THE BANK OF NEW YORK MELLON

Statement of Robert P. Kelly
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The Bank of New York Mellon

Before the House Financial Services Committee

February 11, 2009

Mr. Chairman, Mr. Bachus, Members of the Committee. My name is Bob Kelly and I'm Chairman and CEO of The Bank of New York Mellon. I appreciate the opportunity to speak with you about our participation in the Capital Purchase Program. I'd like to briefly tell you about our Bank, explain how we came to participate in the program, and tell you how we're using the capital we received to help expand the flow of credit in this extraordinarily difficult environment.

The business model of The Bank of New York Mellon is very different from a traditional retail or commercial or investment bank. In contrast to most of the other companies here today, our business model does not focus on the broad retail market or products such as mortgages, credit cards or auto loans. Nor do we even do typical lending to corporate businesses. A good way to think of The Bank of New York Mellon is that we are a "bank for banks." The lion's share of our business is dedicated to helping other financial institutions around the world. We invest mutual fund and pension monies and administer their complex "back-office" processes. We call that securities servicing. We also provide critical infrastructure for the global financial markets by facilitating the movement of money and securities through the markets. Finally, we provide some financing to other banks so they can make mortgages and other loans available to consumers and businesses.

Given this specialized focus, The Bank of New York Mellon was not involved with underwriting subprime loans or structuring the complex investments that contributed to the current market turmoil. At the time the Capital Purchase Program was initiated, The Bank of New York Mellon was a profitable, well-capitalized institution. And, we remain so today.

You should know that we were profitable every quarter last year and paid over $4 billion in income and other taxes globally. While some of our assets were invested in mortgage-backed securities, which have incurred some losses, these losses have been more than offset by our profits. And we continue to have the highest debt ratings of U.S. banks rated by Moody's and the second highest rating by Standard & Poor's.

In October, when the Treasury allocated to us $3 billion of the $350 billion that it has allotted to date, the financial markets were very dangerously in total gridlock and deteriorating rapidly. We understood that a key goal at the time was to have a range of institutions, including relatively healthy companies like The Bank of New York Mellon, participate in the Capital Purchase Program, removing any stigma that might be associated with accepting Treasury capital and helping reassure the markets of the stability of the financial system. So, we immediately decided to participate.

In exchange for the $3 billion investment, the U.S. government received preferred stock and warrants and we agreed to pay the government $150 million a year in dividends until we repay the $3 billion.

Since receiving the investment four months ago, we made our first payment to the government and immediately put the capital to work consistent with the goals of the program as we understand them, which is to increase lending, restore market confidence and get the U.S. economy moving again.

The $3 billion in capital that we received from Treasury has allowed us to do more than we otherwise could have to improve the movement of funds in the financial markets.

- We’ve purchased $1.7 billion of mortgage-backed securities and debentures issued by U.S government-sponsored agencies. This has helped to increase the amount of money available to lend to qualified borrowers in the residential housing market.
- We’ve purchased $900 million of debt securities of other healthy financial institutions. This has helped increase the funds available for them to lend to consumers and businesses.
- And, we’ve used the remaining $400 million for interbank lending to other healthy financial institutions. This has helped them increase their liquidity, funding and stability.

These activities are consistent with our business model and are primarily in the secondary markets, whose proper functioning is fundamental to the flow of credit for the U.S. economy. By adding liquidity there, we’re helping direct lenders generate the funds they need to offer more loans. And, by extension, we’re helping to lower the cost of borrowing for consumers and corporations.

We have not used any of these funds to pay dividends, bonuses or compensation of any kind, nor will we. And we have not used the funds to make any acquisitions.

The Bank of New York Mellon recognizes the tremendous public concern about the TARP program. As I previously noted, when the program was conceived in early fall, credit markets were essentially frozen. Our nation’s financial system was on the edge of a precipice. We believe the capital investments, along with the many other steps that the Congress, the Treasury and the Fed took during the height of the financial crisis, have helped the markets to begin to slowly emerge from the extraordinarily precarious position they faced back in October.

Nevertheless, we still have a long way to go to get the credit markets – and the U.S. economy – functioning properly again. Bank capital must be rebuilt, low-quality assets must be sold or written off, sound lending must occur and confidence in our system must be restored.

We are absolutely committed to doing our part – and working closely with the Congress, our regulators and our clients – to get the economy solidly back on its feet.

As a recipient of Treasury capital and a critical part of the nation's financial infrastructure, we recognize that we have a serious responsibility to the American people. We'll continue to do all we can to help expand the flow of credit in this extraordinarily difficult environment. We are and will continue to be transparent about the use of these funds. And we're focused on always retaining the public's trust, and we will ensure The Bank of New York Mellon not only returns the $3 billion to the Treasury but also delivers a very good return on investment for taxpayers.

Thank you.