doesn't have anything to do with the people on Main Street and in our shopping centers across America and those who are selling and buying houses anywhere in America or buying cars from their local dealerships. It applies to all of them.

If liquidity, the liquid money flowing, stops for any period of time, all of those are affected. And guess who is at the end of each of those. The American people. They are all going to be affected. In fact, I am quite sure many thousands of Americans are worried today as to what they should do with their money, with their savings. We need to build some confidence back into the system and in them. We need to stabilize the system and build confidence in the American people by us being confident, by speaking out that we intend to do this, and by doing it we are going to save this credit system in the United States which applies daily to each American in a different way, but is their credit system, the credit system of the people of this country.

The history of the banking system in the United States is clearly an interesting one, and I believe rather than give it today, I will reserve it—I know I will have another opportunity to speak—and change the tenor of my remarks today from the history of the banking system to my version of the problem, from the top of my head as I think and look at a few words, what I think the problem is and what I think our responsibility is.

I once again say that before we leave here, we have a responsibility to face up to what could be the greatest economic crisis America has ever seen. If it isn't that big, we don't understand it. We are being told by those who know that it is that big, that it could be the biggest economic crisis we have ever had. I tend to believe these two gentlemen. I have heard them. I don't know them. I listen to them. I have no idea why they would be telling us this if it were not that they truly believed it was the fact as they gathered the facts from this enormous credit system of the United States.

I repeat, we are fortunate that the two experts are truly expert on matters similar to the ones we are facing. I didn't know about the good doctor who is Chairman of the Federal Reserve until I was preparing for this speech and for these hearings, that not only is he an economist but his expertise is in the Great Depression. No wonder he talks so confidently about what might happen if we do this or that.

Who are we going to believe if we don't believe people such as them? Who are we going to believe if we don't believe the Secretary? The Secretary worked so hard yesterday. I was around him late in the afternoon. I thought maybe he ought to go home and rest, he had worked so hard. He truly is trying to tell us with two red flags—if he could hold five of them—he is trying to tell us there is a big problem and we better start solving it. Don't be worrying too long how big the fire is or how big the fire hose has to be. We know how big the problem is. It is either as big as they say, or we have to guess and say we, as Senators, with no expertise in this area, no more than that, we are going to guess. I don't choose to do that. I don't think that is why we are here. This is a complicated system. The credit system of the United States is complicated. They have narrowed it down to five or six major events and now the big one that will wrap it up. We better help them or we better be prepared to face the consequences ourselves as individual American Senators.

I yield the floor and thank the Senate for listening.

I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. CASEY). The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. GREGG. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. GREGG. Mr. President, I understand that at 12 o'clock I am to be recognized for half an hour, but I ask unanimous consent that I be allowed to proceed at this time for half an hour.

The PRESIDING OFFICER. Without objection, it is so ordered.

MAIN STREET

Mr. GREGG. Mr. President, the reason I wanted to take a half hour is to discuss at some length and in some depth the situation we are in right now, as I see it, relative to the financial markets as they affect Main Street because there is a lot of confusion out there and this issue is about Main Street. It is that simple.

Why is it about Main Street? It is about Main Street because if our financial markets become totally destabilized, that leads directly to the ability of people to keep their jobs, to keep their savings, and to create more economic activity on Main Street.

How does this work? It is very simple. If you are working for a small company or even a medium-sized company and certainly if you are working for a large company, it is very likely those companies borrow money to do things. They may borrow money to buy the materials you work on in order to create their product. They may borrow money in order to pay their suppliers. They may borrow money to pay their payroll every week to make your paycheck. That is just the natural order of commerce in our Nation. That is the way banks work. That is the way Main Street works.

You have a little restaurant, a mom-and-pop restaurant, and they didn't make quite enough this week to pay their payroll, so they go to their local bank or the community bank and they say: Will you give me a loan to get me through this week so I can make payroll?

A person who makes a significant or a reasonable amount of money takes their money and puts it in their bank, into a savings account or maybe into a money market instrument because they get more interest on a money market instrument, and that becomes a big asset in their life.

Let's say a person wants to go out and buy a car. Most likely, they are going to borrow money to do that, either from their local bank or through their car dealership or they are going to borrow money from a major financial entity such as GE or GMAC. The same is true if you are buying a house, obviously, or if you are buying a lot of things. If you are adding on to your house, you are probably going to try to get a home equity loan. If you are going to expand or improve your kitchen, put on a playroom for your kids or, if the kids are old enough, send them to college, you are probably going to borrow money to pay for their college education.

The ability to borrow, the ability to use credit in our system is at the essence of the economic lifeblood of our system. Every person in this country is affected by it.

Unfortunately, what we are confronting and what we almost saw last week is a total seizing up of our financial industry, and not just the big banks in New York we hear so much about—not just Lehman Brothers and Merrill Lynch and Bear Stearns—but the mom-and-pop bank in your local town, the medium-sized bank in your local county or your State. All of these were under huge pressure. And why is that? It is because underlying the banking system is the business of trading and exchanging credit, of buying and selling debt between banks.

One of the main elements of buying and selling debt is a debt instrument called a mortgage-backed security. Now, what is that? A mortgage-backed security is a debt instrument, as if you went to your local bank and borrowed money, only it is a big set of debt instruments, and the security for those debt instruments is mortgages. What has happened, because of the real estate meltdown and because of the subprime event and the collapse of the real estate industry, primarily in our bigger States, such as Arizona, California, and Florida, is it has become extremely hard to value the security below that debt instrument—those mortgage-backed securities—because the value of that asset has reduced so much, the house price has reduced so much.

The reason for that is because a lot of the loans which were made to buy those securities—to the person who is actually paying the loan, the person who lives in the house, theoretically, or the person who speculated and bought the house as part of their investment—were made at a time when money was so cheap to borrow that they were made at interest rates which were extraordinarily low and are today being reset, as those notes become due under the terms of them, at a much higher interest rate and at an interest rate that the person who lives in that home can't afford to pay. That is called the subprime issue. And there are also a lot of variations of that, by the way. So the person who is responsible to pay that note, first, has an asset which probably isn't worth what the note was issued for because of the drop in the value of the home prices and, second, finds themselves with a debt they can't afford to pay because the interest rates have jumped so much. That translates into thousands, tens of thousands, hundreds of thousands of situations which merged together in these mortgage-backed securities which were then sold and then insured and then reinsured and reinsured through something called credit default swaps in order to avoid failure, in order to give coverage, and all of that system has essentially frozen up—frozen up—so that those mortgage-backed securities are no longer tradeable because nobody knows the value of them, and the insurance that was issued on them is at risk, also, because of the fact that the asset has depreciated and the revenue to pay the cost of that debt has depreciated.

How does this affect the person on Main Street, the person in Epping, NH, or Raymond, NH, or Lancaster, NH? The way it affects them and the way it affects all Americans is that when that freezes up and the banking system can no longer get value for the debt which it has on its books and it has to start writing down that value, then the banking system starts to contract dramatically because the assets which the bank was depending on in order to be able to lend against are depreciating radically. As a result, the financial ability to get credit dries up and contracts, and people react to that, and they did last week.

This is not a theoretical event, by the way. This type of destabilization is upon us, unfortunately, and what we are trying to do is avoid it becoming an epidemic. But last week, in response to the fact that people couldn't get money and didn't have confidence in lending money or borrowing money, we had $335 billion taken out of money market accounts and basically moved over to Treasurys.

What did that do? It was essentially a run on money market accounts. Well, if you have a run on money market accounts, you have a very serious problem. Last Wednesday night, we had that problem, because what happens when there is a run on money market accounts? Well, the entities that have those money market accounts have to pay them off, which means they have to hoard their cash in order to support and defend their money market accounts which are in their banks. So they can't lend any more money; they have to actually start calling in accounts. So when somebody comes into their office and says—and this is a simplified way of explaining this—OK, I need some commercial paper, some financing to get through my next payroll, which is going to be this week, because I didn't make enough money on my business this week—it is maybe a seasonal event or a seasonal slowdown—and they say: I need to get some commercial paper to make my payroll, well, they can't get it because the bank can't lend it to them because the bank is holding its money or the finance house is holding its money for the purpose of supporting its own capital position or for the purpose of defending itself against the fact that so many of its money markets are being called in. The practical effect of this is that you create the potential for massive destabilization of the economy at a level we have never seen, potentially.

Now, some might say that is hyperbole. I don't think it is. Mr. Greenspan doesn't think it is. The former Chairman of the Fed said this is a 100-year event. Warren Buffett doesn't think it is—a Democrat—and I am quoting him because he said this morning that he had never seen an event like this in his life with the potential for this type of destabilization.

I think anybody who is honest about it recognizes that the last few weeks have been extraordinary and the threat to our economy and to the everyday life of Americans has been immense—the threat.

What has happened to try to address this? Fortunately, we have had a very activist, very bold, and very creative Federal Reserve Chairman and Secretary of the Treasury. Leading up to where we are today, we had three major fiscal crises that were addressed aggressively. The first, of course, was Bear Stearns, the first financial house to go down. That was aggressively addressed by an infusion of support, not for Bear Stearns—the stockholders of Bear Stearns lost all their money, as did their debtholders—but for the underlying financial institutions and the debt structure built around Bear Stearns.

The second was Fannie and Freddie. Here, the Federal Government, again, and the Congress, acting in a very responsible bipartisan way, passed legislation which allowed us to stabilize those two entities. Why did we need to stabilize those two entities? Because they own $5 trillion of the mortgages in this country. Mr. President, 70 to 80 percent of the mortgages in this country are run through those two companies. Had they been allowed to collapse, had they been allowed to totally implode or to become massively dysfunctional, the entire credit market would have frozen, the mortgage market would have frozen, and a lot of people would have lost their homes. So, again, the Congress, acting in an extraordinarily responsible way with the Secretary of the Treasury, created the authority to move forward to settle that.

Then, the third event was last week, last Tuesday night—AIG, an insurance company. Why, you say, do we need to step in to defend an insurance company? We didn't need to step in to defend the insurance company. What we needed to do was to defend the insurance which they had issued. Why? Because almost every bank of any small or medium size in this country uses insurance issued by AIG to insure much of its capital assets so those capital assets can be used against lending. Whether a bank can lend depends on how much they have in capital assets. Had AIG gone down, the insurance—the rating agencies would have rated that insurance as nonperforming, for all intents and purposes. I am simplifying it, but that is basically what would have happened.

That would have meant the banks would have had to contract their capital immediately and that would have meant dramatically less lending; good loans being called, people who paid their loans would find their loans no longer existing as the banks had to collect more capital to get their capital requirements up. Many banks might even have failed as a result of that event. It was a systemic problem because the insurance was so pervasive throughout the system and it so supported the banking and financial houses, to say nothing of the money market area where it also played a major role.

Again, Chairman Bernanke in this situation stepped in to stabilize that insurance. He didn't bail out AIG. Don't say to Mr. Greenberg, who was the primary stockholder in AIG and who lost $5.8 billion in 1 week, I think it was, that he was bailed out. No, the stock basically went down to $1, I think, $1 or $1.50. The senior debt was replaced by debt owned by the Federal Reserve, which is paying 11 percent and I think everybody agrees that in the end that will end up being a financial—the Federal Reserve will make money on it.

Now we are at the fourth event of this very tenuous and difficult financial dislocation that we confront and that is the request by Chairman Bernanke and Secretary Paulson to give Secretary Paulson the authority to basically use up to $700 billion of Federal debt to go in and buy debt which is not performing off the books of various lending agencies and financial houses so the market can begin to perform. This goes back to those mortgage-backed securities I talked about; to get that freeze which has occurred, that logjam to break up so the markets can function in an orderly way and people can borrow money and people on Main Street can finance their payrolls, can finance their homes, can finance their house, can finance sending their child to college, and the economy grows rather than contracts. Instead of losing jobs, we will add jobs; instead of losing net worth, we add net worth. That is what this is about.

There has been a lot of misrepresentation, exaggeration, and political statements made around here—especially in the ''talking head'' area of the media. They say, basically, there is a $700 billion bailout, we are going to take $700 billion of taxpayers' money and throw it at financial institutions across this country and get the fat cats off the hook, so to speak. We need to go back and talk about what happens to the taxpayers in all four of these events.

I will represent upfront I do not know exactly what is going to happen. Nobody else does. But I also represent upfront that the cost to the taxpayer will be dramatically less than any of these numbers which are being thrown out there in a most irresponsible and inappropriate way. When somebody says $700 billion to $1 trillion this is going to cost taxpayers, they are being dishonest when they make that statement. It is never going to cost that type of money, never even be close to that type of money. In fact, the taxpayers are going to come out of this making money because we will replace other investors, and when those investors pay off, they will make a little money.

Let's go through all four of these items as to how much it is going to cost the taxpayers. Bear Stearns, $29 billion. That is what the Federal Reserve put into Bear Stearns. That is the Federal Reserve, remember. This is not off the Federal budget. It is not from the Federal taxpayer. The Federal Reserve is an operating corporation. It has about $895 billion of assets. Every year it makes $25 billion to $30 billion, which it pays to the Federal Government as income. Chairman Bernanke has decided to take $29 billion and invest it in various bonds that were issued by Bear Stearns, to give those bonds stability. It is very likely the Federal Reserve will get all that money back, or a large percentage of it back. It is totally unlikely the Federal taxpayers will end up with any type of bill from this exercise. That is probably a zero cost to Federal taxpayers. The only thing that could possibly happen that would affect Federal taxpayers is the Federal Reserve might make less money this year and, thus, pay less into the Government as part of its contribution, when it makes a profit, to our revenues. But even if that occurs, in the outyears, it is likely that amount of money will be higher because they will be getting that money or a large percentage of it back. So that doesn't cost us anyway.

So when someone in the press—not the press, I don't want to pick on the press—when someone says it is a $29 billion taxpayer bailout with taxpayer dollars, it is not. That is plain wrong.

The second event I wish to talk about because it is similar—it is not in sequence, but it is significant—is the AIG, $85 billion. In this instance, once again it is the Federal Reserve investment. It is not taxpayers' dollars being invested. The Federal Reserve has taken $85 billion and essentially bought AIG. In buying AIG, they got the parts as well as the holding company. The holding company is where the problems were. The parts, the subsidiary insurance companies—of which I think there were about 150 or 160—were actually quite economically strong and viable. In buying that company, not only did they wipe out the stockholders, not only did they kick out the management, not only did they eliminate the golden parachutes, but they took back securities which guaranteed an 11.5-percent payment to the Fed before anybody else. So as AIG starts to make money again—which it certainly will because it and its subsidiaries are a very viable company—the Fed is going to make 11.5 percent at a minimum. I don't think there is anybody who has looked at this exercise who has not concluded that this is going to be a financial benefit to the Fed. The Fed is actually going to make money off that in the sense that over the long run—when I say ''long run,'' I am talking about less than 5 years—over 5 years they will have a return on that purchase of AIG which will exceed the $85 billion they put up.

So when somebody says that was a bailout with taxpayers' dollars, once again they are totally inaccurate and they are misrepresenting and trying to scare people by saying that.

Now we come to the two big items. Big items? The other ones are pretty big; $85 billion would take care of the State of New Hampshire for I don't know how long—probably 20 or 25 years or so.

Now we come to the two very large exercises; first, Fannie Mae and Freddie Mac. In those instances, the Congress, in a bipartisan, extraordinarily constructive way, joined with Secretary Paulson and said to Secretary Paulson: We are going to give you $100 billion of authority for each company, $200 billion total, that you can use to stabilize those two institutions. Why so much money? Because we had to make it clear to the people who were dealing with Fannie Mae and Freddie Mac that the Government would be there to stabilize them.

By stabilizing them, it would cost us a lot less. If we allowed them to unravel, if we allowed them to basically go into a destabilized situation, then the contraction to the economy would have been so overwhelming because mortgages would essentially have been called all over this country and mortgages would not be able to be obtained by virtually anybody. We would have seen a massive contraction on top of the already serious situation we have in the real estate industry and that would have had a huge impact, not only on Main Street and on John and Mary Jones, who want to buy their house or stay in their house, but on the Federal Government in the way of revenues because taxes would have fallen off precipitously. By stabilizing those two companies, we were able to keep the ordinary business of lending for mortgages in this country going forward and moving in a constructive way. We had to put enough money on the table or represent that we were willing to put enough money on the table so nobody could question that we were not going to be able to stabilize those two institutions and that is why the numbers were picked.

How much has actually been spent of taxpayer dollars? Five billion dollars, that is what the Treasury has had to put in so far. As a result of this putting in that $5 billion, we are seeing mortgage rates actually come down because we are actually getting a Fannie Mae and Freddie Mac that are able to function again. So that is all good news. I don't know how much more will have to go in, but it certainly will not have to be $200 billion or anything near that number.

Furthermore, once again, with that $5 billion, we are buying assets that have value. How much value is still up in the air. But we will get some sort of return on that $5 billion. Thus, under the scoring rules that we work under in our budget, because this is a credit action, this is not going to score as a $5 billion hit on the Federal deficit, even though $5 billion has been spent because CBO is going to say some percentage of that $5 billion is going to come back to us as these assets mature and as people make payments on those assets and, thus, maybe it will only be $1 billion; maybe we will get $4 billion back. So the effect on the Federal deficit will be $1 billion. I don't know how CBO is going to score it, but they are going to score $5 billion as dramatically less than $5 billion as a hit on the deficit.

At the same time, we have been able to stabilize, to some degree, the Fannie Mae and Freddie Mac situation because we took aggressive and bold action, which brings us to where we are now.

This whole issue of whether we need to move forward with a major effort of stabilization and recovery for the financial industry, generally, by having the Federal Government come in and basically buy up a lot of securities which today cannot be traded on the market because nobody can value them. That is what I was talking about earlier. You cannot value these securities because nobody understands what the underlying equity that supports these securities is, the value of that home; and nobody knows whether the people paying on that debt originally are going to be able to make their payments as these mortgages reset.

The Federal Government is going to come in. What Treasury Secretary Paulson has asked is for the Federal Government to have the authority to come in and start buying up these securities in classes, in groups, across the board. The question becomes, will he have to spend $700 billion to stabilize the financial markets? And how much will that cost the American taxpayer?

First off, the easy answer to it is it is not going to cost anywhere near $700 billion, even if he uses the whole $700 billion, which he probably will not do. But even if he were to use the entire $700 billion authority, he would be out buying assets.

He would be out buying notes that have security behind them and, therefore, we will be paid, to some degree, as to their value and depending upon what he buys these notes at. Let's say he is not going to buy them at face value. Let's say someone borrowed $100,000 secured by a house, and nobody knows what the house's value is now, and the person who borrowed the money cannot repay that because the cost of the note, the reset interest rate is too high. That note is not going to sell for $100,000, it is going to sell for something less, maybe $70,000 maybe $60,000.

It is not clear what the Treasury is going to buy that for right now. I want to get into that in a second, but whatever they buy it for, they will be getting an asset. And the question will be, is the price they paid for that asset above or below what they can, in the end, get for that asset?

Now, the big advantage the Federal Government has is we do not have to do what is known as mark to market. We do not have to write down these assets the way a bank does or a financial house does as they become destable, as the assets become destable. We are the Federal Government. We can hold that asset until it is paid off at face value, for example.

So not only do we get the 70 cents back, but we get 100 cents back on the dollar, so we can actually put ourselves in a position where if we pay a reasonable price for an asset we may make money on the asset. We do not know that that will happen, because the purpose here is not to make money, the purpose is to stabilize the financial markets and give them the ability to start freeing up, trading and freeing up activities so that the credit markets start to move back and forth once again.

But if we are successful, and we will be if this plan is approved, then the credit markets will start to move once again, and that will raise the economy. And as the economy improves, then these mortgages that we will have bought, these mortgage-backed securities, and their other things such as loans, will start to improve in their performance, and the chances of us getting a good portion or all of the money back that we put into this effort will be pretty high.

What is the effect of that? That means that instead of costing $700 billion, we may get $600 billion back, we may get $500 billion back, we may get $800 billion back. Whatever we get back, that is going to be a net figure. So when CBO scores this activity, they are not going to say the deficit is going to increase by $700 billion as a result of us passing this proposal, they are going to say it is going to increase by the net difference between the $700 billion and what they estimate we will get back from the assets that we purchase.

I suspect that estimate is going to be—I do not know what it is going to be, but it is certainly not going to be anywhere near $700 billion, $100 billion. It is going to be a shot in the dark because nobody knows. But we do know we are going to get some value for this investment. In fact, if things were to work out, we might get as much value back as we put in, maybe even more. That is not the expectation, that is not the purpose.

But clearly when somebody gets on the public airwaves and says: We are putting $700 billion of taxpayers' money into this and we are not getting anything back, we are throwing it at these big companies, they are big demagogues, they are big, dishonest, they are heightening the problem rather than addressing the problem. They are certainly not factually accurate as to what is going to happen here. The deficit will not be aggravated by anything near that number.

Now, will the Federal debt go up? Yes. But then it comes back down as we get the money back. So that also is not a legitimate argument. If you have got a legitimate complaint, it is this as a conservative: When we make this investment and we start to get this money back, which we will, over the next 5 years, so that money is flowing into the Treasury at a pretty big rate, $500 billion, $600 billion, $700 billion, we better make darn sure that money goes to reduce the debt of the Nation and does not get spent around here on various products, which is what we tend to do with money when we see it arriving at our doorstep. That is what I am concerned about.

I am hopeful that whatever the final agreement is, it will have language in it that says as we start to get this debt repaid, the Federal Government starts to receive monies as a result of the investment we have made, those monies will go directly to reduce the debt of the Federal Government, and the debt we are passing on to our children.

But what is the practical effect of doing this, of putting this type of commitment up, this type of commitment to stabilization? The practical effect is that we stabilize, hopefully, the financial markets. What is the effect of not doing this? What is the effect of not doing this? We are playing with fire. We are rolling the dice. We are confronting potentially one of the most significant economic events in the history of this country, and it is not a good event if we do not take action.

There are a lot of very thoughtful people around here who know that. Last week we almost saw that event occur when there was $335 billion of money market funds pulled out of the market and we basically saw the banks unable to continue to operate in an orderly way because of that until the Fed and the Treasury came in to basically stabilize the situation.

We do not want to take that gamble as a nation. The cost of not taking that gamble is not that high. It is not $1 trillion, it is not $700 billion, as I have run through the scenario. It is virtually no dollars in the Bear Stearns-AIG event; it is a marginal number of dollars potentially in the Freddie Mac and Fannie Mae event; and in the big event, the $700 billion, we do not know what it will be, but we know it is dramatically less than $700 billion because we know we are going to recover a large amount of those assets, and the net cost of that activity will be well below $700 billion, assuming there is even a net cost over a 5-year or 10-year period as we work out these loans.

But the cost to us if we do not do this? Potentially staggering to everybody in America. This is not about Wall Street; this is about Main Street. This is about people keeping their jobs; small mom-and-pop businesses being able to borrow money to operate; people being able to send their kids to college; an economy being able to be a growth economy rather than a contracting economy.

That will affect everyone, everyone in America. So I think it is time to put an end to the theater and to the politicization and to the hyperbole.

I congratulate a lot of folks on the other side of the aisle. I congratulate the Senator in the chair, from Pennsylvania. He has been responsible. I have heard Senator SCHUMER, who is a leader in this area, make some extraordinarily constructive ideas. Senator DODD is trying to be constructive.

I think there is a willingness in this body to act at least in a bipartisan, constructive way. That is what we need is some mature action around here. That is our responsibility as a government. We have a crisis upon us. There are ways to avoid it. We have a responsibility to pursue a course of action which gives us the best chance of avoiding that for the American people.

I yield the floor and I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. ALEXANDER. I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. MENENDEZ). Without objection, it is so ordered.

FAREWELL TO RETIRING SENATORS

Mr. ALEXANDER. Mr. President, Senator PETE DOMENICI, who is retiring from the Senate this year after serving since 1972, once said to me that we don't say goodbye in the Senate very well. As a matter of fact, we don't say hello very well either. We have a little orientation program, but we abruptly arrive and leave. We leave in the midst of a lot of turmoil and discussion with very little time to say goodbye. Yet in