

APPROPRIATIONS FULL COMMITTEE HEARING ON FY2011 BUDGET & ECONOMIC OUTLOOK WITH PETER ORSZAG, TIM GEITHNER, AND CHRISTINA ROMER

10:00AM—MARCH 16, 2010, 2325 RHOB

HEARING TRANSCRIPT FROM REP. KEN CALVERT EXCHANGE WITH TREASURY SECRETARY TIM GEITHNER ON COMMERCIAL REAL ESTATE MARKETS

Chairman OBEY, Mr. Calvert.

Mr. CALVERT. Thank you, Mr. Chairman. I apologize, I was away for a while. I was on the floor. And this may have been brought up, which is the problem with the commercial real estate sector at the present time.

As you know, commercial real estate values throughout the United States are literally collapsing, going down as much as 40 percent, 50 percent in some areas. And most experts assume that this continuing collapse in commercial real estate values will continue through 2011, 2012.

Deutsche Bank just did, in a recent study, of about \$1.4 trillion in outstanding commercial paper, a significant part of that will come due by 2013. Almost half of it is underwater.

As you know, a lot of these small and midsize banks are primarily exposed to these commercial loans. And the regulators in day-to-day activities aren't helping much, especially on the performing assets. We have performing assets where people are making their payments, making their tax payments, making their insurance payments, are current, and yet the bank is bringing them in because of appraised values and telling them to come in with a significant capital call, which they can't do in this credit market.

And what the banks are doing is taking back the property, having to put it in the loan loss side of their ledger, which is taking credit away from these banks, because they don't have the money.

So what can we do—this wouldn't, from my perspective, cost the government anything. If banks have discretion on performing assets, why aren't the banks given discretion to footnote that these assets—and they are assets—are current and can be treated as an asset rather than a liability on the balance sheet?

Secretary GEITHNER. You are right about the problem, and you are right that we have a ways to go to get through the broader adjustment in commercial real estate that is still ahead of us. And we discussed it a little bit when you were away, but I think, again, the two most important things we can do in this area is to make sure that small community banks, which have a lot of commercial real estate exposure, have the ability to come take capital from the government to help make sure they don't have to cut lending further to their business clients.

But, also, we can—and we have been continuing to work with the bank supervisors, so they are providing guidance to their examiners and that message gets out across the country that they don't, frankly, overreact, overreact to decline in the value of collateral and they look at the broader cash flows, earnings potential of the company as a whole, as they are looking at loan classification decisions.

Mr. CALVERT. I have a limited time. If the gentleman would let me reclaim my time.

I will tell you, in the real world right now, I know of people who have shopping centers, 100 percent full shopping centers, paying their bills, and yet they are still getting capital calls on those loans, which makes zero sense.

Secretary GEITHNER. No, I think you are right. I hear these stories across the country.

I think you are right to emphasize them. And I just need to underscore that the bank supervisors, which are independent of the Treasury—I don't have the capacity to direct what they do, in this case—are working to provide a little bit more balanced guidance to lean against just the practices you are shining a light on. And I think they can probably do a better job of getting the message out to—

Mr. CALVERT. But this also goes back to the mark-to-market provisions. And I understand that there may be, from my perspective, a step back in this economy where you have an overcorrection in value, where we ought to take a look at relaxing those mark-to-market provisions on performing assets. Because, under the accounting rules, they are going to continue to deflate—this is going to continue to deflate these values. And that is not going to be helpful in trying to get this economy moving again.

I am fearful—I don't know if you are—that this commercial real estate problem is so huge that it could put us back into a double-dip recession.

Secretary GEITHNER. I do not believe it poses that risk at the moment. I think, again, it is going to be a challenge—

Mr. CALVERT. We thought the same thing about the housing market.

Secretary GEITHNER. We did. But I think this is different, and our financial system is in a much stronger place today to weather those remaining challenges.

As you know, the FTC and the FASB are looking at a whole range of broad reforms to accounting practices in the United States. And I think they would be happy to talk to you, to respond to any questions you have about how to think about the role fair value accounting can play in mitigating these kinds of pressures in the future.

Mr. CALVERT. Thank you, Mr. Chairman.

[From the Press-Enterprise PE.com, Mar. 18, 2010]

PREVENT A DOUBLE-DIP RECESSION

(By Ken Calvert)

A recent P-E article cited local economic forecasts that suggested the Inland Empire will continue to lose jobs well into 2010 ("Small businesses still pessimistic," March 12). As residents know all too well, the drastic downturn in residential construction and international trade has significantly impacted our region's economy.

Businesses hire when they see an economic opportunity to increase the sale of the goods or services, not when the government provides a one-time tax credit to hire. When businesses are ready to grow, they often need financing in order to make big purchases. However, small businesses around the country are struggling to get the credit necessary to grow as banks tighten lending standards in the aftermath of the financial crisis on Wall Street.

Businesses may find it even harder to obtain credit as they begin confronting liquidity challenges in the commercial real estate market. Recent analysis conducted by Deutsche Bank analysts indicates that of the almost \$1.4 trillion in commercial real estate mortgages due by 2013, as many as 65 percent may struggle with refinancing, even if they are performing loans that are completely current.

If the conditions in the commercial real estate market deteriorate further, the negative effects will be significant and widespread. If community banks are forced to close or further tighten lending standards, small businesses will find it even harder to obtain financing sources and our economy will lose its tenuous grasp on a recovery and dip back further into recession.

Due to this growing economic threat, I spearheaded a bipartisan effort to raise these concerns to Treasury Secretary Timothy Geithner and Federal Reserve Chairman Ben Bernanke. In a letter to the regulators, 78 of my colleagues and I proposed that a clear method for measuring the effectiveness of recently announced commercial real estate loan modification guidance should be established. Also, the letter called on the officials to institute metrics that will allow banks to more clearly differentiate performing versus nonperforming loans in order to treat them appropriately.

The regulators also should give banks the flexibility to account for performing loans as an asset, not a liability, something that could be achieved with a simple change in accounting practices. This would actually increase transparency as well as free up capital that could be loaned out into the market. Most important, the fix would not cost a dime to American taxpayers or require any form of a bailout.

Our current economic situation could aptly be called the speculators' recession and, if the administration does not take action, this second dip would be known as the regulators' recession.

No legislation is needed for the fix. The administration can address the liquidity issues facing small businesses and the commercial real estate market by providing correct guidance to the bank regulators. A proactive and engaged response can prevent a doubledip recession and ensure small businesses can grow and start hiring again.

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Oregon (Mr. DEFAZIO) is recognized for 5 minutes.

(Mr. DEFAZIO addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Texas (Mr. PAUL) is recognized for 5 minutes.

(Mr. PAUL addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

RETIRE SHUTTLE TO HOUSTON

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Texas (Mr. OLSON) is recognized for 5 minutes.

Mr. OLSON. Mr. Speaker, I rise today to express my support for housing one of the remaining space shuttle orbiters in Houston upon the end of the space shuttle program. The shuttle program can be counted among our Nation's greatest achievements. Scientists and engineers envisioned and created reusable vehicles to ferry astronauts, experiments, and supplies back and forth from space to Earth. They have done so now over 100 times, with three more flights to go.

The flights and missions of Columbia, Challenger, Atlantis, Discovery, and Endeavour are some of our Nation's proudest achievements, and much like the programs before it, this program has captured our Nation's imagination and taught us more about our universe and ourselves than we ever thought

possible. As the program concludes, the decision on where the orbiters will be displayed has been given to NASA Administrator Charles Bolden. Houston and the Johnson Space Center are intrinsic to human space flight, and we are asking Administrator Bolden to give one of the orbiters a final home in Houston.

I grew up in the Clear Lake area of Houston, where the Johnson Space Center is located. I spent my childhood living with astronauts and wanting to be one when I grew up. I attended college at Rice University in Houston, where John F. Kennedy made his famous declaration that this country would be the first on the Moon. While many things have changed since I was young, children in Clear Lake still have similar dreams. They learn about the history and the importance of NASA and they are inspired by NASA's achievements every day. Their parents, coaches, and Sunday school teachers are the engineers and scientists who are the backbone of our space program. Some of them are even astronauts who have to miss a game or a parent-teacher conference because they're taking a trip to the International Space Station.

A few weeks ago, I enlisted the help of students in the Clear Creek Independent School District from kindergarten through high school to explain to Administrator Bolden why one of the retiring orbiters should be placed in Houston on permanent display. Thousands of children from the Clear Lake area responded to the challenge and wrote letters to Administrator Bolden. The letters were funny and heartwarming. They expressed a maturity beyond their years and a firsthand knowledge of the Houston area's unique and lasting contributions to the achievement of NASA. I was amazed by the passion and dedication and their longing to have one of the orbiters make its home in their neighborhood. Each of these children wrote of their personal connection they feel towards our space program and the joy and pride they'd feel when they called their friends and family from all over the country and invited them to come to Houston to see one of the space shuttles.

Mari Archambault wrote, "With so many in the community involved, it only makes sense to have a shuttle retired in a place where so much of the training related to it takes place. Houston deserves that." Savannah Finger thinks it would be "a good feeling to be standing feet away from a retired shuttle, which really went into space." Allyson Stromer drew this picture to show Administrator Bolden how beautiful the shuttle would look in Rocket Park. Bill Kontonassios asked how, "Space City can be complete without a space shuttle." Chloe Molina, from League City, reminded Administrator Bolden what the tragic loss of the shuttles Columbia and Challenger meant to the Houston community. "Viewing a

shuttle orbiter will remind them of the brave crews of Columbia and Challenger. It would be a fitting memorial, for although our Nation lost 14 heroes, the people of Houston lost coworkers, neighbors, friends, and family members in those tragedies." Faith Matthews knows that having a shuttle "will inspire the youth of Houston to become the astronauts of the future so dreams and wishes could take us to Mars." Marisol Hernandez, the daughter of an astronaut, knows that "if Texas is the home of one of the retired space shuttles, I could remember my father's launch."

The contributions and achievements of the Houston area make our home a logical and appropriate steward for one of the space shuttle orbiters. Houston is "Space City USA," and there's no better place for a shuttle to be.

Mr. Speaker, I respectfully ask Administrator Bolden to hear the requests of these students, not just in housing an orbiter in Houston, but in providing them with a future in space worthy of our great past.

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Florida (Mr. POSEY) is recognized for 5 minutes.

(Mr. POSEY addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

FINDING A VOICE ON SUDAN

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Virginia (Mr. WOLF) is recognized for 5 minutes.

Mr. WOLF. "If President Obama is ever going to find his voice on Sudan, it better be soon." These were the closing words 2 weeks ago of columnist Nicholas Kristof.

Having first traveled to Sudan in 1989, my interest in this country has spanned the better part of 20 years. I've been most recently there in July of 2004, with Senator BROWBACK. We were the first congressional delegation to visit Darfur, where genocide has taken place. We saw the same scorched earth tactics from Khartoum in the brutal 20-year civil war with the South where 2.1 million people perished. I remain grateful for President Bush's leadership in bringing about an end to the bloodshed with the historic signing of the CPA. But that peace is now in jeopardy.

Fast forward to 2009. I was part of a bipartisan group in Congress who called for the appointment of a special envoy shortly after President Obama was elected. What was once a successful model for Sudan is not having the desired effect today. And I'm not alone in that belief. Last week, six respected NGOs ran ads in the Washington Post calling for Secretary Clinton and Ambassador Rice to exercise "personal and sustained leadership on Sudan" in the face of a "stalemate policy."

Today, I join the chorus of voices in calling on the President to empower Secretary Clinton and Ambassador Rice to take control of this languishing policy in Sudan. They should oversee quarterly deputies' meetings to ensure options for consequences are on the table. In fact, I call on the President himself to exercise leadership in this regard, consistent with the explicit campaign promises he made about Sudan—promises which, to date, ring hollow. There is a pressing need for renewed and principled leadership at the highest levels—leadership which is clear-eyed about the history and the record of the internationally indicted war criminal at the helm in Khartoum.

In addition to the massive human rights abuses perpetrated by the country's leader, Bashir, Sudan remains on the State Department's list of state sponsors of terrorism. The same people currently in control in Khartoum gave safe haven to bin Laden. Bin Laden lived in Sudan from 1991 to 1996. I believe that this administration's engagement with Sudan, under the leadership of General Gratton, and with the apparent blessing of the President, has failed to recognize the true nature of Bashir and the NCP. While the hour is late, the administration can still chart a new course.

Today, I sent a letter to the President, which I submit for the RECORD, outlining seven policy recommendations and calling for urgent action.

When the administration released its Sudan policy, Secretary Clinton indicated that benchmarks would be applied to Sudan, that progress would be assessed, and that "backsliding by any party will be met with credible pressure in the form of disincentives leveraged by our government." But in the face of national elections that were neither free nor fair, and in the face of continued violations of the U.N. arms embargo, in the face of Bashir's failure to cooperate in any way with the International Criminal Court, there are no disincentives. This is a worst case scenario and guaranteed, if history is a guide, to fail. More than 6 months have passed since the release of the administration's Sudan strategy, and implementation has been insufficient at best and altogether absent at worst.

During the campaign, then-candidate Obama said regarding Sudan, "Washington must respond to the ongoing genocide and the ongoing failure to implement the CPA with consistency and strong consequences." These words ring truer today than ever before. But the burden for action, the weight of leadership, now rests with this President and this administration alone—and there are lives at risk. The stakes could not be higher.

I close, Mr. Speaker, with a slight variation on the words of Nicholas Kristof: If President Obama is ever going to find his voice on Sudan, it had better be now.