

Barney Frank says economy appears to have bottomed out

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The U.S. economy appears to have bottomed out, U.S. Rep. Barney Frank said Friday morning.

"If everything goes right, it shouldn't get much worse," the Newton Democrat and chairman of the House Financial Services Committee told a business breakfast. "The economy stays down for a while, but I don't see any further collapse."

He nevertheless called the economic situation "an extraordinary one" that will require a new wave of regulation similar to those that followed post-Civil War industrialization and the expansion of equity markets in the early 20th century. Specifically, he wants more lenders to face the type of scrutiny historically applied to banks.

Commercial banks operate within "very strict rules," he said, but investment banks operate under "very few rules."

Referring to the recent near collapse of Bear Stearns, he said, "Once an investment bank was able to go to the Fed for help, that's when the rationale for that different set of rules disappeared."

If more lenders had been held to bank-like standards, he added, "We would not have the subprime crisis and we would not have the economic problems we now have."

One lesson from the housing crisis is that some people should rent rather than own, he said.

"We equated having decent shelter to home ownership," he said. "In fact, there are a significant number of people in our society ... who will not be able to own a home, either because they can't afford it or because they're not organized socially (to make it work)."

"It would be nice if most people could own a home," he added. "It would also be nice if I could eat more and not gain weight. But if I acted on that wish, I'd be in trouble."

He outlined legislative priorities including:

- Exploring why municipalities, which are never allowed to default on bonds, nonetheless are required to buy bond insurance.
- Putting more lenders under the 1977 Community Reinvestment Act, which requires that financial institutions serve neighborhoods whose residents struggle to meet typical credit standards.
- Encouraging greater investor scrutiny of loans they purchase.

"I'm not ready to rely on the rating agencies that much. I think we have to do other things to incentivize people to do their own rating ... some independent checking."

A chief goal of new regulation and stimulus is to end an "investors strike," he said. "We have a lot of investors who bought things they shouldn't have bought. Having bought things they shouldn't have bought and having been burned by it, now they won't buy things they should be ... the problem with the investment community is having touched the stove and having been burned, now they won't go near the stove, the refrigerator, the sink or the toilet."

Responding to a question from an audience member, Frank said he expects federal mortgage quasi-publics to continue dropping penalties applied to what are called "jumbo" mortgages. In Massachusetts, many single-family home mortgages fall into that category.

Joseph P. Campanelli, CEO of Sovereign Bank and Sovereign Bancorp Inc., said the economy nationwide needs "aggressive" help. "The good news is we're in the Northeast," he said. "We didn't experience a major boom. We don't expect to (have) a major bust."

The breakfast, at the Boston Harbor Hotel, was hosted by Sovereign and the consulting firm **O'Neill and Associates**.