels that the largest banks will achieve. We now know that two former Federal Reserve economists came to that very conclusion in a paper that is being published independently.

Third, Basel II is overly optimistic about the ability and resources of regulators to supervise the nation’s largest banks to re-form their capital models.

As Standard & Poor’s has pointed out, “National bank regulators could be overwhelmed by the implementation of Basel II, with its intensive need for verification of the internal systems and databases of individual banks.”

In addition, although the new accord allows regulators to make discretionary capital adjustments, banks will likely resist or seek regulatory approval because of concern over the potential litigation exposure. Neither the markets nor the regulators nor most corporate officers or directors will ever understand the underlying assumptions and idiosyncrasies built into the banks’ models or to react quickly enough to emerging crises.

Fourth, some in the Federal Reserve would like to believe that adoption of Basel II is necessary and inevitable. It is neither.

Despite the perceived momentum behind Basel II, I am convinced that the seasoned executives of some, if not most, of the nation’s largest banks would themselves, in private after our discussions, reject Basel II. Many former regulators have expressed serious reservations about, if not outright opposition to, Basel II, including Jerry Hawke, Bill Isaac, Bill Seidman, and others.

Powell is apparently sufficiently concerned that he has reignited the debate over the FDIC’s authority to examine banks already examined by other regulators.

The fact that the chairmen and ranking members of both the House Financial Services Committee and its financial institutions subcommittee introduced legislation Thursday that could slow down or even prevent adoption of Basel II should also send a strong signal to the regulators.

Fifth, I am not even convinced that the Federal Reserve itself fully embraces Basel II, or even adequately understands many of its implications. Some members of the Federal Reserve may still mistakenly believe that regulatory capital does not affect competition or the pricing of strategic decisions. That banks and regulators will lack the resources and technical skills to supervise adequately.

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Chairman Greenspan has been largely silent in the Basel II debate, although the irony is that he prudently questions the sufficiency of the capital levels at Fannie Mae and Freddie Mac. But he also believes that banks should be allowed to hold less capital for the same mortgage assets that Fannie Mae and Freddie Mac are required to hold, and estimates of the capital that Basel II banks would have to hold for mortgage assets would also be at or below the capital level that led to the savings and loan crisis.

Some at the Federal Reserve appear to be more attuned to the importance of maintaining adequate regulatory capital reserves. Tim Geithner, the president and CEO of the Federal Reserve Bank of New York, remarked recently that it was important for the nation’s largest financial institutions to “be able to withstand that magnitude of stress and above the high regulatory thresholds.”

He added that “because of the broader implications of a failure for the financial system, it would make no sense for regulators to allow the failure and above the high regulatory thresholds.”