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OVERSIGHT OF THE TROUBLED ASSETS RELIEF PROGRAM

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

ON

CONTINUING THE OVERSIGHT OF THE TROUBLED ASSETS RELIEF PROGRAM AND EXPLORING HOW THE PROGRAM CAN BE MADE MORE EFFECTIVE IN ADDRESSING THE FINANCIAL CRISIS IN OUR NATION

MAY 20, 2009

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COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

C O N T E N T S

WEDNESDAY, MAY 20, 2009

WITNESS

Additional Material Supplied for the Record

OVERSIGHT OF THE TROUBLED ASSETS RELIEF PROGRAM

WEDNESDAY, MAY 20, 2009

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 9:38 a.m., in room SD–538, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. The Committee will come to order.

Let me welcome the Secretary, and the audience is gathered this morning to hear testimony from the Secretary of the Treasury. Our hearing this morning is on the continuing oversight of the Troubled Assets Relief Program. We thank you, Mr. Secretary, for joining us here this morning.

I intend as Chairman of this Committee for this to be something of a regular date with us over the coming weeks and months. A number of my colleagues have raised the issue in the past, and I know your recent comments about transparency at the Department, in a sense you have a lot of important jobs to do, and I know that coming before congressional hearings all the time can be seen by some as a distraction from the daily routines. But, obviously, at times like this where so much of our constituents' tax money is at play, having you come before us with some regularity to talk about these issues I think is a critical component of the job. And so while we will try not to abuse the relationship between the Congress and executive branch, I think unlike other times, this moment requires that we have more of an ongoing public conversation about these issues. So with some regularity we will be asking you to be here before this Committee in the coming weeks and months.

I intend for this, as I said, to be something of a regular date. The American people have a lot on the line right now, as all of us know, and it is their money we are talking about. So, Mr. Secretary, with so much on the line,

I would like to have you before this Committee on a monthly basis.

Today the Committee meets to continue its oversight of the Troubled Assets Relief Program and explore the program's effectiveness in addressing the financial crisis. When the Secretary was last before this Committee in February, only a few short weeks after President Obama took office, I said that we needed a sharp change in the direction of the TARP program. In particular, I wanted to see a commitment to three things:

First, extending credit to families so that families could pay for a home, a car, college tuition for their children, and to businesses so they could stock inventory and meet payrolls.

Second, I wanted to see a commitment to restoring confidence, a clearly articulated plan for the prudent commitment of TARP funds, and a renewed focus on lending.

And, third, I wanted to see clarity for the American people who have a right to know where our economy is headed and how Government assistance is being used.

Since that time, we have seen several major initiatives, many of which the Secretary here played a very key role in developing. And to be sure, we have seen progress in certain areas. In February, the administration unveiled its Homeownership Preservation Program which consists of two parts: the first, a refinance program, which will help, we hope, 4 to 5 million homeowners, many of whom owe more on their homes than they are worth, to get into stable mortgages; the second component draws upon $50 billion in TARP funds to help between 3 and 4 million at-risk homeowners modify their home loans. And I would like to know what additional tools, if any, the Secretary may need to ensure that the program works to the best of its ability.

The Center for Responsible Lending projects that some 17,000 homes in my home State will go into foreclosure in 2009. That will be 60,000 in the small State of Connecticut over the next 4 years, reminding us that the housing crisis remains at the root of our underlying financial crisis.

We need to get to the bottom of the housing crisis, I think all of us acknowledge, and I believe this program, supplemented by the legislation that passed the Congress, both Houses, just yesterday offering banks a safe harbor to do modifications, and I thank Mel Martinez, our colleague and former HUD Secretary for his efforts in that record. It provides a mechanism by which we can. But in other respects, it is still too soon to tell whether we are seeing the progress that we need. Much of the mortgage market and our financial system remain dependent on the Government to function at all. Lending remains down, way down, and my hope is that the legislation that I have just mentioned, which also increases the permanent borrowing authority of the FDIC, the Federal Deposit Insurance Corporation, and the National Credit Union Administration, and increases in deposit insurance limits will contribute to the healthier banking system our communities need in order to thrive.

Along the same lines, I am pleased that your Department recently announced it will use some $15 billion to free up money for lenders to make new loans to small businesses. This is a major concern of ours. I hear this every day from our colleagues. The SBA program, when is small business going to get money? When can they get help? They are struggling. A major source of employment in this country comes, obviously, from small business, and they are struggling, Mr. Secretary.

Just yesterday, *The Wall Street Journal* reminded us again of the troubled commercial real estate sector and how that poses—what risk that poses to our financial system. That report found that such loans which fund the construction of shopping malls, hotels, office and apartment buildings, could generate losses of $100 billion by the end of next year at some 940 small and mid-size banks. Indeed, one of the results of the stress test administered to the 19 largest U.S. bank holding companies returned largely encouraging results. In the rush to address concerns facing the institutions that are too big to fail in this crisis, we must not forget about the threat posed by those that many may well prove to be too small to survive—the smaller institutions on which families and businesses across our Nation depend for credit.

Perhaps the biggest step the Secretary has taken is the Public–Private Investment Program the Treasury Department rolled out in March, which I hope will at long last put an end to the lurching interventions in the banking system that were part and parcel of the previous administration's approach. Drawing upon $75 to $100 billion of TARP funds, the program seeks to engage private investors in partnership with the FDIC to purchase from banks and other institutions so-called legacy assets, which have fallen sharply in value and put enormous strain in our financial system.

The question now would appear, Will this program work? Many questions have been raised. The Committee will be monitoring that program carefully, and I am interested to hear how the Secretary believes the results of the stress test will affect the program and whether the banks will still be willing to sell those assets at discounted prices given the better than expected results of the stress test.

We have also seen Treasury's continued administration of the automotive industry financing program under TARP and the Presidential task force on the auto industry to help stabilize the auto industry, upon which one in ten American jobs depend. Now, we know June 1 is a big date, but I want to let my colleagues know on the Committee that my intention is shortly after June 1 to have either the Secretary or Mr. Rattner or whoever is appropriate to come before this Committee to report on the results of that effort and where we stand with Chrysler and GM as well. The President and the Secretary appreciate the risk that the failure of any one of the Big Three automakers could pose to our economy, and right now GM is working to beat the June 1 deadline for an agreement with management, the UAW, creditors, and suppliers. Chrysler, as we all know, is in the midst of bankruptcy, and clearly we are still a ways away from knowing how successful those efforts are at helping these companies achieve long-term viability. But, again, transparency demands, I think, that we have a public disclosure of how those programs are working.

And so I think the picture remains mixed, Mr. Secretary. After losing some 5.1 million jobs since the recession began in December of 2007, with almost two-thirds of those losses occurring in the recent 5-month period, there is no question about the barrage of initiatives undertaken by the administration and the Congress these last several months to aggressively combat this crisis that have produced some results. And the TARP has played a critical role in virtually all of those efforts, I might add.

Now, having apparently staunched much of the bleeding, the challenge now is how we pump new life into the patient. We hope to explore what further role the TARP can play in this process and what other tools we must provide to our financial system and the country in order to get us back on our feet again.

With those questions the Committee has this morning, I now turn to my colleague from Alabama, Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman. Welcome to the Committee, Mr. Secretary. As Senator Dodd indicated, I think we will be spending a lot of time together in the next year or so.

Mr. Secretary, a review of the Troubled Assets Relief Program, or TARP, reveals a record that is mixed at best. Since TARP's hasty conception last September, the Treasury Department has repeatedly stumbled in its effort to turn it into a workable program. Rather than taking the time to devise a credible plan, Treasury and the Fed I believe simply demanded that Congress write a blank check. Unfortunately, Congress panicked and quickly passed the TARP, giving Treasury and the Fed exactly what they wanted.

Secretary Geithner, you have been, first as President of the New York Fed and now as Treasury Secretary, a key architect and now an implementer of the program.

Since TARP's creation, Treasury has vacillated about how to spend the funds. Initially, Treasury was to purchase toxic assets from banks through Government-run auctions. When that approach proved unworkable, Treasury decided to make direct capital injections into banks. When that approach still left large institutions without sufficient resources, Treasury embarked on a series of ad hoc financial bailouts.

Now, today, we have come full circle. Once again the Treasury plans to purchase toxic assets, this time, as you have told us, using public–private partnerships. All of these plans, Mr. Secretary, have one thing in common: Government intervention on a massive scale into our economy.

While the Government has an important role to play in stemming a financial crisis, in my opinion the programs laid out thus far by you, Mr. Secretary, go well beyond what is appropriate and necessary. As a result, TARP has become one big bailout fund, and not just for banks.

When a few insurance companies ran into trouble due to bad business decisions, Secretary Geithner, you announced that they could access TARP funds and avoid the consequences of their actions. When the automakers needed cash, Mr. Secretary, you were there with a check. And what has Treasury accomplished so far? That is part of this hearing today.

Its principal achievement over the past year has been, in my judgment, to spark the greatest financial panic this country has seen in 70 years. The Treasury and the Fed's desperate calls last September for the passage of the TARP legislation spooked investors and consumers alike. In response, the market plummeted and the economy contracted sharply.

I believe that had the Treasury, as we look back, and the Fed exercised different judgment and proceeded in a more deliberative and measured manner, the most severe aspects of this financial crisis could very well likely have been avoided, probably without pain.

The failure to devise, Mr. Secretary, a clear and credible plan for employing TARP has also resulted in a massive waste, some people believe, of taxpayer dollars. Today the problems with our banking system remain unresolved, despite Treasury having committed approximately $600 billion.

Lending is still severely depressed, and questions remain about the financial health of many of our banks, despite the results of the stress tests. While the TARP has treated many sick banks, it certainly has not cured them, and as long as the integrity of our financial institutions remains in question, economic recovery will continue to elude us.

I believe that this uncertainty would not exist had Congress taken the time to provide a clear legislative mandate for the TARP rather than leave the program to the discretion and the whims of Treasury's ever changing policy preferences. That, of course, did not happen, and most of our biggest banks today continue to hold large tranches of TARP funds, allowing them to avoid making, I believe, Mr. Secretary, difficult decisions.

I fear this situation sets the stage for the creation of the American version of the zombie banks that were a principal cause of Japan's so-called lost decade. During that period, as you well know, Japan's economy stagnated because government bailouts propped up banks and sheltered them from making the changes that the free markets would have demanded and made on their own.

Another thing that the TARP has accomplished is covering up the egregious failures of our banking regulators over the past decade. TARP funds have saved financial institutions whose failures would have cast a bright light on many of our banking regulators. This should come as no surprise to many as many of those banking regulators are now running TARP programs, including you, Mr. Secretary, yourself.

As President of the New York Fed, Mr. Secretary, you were the chief regulator of many of the financial institutions with the most serious problems, including Citicorp. Unfortunately, the Treasury also appears to be using the TARP to advance its regulatory reform agenda by placing your prior employer, the Federal Reserve, at the apex of our financial regulator regime. I would point out to the Secretary today that there are serious, serious, Mr. Secretary, unexamined questions regarding the Fed's failure to fulfill its preexisting regulatory responsibilities. You have acknowledged some of those failures.

With that in mind, I will view with great skepticism any move to give the Fed expanded authority. In the meantime, we should be under no illusions about how difficult it will be to unwind the massive funding facility that Treasury and the Fed have constructed. The longer the TARP and these programs exist, the more markets will depend on them. As a result, it is very likely that the greatest challenge posed by this financial crisis still lies ahead, Mr. Secretary. If the Treasury and the Fed stumble in dismantling these facilities, they risk sparking another and potentially more severe crisis. This is especially true if the Fed promises its ability to conduct monetary policy in the process.

If done well, the withdrawing of Government intervention will likely go unnoticed. If done poorly, we could be facing a serious inflation problem or a prolonged economic downturn.

I look forward to hearing from you, Mr. Secretary, on how you propose to retract TARP facilities and how quickly you believe it could be done and under what circumstances. In addition, I hope to learn today whether you believe that the Fed and the Treasury need to formulate a clearer framework for the administration of existing facilities to ensure that the Fed remains focused on its core mission of monetary policy.

Looking ahead, Mr. Secretary, I hope that TARP can be wound down in the right way at the appropriate time in manner more deliberative and well thought out than the process by which it was created and implemented.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Let me ask my colleagues if any of you feel so compelled that you would like to make an opening statement. If not, I would like to get right to the Secretary, but I certainly do not want to deprive anyone of the chance. Bob, do you have——

Senator MENENDEZ. Mr. Chairman, I do not have an opening statement. I have a question for the Chair, and that is, do you intend at some point today to pursue the FTA Administrator's nomination or is that not on the agenda?

Chairman DODD. Well, I do not know. I have to talk to Senator Shelby.

Senator MENENDEZ. I would defer to the Chair and the Ranking Member to consider it, if it is possible. There are a whole host of projects that are——

Chairman DODD. We are talking to the minority, and this is a person, I can tell you, who is highly regarded and respected. In fact, we will try and get that done.

Senator MENENDEZ. Great. Thank you, Mr. Chairman.

Chairman DODD. Anybody else want to make an opening comment at all or suggestion here before we start with the Secretary? Hearing none, no takers, Mr. Secretary. We welcome you to the Committee once again. Any and all statements, documents, and so forth that you want to make a part of the record will be included.

STATEMENT OF TIMOTHY GEITHNER, SECRETARY, DEPARTMENT OF THE TREASURY

Secretary GEITHNER. Thank you, Mr. Chairman. I have a few brief opening remarks, and I look forward to getting a chance to respond to your questions and concerns. And let me just say that I would be happy to come up here as often as would be helpful, and I agree with you that these are deeply important issues to the future of the country, and they require careful public oversight and debate. And I am committed to sitting before you as much as it would be helpful and help work through the difficult choices we are making, make sure you understand how we are balancing those choices. People are not going to agree with all the choices we make, but we will give you a chance to make sure you have as much exposure to our process as possible.

Chairman DODD. I welcome that very much, and I know my Committee members do as well. So I appreciate that.

Secretary GEITHNER. And, Senator Shelby, could I just say at the beginning that in my statement today and in my remarks, I am not going to talk about what you called an "exit strategy," but I want to say that I agree very much with you that one of the biggest challenges we face—not just on the fiscal front, but in the financial sector—is how we lay the foundation for walking back and unwinding these extraordinary interventions, and doing that carefully and well will be one of the most important things facing us. So I agree with you about that challenge, and I very much look forward to a chance to sit before you and talk through how best we can do that.

Senator SHELBY. We will have to do that to have a real market economy, will we not?

Secretary GEITHNER. We will, and, you know, you cannot—you know, my view, Senator, as you know, is that crises do not burn themselves out. Crises this severe do not burn themselves out. To fix them requires the action of Government. But for the thing to work, there needs to be critical commitments to walk this back, unwind it as quickly as conditions permit. That is central to the effectiveness of the strategy, and I agree with you it is a very important thing to do. But I just wanted to warn you that I am not prepared to talk to that today. It is not quite time yet.

Chairman DODD. We all agree with that.

Secretary GEITHNER. We are not quite there yet.

Chairman DODD. Go ahead, Mr. Secretary.

Secretary GEITHNER. Thank you, and thank you all on the Committee today.

The last time I was here was early February. Today I am pleased to report that there are encouraging signs that the financial system is starting to heal. Concern about systemic risk has diminished, and overall credit conditions have started to improve. These are welcome signs, but we have a long way to go.

Across the country, families and businesses are still facing the most challenging economic environment they have seen in decades, and we are only at the beginning of laying the foundation for recovery.

I want to provide an update today on the status of the programs we put in place to help repair the financial system. This administration, working very closely with you and your colleagues in the Congress, has moved very quickly. Alongside the passage of the Recovery Act, we have outlined a comprehensive set of initiatives to help restore confidence in the financial system and to restart the flow of credit.

We began with reforms to establish strong standards of transparency, accountability, and oversight. We redirected the program to focus on getting the essential channels for lending and credit working again. We launched new programs focusing on the housing market, on consumer and small business lending, and we put in place a strategy to help strengthen, recapitalize, clean up, and restructure the major banks so that private capital would flow to where it was needed in the financial system.

Just a few examples of progress. Starting with transparency, we established a number of new online resources so that Americans can see the precise financial terms of the assistance we are providing; who is receiving assistance; and what they are doing with that assistance; what is actually happening to lending across the major banks.

The President's housing program, alongside actions by the Federal Reserve, has helped bring down mortgage interest rates to historic lows. Refinancing has surged, and the new loan modification program is just starting to get some traction.

The Federal Reserve's Term Asset-Backed Lending Facility, which the Treasury supports with capital, is helping to restart the asset-backed securities market, which is critical to consumers and businesses. To date, there has been about $25 billion in total new asset-backed securities issuance since the program was launched. As issuance of securities under this program has resumed, interest rates have come down substantially.

The stress test led by the Federal Reserve has brought an unprecedented level of transparency and disclosure to the major banks, helping improve confidence in the financial system as a whole. This assessment showed that some banks needed additional common equity to ensure they could comfortably absorb extreme losses, but it also showed that many banks are now in a position where they could choose to begin to repay the Government's investments.

To date, more than $56 billion in additional capital funds have been raised or announced by the 19 banks, including $34 billion in common equity capital. I believe these numbers are a day behind. And banks have raised more than $8 billion in non-FDIC-guaranteed bonds.

We are making substantial progress in supporting fundamental restructuring of GM and Chrysler. In the coming weeks, we will be moving to put in place additional pieces of our program to help small banks get additional access to capital, to help catalyze more small business lending, to put in place our Public–Private Investment Program to help restart the market for legacy real estate loans and securities, and to finalize regulations to clarify conditions on compensation for firms receiving capital assistance from the Government.

While this is not the subject of today's hearing, we have been working very closely with this Committee and your counterparts in the House to enact comprehensive regulatory reform. We have announced proposals to reduce systemic risk, to establish comprehensive oversight of derivatives markets, to give the Government better tools to manage future crises with resolution authority to help contain the damage caused by the prospective failure of a large, complex financial institution. We detailed plans to improve consumer and investor protection, and I want to compliment Chairman Dodd and Ranking Member Shelby for their strong leadership, not just in the housing area but in advancing important credit card reform legislation.

Just a brief update on resources committed under the Emergency Economic Stabilization Act. At the time the President was sworn in, over half of the $700 billion allocated to Treasury had already been committed. I have included a detailed table of commitments in my written testimony. As the table shows, we estimate that we still have about $100 billion in resources authorized under the EESA still available and an additional $25 billion in estimated repayments over the next year. These are estimates only. They may overstate the amount of likely take-up under the programs we have announced. They may understate the amount of repayments we are going to receive, and I want to emphasize that we still face a very challenging economic and financial environment, and we need to be careful to preserve substantial resources and flexibility to deal with future contingencies.

The combined impact of these programs to date, alongside actions by the Fed, the impact of the recovery program, and the President's initiatives in the G20 to lay the foundation for global recovery, have helped improve conditions in the financial system materially. The cost of credit is starting to ease. Interest rates on mortgages have dropped to historic lows, and refinancing has surged putting additional money into the pockets of millions of Americans. Businesses are finding it easier to raise money in the capital markets. Securities markets, asset-backed securities markets, are starting to open up again. State and local governments are finding it somewhat easier to finance investments in their communities and rebuilding their infrastructure. The cost of borrowing by banks has fallen substantially, reflecting greater confidence.

We have already seen a very substantial amount of adjustment in our financial system. Leverage has diminished. The more vulnerable parts of the non-bank financial system—and banks, too—have diminished substantially. And banks are funding themselves much more conservatively.

This is all welcome news, but I want to emphasize this is just the beginning. The cost of credit for businesses and families is still unusually high, remarkably high. Credit terms are very tight still. Bank lending is falling to both consumers and businesses. Much of this, of course, is the unavoidable consequence of a recession following a long period of excess borrowing and lending. But we still face ahead a prolonged period of repair and adjustment. There are still very substantial risks to recovery, and it is very important that financial institutions take advantage of the recent modest improvement in markets to strengthen their institutions and raise capital.

We need to continue to work to improve the capacity of the financial system to support a strong recovery. Greater confidence in the stability of the system is an important part of this, a necessary part of this. But we need to make sure that banks are able to expand lending as demand for credit starts to increase. And we need the broader securities markets working better for the same reason. And this is what our programs are designed to do. We will continue to work to make sure they meet that objective.

I look forward to working with this Committee on how best to do that. Thank you very much.

Chairman DODD. Thank you very much, Mr. Secretary. We appreciate that. What I am going to do is ask the clerk to give us about 5 or 6 minutes apiece, and I will not be too rigid on the time, but so we all get a chance to raise questions with you.

Let me start off, if I can. I suspect this would be a question that every one of us would raise with you. I will raise it. Others may want to expand on the question. But every one of us goes back, Mr. Secretary, to our respective States with some regularity, and when we do, I suspect everyone on this side of the dais is getting questions from their businesses—small, large, medium: Where is credit? How can I get credit? You guys are pushing a lot of my tax money into—the very bank that received my tax dollars is turning around and telling me I cannot get a loan or I cannot refinance my home.

That is a pretty basic question we are all getting, and they do not understand why, since we are providing so much of the resources to keep these institutions afloat—and you made a good case why we should do that, for the well-being of all of us. But they do not understand why these institutions are not being more forthcoming at a time we are providing substantial dollars to them to keep them alive.

And so the question would be: Are we doing all we could to get credit flowing? Are there more things that you can be doing, the Department can be doing, that we ought to be doing? But the frustration level mounts on an hourly basis with people's lack of access to credit, despite the billions that we made available to these institutions?

Secretary GEITHNER. I agree, Mr. Chairman, and I hear that, too, across the country, and I agree that in many parts of the country, people do not feel it getting better yet. They do not feel that the availability of credit is improving materially.

Small businesses who were careful, who did not get overextended, did not borrow too much, still face two types of challenges. Some of them had relationships with banks that took on too much risk and are having to shrink substantially. They were unlucky in the choice of their banks. Some of them are in industries that are seeing demand for their products shrink dramatically, as happens in any recession, and they are under a lot of pressure because of those two things.

Now, what we have done, working with the Congress—and I just think this is important to enumerate. The recovery program has very substantial tax credits for small businesses. The recovery program includes a substantial increase in guarantees and a reduction in fees for small business lending programs, and we have seen lending under those programs increase 25 percent since the Recovery Act was passed.

We have proposed and laid out and are close to putting in place additional programs allowing the Government to directly buy small business loans off the balance sheets of banks, creating more headroom for them to lend to small businesses. Those programs have been delayed a bit, probably by concerns about participation in these programs, but we are close to launching those programs. Those alongside the Fed facility will help reopen markets for small business lending.

We are also looking at ways to get more capital into community banks. I announced 2 weeks ago that we are going to reopen the window for small banks to come to the Treasury and apply for additional capital, reopen the ability of some banks to establish bank holdings companies, which will help as well. And I think the combined effect of these programs, when in place, will help.

Now, they will not make it easy for a lot of businesses across the country still, again, because we are going through a very traumatic financial crisis that was caused in large part by too much borrowing and too much lending. And the adjustment process of that will be difficult. The demand for credit is falling substantially as businesses repair their balance sheets. That process has a long ways to go. But I think our obligation is to make sure that the financial system has the capacity to make credit available to viable businesses. These programs will help.

We are continuing to look at new ways to reinforce these programs. We are working very closely with the SBA and with the Fed, and we are open to new suggestions and look at any good idea.

Chairman DODD. I do not want to dwell on the SBA, but I got to tell you, you mention the word "SBA"—and all of us have done this to audiences back home—and you get a roll of the eyes. That is the mild response. And I say this respectfully about the SBA. I know they try hard. But the fact is that this program—I know some efforts have been made to increase to 90 percent the guarantees and do other things under the 7(a) program. But it basically is not seen as a great friend in a moment like this.

So I would urge you to be suggesting—you have got bright people down there. How could we make that program be far more aggressive and supportive of what is going on out there? If this is going to take time for the normal private commercial lending operations to open up their doors, something better needs to be done by the SBA, because it is just not seen as an ally and a friend on their side in this matter.

So I just raise that with you because I can just tell you, when I have raised the SBA program, I get the roll of the eyes. That is the polite response when you bring it up.

Let me, if I can, jump to commercial real estate, because I do not want to—we all have limited time here. The Wall Street Journal reported on Tuesday that when it applied the stress test worst-case assumptions to 940 small and mid-size banks, total losses would exceed $200 billion in those banks, those 940 banks, through 2010, with commercial real estate loans accounting for half the losses. Two-thirds of the 940 banks would fail to meet the common equity capital threshold that was applied to the 19 largest banks in the stress test.

Now, we all know that over $1 trillion in commercial mortgages are coming up for renewal over the next several years. Certainly there is no financing available to roll these loans over.

So what impact will these commercial loans have on the banking sector, the broader economy, and, again—and we do not say this enough. We talk about the banking sector. I think most of us have been impressed with how our local community banks in our States have been prudent, have been conservative, have handled themselves well over the last few years, and yet they find themselves feeling tremendous pressure and stress at a time like this. So how are we going to handle this? This light at the end of the tunnel is beginning to look like a train, not relief.

Secretary GEITHNER. You are exactly right. This is a major challenge for banks across the country and for real estate developers and people with existing projects they are trying to refinance.

You are also right to say that, in general, community banks across the country came into this recession with higher capital ratios, higher quality capital, in a stronger position. They were not generally part of the problem, and they will be able to be a greater part of the solution because of that.

I think the best thing we can do and the most effective way we can deal with this, apart from trying to get the economy back on track through the efforts in the recovery program, is to make sure we are providing capital where it is necessary in the financial system, and that we are getting those securities markets working again.

The Fed announced yesterday the very important step that it is going to extend this lending program to commercial mortgage-backed securities, both newly issued securities and legacy assets in that area. The market responded quite favorably because the availability of financing in those markets will help get the capital markets in those areas going again. So the combination of more capital where it is necessary and getting the securities markets back to the point where they can help refinance viable projects are two very important steps to take. But you are right to say this is a significant challenge ahead still, and the supervisors are going to be busy trying to make sure that the system can manage through that problem.

Chairman DODD. I have one additional question. I am going a little over time, but I do not want this matter not to be raised. I understand that the GAO recommended in March that AIG seek concessions not only from management and employees, but also from derivatives counterparties and creditors in return for receiving an additional $30 billion in TARP funds allocated to the company. SIGTARP also announced plans to review Treasury's efforts to obtain concessions from these AIG stakeholders. I understand that, to date, we have required no concessions at all from AIG's derivative counterparts and creditors. And while I accept the concerns about systemic risk consequences—that is not an illegitimate issue—I find it hard to understand why we have to go on indefinitely paying off these companies at 100 percent at a time when AIG is not worth 100 percent, its stock.

And so where is the negotiation going on here? Why aren't we pressing back? Hell, we own about 80 percent of this company. It seems to me we ought to be pursuing this more aggressively than paying 100 percent on the dollar to this.

Secretary GEITHNER. Senator, I agree, it is frustrating and it is hard to explain why this is necessary and fair. But let me just say it as starkly as we can.

We do not have the authority as a Government—and we came into this crisis without the authority—to intervene to manage better the risk posed to the system and the economy of an institution like AIG. We did not have the authority and the system did not prevent it from taking on too much risk, and we did not have the authority to manage its unwinding in a carefully measured way.

That makes it incredibly difficult for us to allocate or to negotiate effectively to reduce the value of those claims. We have no option now to selectively diminish the value of those claims without taking risk that you would have a default and its consequences for this institution at this time. And I do not believe that the system today can withstand the effects of a failure of this institution to meet its obligations.

I wish it were not the case. Nothing would make me happier than if we were in the position today where we could start to walk back that support and diminish the Government's involvement in this institution. But we do not have that ability today. If I felt we did, I would do it in a second. And we are working very, very hard with the trustees and the Fed and the management of that company for them to put in place a restructuring plan which will derisk the most risky parts of the institution and preserve and separate those underlying insurance businesses, which are very good businesses still. And we have a big interest as taxpayers now in their success in maximizing value in the disposition of those companies.

That is the balance we are trying to strike. If I thought there was a better way to maximize benefits to taxpayers, then we would do it in a second. But without better authority, better resolution authority, we have very limited options in the AIG case.

Chairman DODD. Well, my time has expired. I have gone over a bit and I apologize to my colleagues. But with all due respect, Mr. Secretary, we need a better answer on this, because that is too much exposure at this. So I will end on that particular note, and others may want to raise questions about this, but let me turn to Senator Shelby.

Senator SHELBY. Thank you.

Mr. Secretary, I just want to pick up on where Senator Dodd was on AIG. It seems to me that this is a black hole; in other words, we keep pumping billions of dollars into AIG. It seems that from even some of your statements you have not got all your hands around this bear, so to speak, and it is still hemorrhaging money. Some people believe that some of the company we worth a lot more, the insurance companies, 6 months ago than they are worth today. I do not know what they are worth today.

So how are you going to back out of this? How are you going to liquidate or sell parts or all of AIG and quit using the taxpayers' money? Because the taxpayers are upset with this, as you know, and it is a difficult situation. But you have got the bear now in the house with you. What are you going to do with it?

Secretary GEITHNER. I wish we did not have it, Senator.

Senator SHELBY. I know that you do.

Secretary GEITHNER. And, Senator, you cannot feel more strongly than me about the need to get the Government out of this company, get the company to the point where it poses less risk to the system and those underlying insurance businesses are on a path where they can be viable going forward. And I think you are right that this—there is no doubt that this company, not just to the Fed and the Treasury, but to its board and management proved much more complicated, much more risk than people thought. And it has proved much harder to disentangle or separate.

Senator SHELBY. Perhaps harder than the Government thought when it took it over?

Secretary GEITHNER. Much harder than the Government thought, but I should just say from the beginning for the record, much, much harder than the management and board of the company felt as well. And they were the ones that led this firm to the edge of the abyss.

Now, the only way forward, just to say it starkly, is to bring down the risk as quickly as possible in the AIG financial products company.

Senator SHELBY. How long is that going to take?

Secretary GEITHNER. They have brought it down very substantially. They are working very hard to bring it down.

Senator SHELBY. What do you mean by "substantially"?

Secretary GEITHNER. About half. Half, if you look at gross notionals, but that is a start. But we want it to come down as quickly as possible. We need to separate those underlying businesses from the risk posed by that company so they are less burdened by those losses and can get back to the point where they can be viable and the taxpayer can recoup some of the investments it has made. And we want that to go as quickly as possible, but to be fair, I think the management and board of this firm are finding it incredibly difficult to unwind and disentangle those basic companies. That is what is causing the delay.

And one more thing is very important. Again, this is the worst financial crisis in 50 years. That is not an understatement. And all companies are finding it harder to sell, raise money to finance purchases in this market. And that is one other reason what has caused the delay. But the businesses are more stable today. The bleeding has slowed very substantially. The money we made available in the last package is there as a contingency. We are going to make sure that it is used as carefully as possible, if it has to be used. And, again, Senator, you cannot feel more strongly than me about the importance of getting this company on a path where it has a restructuring plan that it can execute over a reasonable period of time so we reduce the risk it poses to the system.

Senator SHELBY. How would the AIG bailout having different, Mr. Secretary, if a new resolution authority that we talk about and you talk about had been in place? In other words, how could you have dealt with it if you had the so-called authority that you claim you did not have? And how fast would it be?

Secretary GEITHNER. Well, the great virtue of the model put in place by the Congress for small banks in the country, which the FDIC administers, gives the Government the ability to come in more quickly with a greater set of options for unwinding, cleaning up, separating the bad from the good, and putting the good back into the market. It gives the FDIC the authority to guarantee temporarily, to put capital in, to do other steps that help facilitate a quicker, more surgical separation to let the Government get out more quickly.

Without that authority, the Fed and the Treasury were forced to do a very complicated mix of funding and with less authority to provide temporary guarantees, rather than what would have been more effective to allow a quicker disposition.

Now, our options were substantially constrained by the complexity of this firm and by the fact that the world was in such a fragile state that the ability to sell these businesses quickly was very limited.

Senator SHELBY. Will you be involved in AIG say a year from now?

Secretary GEITHNER. A year from now?

Senator SHELBY. You hope not, I hope.

Secretary GEITHNER. I think realistically this is going to take time, and I think that is true—you know, you said at the beginning what is very important, which is you want us to begin to plan for a credible exit from the extraordinary interventions we have taken. But in some parts of the financial system, it is going to take a longer period of time than that, probably in AIG, too.

Senator SHELBY. I hope we will have another round, but the Fed's role, in your last job before you became Secretary of the Treasury, as President of the Federal Reserve Bank of New York, you had bank examination and enforcement responsibilities and monetary policy responsibilities with your permanent vote on the Federal Open Market Committee. Also as President of the Federal Reserve Bank of New York, you reported to a board of directors, two-thirds of whom were elected by your member banks. That is the system, which I think is conflicting. In other words, an inherent web of conflicts is built into the DNA of the Fed as it now exists.

You propose, Mr. Secretary, now to complicate the web further, I think, by making the Fed the systemic risk regulator. In light of the Fed's—and you played a role in it—the Fed's track record, don't you think there is a significant risk that in the name of systemic risk regulation the Fed would subordinate its bank regulatory and monetary policy functions in order to protect and perhaps preserve the biggest institution? Does that concern you?

Secretary GEITHNER. I do not think there is a significant risk of that.

Senator SHELBY. Why not?

Secretary GEITHNER. I would not want to take a significant risk of that happening. But can I go through—what is a very complicated question, Senator, and let me go through a few pieces of your question.

Congress designed the Federal Reserve System almost a century ago. As part of that system, it created this network of 12 reserve banks, set up as a complicated mix of public and private institutions with boards, as Congress designed by law, requiring there to be three banks, three directors elected by banks, and three directors representing the public interest appointed by the Board of Governors. That is the system the Fed has operated under the laws of the land for many, many decades.

Senator SHELBY. Do you believe that is a fair system in today's 21st century considering all the conflicts?

Secretary GEITHNER. I believe—and I wanted to get to this because I am trying to get to your question.

Senator SHELBY. Go ahead.

Secretary GEITHNER. I believe that as part of regulatory reform, as part of our effort to fix this system and make sure we do not face a crisis like this again, we have to take a comprehensive look at every aspect of our system, the full mix of authorities, how supervision is conducted, and it will require not just legislative changes like what we are discussing with your colleagues on the Committee, but it will require that we fundamentally re-examine how supervision is conducted, and where there are appearances of conflicts or actual conflicts across the system. We are going to want to carefully look at those and see how we fix them.

But I just want to say that the Fed has an enormously elaborate set of protections in place against any conflict. Those directors play no role in supervision. They play no role in the Fed's lending programs because, for the reasons you said, it would be inappropriate for them to do so. But as I said, I think it is important we take a fresh look at these things. I have been very open with the Committee and honest with the Committee, and I think that in all aspects of supervision, including those areas the Fed was responsible for, we did not get many things right. We need to do better going forward, and we need to work with you to make sure we put in place a framework that does that.

Senator SHELBY. Mr. Secretary, but when banks have a role in selecting who their regulator is going to be, that seems a problem in the making.

Secretary GEITHNER. I understand about the awkwardness of that structure, but, again, the system, as designed by the Congress and applied over decades——

Senator SHELBY. I understand that, but the Congress makes mistakes.

Secretary GEITHNER. No, no, but I think there are a lot of protections in place against that risk. They have no role in setting policy, in applying supervision——

Senator SHELBY. But they have a role in selecting the president, like you or anybody, of the reserve bank.

Secretary GEITHNER. They have a role, but the Board of Governors has to approve that selection process. There are a lot of checks and balances. But as I said, we should take a fresh look at conflicts across the system because you do not want to have anybody in public office have their actions viewed through the prism of concern that they are motivated by anything but the broad interests of the system. So I share that basic objective.

Chairman DODD. Thank you, Senator. And this is a subject matter that is going to consume a lot of this Committee's time and attention, obviously, with the Secretary and others as we move forward on the architecture.

Let me turn to Senator Reed of Rhode Island.

Senator REED. Thank you very much, Mr. Chairman.

Welcome, Mr. Secretary. Senator Dodd and Senator Shelby were talking and you were responding about your lack of leverage regarding AIG securities. But this afternoon, the President will sign a bill giving you some leverage with respect to the warrants that you hold because now you will have the opportunity to hold those warrants, and I am told now they are worth to taxpayers about $5 billion, so that there is some return for the investment the taxpayers have made. And I would suspect in the days going forward you will let us know how you will proceed in general with respect to your ability now to hold or to sell publicly these warrants. That is just an initial point.

There is a significant issue in raising private capital in a banking system, but one of the issues that may be a potential problem is the role of the private equity companies. The Federal Reserve has determined that these companies may not directly invest in banks, in their regulated institutions. A few days ago, OTS accepted the direct investment of a private equity company with little fanfare and I think with little documentation.

This raises in my mind the issue of regulatory arbitrage. The Federal Reserve has made a careful decision that this is not consistent with their policy, but another Federal agency has said it is OK. OTS, for the record, regulated AIG, regulated WaMu; Countrywide changed its charter from a national bank under the Federal Reserve and Comptroller supervision to become a regulated entity of OTS.

So this, I think, is a problem in the making. It requires, I think, a consistent policy across all regulators—the Federal Reserve, OCC, FDIC, and OTS. And it requires, I think, also ventilating that policy with the Congress and the public so that we understand the transparency that is required, we understand the conflict of interest will not be tolerated, we understand who the investors are in these entities. Many of them have sovereign funds from countries that we would be at least interested in knowing about.

So, Mr. Secretary, I would hope you would take very aggressive action and very timely action. I understand under the statute that you cannot intercede in a matter or proceeding of the OTS, but you have general supervision of OTS. I would urge you to use that supervisory authority in conjunction with the Federal Reserve and the other regulators.

Would you like to comment?

Secretary GEITHNER. Senator, I think you are right that this is an important issue, and we have to balance the important objective of trying to make sure that we maximize the chance we get new capital into this financial system. But the specific question on the appropriate role of private equity in banks requires careful thought and care. I also very much agree that we should have one standard. A central part of what made this system weak was the opportunities we created and allowed for arbitrage to get around the set of protections Congress put in place.

So I very much agree, and I would like to come back to you and maybe jointly have the Fed and the OTS and the supervisors. We will provide a little explanation of what we think policy is today and what it should be going forward on this very important question.

Senator REED. Well, I appreciate that, Mr. Secretary, but in the interim, there is a huge door that has been opened, and people will rush in. And they will rush in unless you take very prompt action to ensure that there is at least a standstill.

Secretary GEITHNER. Promptly come to the Committee and report, not——

Senator REED. Well, I think promptly direct OTS that they have to be—their conclusions have to be vetted by you, I would assume. This is a general policy matter. This is not on a specific issue.

Secretary GEITHNER. Senator, we are on it, and I agree with you about the need for deliberate speed.

Senator REED. Let me ask another question here. I understand there is an Acting Director of the OTS. When is the President going to appoint a Director, which is subject to confirmation by the Senate? We have the irony here of policy literally being made by an Acting Director, and I believe this individual is the third Director in the last, what, 6 months?

Secretary GEITHNER. It is not a good situation, I agree, and transitions like this are challenging, and we are moving quickly to try to identify a credible leader for this important institution and hope to be able to nominate somebody relatively soon. But in this case, too, I agree with you about the need for speed.

Senator REED. Well, again, this is a situation where this policy seems to be emerging from an organization that does not a Presidential appointee confirmed by the U.S. Senate. So, again, I think adding urgency to your role in making sure that you harmonize this policy, whatever it may be. And, again, I think we all recognize that the ultimate solution to our difficulties is a vibrant, privately capitalized banking institution, but well supervised. And the "well supervised" part needs a lot of work.

Secretary GEITHNER. I could not agree more.

Senator REED. Thank you.

Chairman DODD. Senator Bunning.

Senator BUNNING. Yes, thank you, Mr. Chairman.

There are so many things I would like to ask you, and I am not going to get the chance to do it all. You mentioned community banks, and you mentioned that they would be in the lending business more. You have not been to Kentucky. Kentucky's community banks attack me when I go into Kentucky because of the new assessment of the SDIC. Now, that will change under the new housing bill that we passed, but you say they are going to lend more money. They are not going to lend more money out very fast. You are looking at about 6 months to a year down the road before they start, and none of those banks, none of the community banks are part of the problem. They did not—I do not know whether you know it or not, but Kentucky was in the lowest five States as far as repossessions are concerned. We are not in the lowest five of anything usually in Kentucky, but we were because of our community bankers.

So one community banker with the assessment going from $40,000 to $800,000 with the new assessment—now that will be changed, but she is not going to make any loans until it is changed.

Don't we own 80 percent of AIG?

Secretary GEITHNER. In effect, we do.

Senator BUNNING. OK. Then tell me why we do not control what AIG does?

Secretary GEITHNER. Well, we can have substantial influence on what they do, but that does not affect the range of options we have for dealing with the issue raised by your Chairman on how we treat AIG's counterparties and creditors. That is a difficult issue that involves——

Senator BUNNING. Well, if you own a company and you are in control by 80-percent ownership in that company, you do not have to pay a dollar for a dollar on those losses. You can say we are going to try to settle with you for 50 cents on the dollar, just like you have done with the losses that you forced the banks to take on Chrysler and General Motors.

Secretary GEITHNER. Senator, I understand everyone's frustration with this issue, and I would like nothing better than to be in a different position. But unless we are prepared to contemplate the risk for the system of default by AIG on its obligations, then we have no choice but to help AIG meet those obligations. And people will disagree about this judgment, Senator, but what the country of the United States went through in the last 6 months of last year is substantially due to what happened because of the failure of some of the largest institutions in the world. Default by them on their obligations, caused a traumatic, enormously damaging loss of confidence, loss of wealth in our system, and was a big part of why growth declined in our economy at 6 percent——

Senator BUNNING. Well, we can disagree on that, because we can disagree that the solutions proposed did not solve the problem, and the problem then exacerbated throughout the United States and the population in the United States when they saw no reaction in the markets. And the markets then created even a deeper spiral for our economy, and it was a self-fulfilling prophecy. So your solution to the problem may not have been the right solution.

Secretary GEITHNER. You are absolutely right that none of us can know with certainty, in retrospect even, whether we chose the best of the available options at that time. But one thing that I am quite confident is true, which is the damage caused by the failure and default by some of the large institutions in the world over that period of time made everything substantially worse. And our inability and failure to arrest that was part of the deepening recession in the United States and why there is so much damage coming into this.

Now, if AIG had defaulted, it would have been materially worse across the country and the world. Now, again, that is not a judgment that everybody will agree with, but I am quite confident that is the case. And I think today we are still in a position where——

Senator BUNNING. Well, that is the way it was sold. I mean, that is the way the TARP was sold, that the sky was going to fall in if we did not do something. That is the way you got——

Secretary GEITHNER. I believe that what Congress did at that point was absolutely essential to hold this system together, and without that authority and the actions to put capital in the system, I think we would not have a financial system today.

Senator BUNNING. I have some questions on—just three quick questions on Chrysler and General Motors. Did anyone in your Department or administration threaten or attempt to intimidate Chrysler or GM creditors to give up their contractual rights or priorities in bankruptcy?

Secretary GEITHNER. I do not believe anyone did what you suggested. I think what we did in that case was——

Senator BUNNING. Well, wait a minute. There is another question. Has there been any influence by your Department or the administration on which auto dealerships are being dropped by Chrysler and/or General Motors?

Secretary GEITHNER. We are trying very carefully not to be involved in those decisions. We think those are decisions for the board and management of these companies.

Senator BUNNING. Has there been any influence by your Department or the administration on which auto plants are to be closed or sold by Chrysler and/or General Motors?

Secretary GEITHNER. Same answer. Our job is to make sure that the overall plan leaves these companies in the position where over the longer term they are going to emerge viable. That is what we are focused on. That is what we are trying to facilitate. Those broad judgments you refer to we want to be judgments of management and the board.

Senator BUNNING. Thank you.

Chairman DODD. Thank you very much, Senator.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chair.

Mr. Secretary, thank you for your service under incredibly difficult times. I certainly appreciate it. Let me ask you, though, I listened to your statement and some of your responses, you know, as it relates to where we are at in liquefying the credit crisis. Lending is actually down. Part of that is because of the economy. But there is also still very significant demand for credit, and yet it is not acquirable.

And so I look at what Larry Summers sent to us when we were all contemplating the second tranche of TARP and saying that the administration was going to impose tough and transparent conditions on firms receiving taxpayer assistance, including ensuring that resources are directed to increasing lending. And I hear where we are at, and I have two concerns.

One, how are we going to get the lending to take place?

Second, based upon what still exists out there and your categorization of it, do you intend at this time to come back to the Congress and ask for any more TARP funding?

And, third, as it relates to lending, community banks, even though they are facing pressures, are still the one entity, at least in New Jersey that I find, that are still engaged at a level that is really about Main Street. But it seems to me that all of our focus is on the 19 largest banks, and we have to be thinking about our policies in a way that ultimately also looks at the community banks and thinking about how our policies affect them, not doing it in a macro way in which we are focusing on the 19 banks but not thinking about how that works for community banks.

So can you give me a sense, one, what are you doing about the actual lending, even though the economy is obviously still in significant challenges, but there is still a demand for credit?

Second, do you think that you are going to be coming back to the Congress for TARP funds or similar funds?

And, third, how do we start looking at these community banks? And even under the Capital Purchase Program on TARP, how do we look at the conditions for community banks?

Secretary GEITHNER. Excellent questions, so let me go through——

Senator MENENDEZ. I only ask excellent questions.

[Laughter.]

Secretary GEITHNER. Let me try to go through them quickly.

As you said, the dominant imperative, the only reason we are doing any of these programs, is to try to make sure there is enough credit to support a growing economy. And as I said, I think the best way we know to do that is to make sure there is capital where it needs to be. People raise capital where they can, we put capital in where they cannot, and we get the credit markets, and asset-backed securities markets going again.

I do not know a better way to do it than those two things, and you are right that, as you said, in a recession when the economy is going like this, demand for credit will fall. And we had borrowing go very high as a share of GDP, and so demand for credit will fall more in this kind of a recession than it would in a normal recession. But, still—and I think you are right, and you can see this in the fact that interest rates are so very high—demand for credit is greater than what looks like the available supply. That is why it is so important that we get capital into these institutions and get those markets working again.

A dollar of capital produces about $12 of lending capacity. The Government, before I came into office, put about $200 billion of capital into banks. So that is about more than $2 trillion of lending capacity. Otherwise, it will not exist. Without that capital, you would have had lending capacity shrink by more than $2 trillion.

As a result of this focus on the larger banks, you are right to say large banks are not the entire banking system. But they are about 50 percent of loans and about three-quarters of assets in the banking system. Without stability in those institutions, the economy would be weaker. But community banks will play a critical role in this stuff. We have been moving very quickly to try to make sure their applications are processed. We have more people processing those applications. They are concerned, frankly, still about participating in this program. They are worried about the stigma that comes with participation. We need to make it more comfortable for them to come and not feel they are going to be stigmatized and penalized for coming for capital.

As I said in my remarks, we believe we still have something a bit north of $100 billion in uncommitted resources available to deploy to these objectives and get credit flowing again. We are going to use that as carefully as we can. At this point, we have no plans to come to the Congress and ask for additional resources and authority. I do not know whether that is likely or not, but at this point, have no plans to do so.

But, again, our biggest imperative, because the economy is still going through such a challenging period, is to make sure we are doing as much as we can so that the financial system is not going to slow recovery.

Senator MENENDEZ. Well, I hear your qualifier at this point, and I understand that. And these are uncertain times. But I have to be honest with you. Some of us——

Secretary GEITHNER. You would like us to come.

Senator MENENDEZ. I always welcome you before the Committee. I do not about coming to ask for money for TARP. I will be honest with you on that. But, no, some of us who have supported this because we thought it was essential to, you know, strengthen the financial institutions, not because for their sake, but for what it meant to the overall economy and to Main Street. But that Main Street is still having challenges, is still not getting access to the credit that it seeks, even if that is overall reduced, but there is still a credit demand. And, therefore, the school teacher who has got a 720 credit score cannot get a car that she needs to get to work. And the small contractor who comes up to me and says, "I do not have my credit line at my supplier anymore, and I cannot get a credit line and get the supplies to do the work that keeps the people I have employed."

That is what I am worried about. And we may have created $2 trillion of credit capacity. I do not know that we have used that credit capacity that you described or that the institutions have used that credit capacity in this period of time.

Secretary GEITHNER. No; I agree. But I think you said it exactly right. The real risk to the economy is that you had viable businesses that were relatively prudent and did not overextend themselves, get forced to shrink or close because there is not credit available for them to keep operating. That is a principal challenge we face still, something we have got to keep working very hard at, and that is why I believe these programs are so important. We need to make sure that banks are willing to take capital where necessary, that they raise capital, and we get these securities markets working better. And we have got a pretty effective set of programs in place, but they are just beginning, and we have got to keep at it to make sure they are working to the maximum extent we can.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Senator Martinez, Mel.

Senator MARTINEZ. Mr. Chairman, thank you very much, and, Secretary Geithner, again, thanks for your service. I agree with Senator Menendez. You are serving at very difficult and unusual times. But let me follow up on Senator Menendez's question and the liquidity of local banks, the very problem he is talking about, the local contractor, and that sort of thing.

What I hear from bankers when I ask them, because that is the other side of the equation, they tell me, "Regulators are telling me not to lend. Regulators are telling me to increase my reserves. Regulators are telling me to grow my capital. But we are fine. We could be lending more, except they are coming back in 2 months and they told us that we better not have so many real estate loans."

Well, in Florida, that is like telling a man in a desert that you cannot drink water. What are we going to do? What is the issue there?

Secretary GEITHNER. I am not—because I have heard those concerns from banks across the country as well, and I know it is something that the supervisors at the national level are trying to make sure they get the balance right. I am not sure they have the balance right, but it is their responsibility to get that balance right.

I think it is important to recognize that we are in the middle of a financial crisis that was caused by banks being overextended.

Senator MARTINEZ. Well, maybe that is when they should have been telling them to lend less, not now when the system needs the money.

Secretary GEITHNER. That is true, but it is a difficult balance. But I think we have a very diverse banking system. Many banks came into this with very strong capital levels, and they will be growing and expanding, and they will be taking business away from their weak competitors. But there are some institutions and banks that probably got themselves a little overextended, and they are going to probably have to be a little more conservative going forward. There is probably no way around that, and we do not want to have a financial system where those institutions are kept going on a level that they are not going to be viable over time, and that is why the balance is so difficult.

But I agree with you about the concern. I hear it, too. Supervisors put out a statement in November trying to be responsive to this concern. But I do not feel like it has gotten better.

Senator MARTINEZ. It has not.

Secretary GEITHNER. And it is something that I know they are trying to be attentive to.

Senator MARTINEZ. Well, I appreciate your continuing to pursue that issue, and just as a follow-up to Senator Bunning, the issue of the board of directors of these car companies, you know, in an unusual time like this, it is difficult to know exactly where the fiduciary responsibility lies. However, I still continue to believe that their fiduciary responsibility lies to the stockholders of the company, first and foremost, and, therefore, they should be acting as independent of Government as they possibly could, without Government pressure to take actions or whatever. But it troubles me when I hear that the CEO has been removed by directions from Government or that boards of directors are being told that they are not going to be staying on when the new directors are going to come. That I find troubling, and I would like a comment from you on that.

Secretary GEITHNER. I understand those concerns, but let me try to explain the framework we are using for making these judgments.

When institutions get themselves to the point where they need to come to the Government for assistance to restructure and there is no alternative for them, then it is our obligation to make sure they have a strong enough board and management so they are able to emerge from this viable and without Government assistance over time. That is a very important obligation we have, but I agree with you completely that we do not want to have the Government involved in day-to-day management decisions. We want to structure these arrangements so that we get out as quickly as possible. And where we take action to help strengthen boards or management those new directors are going to have a fiduciary obligation to shareholders. That will be their obligation going forward.

Senator MARTINEZ. Let me move to another area, which is TARP transparency. Senator Warner and I and Senator Brown have filed Senate bill 910 which has to do with TARP transparency, the idea being that we want to make it readily available, the information where the funds have gone, how much of them remains, who has gotten them, what they are doing with them. And I hope you could support that type of legislation. I think it gives the public a great deal of confidence about what we are doing in Government today with so many incredible amounts of dollars, of their tax dollars.

Secretary GEITHNER. Well, I am committed to giving as much transparency in the public as we can and happy to take a close look at those proposals. And it is very important to me that we have as much explanation and detail in the public domain about the financial costs of these programs, their objectives, how much is being spent, how much is still available, what they are achieving, and what they are not achieving. And so I very much share that objective.

Senator MARTINEZ. Mr. Chairman, I would like to put in the record a letter from a number of consumer groups that are very supportive of this legislation and have that be part of today's record.

Chairman DODD. It will be so included.

Senator MARTINEZ. Finally, let me just say that, with the remaining moments I have, one of the issues that I still see out there, like the credit problem with banks and local banks, is the TALF issue. There are areas of securitizing money that would be very, very helpful, again, to the system, to put people to work and back to work. Two of the areas that would be very, very important in my State, and I think in many others, is the area of the timeshare industry where securitizing their mortgages would be of tremendous help to bring liquidity. You know, they have a marketplace where people want to buy these units; however, they cannot do the financing because there is no secondary market for them at this moment in time.

The second one is floor planning for recreational boats, watercraft. This is a huge industry in my State from the manufacturing to the sale to the use, and, again, there you see businesses that have a good business track record and what-not, but simply cannot stay open because their floor plans are being closed.

These are two areas that I know might seem frivolous, but these are job-creating industries in a State like Florida, and I would implore your attention to extending TALF so that these industries could be participants in that, just like we have done for car floor planning and some of the other areas, credit card and other areas where we have done it.

Secretary GEITHNER. Senator, I would be happy to take a careful look at that and talk to the Fed about what is possible in that area. I do want to underscore, as you did, that this is a very effective program, very important program. It would not be possible without the Federal Reserve. Treasury cannot do it on its own. We would like to make sure it works to the maximum benefit of this broad objective and make sure it is getting credit flowing again.

So I agree with you about the importance of the program and I am happy to take a careful look at those suggestions.

Senator MARTINEZ. Thank you, Mr. Secretary.

Chairman DODD. Thank you, Senator, very much.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Mr. Secretary, thank you for joining us. I want to follow up on a couple of questions that Senator Bunning mentioned about the auto industry. News reports tell us that in the GM plans and their restructuring that they are now working through with the UAW to close 16 plants in the United States and cut more than 20,000 jobs. The same reports tell us that the company is planning to increase imports from plants in Mexico, South Korea, and China. The emphasis has been especially on China, a country where GM has a major presence, they do a lot of car assembly and production there and sell to that market. But now they are talking about closing plants down here and opening plants in China and selling them back. You and the automobile task force will decide whether to grant GM billions more in loans on top of the $13.4 billion.

What gives here? The overall plan that you have to approve, you have to show—you need a viable plan overall to approve. What gives here? What is going on here?

Secretary GEITHNER. Well, Senator, you know, it is a difficult balance. I think our objective is, the President's objective, to try to make sure that we help facilitate a restructuring that will leave this firm in existence, save it from bankruptcy, and allow it to operate over time as a viable company without Government support. That is what we are trying to do, and we are doing exceptional things to make that possible.

But I do not believe that we can do that and also be involved in making detailed decisions about how they run their business and that is the balance we are trying to strike. We are trying to make sure those decisions are left to the board and management. We leave our role to try to make sure that the overall plan is sufficiently strong and that it is going to leave them viable so that the taxpayers' interest will be protected.

Senator BROWN. So are you raising—if it was a firestorm in this country when we give billions to banks and they pay huge bonuses, you have not seen anything yet for what is going to happen if we put billions into auto companies and they shut down plants in this country and open plants in China at $1 an hour or less.

Are you pushing back on the auto industry and the restructuring? Is the Government representing taxpayers and representing workers and communities pushing back on their including anything like this plan to shut down plants in the United States and move them abroad and open plants and produce and sell back here?

Secretary GEITHNER. Well, again, Senator, I think just to be probably fair to the facts in this case, I probably should come back to you with more detail on exactly——

Senator BROWN. Well, we do not know the facts yet. We only know that GM told us that—I remember as a kid, I remember reading that Charles Wilson—an Ohioan, I would add—CEO of General Motors said, "What is good for GM is good for the United States," and vice versa, however he said that. It is an interesting point to make. But when we asked GM, they simply said, "We are not going to use tax dollars to open plants in China," which really means absolutely nothing. They are not going to use these tax dollars—or these dollars to open plants in China.

So we do not really know, but we are counting you as representatives of this Government—and I understand GM—I mean, GM helped to push through permanent normal trade relations with China. They write the rules. Then they say, "Well, the only way we can compete is to go to China. Sorry. Those are the rules of globalization," even though their CEO is wandering the hall in the House and Senate getting votes one by one by one for this trade policy.

Secretary GEITHNER. Senator, I just want to underscore the scale of what we are doing. Because the President is committed to trying to make sure these firms emerge viable over time, that they are saved from the prospect of going out of existence, we are doing exceptional things to try to help facilitate a restructuring that would not be possible without the Government playing a temporary role.

Senator BROWN. I get that. Let me ask——

Secretary GEITHNER. And that will save thousands and thousands and thousands of jobs in this country.

Senator BROWN. I get the economic argument, but I also get that—well, let me take it from another direction, if you are doing exceptional and extraordinary things.

Chairman Bernanke said last year that China's currency misalignment is "an effective subsidy." Then-Senator Obama sponsored legislation that currency manipulation is a subsidy that should be offset with duties. The analysis in Treasury's April 15th report on exchange rate shows China is cheating by manipulating the currency. But then your report does not make the conclusion that China is manipulating its currency.

The Treasury and the Government seem to push back on this whole currency issue, so you are saying—you are implying, GM is saying—you have not affirmed that, but GM is saying, well, we—I think they are saying, "In order to cut costs and stay competitive and save American jobs, we have got to cut American jobs and open plants in China and send them back." But then you are unwilling to stand up on currency and deal with that subsidy that it makes it more attractive for China—for GM to go to China and sell cars back to the United States.

Secretary GEITHNER. Senator, I do not agree with that characterization. That is not our policy with respect to China.

Senator BROWN. Which is not your policy?

Secretary GEITHNER. What you just described. Now——

Senator BROWN. Which part, the currency part or the GM going to China is not your policy?

Secretary GEITHNER. Well, I think neither are our policy, but just on the China case, let me explain what the report laid out. It is an important issue. China has allowed their exchange rate to appreciate significantly. They are intervening substantially less. They are committed to moving to a more flexible system over time. They are moving very actively to help stimulate domestic demands. Their economy is growing more rapidly as a growing market for U.S. exports and other markets around the world.

We are focused on this issue. We are going to continue to encourage further progress, but that is what the report says——

Senator BROWN. Tell me how you define progress on their currency floating. Is it 3 percent, 5 percent in the last 5 years?

Secretary GEITHNER. Well, again, if you look back, there has been very substantial change over the last 2 years. They are committed to further evolution. We want to encourage that.

Senator BROWN. Mr. Secretary, what does "substantial" mean in percentage—I mean, economists say 40 percent valuation differential in the Chinese currency versus the floating world currency, floating currencies around the world. What percent is——

Secretary GEITHNER. I believe what has happened has been substantial in percentage terms relative to what people estimate as the potential undervaluation of their currency. But——

Senator BROWN. I guess I really want something more than "substantial," if you can at least——

Secretary GEITHNER. We would like it to be more——

Senator BROWN. No, I would like it to be more—I would like a figure. "Substantial" to you probably does not mean "substantial" to me. Is it 2, is it 5, is it 20, is it 30?

Secretary GEITHNER. Well, I do not want to misstate the numbers, but those are just facts. I would be happy to provide——

Senator BROWN. OK. I would like that. I do not think it is fair to characterize it as "substantial," because I think the numbers are a small percentage of the 40, but——

Secretary GEITHNER. Look, I understand your concern on this. That is why we are working to encourage further progress, because it is important to us, to the administration, to the President, and to the country. We want it to happen. And we are going to continue to encourage it. But, again, what China is doing today is playing a very constructive, stabilizing role as the world goes through the worst recession in decades. And so you need to look at the full picture in terms of what they are doing to strengthen their economy and their commitment to further evolution.

Senator BROWN. I have looked at the full picture for 10 years, Mr. Secretary, and I have not seen the progress. and I do think they play a major role. I appreciate what they have done on their own stimulus and encouraging consumption in their country. They came to the table pretty late on that. There are lots of other issues there. But I thank, Mr. Secretary.

Chairman DODD. Thank you. If my colleagues will recall, the very first hearing that I held as Chairman of this Committee in January of 2007—or maybe February—was on currency manipulation, and your predecessor was the first witness before the Committee. So this issue is with us. And I have just got to say, Mr. Secretary—and then I am going to move right on to Senator Corker—when you see what access we have to Chinese markets with U.S. products, it is terribly frustrating, to put it mildly. I saw the other day where 20 American films are allowed to be shown in China. That is the quota. And I do not know the number of automobiles, but it is rather limited of what we can export into that market. So in addition to the currency manipulation, this would be more warmly received, understanding where China is, if, in fact, they were willing to take a lot more of our products on their shelves than we do of theirs. So it is just a sore, sore point with a lot of our people.

Secretary GEITHNER. I am nodding because I agree with you, of course, about that important imperative.

Chairman DODD. Senator Corker.

Senator CORKER. Mr. Chairman, thank you, and, Mr. Secretary, thank you for being here. I do appreciate the timely forwarding of your testimony last night. I hope that will continue. I very much appreciate that. Just a couple editorial comments.

On the AIG situation, we have heard now for 6 or 8 months that there is no resolution authority to deal with that entity. My guess is that on a one-off basis, if you were to ask for that, instead of pumping additional monies into a company that really has turned out to be a honey pot for many of the institutions that have relationships with it, my guess is that—we have had numbers of vehicles come through this body. That would pass pretty quickly. So I do not know why the Treasury has not asked for conservatorship ability to deal with that entity. Again, my guess is it would be like 100 to zip in the Senate and 435 to zip in the House.

So I think continuing to hide behind not having resolution authority for AIG and continuing to pay out 100 cents on the dollar, which we all know is a major honey pot for many, my guess is we would work with you to give you that authority. And I know you have particular authorship of that. My guess is you would like to see it through in an orderly way. So I hope that——

Secretary GEITHNER. We will work on that that, Senator, and could I just say we have provided draft legislation——

Senator CORKER. For overall resolution authority, but I think if you came to us today, as, by the way, Paulson did with Fannie and Freddie on a one-off basis, my guess is it would be passed. So I do not think that argument holds water anymore. I think you could get the authority for this one organization very, very quickly.

So to me, there is something else driving—something else is driving this, if not—and one other editorial comment. I know that we are going to have auto hearings later, and I realize that those negotiations are underway now. I do want to offer one comment. I know that you all have offered ownership stakes in most unusual ways. I imagine there are streets in our country where there is a retiree, part of the greatest generation, those people who came before us, that bought GM bonds thinking that that was their ticket to retirement. And sitting right beside them, a neighbor next door might be a UAW worker that is being treated totally differently.

The way this GM buyout is now set with 50-percent ownership by the taxpayers, 40-percent ownership, 39 and change, by the UAW, and yet the bondholders basically becoming toast, to me is something that is very politically, philosophically motivated in a way that shows no balance.

Now, I think most of us are aware up here that once this is done, according to Steve Rattner, you are still going to have $80 billion in debt at GM. I am not sure the public is fully aware of that yet. So after the bond exchange, there is going to be $80 billion in debt left, which is more debt than we began with. GM has $62 billion when this all began. OK? And so my guess is you are going to have to make additional offers. The company cannot sustain $80 billion in debt.

I am asking that you consider fairness when you make the offer, again, because there is going to have to be another exchange offer made, that you treat other retirees that have invested in these bonds, thinking that GM would be something that they could—and not do it in such a politically motivated way. I have heard that there are concerns about strikes. I cannot imagine a greater public relations disaster ever happening. It would be a strike by the UAW if this sort of non-pro-rated bankruptcy structure is not held to. But I would just hope you will consider that.

Let me just move on. Those are a couple—and I hear the word "trying." You are artfully using the word "trying" to stay out of those decisions. Look, I know that Fritz was going over to see Treasury and the UAW the day after meeting with us a couple weeks ago to make these major decisions. I hope that they will be done based on what is best for the company and not just certain parts of the country.

Let me just move to the resolution——

Secretary GEITHNER. Senator, you are not asking me to respond now, but as you said at the beginning of your question, I think it is very important we go through these things, Mr. Chairman, once we are through the first—because you are talking about a set of prospective concerns which we will probably best address when we see the package that is announced, and then we can talk through that. But, of course, we want to see a fair and balanced package that produces a viable company over the longer term. And I understand your point. I just want to say, not responding to your concern and suggestions, it is not because I don't think they are justified. It is just that I think it is not possible to do it justice until we get to the other side of this.

Senator CORKER. Well, I would hope you would not deem the first offer "fair," and I would hope that you would intervene in some fashion, because it is obviously a strong, philosophical and political motivation when you look at $27 billion in debt being worth 4.5 percent of the company and $10.5 billion being worth 39 percent of the company. You know, most students in our country would consider that to be unfair.

But let me just move on to a bigger philosophical issue——

Secretary GEITHNER. As long as you let me come back and talk about that once we get through the first.

Senator CORKER. Perfect. I would love to. And that is why we have not pressed. We know there is still, again, $80 billion that has got to be dealt with after all this occurs. I think the taxpayers probably would be alarmed to know that, but there is still a lot to be done.

On the resolution authority, you came before us in sort of a private meeting, but then since had sort of a public hearing in the House talking about your resolution authority. And I have to tell you, I was greatly perplexed by the notion of giving the Treasury the ability in perpetuity to, in essence, codify TARP. I think on entities that pose a systemic risk, what you have wanted to do is to have the ability that you now have under TARP in perpetuity for those entities and to actually designate certain entities as those that pose systemic risk, so there would be a bright line.

Sheila Bair came in the other day with something that was actually very market based and I think was applauded by many, certainly by me here, which basically gave her the resolution authority to basically unwind these companies in an orderly way.

Huge philosophical differences in those approaches, and, in essence, the possibility of causing systemically risky computers to be like Fannie and Freddie because the public would know which entities those were. I wonder if you might respond to that.

Secretary GEITHNER. I would like to respond, Senator. We are not going to do that, and we are not going to take that risk for exactly the reasons you said, because it would create the expectation that there is a set of institutions that will enjoy Government support without conditions in the future and would leave our system more risky, and re-create a kind of more vulnerable system in the future. We are not going to do that.

Senator CORKER. So you are withdrawing that offer?

Secretary GEITHNER. No.

Senator CORKER. You are withdrawing that proposal?

Secretary GEITHNER. I am saying what you described as our proposal was not our proposal, and we would not design a proposal that had those risks, because I could not support it and you would not support it. But what I was going to say is that—let me step back for 1 second.

The proposal we have made and we will make for resolution authority will be based on and modeled on what Congress designed for the FDIC, and what was designed for small banks and thrifts, not for a crisis like this, but has not caught up to the dramatic evolution in the structure of our system. We need to take that model and modify it so it works for a large complex institution built around a bank or an institution like AIG could pose broader risk to the system. But the authority we are looking for will be replicated very closely on the authority you have given the FDIC, same basic balance, same benefit, same constraints, same checks and balances, same protections against it being misused.

That is the model we are looking at, and I think that you will find that proposal to have all the benefits of the FDIC model and some of the same concerns and constraints in that model.

Senator CORKER. I know I am out of time. I look forward to a second round. Thank you.

Chairman DODD. Thank you very much, Senator.

Senator Tester.

Senator TESTER. Thank you, Mr. Chairman, and thank you for being here today, Secretary Geithner.

Through your conversations with the FDIC and with your dealings with the stress test, what is your opinion on community banks? Do you believe that—I know you talked about opening the credit window to them again. Do you believe that they need to raise significant capital to remain solvent?

Secretary GEITHNER. Well, again, we have 9,000 banks in the country. Many of those small community banks, their circumstances are very diverse. On average, they came into this crisis with, again, more healthy capital positions, higher levels of capital, and a better quality of capital, because they were generally more careful. But in parts of the country with high unemployment, where the focus of most of the real estate trauma has been concentrated, they are under a lot of pressure, and supervisors responsible for those institutions are working closely with them to make sure that where they need to be strong and restructure they are doing that.

Senator TESTER. Well, I think it was the Chairman who earlier talked about 940 banks that needed $200 billion. Do you think that is the exception, not the rule?

Secretary GEITHNER. Senator, I did not look at the details of that study, but I would caution anybody to draw any conclusions from a study published in that way, because it is very hard for people to sort of step back without access to confidential supervisory information and provide a reasonable picture of health and weakness across the system. So I would not encourage you to draw any conclusions from that particular report.

Senator TESTER. So you do not anticipate any sort of wave of failures in that sector.

Secretary GEITHNER. No. I would say that. Again we are going through the most challenging financial crisis in decades. Community banks will not be immune to that. You have already seen significant distress across the banking system, outside the major institutions, and our challenge is to make sure that is managed carefully so there is less damage to the communities affected.

Senator TESTER. What kind of participation do you anticipate community banks will utilize the TARP dollars? Can you give me a percentage of those 8,000?

Secretary GEITHNER. I do not have a sense of the magnitude, and as I said and I am sure you have heard this. A lot of banks have withdrawn their applications. A lot of banks are reluctant to come. They feel like the capital is stigmatized, will come with conditions that will make it hard for them to run their business, and we need to try to counteract that because the insurance this capital provides is not valuable unless people are willing to come take it.

Senator TESTER. All right. But you do believe that there are adequate resources out there with the community banks.

Secretary GEITHNER. I do. I do.

Senator TESTER. OK. The commercial mortgages, the information is that the Fed will only buy the AAA-rated mortgages.

Secretary GEITHNER. That is right.

Senator TESTER. How is that going to be helpful for a lot of those community banks? Because the commercial mortgages is actually where the rub is, in my neck of the woods.

Secretary GEITHNER. Well you are absolutely right to say that this facility cannot solve all those problems. It will not relieve the market of these. A lot of the challenges lie ahead. But, you know, we cannot take on all that risk. It does not make sense for the taxpayers through the Fed and the Treasury to take on all that risk. We are trying to find the right balance that helps get the markets going again without the taxpayer taking on too much risk.

But doing the AAA piece of this can help get the rest of the markets going again. There is no market without the AAA piece finding a financer. And, again, where those programs are now operational, they are having a meaningful difference on opening up those markets.

Senator TESTER. OK. I want to touch a little bit on TARP repayment. I have got a minute and 20 seconds, and you could burn this with your answer with not a problem at all. But could you concisely tell me what the Treasury's definition of "well capitalized" is as far as repayment of the TARP dollars?

Secretary GEITHNER. Well, under the program the Fed designed, under this so-called stress test capital assessment, they said institutions had to have a Tier 1 regulatory capital ratio of 6 and a Tier 1 common equity ratio of 4 even in the more adverse loss you might face in a deeper recession. That is the ratio the Fed established under that program.

Senator TESTER. OK. Real quickly——

Secretary GEITHNER. Just for the largest 19 banks. The supervisors were very clear that for the rest of the system they will leave the existing framework in place.

Senator TESTER. OK. All right. Very quickly, not getting into trade policy, but to kind of dovetail on what Senator Brown asked about, and before, I will tell you that I have been—I have wanted to keep the auto manufacturing business in this country because I think it has been an important part of our history and an important part of our manufacturing based, and I do not want to lose it.

On the other hand, trade policies aside, just as a dirt farmer would see it, I will tell you that if we are putting taxpayers into a company that is going to transfer those jobs to China, I do not want to do it. Do you want to comment on that?

Secretary GEITHNER. I understand your concern, and again, the reason why we are trying to figure out a way to help restructuring is because we want to preserve these companies as part of the American economy, and the substantial jobs they provide not just directly but through supplier relationships. And so we are going to do everything we can to make sure that they are going to emerge viable over the longer term.

Senator TESTER. What about everything as far as keeping those jobs here? And I will tell you that there are some that would say, you know, if they can do it cheaper somewhere else, they will go somewhere else. I have got a decent standard of living. I want to keep it.

Secretary GEITHNER. Of course, I completely agree, and, again, that is why we are engaged in this. And it is an enormously difficult set of challenges, but, you know, we will have a chance to come up and talk to the Committee and the Chairman about the plans as they are designed once we get through the June 1st date.

Senator TESTER. I appreciate that, and I again want to thank you for being here today.

I think it is important, Mr. Chairman, that we do this with regularity. I think it is very helpful.

Chairman DODD. Thank you very much, Senator. Let me just say on that point, too, by the way—and Senator Corker raised the issue about the UAW. This is an industry 3 years ago that employed—three automakers—250,000 people, and the anticipation is it will be down to 90,000 pretty quickly. This is an industry that has been devastated in terms of employment.

One suggestion on this I might make, we had—Senator Kohl had a conversation—I know, I was a witness to it—with Mr. Rattner about a plant in his State of Wisconsin, Mr. Secretary, and we would like to at least see where offers are made to companies, divisions and so forth. I think this may have been a supplier. I am not sure which. But the decision was to pack it up and move it, I think to China, and at least the offer to say can you meet this, can you somehow—you know, before you just decide and make a decision to close it, give them a chance to determine whether or not they can compete or at least try to compete, those workers, before the decision is made to just close the operation down. It seems to me the minimum that we ought to do is that before making those decisions.

Senator DeMint.

Senator DEMINT. Thank you, Mr. Chairman, and, Mr. Secretary, thank you for being here. I would just like to begin with a personal observation. I think until last year, most of us would agree that the traditional understanding of the role of the Secretary of the Treasury would be to manage the Federal Treasury, to manage the collection of revenues, the paying of debt, protect our general fund, and by doing that, protect the value and stability of our currency, all on the Government side of the equation.

The frightening thing for me today is that you are speaking and we are questioning you as the Chief Executive Officer of America's financial system, of our banks, of our largest auto company, of our largest insurance company. So we are playing right along. To me this is not a mission creep. This is a stampede of any traditional understanding of constitutional boundaries.

Now, we could talk about this in the context that we had to do all this because we had a crisis, but we hear very little talk about any exit strategy and very little real understanding that at least what we are hearing on the ground, most of us, it is not working. And I will just repeat what we heard over here. In talking to my bankers, they do not understand. It does not make any common sense. We are throwing all this money, and they say, "You are tightening the reins on us." The things we normally do to help our companies, our clients do business, roll over loans, allow them to defer payments, do interest-only, anything they do to change the terms of a loan red-flags it with our regulators, makes it nonperforming, and essentially brings down the value of all the loans they have. And it seems that instead of throwing money that we just need to use some common sense. But that is not my question.

My bigger question gets back to this huge intervention in the private market, how we are going to get out. When we were told we had to vote for this TARP bill or the whole world economic system would collapse the next day if we did not go buy all these toxic assets—of course, you know we never bought the toxic assets, the world economic system did not climb, but we still have the money on the line. But we were told, "Don't worry. It is a loan. The Government is actually going to make money on these TARP funds."

So my question to you is: As you begin to speak of, OK, we are going to allow these banks to pay this money back now, how much money in the next year and 5 years—what are your estimates at this point? As this money comes in, how much is going to be returned to the general fund in the next year or 5 years?

Secretary GEITHNER. A very important question, and hard to make that judgment now. The way the scoring rules work, as you know, the CBO and OMB make an estimate of what the potential loss might be or credit cost might be over time. That is just a very conservative general estimate, I can't tell right now.

If we are successful in getting this economy back on track and helping repair the system, then there is a very, very good chance, very substantial probability that that money will come back with substantial interest and return. But the Government is taking risk here. We are taking risk because there is no other way to help get the economy back on track. We are taking risk because the markets will not take risk now, where they would normally take risk. So I do not want to underestimate the amount of risk in this, but these are carefully designed to minimize risk to the taxpayer, and there is a reasonable prospect that this money will come back——

Senator DEMINT. If over the next 6 months $50 billion comes back, will $50 billion go into the general fund of the United States?

Secretary GEITHNER. The way the TARP is designed—and I did not design this, but the way it is designed is every dollar that comes back goes into the general fund, but that does still create additional headroom under the $700 billion authority for us to make capital investments. So we have the ability to still use the $700 billion if we think there is a strong case for doing that, but the way the program works is a dollar comes in, goes to the general fund, but still creates additional room for us to make a new——

Senator DEMINT. So your understanding of what we did is that the Treasury now has $700 billion that it can use permanently rotating in and out of the capital markets as you see fit?

Secretary GEITHNER. I am not quite sure of permanent, but you are right. The way it was designed as our lawyers look at it—and I think this is clear in the interpretation of CBO and others, is that what I described is the way it works. A dollar comes back, goes in the general fund, and that leaves us with the ability to make an additional commitment going forward. And that flexibility is important.

And just to emphasize what I said before you came in, I think, it is very important that these things be designed so that it is very likely that banks want to repay as quickly as possible, want to replace our investments as quickly as possible, that it is not economic for them to continue to use the Government assistance. The Fed programs are designed that way. Our programs are going to be designed that way, because we want these things to diminish and taxpayers to be repaid as soon as conditions normalize.

Senator DEMINT. But instead of backing out of this whole intervention, you see now, instead of fixing the problem of the banks that were too big to fail, the Treasury is going to be a permanent player in the financial system?

Secretary GEITHNER. No. I would not support that. I would not want that to happen. We are going to do what it takes to fix this system. We are going to do no more than what it takes. We are going to try to get out as quickly as possible because it is not going to be healthy for the system or the economy for the prospect of a sustained Government involvement in either the automobile industry or the financial sector as a whole.

What we did, I am sure, was essential and necessary. But for it to work, we want it to be temporary and exit quickly.

Senator DEMINT. Are you working on a plan to show us how you are going to move out of all of this market, the ownership of General Motors, the ownership of AIG, all the money in the private banking—you have got a plan?

Secretary GEITHNER. Senator, as I said to Ranking Member Shelby at the beginning, this is a very important issue to me. We think about this a lot, and there will be a time when we will be able to come to you and say here is how the unwinding process will work. But it is too early to do that now. You know the economy is still shrinking. The financial system is still quite damaged. And we will get to that point, but we are not quite there yet.

Senator DEMINT. Thank you.

Chairman DODD. Thank you very much, Senator.

Senator Bennet is next.

Senator BENNET. You caught me by surprise, Mr. Chairman. I appreciate it.

Mr. Secretary, welcome and thank you for everything you are doing. I sent you a letter last Friday with my colleague Mark Udall and Betsy Markey from the House about a bank in northeast Colorado called New Frontier, which has failed and is in the hands of the FDIC right now, and spent Saturday morning in a room of hundreds of farmers and ranchers and small business people and community bankers. And from their perspective, if the argument is made that AIG was too big to fail, this New Frontier would have been too big to fail. It already has failed. It has had huge implications across the region, and the local banks, community banks, are saying two things: one, "The reserve requirements are making it harder for us to lend, not easier to lend." You have been over that ground today, and I accept the fact that part of what got us here in the first place is the credit was too easy. But it is a balance, and especially when you have got an environment like the one the people in northeast Colorado are facing.

The second thing they are saying is, "We have applied for TARP money, but we did not get an enthusiastic response about that." And I guess I would ask you whether or not in a context like that—I am not asking about the specific case, although we have in the letter. In a context like that whether it is appropriate for the regulators to look at a situation and say this is a good candidate for TARP money because in this place at this time, this institution is, in effect, too big to fail because it is dragging the entire regional economy down with it.

Secretary GEITHNER. I think you are right, it is a difficult balance, a difficult consideration. The TARP program was designed and the criteria designed by the supervisors, by my predecessor, to only be open to what they call viable institutions in the eyes of the supervisors. The FDIC does——

Senator BENNET. I am sorry, Mr. Secretary. I am not talking about getting TARP money into the failed banks.

Secretary GEITHNER. No; I understand. But the challenge is to those institutions at the margin where some additional assistance would help, and in that context, we designed a process—I did not design it, but designed a process where the supervisor would make a judgment about whether they met the terms for eligibility.

The FDIC does have flexibility in those cases where the impact would be very severe to make a different judgment, and they have some discretion in that complex. They have to use that carefully. But I think you are absolutely right that costs of failure by what may seem to be modest institutions can be very substantial in parts of the country and parts of the community. And we need to be careful, supervisors have to be careful that they are not sustaining the nonviable over time, but still providing assistance where it could be helpful. And I think it is a difficult balance, and they are not going to get it right every time, but they are being careful.

You know, in any financial crisis, there are some people who want the Government to take on a bunch more risk, and there are a bunch of people who do not want us to take any risk. And that is fundamentally what these choices are about. And in a world which is so uncertain, the path of the economy is going to be so uncertain that it is going to be even harder to make those judgments.

But I understand your concern, and I believe the supervisors are trying to be as careful and sensitive as they can.

Senator BENNET. I think part of the issue for people living in Colorado is that they can accept the fact that there is a balance to the risk and to the Government's involvement in the economy. The problem comes when their perspective is that we are only worried about the risk of these institutions on Wall Street, not about the institutions on Main Street. And I think that it is really important that the administration continues to drive policies that are really going to have an effect for small businesses in places like Colorado for our community banks. Every month we have come here and had testimony from somebody, and what you have heard, what people who have sat where you are sitting have heard from both sides of the aisle is the same thing, which is our community banks do not feel like they are participants in this program, that they are able to lend, that they are able to roll over credit or do other kinds of things.

And, again, it is a different credit environment, but that does not mean that we should not have as strong a focus on those institutions around our Main Street businesses as we do these institutions, important institutions.

Secretary GEITHNER. I completely agree. You know, we have given capital to more than 500 banks. Now we have 8,000 banks. A bunch of those banks have withdrawn applications because of the concerns I mentioned, but as I said, I announced 2 weeks ago that we want to reopen the window and make more capital available. We want it to be open for a longer period of time for exactly the reason you pointed out, which is that they are going to—small community banks, which are responsible for a disproportionate share of lending to small businesses. Small businesses account, as you know, for most of the job creation in the country. So that is a very effective way to help support recovery, and that is why we are making sure these programs are expanded for them.

Senator BENNET. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator. I appreciate that.

Senator Vitter.

Senator VITTER. Thank you, Mr. Chairman.

Thanks, Mr. Secretary, for being here. I want to go back to an issue you touched on with Senator DeMint, which is that when TARP funds are paid back to the Treasury, the common understanding on Capitol Hill—I think this is very fair to say—is that that would be paid to reduce the Federal debt and would be a permanent reduction of the initial $700 billion.

That is not how Treasury is interpreting it or putting it into practice, and a lot of us are very concerned about that, certainly me. Senator Gregg has written you. Many others think that this is clearly contrary to the law and to all the discussion we had on the topic when the law passed.

I would like your response to that.

Secretary GEITHNER. Senator, I wrote you a letter this morning or last night about just this issue. I am aware of that concern, but our reading of the law as designed—and we were very careful going over this again, and I checked with my colleagues at OMB—is consistent with what I put in the letter, which is as we read the law and as we think it was designed. It works the way I described, which is a dollar that comes back to us goes in the general fund, but that does create additional room to make another dollar of commitments.

Now, we are going to use that flexibility very carefully. We are only going to do it if we think it is very important to this broad objective of trying to make sure there is credit flowing across the financial system in the economy. But we think the law was designed with that. I did not design the law, but that is what our fair reading of the statute is. I would be happy to talk through our interpretation with you, but we were pretty careful to check it. We went over it very carefully, and we think we are doing a fair reading of the law.

Senator VITTER. If I can help explore that, one of the relevant provisions is 106(d). It says, "Revenues of and proceeds from the sale of troubled assets purchased under this Act, or from the sale, exercise, or surrender of warrants or senior debt instruments acquired under Section 113 shall be paid into the general fund of the Treasury for reduction of the public debt."

So what you are saying is while you do that—when a bank repays TARP funds, you do that with one hand, and then with the other hand, you take new public debt out to go up to the overall limit of $700 billion.

Secretary GEITHNER. We may. We believe the law permits that, but——

Senator VITTER. In deficit spending, you do.

Secretary GEITHNER. But let me read from the statute. You are right about 106(d), but 115(a) authorizes the Treasury to purchase troubled assets having aggregate purchases of up to $700 billion "outstanding at any one time," and Section 106(e) authorizes Treasury to continue to purchase troubled assets under commitments entered into by Treasury prior to the sunset date of the statute.

So, again, we are happy to spend more time working through this with you, but that is our reading of the statute. I do not think we have it wrong, and we were careful and checked it again, and

I would be happy to come spend some time with you walking through it. But that is our sense of it.

Senator VITTER. Well, let me just ask you this. Normally, when you read two parts of a law together, one of the rules of statutory construction is you do not read it in such a way as to make either part meaningless.

Now, your reading of the law together makes 106(d) meaningless——

Secretary GEITHNER. No, I don't——

Senator VITTER. ——because, yes, you pay down public debt for 5 minutes, and then 5 minutes later you raise up public debt if, in fact, you issue the same amount of money to another institution.

Secretary GEITHNER. But it does not quite work that way, Senator. The way I am suggesting is that these resources come back. If they come back, they go into the general fund. We have already had some modest repayments. That is what has happened to those repayments. We are left with authority still to go back and new commitments with that. But whether we choose to exercise on that depends on whether we think we can make a strong case that that is a sensible thing to do.

Senator VITTER. But my point is if you exercise it, to the extent you exercise it you make the repayment to reduce public debt under 106(d) completely meaningless.

Secretary GEITHNER. No, I do not think so because it means that temporarily——

Senator VITTER. You are certainly not—yes, you have reduced public debt for the 10 minutes between transactions.

Secretary GEITHNER. Senator, I think I understand your concern and why this is uncomfortable. I did not design the statute. We are trying to apply it as fairly as possible. But I think what we are—and I think we are doing that in this case. But I believe that anytime we decide we are going to expand an existing commitment, make use of those repayments, we are going to have to make the case that it is consistent with the purpose of the statute and it has got the right balance of helping fix our system at acceptable risk to the taxpayer. So we will have to make that case every time.

Senator VITTER. Well, again, I think it was clearly the understanding here during the debate that we would permanently reduce public debt with repayments, and that is not what is going on. My concern is that in a number of cases, this case, the fundamental question of how the money is used—I mean, you cited the statute to buy troubled assets. Of course, we have not started doing that yet. So that is a fundamental question. The question of whether it is for financial institutions or anyone else, now under the Bush administration went to manufacturing institutions.

Secretary GEITHNER. Right. But as you said, those were not my judgments, Senator, and I am being very careful to make sure—and I will always be very careful—that we are applying the letter and spirit of the law in this case. And, again, we were very careful to check interpretations, so I talked last night again to the people that were there in October, in September, in drafting legislation and looking at its interpretation, and they confirmed our reading of that flexibility.

And I think it is important flexibility, and I think you want—I cannot tell you what you want. I think it is important that the Government with the right checks and balances has the ability, has that flexibility, because we are still in an enormously difficult, challenging, fragile period of time, and there may be circumstances where the necessary thing for the country is to use that authority carefully to support expanding these programs. Because without a financial system working better, our recovery will be arrested. It will be weaker than we like. Unemployment will be higher. There will be more damage to businesses. So I think the flexibility in the statute was well designed. We are going to use it very carefully. But I think it is there.

Senator VITTER. Well, again, I think both your predecessor and you have been reading enormous flexibility into the statute that has not been there. I think the political rationale behind it is to avoid coming back to us for anything. My suggestion is you better be perfect in that execution because if you ever have to come back, you have built up with a lot of members complete distrust of the next step because of these interpretations.

Secretary GEITHNER. We will never be perfect in execution on anything, but we will be exceptionally careful. And, Senator, as you know, we have crawling all over us the Congressional Oversight Panel, the GAO, the special SIGTARP, and we are being extraordinarily transparent and laying out to the public the terms of what we are doing so that people can make their judgments about whether these are effective or not. That is necessary and desirable, and I welcome that. But we will never be perfect, and we will make mistakes. We will get things wrong, But we will try to fix those, and we will be as open and honest as we can with you. And, again, I think the flexibility here is important, to retain it. We may not use it. But if we use it, we will do so with as much care and justification as we can.

Chairman DODD. Thank you. Let me inform my colleagues, by the way, there is a vote that begins at 11:45, so we will be able to stay here close to another half an hour, I would say to my colleagues. So people keep that in mind as we go through so we can complete and get to everyone.

I would just point out as well, by the way, having been involved back in September and several members of the Committee were, the major thrust here was to try and get resources—75 members of this body, many of whom knew the political consequences, but we decided to get resources out, to do what we could responding to it at the time. People can have a different look at history going back, but the idea was to provide some flexibility in all of that. And as I recall very specifically, that was the tension at the time. But I appreciate the discussion and debate. It is important.

Senator Warner.

Senator WARNER. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for being here and the time and energy you are putting into responding to our questions.

I want to go back to where, actually, Chairman Dodd started the questioning about the issue of how we can help the small businesses—and that is a theme that obviously we have come back to repeatedly by a lot of my colleagues—and echo again a comment made by the Chairman, and I think others, that the SBA programs, while good, many of the businesses do have concerns about them.

And two, there has been enormous concern, I hear repeatedly around my State, that SBA programs that were announced in March, people are in the middle of May still waiting for the details so they can actually apply for the funds.

So my hope is, with SBA Administrator Mills in place now, that we can get the details out.

But one of the areas that you did touch on this morning that I think has great possibility is the question of buying up some of these small business loan portfolios to provide more headroom for banks. And this can cut across not only large banks, but go to what Senator Bennet mentioned in terms of some of our community banks.

I know you have been talking about that generically, but is there any way you can put some specificity behind that? What your dollar goal is going to be? Something that we can then take back out and say there is going to be X billions of dollars that are going to be committed to buying up these loan portfolios? Which then, if the banks who were buying out those loan portfolios would replace that with additional loan capacity, oftentimes to already existing prior relationships, we would see great relief.

Secretary GEITHNER. Right. When we initially announced this program, we said we would do up to $15 billion for this. It is possibly we could do more. And you are right, it is not operational yet. The reason for the delay is—and it is a 2-month delay, but these things are hard to get going—is there was just a huge amount of concern by the participants that they might be subjected to a whole bunch of conditions that they were not comfortable with. And so we have been trying to work through those concerns.

I think we are close to resolving it. But the number we started with was 15, which is a pretty substantial fraction of the available loans outstanding.

But you have got the objective exactly right. If you have an entity come purchase these off the balance sheet, then the bank has room to lend. So it has a direct increase in their capacity to lend.

Senator WARNER. And will a piece of that detail be any—it will be the expectation, but will there actually be a requirement that says that if this additional headroom is created, the expectation is the bank will continue to lend out that new headroom back to small businesses? Or will it just be added capacity to the bank?

Secretary GEITHNER. Well, that is the objective. We generally said that we want banks committing to explain to us how they are going to use the resources and what they are going to do to expected lending going forward. And at least for the large institutions, we have got reports that they are required to submit every month that people can see what they do.

It is very hard, though, to force banks to lend. And it is—as you know, and I know you are not suggesting that.

Some institutions may still feel like they are short in capital. And for those institutions, the impact of this program would be they are going to shrink less than they otherwise would. That still has the same benefit because then you still have more credit outstanding than would have otherwise been available. So you still have $1 of capital—it is not quite this example—$1 of capital gets you $10 or $12 of additional lending capacity. And that is the power——

Senator WARNER. The faster we can get that out with more specificity, the better.

I have got two other questions. One is, and there were two issues that Senator Reed raised earlier that I thought were quite appropriate. One, I want to associate myself with his comments around the concerns at OTS making policy about acquiring banks.

But the second, and I know Senator DeMint and others have raised this issue about funds coming back. One of the questions you are going to soon have to confront are the questions of the values of the warrants. And my concern is as you take back—as these banks try to rush to the window to repay—and you have already seen a—you have already indicated some small banks have already done it. Some of the 19 are anxious to do it.

My hope would be that rather than having a policy that is kind of one-off, and clearly you have to evaluate not taking back the money too quick if the bank is going to get itself back into trouble down the road.

But my hope would be, particularly as we evaluate the warrant policy, that you have got a macro policy here that says is our goal at the end of the day to get back 90 cents on the dollar, 95 cents on the dollar, 100 cents on the dollar. But some macro approach that is going to say here is what we, the Congress and the American people, can expect back from these TARP investments.

Secretary GEITHNER. Yes, I think that you are raising an important issue and I want to think about it a little bit before I come and explain to you what the policy is. But I think that, in general, our objective will be to sell these warrants as quickly as we can. We think that is probably going to be the best way to maximize value. And we have got a carefully designed program in place to make sure we are getting the best price for those warrants as possible.

You are not suggesting this, but what I am a little reluctant to do is have the Government be in the position where we hold these investments for a long period of time, longer than is desirable, in the hopes we are going to maximize value. I think that we are probably unlikely to be better at that—I know that you are not suggesting that.

Senator WARNER. But my hope would be that there are other options, other than simply selling them back to the institution. You could sell them back to some third party where you might have shared appreciation, where we are not calling the shots anymore but we could still gain some downstream appreciation. We are not taking all the risk.

Secretary GEITHNER. I want to think about that. I will reflect on those concerns and am happy to come back and talk to you.

Senator WARNER. One last point, and I apologize, Mr. Chairman, I am going over my time a bit. But I want to follow up on an issue that you raised and Senator Corker raised.

I am very, very troubled by your comments on AIG and our obligation to maintain the 100 cents on the dollar in the counterparties. I think your comments about last fall, that the unwieldy resolution of Lehman caused great systemic damage. But I think we are in a very different space right now.

And what I am unfortunately—what I believe I have heard is if we do not get one-off resolution authority on AIG and I would be happy to cosponsor with Senator Corker if you ask for that one-off resolution authority on AIG. And we can—I think we could get it through very quickly.

But if we do not get that one-off resolution authority, and I—then by implication you are saying we are going to be continuing to pay out, even if we have taken down 50 percent of that exposure, the balance of that 50 percent of the exposure on these counterparties is still at 100 cents on the dollar.

I just do not believe that the reaction of the market would be so traumatic at this point if we sent out warning signals that hey, we are thinking about not paying off 100 cents on the dollar on these counterparty obligations because everybody is taking haircuts on the AIG situation. And the notion that it is going to somehow affect the ability to get best value for the remaining insurance companies and all of the other challenges we have got with AIG, I just do not buy it.

So I hope you will either challenge us to do that one-off with the AIG or think differently about the implication which—correct me if I am wrong—that otherwise we are stuck with paying off 100 cents on the dollar on all of these counterparties for as long as we are in AIG.

Secretary GEITHNER. I very much welcome the chance to work with this Committee on passing resolution authority as quickly as possible.

Everything we do in AIG going forward we are going to try to balance what we think is the best way to reduce risk to the taxpayer over time and have the least potential damage to the financial system. It is an incredibly difficult balance.

And it is very hard to know if we are going to get that balance right, but we kind of had a good experience with what happens when people got that balance wrong.

Senator WARNER. But the balance at that point was in a moment of crisis.

Secretary GEITHNER. The world is different today, but again many people would have said what you said—you did not say it at the time. But maybe they would have said what you just said in March of 2008, in August of 2008, in September of 2008. And it just proves how hard it is to know.

Senator WARNER. But then by implication——

Secretary GEITHNER. If you get it wrong, you are taking a lot of risk.

Senator WARNER. But by implication, then the taxpayer should be expected to continue to honor all of the AIG obligations, 100 cents on the dollar, for as long as we are in AIG. Is that not——

Secretary GEITHNER. I think, Senator, I would say it differently. What my obligation is, again, is to try to manage through this incredibly difficult problem in a way that minimizes losses to the taxpayer and minimizes broader risk of damage to the rest of the financial system because, as we saw last year, the effects of getting that judgment wrong are deeply traumatic to people who were careful and responsible. Unemployment is substantially higher, pension values substantially lower. Businesses failed across the country in part because people got that balance wrong.

I do not want—my obligation is not to protect the counterparties of AIG. I would not give a penny to AIG to protect the counterparties of AIG. What I care about is trying to make sure that we reduce the risk of loss to the taxpayer and we reduce the risk of avoidable damage to the fabric of confidence in our financial system because of the effect it has on pension values, on business viability, on the cost of credit, on the ability to put your kid through college, on the viability of business on main street, and on levels of unemployment.

I know that that connection seems remote, hard to appreciate. We cannot be certain we are getting that balance right.

But again, look at what happened when reasonably careful people got that balance wrong.

Senator WARNER. We all acknowledge, we are in the 100-year flood. We were taking extraordinary actions that causes all great concern. But it does seem—this is the one-off that seems like—the counterparties of AIG seem to be the one-off that still seems to be coming off whole when everyone else across the board has been taking some level of hit.

Secretary GEITHNER. There is nothing fair in it and it is deeply frustrating, particularly for me personally because I have to sit up here and explain and defend this.

But again, my obligation is to try to make sure we get that balance right. And if I felt there was a better way, I will come up here and explain it, and I will support it.

Chairman DODD. Senator, thank you. We have to move on.

Let me just say on this, and I want to just clarify, I have been under the impression we were going to try and craft something legislatively to deal with the resolution mechanism generally, not just for AIG but across the spectrum.

And then there is a suggestion we might do something on a one-off basis. First of all, do you think you need legislation? I mean, it seems to me, is there some lack of existing authority that would prohibit you to begin a resolution of AIG short of there being some legislative response, even in a one-off situation?

I can understand if you are trying to come up with a mechanism broadly for the long-term with a lot of unanticipated entities. But with AIG specific, why can't we do that?

Secretary GEITHNER. Without broad authority like what we have for small banks, we have limited options. We are forced to do the range of things we have been doing at AIG since the fall.

Chairman DODD. You need some authority?

Secretary GEITHNER. Yes. And I know that you have offered—you have suggested we legislate for this specific thing and, Senator, you suggest I am hiding behind that, which I do not. I do not hide behind things, Senator.

I think it is hard to do as a one-off thing. I think this is important to do. It is a necessary part of the authority this country needs going forward. I think to do it right you need to have it designed for a range of circumstances where you could face systemic risk of failure of a large complex institution. So I would not go one-off——

Chairman DODD. Can I ask you something? Can you give me some broad ballpark number of what we are talking about in terms of the counterparties? What is the exposure dollar-wise?

Secretary GEITHNER. Remaining exposure?

Chairman DODD. Yes.

Secretary GEITHNER. I cannot do it today but I will be happy to commit to this—I think the Fed has already done it—to provide estimates of current value of those outstanding obligations. And there is, of course, lots of different types of obligations AIG has outstanding.

Chairman DODD. Let me tell you the number I have, Mr. Secretary, and you tell me if I am wrong. The national value of financial products contracts with counterparties is still $1.5 trillion.

Secretary GEITHNER. That is the notional value and that is about half the level it was at the peak. But that is not the right way of thinking about risk or the exposure after collateral. That is a very different number. But I would be happy to talk to the Fed and see if we can give you that number.

Chairman DODD. I wish you would, because we want to get some sense of the magnitude of what we are talking about here because that, at 100 cents on the dollar, obviously is a massive——

Secretary GEITHNER. No, that is nothing like the potential obligation that AIG has to its counterparties. It does show how complex it is to unwind this complicated amount of risk, but it is not a measure of actual credit exposure.

Chairman DODD. Senator Johanns.

Senator JOHANNS. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here. It has been always very informative to listen to you.

I want to zero in on something that I try to pay attention to, I think everybody here tries to pay attention to. That is that not only that the private sector operate within a set of rules, but that the Government and its officials operate within a set of rules. So I want to talk about the rights of people here with you a second.

I will just be very blunt. I never personally thought I would live to see the date that a private CEO of a company would go to the White House and leave without their job. I just never thought I would see it.

Soon after that you gave interviews, and even the President did, saying well, there could be others. You have talked very boldly today about changing board membership of private companies, reconstituting boards. You have a feeling, I can tell, that that is within the purview of your power as a cabinet member.

I must admit, as a former cabinet member, I never imagined that I had the power to bring a company in that had been getting Government money for whatever and suggest to the CEO that they were without work.

Tell me, if you would, Mr. Secretary, what specific—very specific—statute gives you that power? What would you cite me to that leads me to the conclusion that legally CEOs can be dismissed, boards can be reconstituted, all of those things?

Secretary GEITHNER. Senator, I think to do that carefully I am going to have to respond in writing, but let me try and respond to the concerns you have raised about this.

We would never, as a Government, want to be in the position where it is necessary for us to broad public policy reasons to come in and provide substantial financial assistance to avoid the prospect of bankruptcy by a major institution. We do not want to be in that position. It should be—it has been extraordinarily rare. I hope it will be rare in the future.

But when we face that situation, it is, I believe, necessary for the Government, for the people providing financing in that context, to make a judgment about whether the board and management are going to be able to preside over a restructuring which would leave the firm viable over time. I am now talking about non-regulated financial institutions. In the kinds of banks, there is a whole set of existing authorities that operate now that give supervisors very broad authority in circumstances like that.

But I think this is an exceptionally sensitive careful balance and should rarely if ever be used. Do not expect there to be that situation in many cases going forward. I am talking about the banks as a different kind of framework.

But again, like in any situation where a company is going to get financing for its operations, that is a judgment any creditor would have to make. And I think for the Government, the taxpayer, not to do that in that kind of context would leave us vulnerable to the charge that we are not meeting our fiduciary obligation to taxpayers.

But we would use this ability exceedingly carefully, with extreme reluctance, extreme care, as you would expect. Because we do not want to have the country faced with the prospect of the Government coming in, making those judgments without a very strong reason for doing so.

Senator JOHANNS. You know, Mr. Secretary, here is what I would say. I think you are a careful person. But again, having been where you are at, in a much different role but where you are at. And having been a CEO of a State, one of the first questions I was asked is what is my legal authority here. If I were to ask the GAO or your Inspector General or whoever to audit this action, would I find a specific statute that allowed you to do this?

Secretary GEITHNER. Senator, I am completely confident that we acted fully within the authority of the executive branch in this case, and again would welcome a chance to lay that out for you.

But let me try and do the basic principle. I said nothing to day that I have not said in public, or that the President has not said in public before. So do not interpret anything I said today as anything about the prospects of future actions like this.

But again, I think the basic principle, just to restate it, is an understandable principle. If you look at what the Government of the United States did in the fall in the context of the interventions of Fannie and Freddie, or even in the AIG case, you saw in that context your Government act as a condition of assistance to make sure that the boards and management of those companies were going to be strong enough so that the taxpayers' obligation will be protected going forward.

So that framework, as you saw enacted by your Government in September, in those three specific cases, I do think it meets the reasonable test. Again, we have got obligations to the taxpayer, obligations where we are making financial assistance. And we have an obligation in that context to make sure that we are putting in place assistance that is going to come back.

Senator JOHANNS. I am going to suggest to you I do not believe it is a test of reasonableness. I think you are a reasonable guy. I think it is a test of specific statutory authority to take the action.

The other thing I will offer on a related matter, and I am out of town and so I appreciate the Chairman's indulgence. I did not do a lot of bankruptcy when I was practicing law. But I did enough to know that there is a well set of established rights and risk is priced based upon where you end up in that.

And as I understand it, the bondholders in the Chrysler bankruptcy had certain rights. Those rights, whether we like it or not, were superior to the rights of the employees. How did they end up being subjected to a situation where they, in effect, lessened their rights in the bankruptcy court? What happened to make that occur?

Secretary GEITHNER. That package of commitments went through a bankruptcy proceeding, was reviewed and approved by a bankruptcy judge as you would expect under the laws of the land—and that is the way our process works. That is the way it should work.

So we had an independent check on whether the balance of treatment of a range of creditors to that firm was fair and equitable.

Chairman DODD. I have got to get to Senator Merkley. I apologize to my colleague. I know we have a lot of questions.

Senator Merkley.

Senator MERKLEY. Thank you very much, Mr. Chair and Mr. Secretary.

Chairman DODD. I am trying to get this done before we have to terminate.

Senator MERKLEY. Thank you so much for your testimony. I am going to ask my questions quickly and ask for quick responses.

First, in your testimony you note that financial innovation has expanded financial products available. These have many benefits. But we have to make sure that households make choices to borrow or to invest their savings, when they do so there are clear and fair rules to avoid manipulation, deception, and abuse.

Are you essentially making the case for a financial products safety commission?

Secretary GEITHNER. I believe that as part of regulatory reform we need to put in place stronger protections for consumers that are enforced more effectively and evenly across institutions that offer those products. And as part of that, we are examining whether we should change the oversight structure so that we have better enforcement of stronger rules.

Senator MERKLEY. I certainly—that sounded like a yes, we are considering it. I certainly want to encourage that because while we are considering legislation to take on specific challenges and abuses, the design always is changing. And just as we have commissions to address consumer products in general, I think that would be quite useful.

Turning to the Making Home Affordable Program, you note in your testimony that it covers now 75 percent of all loans. I think by that you are referring to, in theory, the design of the loans. Because on the ground, homeowners are still having an extraordinarily difficult time reaching folks representing participants in the MHA program. Your testimony notes 55,000 trial modifications with 14 servicers.

How do we speed up this process? And just say on the ground I have people calling my office very day who have loans with folks who are participating who are being told we are sorry, we cannot talk to you until you are two or 3 months delinquent. Or no, our organization is not participating in the program when we have told them yes, they are, and so forth.

Secretary GEITHNER. It is just beginning. You cannot judge it by its effectiveness yet. Secretary Donovan has got a very substantial program of assistance to counselors to help make sure that people who are eligible are able to get assistance and to help them navigate the process. We are trying to create very strong incentives for services to participate and deliver and execute. It is just getting started.

The benefits of the refinancing program, lower interest rates, people can see. And that has moved much more quickly. This will take a little bit more time.

But I think it is going to benefit a lot of people, but really will not know the full scale of the benefits and how successful the modifications are until we have a few more weeks and months behind us in this. But we are working very hard, have a lot of resources devoted to it. Fannie and Freddie, which are implementing the program, are doing a lot. And I think you will start to see more traction.

Senator MERKLEY. Thank you. I certainly want to encourage that. I will repeat what I said to the Secretary of Housing, that any form of a hotline that bypasses hundreds of servicers who have no idea of how this particular program works and helps us connect people with representatives of those participants who understand the program, who know how to talk about it, would save so much frustration.

Because homeowners, after three or six or 10 calls, they give up.

Secretary GEITHNER. There is such a hotline. There is also a Web site, which is very careful. In fact, I think last week Shaun Donovan and I together, to try to give more exposure to this program, used the example of a man from California—I think he was from California—who went on the Web site, found out about the program, and got a modification that substantially reduced his interest payment simply by going through that process.

And he stood up there and said, on national television, these programs work. They will work for you. You need to just make sure you are eligible and you are working on it.

But again, it is early days. We want to make sure it gets to as many people as we can.

Chairman DODD. Thank you.

Senator, we have got about 2 minutes left on our vote on the floor and they are going to call that vote. I get nervous about making it over.

Senator MERKLEY. Thank you very much.

Chairman DODD. I apologize to my colleague from Oregon. He has been very patient and waiting for the end here.

Mr. Secretary, we thank you very much.

I am going to leave the record open. I know members may have some additional follow up questions we might get to you. But this has been very, very informative, very helpful today and we will follow up with you. But I thank you for being here.

Secretary GEITHNER. Thank you for having me.

Chairman DODD. The Committee will stand adjourned.

[Whereupon, at 12 p.m., the hearing was adjourned.]

[Prepared statements, response to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR JACK REED

Chairman Dodd and Senator Shelby, thank you for convening this hearing. I look forward to hearing from Secretary Geithner about the status of the Troubled Assets Relief Program (TARP) and other efforts to help our economy recover from the significant turmoil we have been experiencing.

Since the passage of the Emergency Economic Stabilization Act (EESA) last fall, I have been focused on making sure taxpayers are adequately protected. This has been extremely important to me given the unprecedented nature and magnitude of the investment we have asked them to make to help get our financial sector back on track.

The TARP program is just one aspect of a significant investment being made to respond to the financial crisis, with the Federal Reserve and Treasury making key decisions involving billions of taxpayer dollars. Today's hearing is a critical part of overseeing these investments, but we also need to continue to look closely at the Federal Reserve as we think about these issues.

As we work to stabilize the financial sector, I want to reiterate how important it is that we make decisions in a way that supports taxpayers.

As you are aware, Mr. Secretary, I included specific language in TARP to allow Treasury to hold warrants as a way to ensure that taxpayers would not just be exposed to the downside of these TARP investments, but would also benefit from the upside of these companies when they recover. As you are aware, a provision I wrote to protect the integrity of the warrants passed both the Senate and House yesterday and should give Treasury the discretion and leverage it needs to maximize this investment for taxpayers.

Finally, I am alarmed by recent news that, despite the Federal Reserve's prohibition of private equity firms acquiring struggling banks, the Office of Thrift Supervision has recently gone ahead and approved such a transaction. This is yet one more example of how our current regulatory system allows financial institutions to shop bad products or activities around until they find a regulator to say yes. So I hope to discuss this more with you during questioning.

Secretary Geithner, thank you for joining us today.

PREPARED STATEMENT OF TIMOTHY GEITHNER

SECRETARY,

DEPARTMENT OF THE TREASURY,

MAY 20, 2009

Chairman Dodd, Ranking Member Shelby, Members of the Senate Banking Committee, thank you for the opportunity to testify before you today.

On October 3, 2008, during a time of tremendous financial upheaval and economic uncertainty, Congress passed the Emergency Economic Stabilization Act (EESA) with the specific goal of stabilizing the Nation's financial system and preventing catastrophic collapse. Soon after taking office, this Administration rebuilt the EESA programs from the ground up with a new foundation. We also unveiled a financial stability plan to restore the flow of credit to consumers and businesses, tackle the foreclosure crisis in order to help millions of Americans stay in their homes, and comprehensively reform the Nation's financial regulatory system so that a crisis like this one never happens again.

Today, just 4 months into President Obama's term of office, there are important indications that our financial system is starting to heal. For example, spreads for investment grade corporate bonds have fallen about 210 basis points and spreads on high yield corporate bonds are down about 770 basis points since the end of November. Spreads on AAA municipal bonds have come down 150 basis points since October. Risk premiums in short-term, inter-bank markets have fallen 280 basis points over roughly the same period and the cost of credit protection for the largest U.S. banks has fallen by about 180 basis points just since early April. Treasury is continuing to look into additional metrics that gauge the markets more broadly, as well as additional economic metrics, to determine the effectiveness of the current strategy and whether additional or different steps are needed.

With the help of our lending facility with the Federal Reserve, new securities issuance has started to revive. Spreads for AAA credit card receivables asset-backed securities (ABS) have fallen about 330 basis points from their peak. There has been more issuance of consumer ABS in the past 2 months than in the preceding 5 months combined. In our housing market, interest rates on 30-year mortgages have dropped to historic lows and refinancing has surged.

Finally, we have already seen a substantial amount of adjustment in our financial system. Leverage has declined, the most vulnerable parts of the nonbank financial system no longer pose the same risk, and banks are funding themselves more conservatively.

These are all welcome signs. However, the process of financial recovery and repair will take time.

The Conditions We Confronted Upon Taking Office

The challenges that our financial system confronts are complex, interrelated, and the result of developments over many years. Earlier this decade, a combination of factors generated unsustainable bubbles in many housing markets across the country. A protracted period of rapid innovation, excessive risk taking, and inadequate regulation produced a financial system that was far more fragile than was generally appreciated during the boom times.

Starting in 2007, unexpected losses experienced by major banks on mortgage-backed securities set off a vicious cycle. The losses reduced their capital, which forced them to pull back on lending. This put downward pressure on asset prices, which generated further losses for the banks and reduced wealth for millions of American families and businesses. Tightening financial conditions became a drag on the broader economy. As workers lost jobs and as prospects for businesses darkened, prospective losses on consumer and business loans increased. And as the scale of the potential financial losses increased, market concerns about the viability of individual institutions mounted, and as firms became reluctant to maintain even normal exposures to one another, the basic functioning of our financial markets was compromised.

In the fall of 2008, major policy intervention (including the EESA legislation) was, in the end, successful in achieving the vital but narrow objective of preventing a systemic financial meltdown. However, while those actions reduced overt concerns about systemic risk, as President-Elect Obama and his economic team prepared an economic program, the outlook for the economy was deteriorating rapidly. Economic data that became available in November and December pointed to a very sharp fall in economic activity. For example, the advanced data on orders for durable goods fell by 6.2 percent in October, the largest monthly decrease in 2 years. On December 4, it was reported that payroll employment had fallen by 533,000 in November.[1] This was the largest monthly decline since the deep recession of 1973–74. Quickly worsening prospects for the economy meant that likely losses for U.S. financial institutions were rising sharply as well, and this heightened concerns about the adequacy of their capital.

The disruptions to the financial system were a major factor undermining the economy. Liquidity in a broader range of securities markets, including the market for long-term Treasuries, fell sharply. Credit spreads for virtually all credit products reached historic highs in the fourth quarter. Loan growth and bond issuance slowed in the fourth quarter. In particular, the issuance of new ABS essentially came to a halt in October. Part of the decline in credit growth reflected falling demand for credit as consumers and businesses became more cautious. But a variety of factors pointed to meaningful constraints on the supply of credit. For example, a record number of banks reported tightening credit standards in the fourth quarter.

In addition, given the substantial burden placed upon the American taxpayers, there was deep public anger, skepticism about whether the government was using taxpayer money wisely, and a perceived lack of transparency, all of which led to eroding confidence.

Our Response

Leaving that situation unaddressed would have undoubtedly risked a deeper recession and more damage to the productive capacity of the American economy. It would have resulted in higher unemployment and greater failures of businesses.

The lesson of past economic crises is that early, forceful and sustained action is necessary to spur growth, repair the financial system and restore the flow of credit in order to sustain economic recovery.

Facing these extraordinary challenges, this Administration and the Congress responded with extraordinary action. Within weeks, we enacted the American Recovery and Reinvestment Act (ARRA) that is giving 95 percent of working Americans a tax cut, creating or saving 3.5 million jobs, providing nearly 4 million students

[1] The estimated change in payroll employment in November was later revised to a decline of 597,000.

with a new higher education tax cut and helping 1.4 million Americans purchase their first home by providing $6.5 billion in tax credits.

On February 10, the Administration outlined a series of proposals to stabilize the housing market; boost new consumer and business lending by re-starting the market for securities; increase transparency and new capital in the financial system by conducting an unprecedented regulatory review of our Nation's largest banks; and create a market for legacy real-estate related loans and securities that are clogging banks and making them reluctant to lend.

Reforming EESA

Upon taking office, this Administration reformed EESA in four concrete ways. First, we brought a new framework of transparency, accountability, and oversight. Second, we redirected the program to get credit flowing again to the financial system. Third, we focused the program on the housing market, consumer business lending, small business lending, and efforts to help create a market for legacy loans and securities. Finally, we worked to ensure that our programs facilitated broader restructuring in the financial system by providing unprecedented transparency about the health of our major financial institutions, allowing investors to differentiate more clearly among banks and ultimately make it easier for banks to raise enough private capital to repay the money they have already received from the government. I would like to update the Committee on each.

Transparency, Accountability, and Oversight

A key element to our new approach came in March, when the Department of the Treasury launched a new Web site, *www.financialstability.gov,* that lists how taxpayer dollars are spent, what conditions are placed on institutions in exchange for government assistance, and provides an interactive map illustrating State-by-State bank and financial institution funding.

We have also taken a number of steps to better measure whether our programs are increasing the flow of credit through Monthly Lending and Intermediation Surveys. Treasury undertook this important initiative to better understand the effects the program is having and to help the public easily assess the lending and intermediation activities of banks participating in the Capital Purchase Program (CPP). The Surveys capture data from the 20 largest recipients of investments under the CPP, detailing quantitative information on three major categories of lending—consumer, commercial, and other financial activities—based on banks' internal reporting, as well as commentary to explain changes in lending levels for each category. We are in the process of expanding our monthly survey to include all banks participating in the CPP, including more than 500 small and community banks across the country and are adding a metric to follow lending to small businesses. For institutions taking part in the Capital Assistance Program (CAP), which I will describe momentarily, Treasury is requiring recipients to detail in monthly reports their lending broken out by category.

In addition, on January 28, 2009, Treasury announced that it would begin posting all of its investment contracts online within 5 to 10 business days of each transaction's closing. Treasury is in the process of posting all the contracts signed prior to January 28 to the Web site as well. To date, Treasury has posted over 240 investment contracts on *www.financialstability.gov,* in addition to terms and program guidelines for all programs under the EESA.

Since taking office we have worked closely with the General Accounting Office, the Congressional Oversight Panel, and the Special Inspector General for the Troubled Asset Relief Program, the three oversight bodies examining the implementation of EESA. We are continually reviewing their recommendations and are adapting our programs in response to their proposals.

Finally, on February 4, the President laid out a set of broad reforms for compensation packages for financial institutions that receive government assistance. Congress put in place additional reforms and currently Treasury is preparing an Interim Final Rule to implement the executive compensation and corporate governance provisions of the ARRA.

Housing

As we are all painfully aware, the collapse of the housing price bubble, and the sharp reversal in lending standards that helped fuel that bubble, have had a devastating effect on homeowners and the financial sector, with dire consequences for the economy overall. In addition to reducing household wealth across the country, and thereby further intensifying the economic contraction, falling home prices and extraordinarily tight lending standards have trapped homeowners in their old mortgages. Even many homeowners who made what seemed to be conservative financial decisions 3, 4, or 5 years ago find themselves unable to benefit from the low interest rates available to unencumbered borrowers today. At the same time, increases in unemployment and other recessionary pressures have continued to impair the ability of some otherwise responsible families to stay current on mortgage payments.

Since January, the Administration has spent considerable effort developing and implementing a comprehensive plan for stabilizing our housing market. Working with the Federal Reserve, along with enacting programs to help provide more financial strength to the GSEs, we helped bring overall mortgage interest rates down to historic lows.

We launched a new program called Making Home Affordable to make it possible for millions of American homeowners to refinance and take advantage of those lower interest rates.

And we put in place a program to reduce the monthly mortgage payments for eligible borrowers. This loan modification program ensures monthly mortgage payments are at most 31 percent of a person's income for 5 years.

On April 6, building on MHA, Treasury announced a major interagency effort to combat mortgage rescue fraud and put scammers on notice that we will not stand by while they prey on homeowners seeking help to avoid foreclosure.

On April 28, Treasury announced a Second Lien Program so that, when a Home Affordable Modification is initiated on a first lien, servicers participating in the Second Lien Program will automatically reduce payments on the associated second lien according to a preset protocol. Servicers alternatively have the option to extinguish the second lien in return for a lump sum payment under a preset formula determined by Treasury, allowing servicers to target principal extinguishment to the borrowers where extinguishment is most appropriate. Treasury also announced steps to incorporate the Federal Housing Administration's (FHA) Hope for Homeowners into MHA.

And on May 14, Treasury announced new details on Foreclosure Alternatives and Home Price Decline Payments. The Foreclosure Alternatives are meant to prevent costly foreclosures by providing incentives for servicers and borrowers to pursue short sales and deeds-in-lieu of foreclosure in cases where a borrower is eligible for a MHA modification but unable to complete the modification process. The Home Price Decline Protection Incentives will provide additional payments based on recent home price declines, and therefore will incentivize additional modifications in areas where home prices have been falling.

To date, MHA's progress has been substantial. Fourteen servicers, including the five largest, have signed contracts and begun modifications under our program. Between loans covered by these servicers and loans owned or securitized by Fannie Mae or Freddie Mac, more than 75 percent of all loans in the country are now covered by MHA. The 14 participating servicers have extended offers on over 55,000 trial modifications and mailed out over 300,000 letters with information about trial modifications to borrowers and Fannie Mae and Freddie Mac have acquired thousands of refinancings for high loan-to-value (LTV) borrowers.

Since the launch of its new automated underwriting system on April 4, Fannie Mae has had over 233,000 eligible refinance applications through DU Refi Plus, with over 51,000 of these having LTVs between 80 and 105 percent. More than 3,650 Home Affordable Refinance loans have closed and been delivered to Fannie Mae and Freddie Mac already. These application volumes indicate the desire of homeowners to take advantage of the Administration's program.

Since the Treasury released guidelines for servicers under MHA on March 4, close to 3 million borrowers have accessed Fannie Mae and Freddie Mac loan look-up tools online to see if they have a loan eligible for refinancing. Just 2 weeks after the guidelines were released Treasury also launched *www.makinghomeaffordable.gov,* a Web site dedicated to helping empowering homeowners with the tools to gather information about the program and determine whether they might be eligible. The site has received more than 17.7 million page views in less than 2 months.

Going forward, we will continue to explore additional ways to help the housing market and report on ongoing progress.

Capital Assistance Program

Currently, the vast majority of banks have more capital than they need to be considered well capitalized by their regulators. However, concerns about economic conditions—combined with the destabilizing impact of distressed "legacy assets"—have created an environment under which uncertainty about the health of individual banks has sharply reduced lending across the financial system, working against economic recovery.

For every dollar that banks are short of the capital they need, they will be forced to shrink their lending by eight to twelve dollars. Conversely, every additional dollar of capital gives banks the capacity to expand lending by eight to twelve dollars. Providing confidence that banks have a sufficient level of capital even if the economic outlook deteriorates is a necessary step to restart lending, so that families have access to the credit they need to buy homes or pay for college, and businesses can get the loans they need to expand. Moreover, reassuring investors that banks have sufficient resources to weather even a very adverse economic scenario will make it possible for banks to raise additional private capital.

That is why a key component of any credible program to restore confidence to the financial system and get credit flowing again is to recapitalize the banking system, ensuring that the largest banks in the country have sufficient capital so they can support lending, even in a more severe economic scenario.

On May 7, Federal banking supervisors announced the results of the most extensive regulator review in our Nation's history of the biggest 19 banks. The forward-looking test provided unprecedented levels of transparency and clarity to address uncertainty in the banking system.

The results found that 9 of the 19 firms currently have capital buffers sufficient to get through the adverse scenario and that the remaining 10 firms collectively need to add $75 billion to their capital buffers to reach the target.

Any Bank Holding Company needing to augment its capital buffer is required to develop a detailed capital plan to be approved by its primary supervisor, after consultation with the FDIC and Treasury. These plans are due 30 days following the release of the results, on June 8, and must be implemented within 6 months of the release of the results. Also, some firms may choose to apply to Treasury for Mandatory Convertible Preferred (MCP) under our program as a bridge to private capital.

This review is helping to increase confidence in the financial system. To date, more than $56 billion in funds have been raised or announced by the 19 banks, including $34 billion in common equity capital. Of the $56 billion, about $48 billion has been planned or executed by banks with a SCAP shortfall. Banks without a shortfall have signaled their intent to use funds to repay EESA capital if approved. One of the preconditions to repaying EESA capital is that banks must demonstrate financial strength by issuing senior unsecured debt for a term greater than 5 years not backed by FDIC guarantees. To date, banks have also raised $8 billion in non-FDIC guaranteed bonds.

Going forward, we plan to re-open the application window for banks with total assets under $500 million under the Capital Purchase Program, established last October by the previous Administration, and raise from 3 percent of risk-weighted assets to 5 percent the amount for which qualifying institutions can apply. This applies to all term sheets—public and private corporations, Subchapter S corporations, and mutual institutions. Current CPP participants will be allowed to reapply, and will have an expedited approval process.

In addition, we plan to extend the deadline for small banks to form a holding company for the purposes of CPP. Both the window to form a holding company and the window to apply or re-apply for CPP will be open for 6 months.

These are essential steps to ensuring that community banks, a source of strength and resilience for the U.S. financial system, continue to lend during this economic crisis. Community banks have accounted for more than one third of the dollar volume of loans to small businesses—the businesses which in turn have accounted for the majority of new jobs created annually over the past decade.

Consumer and Business Lending Initiative

Securitization has come to play a very important role in the U.S. financial system. Banks develop and maintain expertise in originating certain types of loans. This includes loans to individuals through credit cards, mortgages, student loans, and other forms of consumer credit as well as loans to businesses, particularly those that are not able to raise funds directly in securities markets. In recent years, an increasing portion of these loans have been aggregated into pools and sold as so-called Asset Backed Securities, or ABS. The rapid growth of the market for ABS in the years before the current crisis increased the supply of credit available to individuals and small businesses because once banks pool and sell loans to the securitization market, it opens up their balance sheet to create new loans.

As the economy deteriorated over the summer of 2008, credit spreads on ABS began to rise, and the disruptions that followed the failure of Lehman Brothers severely disrupted the market of newly issued ABS. Issuance of consumer ABS averaged $20 billion per month in 2007, and $18 billion per month during the first half of 2008. However, ABS issuance slowed sharply in the third quarter before coming to a virtual halt in October 2008. The closure of this market is a major constraint on the supply of new credit to individuals and businesses, particularly in an environment where banks have little scope to expand their balance sheets.

An important part of the FSP is a significant expansion of the Term Asset-Backed Securities Loan Facility (TALF) through the Consumer and Business Lending Initiative (CBLI). The TALF is designed to jumpstart the securitization markets, which in turn will increase lending throughout the economy. Under the TALF, the Federal Reserve extends loans to investors who purchased newly issued ABS. Treasury has committed funds under the EESA program to provide a degree of credit protection for the Federal Reserve's TALF loans. The program was initially proposed in November 2008, with a focus on highly rated ABS backed by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration (SBA). As part of our financial stability plan, we announced an expansion of the size and scope of the program, increasing the scale of potential ABS funding under TALF.

Recently, Treasury and the Federal Reserve expanded TALF to include newly or recently issued AAA-rated ABS backed by four additional types of consumer and business loans—mortgage servicing advances, loans or leases relating to business equipment, leases of vehicle fleets, and floor plan loans. Treasury and the Federal Reserve have expanded the 3-year TALF loans to include a 5-year term and just yesterday we announced extending certain legacy commercial mortgage backed securities as an eligible collateral for TALF loans. Addressing the dislocation in the commercial real estate market through this program is critical to restoring the flow of credit to owners of commercial real estate and preventing a damaging chain of events in this market.

The terms of the funding provided under TALF, including fees, are set in a way that is designed to limit the risks faced by U.S. taxpayers while still meeting the objective of encouraging lending to consumers and small businesses. The amount and cost of funding that is provided varies depending on the riskiness of the assets being financed. Treasury and the Federal Reserve used conservative assumptions when calibrating the limits on the funding provided given the uncertain economic environment.

To date there has been $24.8 billion in total new issuance under TALF, of which $17.2 billion was borrowed by investors using TALF loans. The 3 month average of TALF issuance was equivalent to 50 percent of the 2007 market volume. Spreads on ABS securities have narrowed between 40–60 percent from the peak in December 2008. Since the fourth quarter of 2008, 5-year fixed rate AAA credit cards tightened 300 basis points in four months. Finally, the commercial mortgage-backed securities spreads have narrowed by 800 basis points just from the presence of the TALF program.

Going forward, Treasury and the Federal Reserve will continue to monitor and enhance the ABS programs to bring in new, more niche asset classes and make sure that the number of eligible borrowers and issuers continues to increase.

Small Business Initiative

In recent years, securitization has supported over 40 percent of lending guaranteed by the Small Business Administration (SBA). As a result of the severe dislocations in the credit markets that began in October 2008, however, both lenders that originate loans under SBA programs and the "pool assemblers" that package such loans for securitization have experienced significant difficulty in selling those loans or securities in the secondary market. This, in turn, has significantly reduced the ability of lenders and pool assemblers to make new small business loans. While the SBA guarantees about $18 billion in new lending in 2008, new lending was trending below $10 billion earlier this year.

On March 16, 2009, Treasury announced a program to unlock credit for small businesses as part of the Consumer and Business Lending Initiative. As part of the program, Treasury will make up to $15 billion in EESA funds available to make direct purchases to unlock the secondary market for the government-guaranteed portion of SBA 7(a) loans as well as first-lien mortgages made through the 504 program. These purchases, combined with temporary benefits, including higher loan guarantees and reduced fees implemented under the American Recovery and Reinvestment Act of 2009, will help provide support to small business lending.

The announcement impact of this initiative—combined with the implementation of 90 percent guarantees and reduced fees—has helped raise weekly SBA loan volumes by over 25 percent since March 16. In addition, secondary market activity has picked up, with $185 million in total loan volume settled from lenders to brokers in April, the highest monthly total since September.

Going forward, Treasury expects to finalize details that will allow purchases to begin shortly.

Public Private Investment Program

A variety of troubled legacy assets are congesting the U.S. financial system. The vicious cycle of deleveraging has pushed some asset prices to extremely low levels, levels that are indicative of distressed sellers. The difficulty of obtaining private financing on reasonable terms to purchase these assets has reduced secondary market liquidity and disrupted normal price discovery. This constraint on capital reduces the ability of financial institutions to provide new credit and uncertainty about the value of legacy assets is constraining the ability of financial intuitions to raise private capital.

The Public Private Investment Program (PPIP)[2] is intended to restart the market for these assets while also restoring bank balance sheets as these devalued loans and securities are sold. Using $75 to $100 billion in capital from EESA and capital from private investors—as well as funding enabled by the Federal Reserve and FDIC—PPIP will generate $500 billion in purchasing power to buy legacy assets, with the potential to expand to $1 trillion over time. By providing a market for these assets, PPIP will help improve asset values, increase lending capacity for banks, and reduce uncertainty about the scale of losses on bank balance sheets—making it easier for banks to raise private capital and replace the capital investments made by Treasury.

By following three basic principles, PPIP is designed as part of an overall strategy to resolve the crisis as quickly as possible with the least cost to the taxpayer. First, by partnering with the FDIC, the Federal Reserve, and private sector investors, we will make the most of taxpayer resources under EESA. Second, PPIP will ensure that private sector participants invest alongside the government, with the private sector investors standing to lose money in a downside scenario and the taxpayer sharing in profitable returns. Third, the program will use competing private sector investors to engage in price discovery, reducing the likelihood that the government will overpay for these assets. By contrast, if the government alone purchased these legacy assets from banks, it would assume the entire share of the losses and risk overpaying. Alternatively, if we simply hoped that banks would work off these assets over time, we would be prolonging the economic crisis, which in turn would cost more to the taxpayer over time. PPIP strikes the right balance, making the most of taxpayer dollars, sharing risk with the private sector, and taking advantage of private sector competition to set market prices for currently illiquid assets.

The program has two major components, one each for securities and loans. The Legacy Securities Program initially will target commercial mortgage-backed securities and residential mortgage-backed securities. Treasury will partner with approved asset managers. Pre-approved asset managers will have an opportunity to raise private capital for a public–private investment fund (“PPIF”). Treasury will invest equity capital from the EESA in the PPIF on a dollar-for-dollar basis with participating private investors. Additional funding will be available either directly from Treasury or through TALF. The program is designed to encourage participation by a wide range of investors, and we extended the application deadline to facilitate that objective.

The Legacy Loans Program is designed to attract private capital to purchase eligible legacy loans and other assets from participating banks through the availability of FDIC debt guarantees and Treasury equity co-investments. Under the program, PPIFs will be formed—with up to 50 percent equity participation by Treasury—to purchase and manage pools of legacy loans and other assets purchased from U.S. banks and savings associations. The FDIC will provide a guarantee of debts issued by PPIFs and collect a guarantee fee. The FDIC will be responsible for overseeing the formation, funding, and operation of legacy loan PPIFs and for overseeing and managing the debt guarantees it provides to the PPIFs.

The terms of the funding provided under both parts of PPIP, including fees, will be set in a way that is designed to limit the risks faced by U.S. taxpayers while still meeting the objective of generating new demand for legacy assets. In addition, those participating in the program will be subject to a significant degree of oversight to ensure that their actions are consistent with the objectives of the program.

To date, Treasury has received more than 100 unique fund manager applications representing various types and sizes of institutions, geographical diversity and including a significant number of women, minorities and veterans. Treasury is evaluating a select group of finalists and will inform applicants of their preliminary qualifications in the next several weeks.

[2] See “White Paper: Public Private Investment Program,” U.S. Treasury, March 23, 2009, *http://www.treas.gov/press/releases/reports/ppip_whitepaper_032309.pdf.*

Working with the Federal Reserve and the FDIC, we expect these programs to begin operating over the next 6 weeks.

Auto Task Force

On February 20, 2009, National Economic Council Director Larry Summers and I convened the official designees to the Presidential Task Force on Autos to analyze the February 17 restructuring plan submissions of Chrysler and General Motors and work toward a determination on the ability of the plans to yield long-term financial viability and competitiveness for these companies without taxpayer support. On March 30, the President laid out a new finite path forward for both companies to restructure and succeed; Chrysler would have until April 30 to reach a definitive deal with Fiat and secure the necessary support of stakeholders, and General Motors would have until June 1 to engage in more fundamental restructuring and develop a credible strategy for implementation.

In addition to supporting these companies with working capital during this restructuring period, the Administration took steps to ensure that consumers had confidence in the cars they buy and that suppliers that depend on viable auto companies had support to weather the storm. To this end, the President announced a warranty commitment program, which would guarantee the warranty of all new cars purchased from GM or Chrysler during the restructuring period, and a $5 billion Supplier Support Program to provide suppliers with the confidence they need to continue shipping their parts and the support they need to help access loans to pay their employees and continue their operations. In addition, the launch of the Term Asset-Backed Securities Loan facility (TALF) has expanded the funding available for retail auto loans.

On April 30, President Obama announced an agreement among Chrysler, Fiat, and their key stakeholders that positions Chrysler for a viable future. As a result of the sacrifices by key stakeholders and a substantial commitment of U.S. government resources, Chrysler now has a new opportunity to thrive as a long-term viable 21st century company. We have been heartened by the steady progress that Chrysler has made through its bankruptcy proceeding and are confident that the new Chrysler–Fiat partnership will emerge from the court process shortly. A sale hearing on the transaction is scheduled for May 27—less than a month after the company filed for Chapter 11.

As the President has made clear, this restructuring process will require sacrifice by all stakeholders in the auto industry, including auto workers, debt and equity investors, dealers, suppliers, and the communities in which they operate. Yet, the Administration's commitment to the American automotive industry has given both GM and Chrysler a new lease on life, preventing plant and dealership closings on a massive scale and saving tens of thousands of jobs across the country. By helping these companies become more competitive, this process will result in more secure employment for tens of thousands of American workers and the best possible chance for the American auto industry to create more good jobs in the future.

Through the Task Force, we will continue to work with GM and its stakeholders in the lead up to the June 1 deadline. We will also continue our significant efforts to ensure that financing is available to creditworthy dealers and to pursue efforts to help boost domestic demand for cars.

EESA Funds

Some of the programs I have mentioned have required the Administration to use additional EESA funds and I would like to provide the latest estimate we have on how much remains. By the time President Obama was sworn in, over half of the $700 billion allocated to Treasury under the EESA had already been committed.

The new programs where we committed additional resources are our housing programs, consumer business lending, small business lending, the auto program and our program to create a market for legacy loans and securities. We've also had to make additional resources available to help stabilize AIG. An attached chart shows our latest accounting.

Today, Treasury estimates that there is at least $123.7 billion in resources authorized under EESA still available. The attached table provides a breakdown of our expenditures. This figure assumes that the projected amount committed to existing programs will be $601.3 billion (of which $355.4 billion was committed under the previous administration), but also anticipates that $25 billion will be paid back under the CPP over the next year and available for new assistance.

Because the most relevant consideration is what funds will remain available for new programs, we believe that our estimates are conservative for two reasons. First, our estimates assume 100 percent take-up of the $220 billion made available for our housing and liquidity programs, which require significant voluntary participation from financial participants. If any of those programs experience less than full take-up, additional funds will be available. Secondly, our projections anticipate only $25 billion will be paid back under CPP over the next year, a figure lower than many private analysts expect.

Regulatory Reform

As we work to stabilize the financial system, we need to make sure we are also putting in place comprehensive reforms to ensure a crisis like this never happens again.

The rapid growth of the largest financial institutions and their increasing interconnections through securities markets have heightened systemic risk in the system. In response, we need to expand our capacity to contain systemic risk. This crisis—and the cases of firms like Bear Stearns, Lehman Brothers, and AIG—has made clear that certain large, interconnected firms and markets need to be under a more consistent and more conservative regulatory regime. It is not enough to address the potential insolvency of individual institutions—we must also ensure the stability of the system itself.

Financial innovation has expanded the financial products and services that are available to consumers. These changes have brought many benefits. But we have to make sure that when households make choices to borrow, or to invest their savings, there are clear and fair rules of the road that prevent manipulation, deception, and abuse. Lax regulation has left too many households exposed to those risks. We need meaningful disclosures that actual consumers and investors can understand. We need to promote simplicity, so that financial choices offered to consumers are clear, reasonable, and appropriate. Furthermore, there must be clear accountability for protecting consumers and investors alike.

The rapid pace of development in the financial sector in recent decades has meant that gaps and inconsistencies in our regulatory system have become more meaningful and problematic. Financial activity has tended to gravitate towards the parts of the system that are regulated least effectively. Looking ahead, our regulatory structure must assign clear authority, resources, and accountability for each of its key functions.

The financial landscape has become ever more global in recent years. Advances in information technology have made it easier to invest abroad, which has expanded and accelerated cross-border capital flows. Greater global macroeconomic stability has also helped to accelerate financial development around the world. To keep pace with these trends, we must ensure that international rules for financial regulation are consistent with the high standards we will be implementing in the United States. Additionally, we must seek to materially improve prudential supervision, tax compliance, and restrictions on money laundering in weakly regulated jurisdictions.

Finally, the recent financial crisis has shown that the largest financial institutions can pose special risks to the financial system as a whole. In addition to regulating these institutions differently, we must give the Federal government new tools for dealing with situations where the solvency of these institutions is called into question. Treasury has proposed legislation for a resolution authority that would grant additional tools to avoid the disorderly liquidation of systemically significant financial institutions that fall outside of the existing resolution regime for banks under the FDIC.

Conclusion

Let me conclude by saying that our central obligation is to ensure that the economy is able to recover as quickly as possible, and a prerequisite for that is a stable financial system that it is able to provide the credit necessary for economic recovery. Our work is not yet completed.

But, even then, stability is not enough. We need a financial system that is not deepening or lengthening the recession, and once the conditions for recovery are in place, we need a financial system that is able to provide credit on the scale that a growing economy requires.

Meeting this obligation requires early and aggressive action by the government to repair the financial system and promote the flow of credit. It requires governments to take risks. It also requires the financial system to support sustainable economic expansion. And it requires comprehensive regulatory reforms that deter fraud and abuse, protect American families when they buy a home or get a credit card, reward innovation and tie pay to job performance, and end past cycles of boom and bust.

This is our commitment. Thank you.

Projected Use of TARP/Financial Stability Plan Funds by Administration as of May 18, 2009

Programs Announced Under Previous Administration		
AIG	$40 billion	
Citi/Bank of America (TIP and Guarantees)	$52.5 billion	
Autos	$24.9 billion	
Capital Purchase Program	$218 billion	
TALF 1.0	$20 billion	
Subtotal		***$355.4 billion***
Programs Announced Under Obama Administration		
Housing	$50 billion	
AIG (Second Investment)	$30 billion	
Auto Suppliers	$5 billion	
Additional Autos	$10.9 billion	
Expansion of Consumer and Business Lending Initiative[1]		
TALF Asset Expansion (New Issuance)[2]	$35 billion	
Unlocking SBA Lending Markets	$15 billion	
Public Private Investment Program[3]		
TALF for Legacy Securities	$25 billion	
Other PPIP Programs for Legacy Assets	$75 billion	
Subtotal		***$245.9 billion***
Total Committed (Without Potential Repayments)		***$601.3 billion***
Total Remaining (Without Potential Repayments)		***$98.7 billion***
Conservative Estimate of Potential Repayments		***$25 billion***
Total Committed (Including Potential Repayments)		***$576.3 billion***
Total Remaining (Including Potential Repayments)		***$123.7 billion***
Additional Funding		
Additional Support for the Auto Industry		
Capital Assistance Program		

[1] The Consumer and Business Lending Initiative also includes the $20 billion committed to TALF under the previous administration and the $25 billion committed to TALF for legacy securities under the PPIP, amounting to an overall total of $80 billion under TALF and $95 billion under the CBLI.

[2] New assets made eligible under the expansion of TALF include commercial mortgage-backed securities, mortgage servicing advances, loans or leases relating to business equipment, leases of vehicle fleets, and floor plan loans.

[3] The Public-Private Investment Program was announced at a level of $75 to $100 billion, which includes $75 billion in additional resources for the PPIP program on top of $25 billion devoted to TALF for Legacy Securities.

RESPONSE TO WRITTEN QUESTIONS OF CHAIRMAN DODD FROM TIMOTHY GEITHNER

Q.1. Mr. Secretary, the TARP fund, at its core, was implemented to help remove bad assets from creditors' books so that we might unfreeze the credit markets and get our economy moving again. Yet it has come to my attention that some of the largest recipients of TARP monies are engaged in efforts to seek modifications to their "creditor" status in certain bankruptcy restructurings. Such modifications would benefit the banks' bottom lines, but could also threaten the viability of the restructurings themselves. Do you believe that TARP recipients should be engaging in activities that would make it more difficult for American companies to successfully restructure?

A.1. United States bankruptcy judges are guided by law to ensure that EESA recipients, like all creditors, behave in a manner consistent with the bankruptcy code, and these judges are responsible for preventing creditors from improperly delaying a debtor's emergence from bankruptcy. To the extent that objections raised by these recipients are unreasonable or unreasonably time consuming, it is incumbent upon the bankruptcy judge in each of these cases to both recognize and dismiss spurious objections.

Q.2. *SIGTARP Reports*—The Special Inspector General of the TARP, the GAO, and the Congressional Oversight Panel regularly issue reports that identify areas of concern and provide recommendations for the TARP. We carefully analyze these reports and the recommendations. What has been the Treasury's practice and what is the policy with regard to analyzing and acting on the concerns and recommendations raised in these reports?

The SIGTARP noted on page 137 of the April 21, 2009, Quarterly Report to Congress that the Treasury indicated it will not adopt several of the earlier recommendations. These recommendations are to require TARP recipients to account for the use of TARP funds, set up internal controls to comply with such accounting, and report periodically to Treasury on the results, with appropriate sworn certifications. Why did Treasury dispute the SIGTARP's recommendations? What measures is Treasury implementing to improve accountability and address the concerns raised by SIGTARP?

A.2. Treasury gave careful consideration to all recommendations issued by SIGTARP. Treasury's policies and programs currently address many of the issues raised by SIGTARP's recommendations, and in other cases Treasury has taken specific action to implement SIGTARP's recommendations. Treasury also has or will execute alternative approaches that we believe address some of the issues raised by SIGTARP in their recommendations. The steps that Treasury has taken and the progress Treasury has made in this regard are detailed in our July 2, 2009, correspondence in response to the SIGTARP recommendations, which appear on pages 240–256 in Appendix G of the SIGTARP Quarterly Report dated July 21, 2009.

As described in Treasury's response to SIGTARP's recommendations, Treasury always seeks to ensure accountability for TARP funds and includes measures in each of its programs to ensure such accountability. In discussing use of TARP funds, it is important to distinguish between Treasury's capital-enhancement programs and its other programs. The Capital Purchase Program (CPP), Capital Assistance Program (CAP), and the programs under which exceptional assistance has been provided to AIG, Citigroup, and Bank of America are designed to provide capital to cushion against losses and allow financial institutions to continue operating in the ordinary course of business, including lending to consumers and businesses. In order to serve its purpose, capital must be available for general business purposes. By contrast, Treasury's Home Affordable Modification Programs (HAMP), Small Business Lending Initiative (SBLI), Public–Private Investment Program (PPIP), and Term Asset Backed Securities Loan Facility (TALF) program impose specific restrictions on the use of TARP funds, and require controls and periodic reports to ensure that those restrictions are respected.

Q.3. *AIG Counterparties*—In response to several questions asked at the hearing, you stated that the government is unable to impose losses on the creditors and counterparties of AIG. The Treasury has proposed legislative language to create new resolution authority for systemically significant financial companies. Would the resolution authority you have proposed, allow the government to impose haircuts on or otherwise negotiate changes in terms with creditors and counterparties of AIG or of other large, complex financial companies that became similarly troubled? If it would not, then what changes in statute are needed to do so?

A.3. The resolution authority legislation that we have proposed would give the government the tools to establish a conservator or receivership for a failing financial firm in situations that threaten financial stability. As part of these tools, the conservator or receiver would have the authority to sell or transfer the assets or liabilities of the institution in question, to renegotiate or repudiate the institution's contracts, and to address the derivatives portfolio, thereby reducing the potential for further disruption.

In the case of AIG, the government has provided financial assistance in order to avert the risks to the global financial system posed by the rapid and disorderly failure of such a large, complex entity in a fragile market environment. Had the government possessed the authorities contained in the proposed legislation, it could have resolved AIG in an orderly manner by sharing losses among equity and debt holders in a way that maintained confidence in the institution's ability to fulfill its obligations to insurance policyholders and other systemically important customers.

Q.4. *Continuing risk posed by AIG*—During the hearing, you were asked about the continuing risks posed by the Financial Products subsidiary of AIG. When specifically questioned about the risk posed by derivative contracts held by Financial Products which have been reduced from a notional value of $2.7 trillion to $1.5 trillion, you stated that the notional value of these contracts was not an appropriate measure of the risk posed and offered to provide a more accurate number. Accordingly, we request that you provide a better estimate of the continuing risks posed by the outstanding derivatives contracts issued by Financial Products.

A.4. The continuing risk posed by Financial Products (FP) cannot be measured using any single metric, such as the number of contracts or trade positions outstanding, gross notional size of the portfolio, number of counterparties, and gross market risk sensitivities (D V01, delta, vega, gamma, *etc.*). These single metrics provide individual perspectives on the question.

To be more specific, a trade can generate an enormous amount of market and credit risk, and therefore looking only at trade count is insufficient to draw a meaningful inference about the risk posed by FP. Similarly, a book of trades with a very large gross notional value, but that is short dated and has a low net market risk profile is something that may pose relatively little risk to FP and the financial system. Reliance on any single metric misses the complexity of the continuing risk posed by FP and likely over-estimates risk along some dimensions and under-estimates risk among others. Both FP and the USG review a wide range of metrics to assess FP's risk profile to guide the risk reduction process. Progress has been made along all of the dimensions cited above, and work continues in this regard.

Q.5.a. *Public–Private Investment Program*—I am concerned with the details of the nascent Public–Private Investment Program. The SIGTARP's recent report stated that "the private investors would thus enjoy 50 percent of the profits from this enhanced buying power, but only be exposed to less than 7 percent of the total losses if the fund were wiped out."

Is it fair to the taxpayer to structure the PPIP in such a manner that the private investors would enjoy such a large percentage of the profits relative to the losses?

A.5.a. PPIP is designed to encourage private investors to take on reasonable risk to reinvigorate markets for a specific set of assets. The incentives provided in the program are focused, calibrated, and subject to significant oversight.

The substantial due diligence by Federal authorities—Treasury, Federal Reserve, and FDIC—regarding the terms of government financing will ensure that there is a responsible balance between providing incentives for risk-taking and protecting the Federal government's financial position. The Public–Private Investment Funds (PPIFs) are structured to give investors incentives not to overpay for the assets they buy. If the assets acquired by PPIFs underperform, the full amount of the private investors' capital will be exposed, and the private investors will bear a share of the "first losses" as equity investors.

Additionally, it is important to make a clear distinction between equity capital and debt financing. The equity capital raised from private investors will be matched by Treasury in each PPIF. Treasury will also provide debt financing for up to 100 percent of the total equity of the PPIF.

In addition, PPIFs will be able to seek additional leverage through Legacy TALF or private debt financing, subject to total leverage requirements and covenants (when the Treasury-provided leverage equals 50 percent of the total equity of the PPIF).

Q.5.b. What is the rationale for structuring the program in this manner?

A.5.b. The goal of the Legacy Securities PPIP is to restart the market for legacy securities, allowing banks and other financial institutions to free up capital and stimulate the extension of new credit. In achieving this goal, Treasury seeks to quickly maximize the inflow of private capital into the market while protecting the interests of U.S. taxpayers. Creating equity partnerships with private investors should serve both to protect the interests of taxpayers over the long-term and to help restore liquidity and enable price discovery for troubled assets in the short-term. The partnership approach is superior to the alternatives of either hoping for banks to gradually work these assets off their books or forcing the government to purchase the assets directly. If the government acts alone in directly purchasing legacy assets and securities, taxpayers will assume all of the myriad risks, including the risk that the taxpayers will overpay if government employees are setting the price for these complex and hard-to-value assets. By using attractive government financing and equity co-investment with private sector investors, substantial purchasing power will be created, making the most of taxpayer resources. Once loan and securities markets have been stabilized, loans and securities should trade more in-line with intrinsic value. Throughout the process, the government's interests are well-aligned with those of the private sector.

Q.5.c. How else could the program be structured to attract private investors without giving them such disproportionate upside compared to the downside?

A.5.c. The Public–Private Investment Funds (PPIFs) are structured to give investors an appropriate upside in which private investors and Treasury share equally in potential gains while mitigating the likelihood that fund managers will overpay for the assets they buy, thereby incurring losses. If the assets acquired by PPIFs underperform, the full amount of the private investors' capital will be exposed, and the private investors, as equity investors, will bear a share of the "first losses." Moreover, fund managers will be required to invest their own capital in the funds and receive most of their compensation in the form of incentives tied to investment returns to private investors.

Q.5.d. Finally, can we expect the banks to sell their legacy assets at a sufficient discount to attract private investors? Are you prepared to ask the regulators to press the banks to sell in order to clear their balance sheets?

A.5.d. The PPIP is divided into two distinct programs: one for legacy securities and one for legacy loans. The securities program targets the purchase of assets that are marked-to-market and thus the lower prices are already reflected on bank balance sheets. In recent months, the prices of these legacy securities have slightly appreciated, and many financial institutions have raised substantial amounts of capital as a buffer against weaker than expected economic conditions. In order to purchase assets at a discounted price and attract private investors, the program will initially be modest in size. However, we are prepared to expand the amount of resources committed to the program should conditions deteriorate. This effort should help to free up balance sheet capacity to help facilitate lending, which is vital to our economic recovery.

The Legacy Loans Program (LLP) is being developed with the FDIC. On June 3, 2009, the FDIC publicly announced that the development of the program will continue but that a previously planned pilot sale of assets by open banks would be postponed. As a next step, the FDIC intended to test the funding mechanism contemplated by the LLP in a sale of receivership assets this summer. This funding mechanism draws upon concepts successfully employed by the Resolution Trust Corporation in the 1990s, which routinely assisted in the financing of asset sales through responsible use of leverage. On July 31, 2009, the FDIC publicly announced that the first test of the funding mechanism would commence during that week.

One of the primary challenges of the LLP has been the willingness of healthy banks to sell loans at prices that investors were willing to pay, also known as a wide bid-ask spread. However, banks have been able to raise capital without having to sell bad assets through the LLP, which reflects renewed investor confidence in our banking system. The FDIC and Treasury will continue working on the LLP to be a tool for cleansing bank balance sheets.

Q.5.e. With several banks announcing their intention to repay their TARP funds and with the stress test results reported to have been better than expected, some critics have argued that the PPIP is no longer necessary. Do you agree with this view? If not, when do you expect this plan be implemented?

A.5.e. Financial market conditions have improved since the early part of this year, and many financial institutions have raised substantial amounts of capital as a buffer against weaker than expected economic conditions. However, these legacy assets are still highly illiquid. The difficulty of obtaining private financing on reasonable terms to purchase these assets has limited the ability of investors to reduce liquidity discounts in legacy assets.

One of the PPIP's primary objectives is to facilitate price discovery and reduce excessive liquidity discounts embedded in current legacy asset prices. As capital is freed up, U.S. financial institutions should engage in new credit formation. Furthermore, enhanced clarity regarding the value of legacy assets should increase investor confidence and enhance the ability of financial institutions to raise new capital from private investors. Finally, an inherent link exists between the new issue securitization market and the secondary market performance of legacy assets. As spreads compress in the legacy asset market, new securitization issuance should come to market at reasonable borrowing costs. The new issue securitization market is an absolutely critical component of lending in the economy.

Q.6. *Stress Tests*—The Administration and the Federal Reserve expressed some relief about the stress test results for the top 19 banking companies. It appears that the $75 billion in new capital needed by these companies can be obtained either from private investors or by drawing on remaining TARP funds. (At least 9 of these companies have already issued new common stock or announced plans to do so.)

Still, several critics maintain that the assumptions for the test's "adverse scenario" were not stressful enough—especially the unemployment rate assumption of just over 10 percent, which many consider likely in the near future and not a worst case scenario. How do you respond to critics who say the stress tests were not stringent enough and who cite the IMF estimate of $4 trillion in credit losses?

A.6. The Administration believes the stress tests took into account an appropriate range of scenarios in which the economy experienced an unexpected downturn. The loss estimates in the adverse scenario used in the regulatory assessments were generally in line with private sector estimates by the IMF and others.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR KOHL FROM TIMOTHY GEITHNER

Q.1. Last fall, Congress appropriated $25 billion for the Advanced Technology Vehicles Manufacturing Incentive Program, which provides grants and low-interest loans to U.S. automakers to retool factories to produce fuel efficient vehicles and component parts. Is the Treasury Department working with the Department of Energy to target factories which can be retooled? I have a Chrysler engine plant in Kenosha, Wisconsin that is on the list to be closed in 2010 and using these loans to retool closing factories is a way to keep jobs in the U.S.

A.1. The Department of Energy (DOE) will make the final determination as to which applicants will be approved for loans under the Advanced Technology Vehicle program.

Q.2. One requirement for financial institutions who take TARP money is that they have to participate in the Administration's Making Home Affordable Program. This requirement, however, does not apply retroactively to banks who received TARP money pre-February 2009. What steps is the Treasury taking to encourage the banks who have taken money prior to the requirement, to participate in the mortgage modification plan? Does the new requirement apply to the various TARP programs, or just to the financial institutions who receive capital purchase program money?

A.2. To date, over 40 servicers have signed contracts to implement the Making Home Affordable (MHA) program. The names of participating servicers are listed on *www.MakingHomeAffordable.com,* the program's Web site. Between loans covered by these servicers and loans owned or securitized by Fannie Mae or Freddie Mac, more than 85 percent percent of all loans in the country are now covered by the MHA program. Consistent with our earlier February 18th guidance that "all Financial Stability Plan recipients going forward . . . participate in foreclosure mitigation plans consistent with Treasury's loan modification guidelines", recipients of assistance in new Financial Stability Plan programs have adopted HAMP or are implementing plans consistent with Treasury's guidelines.

Q.3. Recently, Treasury announced that smaller financial institutions will be able to access TARP funds. Wisconsin is a small-bank State, with 300 institutions with less than $1 billion in assets. Many of these institutions would like to participate in the TARP program, but are denied because of strict eligibility requirements.

I understand that the Treasury does not want to put money into failing institutions, but many of these banks can survive if given the necessary tools. Would the Treasury consider modifying the eligibility requirements for community banks so more could participate? Do you anticipate the Treasury allowing smaller banks to participate in the capital assistance program?

A.3. As you note, Treasury recently reopened the Capital Purchase Program (CPP) application window for banks with total assets less than $500 million. This reopening was intended to small and community banks that play a vital role in our financial system and a central role in our economy. This program is intended for healthy banks, and our standard for participation remains viability, as determined by the Federal banking regulators.

Q.4. Recent business reports of Treasury's preliminary approval to provide six life insurance companies with capital infusions has shown mixed reactions among the insurers about actually accepting the funds. In your opinion, why would some of the insurance companies that applied for funds last November now be skeptical of accepting the funds? Is it your opinion that some of the insurance companies who have been approved for TARP funds are in financially weak positions—weaker than those that are not receiving funds? How did the Treasury determine which insurance companies would be approved? Are all of the insurance companies who have been approved for TARP funds viable, or were some applications approved because these insurance companies are considered "systemically important?"

A.4. Many insurance companies qualified for CPP under the public term sheet issued in October 2008. We took additional time in processing these applications, as we needed to develop a framework for analyzing the particular characteristics of these institutions. We processed all insurance company applications under the existing criteria for participation in CPP-viability without CPP funds. All insurance companies that received preliminary approval were considered to be viable. Given the measured improvement of the economy, it is not surprising that some insurance companies have declined to accept CPP funds at this point. We understand that each institution makes capital plans according to its specific situation and that not all institutions feel that CPP funds are appropriate for their particular needs.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BENNETT FROM TIMOTHY GEITHNER

Q.1. In the legislative text of the Emergency Economic Stabilization Act of 2008 which created TARP, which I supported, it states the purpose is to: "To provide authority for the Federal Government to purchase and insure certain types of troubled assets for the purposes of providing stability to and preventing disruption in the economy."

This is the TARP I voted for. I voted against the second disbursement of the TARP money because I believed the immediate crisis had been mitigated. I continue to be concerned about how the taxpayer money is being used to effect things other than the functioning of the financial markets. As I stated, I saw TARP as a desperately needed capital investment in our financial system and economy. As I held multiple conferences with business and economic interests in my State of Utah I came to the conclusion that we had no other choice and no other viable option. Many, including the past Secretary, believed it likely that the taxpayer would make a return on their investment in this program.

So my question is, is the taxpayer seeing a return on this expenditure? What is the likelihood that the full $700 billion will be returned? How can the taxpayer track repayment progress and the value of the collateral that was given in exchange?

A.1. Taxpayers have already seen a direct financial return on some TARP investments. For example, in the Capital Purchase Program, the taxpayer earns a dividend of 5 percent of the senior preferred shares during the first five years of the program. This coupon steps up to 9 percent in the sixth year. There are currently over 600 participants in the program, and the taxpayer has received an estimated $6.67 billion in dividend payments under CPP as of September 1st. Through September 1st, 34 CPP recipients have fully repaid their investments worth $70.13 billion plus an additional $2.90 billion in warrants and related instruments. However, approximately $134 billion in CPP investments are still outstanding, and the ultimate repayment rates and earning from warrants will depend on business conditions of the recipients, future economic conditions, and other related factors. The full return taxpayers will see on these investments is hard to estimate because it is impossible to quantify the number of jobs and businesses that were saved by investments that pulled the financial system back from the brink.

Taxpayers can track progress on all of the financial stability programs and investments, as well as repayments by institutions, on Treasury's Web site. Specifically, taxpayers can look at investments within 2 business days of closing in our TARP transaction reports at *www.financialstability.gov.* In addition, Treasury will initially be publishing audited annual financial statements under Federal financial reporting standards on November 15th, which will provide detailed information on the value of the TARP portfolio.

Q.2. I am told there is estimated to be somewhere in the neighborhood of $470 billion dollars right now on the sidelines that would like to have the opportunity to invest in our banking system, however it is currently prohibited by what I believe are antiquated rules governing who can control a bank and what defines "control". Should we continue to pour in taxpayer money or continue to go to foreign investment funds for capital to recapitalize our banks? Why shouldn't we do everything we can to make this type of investment possible as long as it can be done within a safe and sound and well regulated system?

A.2. Treasury does not have regulatory or supervisory authority regarding private equity investments in banking organizations. The Office of Thrift Supervision, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation have supervisory authority in this area with regard to institutions subject to their jurisdiction. Treasury is currently reviewing developments on this subject and is encouraging the banking agencies to develop consistent policies.

Q.3. I am very concerned about the termination of the franchise agreements with Chrysler and GM dealers. I did not support the TARP disbursement to the auto companies because I feared just this case; government involvement is decisions the markets should be making. I recognize that something had to be done in this area but am concerned about the process and how this decision was made. I am also very concerned about the repercussions of this decision in communities across my State. Please share with us your understanding of the criteria for creating the list of who should continue as a Chrysler dealer and who should be forced to close their doors and also the timing of the termination notices.

A.3. The Task Force was not involved in the decision-making process or implementation of the dealer consolidation plans. GM and Chrysler made independent decisions about the dealerships with which they planned to maintain franchisee agreements.

GM and Chrysler's dealer consolidation plans will be difficult for those dealers that no longer maintain franchise agreements. The sacrifices of the dealers, alongside those of the auto workers, suppliers, creditors, and other company stakeholders, have been necessary in order for these companies to once again compete as global enterprises. However, it is important to recognize that without the President's commitment to an American auto industry and the efforts of the Task Force, both Chrysler and GM would have liquidated, potentially resulting in the complete elimination of their dealer networks across the country and accounting for roughly 9,200 dealerships and countless jobs. Because of the successful Chrysler–Fiat partnership and the Task Force's commitment to standing behind GM's restructuring efforts, both companies are now positioned to move forward with plans that retain the substantial majority of their dealers. By helping these companies become more competitive, this process will result in more secure employment for tens of thousands of American workers and will be the best possible chance for the American auto industry to create more good jobs in the future. The Presidential Task Force on Autos is continuing to pursue efforts to help boost domestic demand for cars and is working to help ensure that financing is available for creditworthy dealers.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM TIMOTHY GEITHNER

Q.1. In your testimony, you state the President has made clear this restructuring process will require sacrifice by all stakeholders in the auto industry, including auto workers, debt and equity investors, dealers, suppliers, and the communities in which they operate. What impact do you believe that the planned closing of thousands of dealerships around the country will have on small businesses and rural communities and what criteria was used to determine which dealers would be closed and which dealers would remain open?

A.1. The Task Force was not involved in the decision-making process or implementation of the dealer consolidation plans. GM and Chrysler made independent decisions about the dealerships with which they planned to maintain franchisee agreements.

GM and Chrysler's dealer consolidation plans will be difficult for those dealers that no longer maintain franchise agreements. The sacrifices of the dealers, alongside those of the auto workers, suppliers, creditors, and other company stakeholders, have been necessary in order for these companies to once again compete as global enterprises. However, it is important to recognize that without the President's commitment to an American auto industry and the efforts of the Task Force, both Chrysler and GM would have liquidated, potentially resulting in the complete elimination of their dealer networks across the country and accounting for roughly 9,200 dealerships and countless jobs. Because of the successful Chrysler–Fiat partnership and the Task Force's commitment to standing behind GM's restructuring efforts, both companies are now positioned to move forward with plans that retain the substantial majority of their dealers. By helping these companies become more competitive, this process will result in more secure employment for tens of thousands of American workers and will be the best possible chance for the American auto industry to create more good jobs in the future.

Q.2. I am hearing a lot of concern about the proposed Public–Private Investment Program and how it will work. Could you please explain how the private sector pricing of assets will function and how you close the bid-ask spread between the buyer and the seller? Many of the banks holding these assets were told they do not need to raise capital to meet the stress tests and there appears to be fewer reasons for these banks to participate.

A.2. The PPIP is divided into two distinct programs: one for legacy securities and one for legacy loans.

The Legacy Loans Program (LLP) is being developed with the FDIC. On June 3, 2009, the FDIC publicly announced that the development of the program will continue but that a previously planned pilot sale of assets by open banks would be postponed. As a next step, the FDIC intended to test the funding mechanism contemplated by the LLP in a sale of receivership assets this summer. This funding mechanism draws upon concepts successfully employed by the Resolution Trust Corporation in the 1990s, which routinely assisted in the financing of asset sales through responsible use of leverage.

One of the primary challenges of the LLP has been the unwillingness of healthy banks to sell legacy loans at prices that investors are willing to pay. However, the banks' demonstrated ability to raise capital without having to sell bad assets through the LLP reflects renewed investor confidence in our banking system. The FDIC and Treasury will continue to work on the LLP to be prepared to offer it in the future as a tool to help cleanse bank balance sheets.

The legacy securities program targets the purchase of assets that are marked-to-market and thus the lower prices are already reflected on bank balance sheets. In recent months, the prices of these legacy securities have appreciated slightly, and many financial institutions have been able to raise substantial amounts of capital as a buffer against weaker than expected economic conditions. This effort should help to free up balance sheet capacity to help facilitate lending, which is vital to our economic recovery. This has brought added stability to these markets and has narrowed the bid-ask spread.

Q.3. When TALF was announced, policy makers expected the program to provide financing up to $200 billion in securities. At this point, the number is less than $20 billion. Do you consider this a success or are changes necessary?

A.3. We are pleased with the results of TALF to date. Since we launched TALF with the Federal Reserve, there have been a total of approximately $80 billion of TALF eligible consumer ABS new issuance securities. Of that amount, approximately $44 billion or 55 percent has been borrowed from TALF to purchase those securities. Issuer volume and investor participation has increased at a fast rate, and spreads are narrowing at a similar pace, indicating that where TALF is present, confidence is being restored.

The following are some additional key statistics to illustrate the benefits of the TALF:

- Eighty percent of TALF issuers experienced a reduction in their funding costs since the advent of the program. Nearly half have reduced funding costs by 100 basis points, and nearly one-quarter have done so by more than 200 basis points.
- As of September, TALF has supported a total of 3.6 million individual loans and leases to consumers and small businesses, including approximately 380,000 loans to small business and approximately 760,000 to students. In addition, TALF is supporting approximately 130 million active credit card accounts.

Q.4. Do you agree that no firm should be considered too big to fail and how do you reduce the potential size and scope of the spillovers so that policymakers can be confident that intervention is unnecessary?

A.4. The recent financial crisis has taught us that some of our financial firms are so large, leveraged, and interconnected with the financial system that their failure poses a threat to overall financial stability. The problem wasn't just that such firms were "Too Big." The problem was that those firms had not been required to maintain sufficient capital and liquidity cushions. Under our proposal, higher capital charges for these firms (Tier 1 FHCs) would be used to account for the greater risk to financial stability that these firms could pose if they failed. To identify firms that should be subject to these higher standards, our proposal does not focus only on the size of a firm, it also considers the interconnectedness of a firm, and how important a firm is as a source of credit to American households and businesses.

The resolution authority legislation that we have proposed would give the government the tools to establish a conservator or receivership for a failing financial firm in situations that threaten financial stability. As part of these tools, the conservator or receiver would have the authority to sell or transfer the assets or liabilities of the institution in question, to renegotiate or repudiate the institution's contracts, and to address the derivatives portfolio, thereby reducing the potential for further disruption.

Q.5. It is my understanding that both FDIC Chairman Sheila Bair and SEC Chairman Mary Schapiro are supportive of a systemic risk council to monitor large institutions against financial threats. What are your thoughts on this issue?

A.5. We agree that having a council of regulators to monitor emerging threats across the financial system is a critical part of regulatory reform. We propose the creation of a Financial Services Oversight Council to identify and help fill gaps in regulation and to facilitate coordination of policy and resolution of disputes among Federal financial regulators. The Council would play a key role in identifying which firms should be subject to regulation as Tier 1 FHCs and it would be consulted about material prudential standards for these firms as well as important payment and settlement systems. It would have a permanent staff within Treasury and authority to gather information from any firm across the financial system. It would have the vital responsibility to identify emerging risks in the system.

However, we believe that supervising the largest, most complex and interconnected institutions requires tremendous institutional capacity and organizational accountability. A single point of accountability for the regulation of the largest, most interconnected firms would be better positioned than a council to achieve that objective.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR VITTER FROM TIMOTHY GEITHNER

Q.1. Taken over by the Federal government in September 2008, The Obama Administration has rolled out several initiatives since mid-February aimed at addressing the housing market. This Administration is using Fannie Mae and Freddie Mac as active players in the housing market in an effort to stimulate demand in the housing market. The two companies have an unlimited line of credit with the U.S. Treasury and have drawn down a total of $400 billion to date.

A report to Congress earlier this month from the Federal Housing Finance Agency said " . . . they [Fannie Mae and Freddie Mac] still face numerous significant challenges including building and retaining staff and correcting operational and credit management weaknesses that led to conservatorship."

For that reason the future of these two companies must be addressed by policymakers immediately.

What is the plan get Fannie and Freddie out of receivership? Do we want them out, or is this Administration going to allow the two companies to be run by the government forever?

A.1. Given the important role that Fannie Mae and Freddie Mac play in the mortgage market, their participation in efforts to reduce preventable foreclosures is vital to speeding the housing recovery. The Administration has committed to undertaking a wide-ranging initiative to develop recommendations on the future of these institutions. This process will require careful consideration of the appropriate role of the Federal government in the mortgage market.

Fannie Mae and Freddie Mac each have a $200 billion line of credit (for an aggregate of $400 billion) with the U.S. Treasury, and together have drawn down a total of $95.6 billion to date.

Q.2. Some of the smaller financial institutions that took TARP funds did so because they are healthy banks and wanted to help the economy by increasing their ability to lend to consumers. Treasury has announced that banks that want to repay TARP funds will be required to raise capital in the private markets. While this requirement seems to make sense for some banks, particularly those that have relied on the FDIC's Temporary Liquidity Guarantee Program which guarantees debt issued by banks, but for other banks whose health has not materially changed since they were given TARP this requirement seems overly burdensome and unnecessary.

Will you develop a distinction for which banks should appropriately be required to raise private capital before allowing to repay TARP and those who should be allowed back TARP immediately?

A.2. The banking regulators established the criteria for evaluating repayment requests and currently perform analysis of the request independent of Treasury. Treasury is not involved in this evaluation. Requests for more information on the analysis used to evaluate repayment requests should be directed to the regulators.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

May 18, 2009

Hon. Mark R. Warner
459A Russell
Washington, DC 20510

Hon. Mel Martinez
356 Russell
Washington, DC 20515

Dear Senator Warner and Senator Martinez:

We write in support of S. 910, a bill that would amend the Emergency Economic Stabilization Act to add greater transparency to the Troubled Assets Relief Program (TARP). The bill would require the Treasury Department to establish a database that would provide ongoing, continuous and close to real-time updates of the distribution of TARP funds. Such a database would allow for detailed analysis of the effectiveness of the TARP money in stimulating prudent lending and strengthening the health of the financial institutions receiving the funds.

While FinancialStability.gov is an excellent start for TARP oversight, there are many TARP activities and related data that are not captured there. S. 910 would integrate public and private sources to track the TARP funds, collecting all regulatory filings, internal models, financial models and analytics associated with the TARP assistance. Making all relevant information available in a centralized database, updated daily, will make it much simpler to determine whether the funds are being used as intended.

We have one suggestion for improving the bill and that is to make it clear that the database must be publicly available. We believe this was your intent, but the text of the bill is not clear. Both government officials and members of the public have roles to play in ensuring the accountability of TARP, so the database should be public.

A centralized, public database of information about the TARP would enable analysis of the data by the TARP Investigator General, the Congressional Oversight Panel, and the public. Giving the public and the oversight bodies access to this data will greatly increase citizen confidence in the TARP program. In addition, this will allow watchdog groups to analyze the data, reuse it and present it in novel ways, and uncover risky practices among TARP institutions.

Thank you for advocating greater TARP transparency and effectiveness. We look forward to working with you and your colleagues for swift passage of S. 910.

Sincerely,

ARI SCHWARTZ,
Center for Democracy and Technology.

GARY BASS,
OMB Watch.

DANIELLE BRIAN,
Project on Government Oversight.

RYAN ALEXANDER,
Taxpayers for Common Sense.

PATRICE MCDERMOTT,
OpenTheGovernment.org.