S. HRG. 111–52

OVERSIGHT OF THE FINANCIAL RESCUE PROGRAM: A NEW PLAN FOR THE TARP

HEARING

BEFORE THE

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

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

ON

TREASURY'S PLANS FOR THE USE OF TARP FUNDS, DETAILS OF THE PLAN, AND RECENT COMMITMENTS EXPRESSED BY THE ADMINISTRATION REGARDING FORECLOSURE PREVENTION, INCREASING LENDING TO MAIN STREET, AND PROTECTING TAXPAYERS WHILE IMPROVING TRANSPARENCY AND ACCOUNTABILITY

FEBRUARY 10, 2009

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C O N T E N T S

TUESDAY, FEBRUARY 10, 2009

WITNESS

OVERSIGHT OF THE FINANCIAL RESCUE PROGRAM: A NEW PLAN FOR THE TARP

TUESDAY, FEBRUARY 10, 2009

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

The Committee met at 2:36 p.m., in room SD–106, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. Now we will go to the subject matter before the Committee, and let me again thank our witness, the Secretary of the Treasury, who is here today. This was a busy day, obviously, with the announcement this morning and your participation here this afternoon to discuss what is obviously the most critical question that all of us are wrestling with. Obviously, the stimulus package is tremendously important as well, but the frozen credit markets is really the second shoe in all of this, and how we deal with that is essential to all of us here.

Last week, the Senate Banking Committee—and, by the way, let me just say to my colleagues, what I would like to do is I will make some opening comments, turn to Senator Shelby, and then normally I would ask everybody else for any opening comments you want to make, but that could take us an hour or an hour and a half before hearing from the witness. And so, with your indulgence, I will go right to the witness, and then ask you during your comments—and I will provide the time. I would like to keep us to 5 or 6 minutes per questioning round because we have so many members here. But all your comments and supporting documents and other things you think are important will be included in the record. Consider that done, so you do not have to make the request for it to occur.

Last week, as I said a moment ago, the Senate Banking Committee held a hearing about how the Troubled Asset Relief Program, or the so-called TARP program, was implemented by the previous administration. At that hearing, I stated that if ever there were a program in need of a sign in front of it that read "Under New Management," it was this one. Today we have that new management before us to explain a broader mission, what their plan is for putting our country back on a sound economic footing going forward.

Just this morning, as I mentioned a moment ago, we heard from our new Treasury Secretary, and I am pleased he is before us this afternoon to further articulate the administration's plan to members of this Committee and through us to the American people.

This moment is unlike any other that we have experienced in decades. It is a moment of maximum peril, fraught with fear and uncertainty for our economy and our country. Americans are desperate for leadership, for clear direction, and a way forward as they try to live their lives and provide for their families.

The facts just stare us in the face. They are glaring. Roughly 10,000 families receive foreclosure notices each and every day in our country and experience the anxiety of possibly losing their homes. Another 19,000 to 20,000 of our fellow citizens are losing their jobs every single day, the source of their livelihoods. Countless more watch their hard-earned retirement savings, responsibly invested over a lifetime, evaporate in almost an instance.

Put simply, our economy is withering, and the confidence of the American people is at a record low. This past November, the American people made a choice. They wanted a fresh new start for our Nation and for our economy. This Committee is going to play a very important role in addressing this crisis, and I have no doubt that history will judge on how we act. This is not a time, in my view, to stand in the way of potential solutions but, rather to offer ideas, suggestions, constructive criticism, as I am sure my colleagues will, on how we can make these efforts work better and achieve the results the American people want and that I would argue that each and every one of in this Committee seeks.

Today, Mr. Secretary, I hope you will share with us the administration's plans to lead our Nation out of this recession and begin to replace the fear of this moment with the optimism for our collective futures. I believe it begins with articulating a clear, comprehensive plan for stabilizing the financial system upon which our economy relies, a plan that ensures homeowners and consumers are treated not as second-class citizens but, rather, as the engine of American prosperity that they have been throughout out history. Homeowners and consumers must no longer be our last consideration. They should be our first.

With the Emergency Economic Stabilization Act, Congress provided the Treasury Department with the tools necessary, I believe, to address the crisis, and because of the work of this Committee, we have identified very clearly where the previous administration fell short, far short of what this body clearly articulated last October.

Mr. Secretary, what is needed now is credit, confidence, and clarity, the so-called three C's as they have been called. The Federal Reserve's recent survey of lenders showed that more than half of these lending institutions had tightened lending standards even on loans to borrowers with strong credit. Meanwhile, foreclosure filings continue to skyrocket.

Let me pause here for 1 second as well. I met yesterday with community bankers in North Carolina. I happened to be speaking down there at an event for Jim Hunt. I met with my community bankers. I know my colleagues have. And they rightly raise the issue that we talk about banks and how banks are performing. At the community level, many are doing a very fine job. In fact, we had record results on residential mortgages in the month of December. At least in Connecticut they did. So when we talk about banks, we ought to be careful about the pejoratives that we talk about when many at a certain level are functioning, doing a good job, and I want at this moment to reflect that concern because I think it is a legitimate one.

Last week, to go further, the Senate passed an amendment that I and Senator Mel Martinez, my friend from Florida, and others offered to the economic stimulus package that requires at least $50 billion of funded provided under the TARP program be used to prevent home foreclosures. Let me also commend Senator Martinez because he added language there to deal with servicers that we also think will make a major contribution toward relieving the pressure of the foreclosure crisis.

I want to commend the Secretary for recognizing the need to provide immediate results for homeowners. But the banks also need to do their part as well so that families can access the credit they need to pay for a home, a car, a college education for their children, and businesses can stock inventory and meet payrolls.

In addition to credit comes confidence, the second of these words. Rather than increasing confidence in the banking system, the piecemeal, lurching interventions of the previous administration scared away private sources of capital needed to plug the growing hole on bank balance sheets. Estimates of credit losses in our banking system have grown from $1 trillion in September to as much as $2 trillion today. That needs to change, and it will, in my view, with a clearly articulated plan for the prudent commitment of these funds and with a focus for how these funds, and the recipients of them, on lending and on tough new rules prohibiting the kind of spa trips and bonuses on the taxpayer dime that have outraged the public in recent months. I am also pleased that the U.S. Senate has adopted an amendment that we offered to build on the administration's new restrictions on executive compensation.

And, finally, we need clarity for taxpayers and investors who want to know where our economy is headed and how our Government assistance will be used. For months into this program, many taxpayers and investors alike are confused and afraid about what the future holds. The public simply has no understanding yet of how Government assistance will help, if at all, and many are worried that massive Government investments will be wasted or misused. This lack of understanding creates a vicious cycle, further discouraging consumers and businesses from making the kinds of decisions that could get our economy moving again, as it must. They are staying on the sidelines until they get assurances that it is safe to bank on the U.S. economy.

And so, Mr. Secretary, this hearing is an important opportunity to expand on the vision you laid out earlier today and to reassure the American people that their money is in good hands in this administration and for those of us on this side of the dais who are responsible for working with you.

As a young man who had Latin in high school, I am reminded that the word "credit," after all, is derived from the Latin word "credere," which means "to believe." When I go home to Connecticut, my constituents, as I am sure my colleagues here will repeat, are asking all of us about asset pricing—they are not asking us, rather, about asset pricing techniques or structuring bank recapitalization. They are frustrated that even as we spend billions of their money, they have yet to see the results. They remind me we cannot restore the credibility of our financial institutions and put our economy back on track until we restore the credibility of the Government's response.

And so this is a very important opportunity and an important moment, maybe the most important those of us ever will serve during our tenure in this Congress, to not only revive our faltering economy but also the hope and faith of the American people. They are depending upon us right now and the decisions we make in the coming days. This is our challenge today. Americans want the plan to work. My colleagues want it to work. I believe all of us do. And I welcome a full and frank exchange of ideas with them and with you and members of the administration and others. And if on review of the plans we need to press for more or different conditions and Government funding, we will not hesitate to do so.

With that, I would turn to the Ranking Member, Senator Shelby of Alabama.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman. Secretary Geithner, welcome, again, to the Committee. I expect we will see a lot of you in this Committee in the next month or year.

Since the Troubled Asset Relief Program was established by Congress last October, the program has failed, Mr. Secretary, to mend our ailing financial system, despite having spent nearly $350 billion in taxpayers' money. TARP has been marred by lack of initial planning and ad hoc implementation and a flawed premise. Most troubling has been the lack of candor about the administration of TARP by the administration.

When TARP was under consideration by Congress, the Bush administration and the Fed, where Secretary Geithner was then President of the New York Fed, told us that the best way to fix the financial crisis was to use TARP funds to buy illiquid assets from banks. Only a few weeks, as we all know, after Congress created TARP, however, the Treasury Department abandoned this plan because it suddenly decided that such purchases would not be "the most effective use" of TARP funds. Instead, Treasury decided to use TARP to inject capital directly into banks.

Although Treasury, headed by Secretary Paulson then in the Bush administration, said that only "healthy banks"—healthy banks, Mr. Secretary—would receive funds under TARP's Capital Purchase Program, we now know that a substantial amount of that money went to propping up failing institutions.

Just weeks after Treasury purchased shares in Citigroup and Bank of America, Treasury and the New York Fed, which you were head of then, had to inject more than $40 billion more into these institutions to rescue them from mounting losses on mortgage-backed securities. Yes, and what have taxpayers received for their money? Not much.

The financial system remains badly damaged, and the economy has deteriorated sharply as it has become clear that TARP is not the magic bullet its supporters, Mr. Secretary, claimed it would be.

Today the Banking Committee will hear from you and your plans for reforming TARP. I hope they are not more of the same. I hope you are smarter than that.

As we examine your plan, I believe we need to make sure that it is thoroughly thought through, focused on details, and seeks to anticipate unintended consequences, which are out there. It should provide, I believe, a clear, comprehensive solution for restoring the health of our financial system without, Mr. Secretary, insulating market participants from the consequences of their actions.

It should, I believe, also be coordinated with other ongoing efforts to resurrect the economy. In particular, Mr. Secretary, I believe you should explain how this plan for reviving the financial system relates to the stimulus bill now moving through Congress, if it relates at all.

In light of the recent tendency for Treasury and our regulators to say one thing and then do another when it comes to administering TARP, I expect your statements to this Committee about the plans for TARP to match your future actions. Otherwise, you will have no credibility before this Committee and, more than that, before the American people.

If circumstances change, I believe you should come back before the Committee to explain in detail to this Committee—and, of course, at the same time, the American people—the reasons for the needed changes, if any. Because, Mr. Secretary, you were President of the New York Fed during the past 5 years and reportedly took an active role in the creation and the implementation of TARP, I also hope to hear the explanation for both the failures of TARP to date and the oversight lapses that helped create the financial crisis in the first place. I have said here before that we have got to find out what caused all the problem before we try to really fix it. There are a lot of opinions out there, but to date, we have not built the record for it.

I believe it is unfortunate that we did not have you, Secretary Geithner, before the Committee while you were head of the New York Fed to discuss these issues. But where are where we are. In our consideration of this latest effort to address the financial crisis that you have proposed, I believe the Committee should be careful not to repeat our mistakes with TARP, not to believe everything blindly. The original TARP legislation I believe was not well thought out and was not properly considered by Congress. The initial TARP legislation I believe was a ridiculous two and a half pages long. Although Congress eventually tacked on several hundred additional pages, it did not alter in the least the core of the plan crafted by the Bush administration, Paulson, and perhaps even you.

Instead, Congress hastily passed the TARP without taking the time to consider the alternatives. This Committee never even held a hearing to give critics of the plan a chance to share their views, to analyze what was going on. While supporters of the plan claimed that our financial markets would have collapsed had Congress not quickly passed TARP, recent research suggests that the financial crisis dramatically worsened as Congress panicked and market participants began to realize that the plan was not thought through.

I believe that this Committee has a responsibility to take the time to fully consider, Mr. Secretary, your plan, including hearing alternative views. We should not stifle debate on a matter of this importance. We should not go down that road again.

Given the complexities of the issues involved, we need to hear from experts with diverse viewpoints on the record—of course, including you—so that we can learn the strengths and the weaknesses of your plan. We should not, Mr. Secretary, bless your plan today unless we know it is the right plan. And a lot of us are very, very skeptical.

Since the financial crisis started a year and a half ago, Congress has largely been on the sidelines. It has deferred to the executive under the Bush administration Secretary and to the Federal Reserve to solve this crisis. But you have not solved it. The Fed has not solved it, and the former Secretary certainly did not.

Congress and this Committee have important roles to play, as Senator Dodd has laid out, in addressing the crisis, starting with building a consensus on what caused it and how we should fix it. I believe the absence of meaningful congressional involvement in crafting the original TARP plan will be viewed historically as a critical error that helped produce a flawed program and undermined public confidence in Washington's ability to tackle the economic challenges facing this country. Our economy and the markets would have been better served, I believe, had we taken time to make sure that the TARP legislation effectively, Mr. Secretary, addressed the problems created by the financial crisis. But we did not.

As we consider your plan today, Secretary Geithner, I hope we can learn from our past mistakes with respect to TARP so that we can finally craft a solution that will help bring an end to the financial crisis. If we do not, we are in deep trouble.

Thank you.

Chairman DODD. Mr. Secretary, welcome. I know this is your first hearing as Secretary of the Treasury. We congratulate you and thank you for taking on the tremendous responsibility associated with this job at this hour and time. I know all of us, I suspect all of us are very grateful to you for your willingness to do that.

So, with that, the floor is yours. Any additional documentation or supporting material you would like to include in the record, we will certainly make that happen.

STATEMENT OF TIMOTHY F. GEITHNER, SECRETARY, DEPARTMENT OF THE TREASURY

Secretary GEITHNER. Thank you very much, Chairman Dodd and Ranking Member Shelby and Members of the Committee. It is a privilege for me to be with you today.

I laid out today a detailed set of observations, Mr. Senator, about what caused this crisis, and I went through a series of what I believe are legitimate criticisms about the actions of the Government to date which have failed arrest this crisis and in some ways may have made it worse. But today what I want to do is just to lay out the broad outlines of the basic goals and strategies we think are going to be necessary to help solve this crisis, and today I am beginning the important process of consultation with this Committee and Member of the Congress on the types of strategies and policies we think are necessary going forward. I take that process very seriously, and I look forward to working with you and your colleagues on both sides of the aisle so that we can bring the best ideas and best strategies and sufficient resources to try to solve this problem.

Senators, our economy is facing enormous challenges, and our financial system, although parts of it are working well and parts of it are strong, our financial system is damaged in very important respects. Today the financial system is working against recovery, and if we do not act forcefully to try to address these challenges in the financial system, then the economic recovery act will be less effective and we will be living with a deeper, longer recession that is going to cause more damage to the lives and hopes of Americans.

We have seen job losses accelerating, and we have seen credit slow in parts of the economy where it is going to most critical to recovery. And on top of this, and on top of these very deep, troubling financial challenges, economic challenges, we have seen a deep loss of faith by the American people in the quality of judgments of those who are running our largest financial institutions and a deep skepticism about whether the Government is using their taxpayer resources wisely and carefully in ways that benefit them.

If we work together, we can change that, and we have to change it, because the confidence of the American people and of the Congress is going to be absolutely central to any successful program to help address these challenges in the financial system.

To get credit flowing again and to restore confidence in markets, we have proposed a fundamental reshaping of the Government's program to repair the financial system. This begins with transparency, accountability, and oversight. We propose to establish a new framework of oversight and governance that will govern all aspects of our financial stability programs. The American people will be able to see where their tax dollars are going and the return on the Government's investment. They will be able to see whether the conditions we place on banks are being met and enforced. They will be able to see whether the boards of directors of institutions receiving assistance are being responsible and careful with taxpayer dollars and how they are compensating their senior executives. And they will be able to see how these actions are impacting the overall flow of lending and credit in our economy.

We are going to put these new requirements on a Web site called FinancialStability.gov that will give the American people the transparency they want to see.

We have already taken some important actions in this direction. We have laid out reforms to the process by which banks get assistance to make sure there is integrity and independence and those judgments are made independent of lobbying or political influence. We have taken steps that commit to put the detailed terms of the contracts which govern our assistance on the Web site so that people can see exactly the conditions that come with our assistance. And we have laid out some very important conditions and reforms to the entire structure of executive compensation not just for institutions receiving assistance but so that we bring about a fundamental change in the overall compensation structure in our financial system so that we never again face a crisis of this magnitude.

Now, alongside these changes to transparency and oversight, we have laid out today three important new programs that are going to be designed to get credit flowing again to where it is needed most.

First, as part of this process, we are going to bring together the Government agencies with authority over our Nation's largest banks and initiate a more consistent, realistic, forward-looking assessment about the risks on their balance sheets. This is a financial stress test, to use the medical analogy. We want to get bank balance sheets cleaner and stronger, and we are going to help facilitate this process by putting out a new program of capital support for those institutions that need it.

These institutions, again, that need additional capital will be able to access a new mechanism that uses money from the Treasury as they bridge to private capital. The capital will come with conditions to help ensure that every dollar of assistance is used to generate a level of lending that is greater than what would have been possible in the absence of Government support.

Alongside this capital program, working with the Federal Reserve and the FDIC, we are going to establish what we call a new Public–Private Investment Fund. This program will be designed to provide Government capital and Government financing to help leverage private capital, to help get these markets that are frozen working again. This fund will be targeted to the loans and assets that are now burdening our financial system. By providing the financing private markets cannot now provide, we hope to help restart these markets for the real estate-related assets that are at the center of this crisis. Our objective, again, is to use private capital and private asset managers to help provide a market mechanism to solve this enormously complicated problem of how to value these assets.

We are exploring a range of different structures for this program, and we will seek input from this Committee and from your colleagues as we design it going forward.

The third element of this program, we are working jointly with the Federal Reserve to substantially expand an important program of support for consumer and business lending. This initiative will help kick-start the secondary lending markets to bring down borrowing costs in those markets and, again, help get credit flowing again.

In our system, historically almost half of consumer lending has been done through a mechanism in which people buy loans, put them together and sell them. But because this vital source of finance and capital is now frozen, no recovery plan will be successful unless it helps restart the securitization markets for sound loans made to businesses and consumers.

This program will be built on a program designed by the Federal Reserve that is called the "Term Asset-Backed Securities Lending Facility" that was announced last November, and, again, it will combine capital from the Treasury with lending capacity from the Federal Reserve.

Alongside this, because small businesses play such a critical role in our economy, we are going to take some additional steps and announce them in the coming weeks to make it easier for small businesses to get credit from community banks and large banks and to try to make the Small Business Administration's programs more effective in this very challenging economic environment.

Now, alongside these steps, we are going to launch a comprehensive housing program. The President has asked his economic team to come together and put together a comprehensive plan that is going to help bring interest rates down, bring mortgage payments down, help avoid foreclosures that are avoidable, and help avoid the risk that this crisis continues to intensify. Again, our focus is going to be in using the full resources of the government to help prevent those foreclosures that we can prevent, to reduce mortgage interest rates, and reduce the avoidable deterioration—reduce the risk that this crisis intensifies going forward.

Now, we are beginning the process today of consulting on these broad programs, but I want to emphasize that even as we move to try to solve this financial crisis, the President of the United States is committed to working with this committee to begin the important process of pursuing fundamental reform of our financial system. We look forward to working with you and your colleagues on how best to do that. We started a process with the President's Working Group on Financial Markets to ask them to come up with detailed recommendations on the things we can do without legislation, but we are going to be coming to you with proposals for broad—for the changes that are going to require legislation. That is going to be a complicated, difficult process. We are going to want to get it right. We have a huge obligation to the American people and to the world to fundamentally change and address the weaknesses in our system that helped contribute to this crisis.

I want to close by saying that the financial crises we face today are more challenging than anything our system has faced in the past. It is going to require new programs. It is going to require that we do extraordinary things. But we are committed to working with you to solve this problem and we need to make sure that the American people understand we are going to keep at it until we fix it.

Thank you, and I look forward to your questions. Again, I would be happy to respond to any questions that you have raised about how we got here, the mistakes that have been made with the programs designed so far, and answer any detailed questions—any questions you may have about how we go forward.

Chairman DODD. Well, thank you, Mr. Secretary. Let me just say in response to that, and I obviously disagree about this, but I, for one, think it is very important obviously we know how we got here and we need to pay attention to that and we are going to try and do that in the process as we move forward of this committee.

But let me also suggest to you, at least from my perspective, I happen to believe as between the choices of spending our time on going back and reviewing how we got here and the question of how do we get out of this, I don't have any question in my mind which is the more important issue for the American people. Clearly, they may want to know how we got here, and that is important, but that person who lost their job today or their home or will tomorrow wants to know what we are going to do to get them back on their feet again. And so from my perspective, that is the more important issue for this committee and for the administration.

Obviously, it is going to be very important, Mr. Secretary, we have more details than we have received on this. I realize you are only into office for 21 days, not even a month yet. Twenty-one days ago today, in fact, the President was inaugurated as the 44th President of the United States. And so I say to my colleagues and friends to be realistic, as well, about the ability within 21 days to put together a package here that will allow us to move forward, given the problems that we are confronting.

But I think it is going to be very important, Mr. Secretary, both in settings such as this and also in more informal settings that my colleagues and your staff and others be available to sit and work together. I don't expect there will be a Congressional hearing every week on the subject matter, but I would expect that there be close consultation and involvement with members of this committee and their staffs and others as we go forward very quickly to develop the details of what you are suggesting. And so I would recommend or suggest that you are going to hear concerns about the absence of specific details in terms of how this is going to work and it will be very important we get a sense of cooperation on that.

I wonder if you might step back, because one of the problems I think all of us have recognized is the lack of a framework in all of this and the analogies to be drawn as to what is your goal. What is the intention? What is the purpose of all of this in terms of what we are trying to achieve? We are talking in denominations that are daunting, ones that we have never talked about ever before. And so the magnitude of the request is overwhelming in many ways. Therefore, in the absence of connecting the dots between the magnitude of the ask and the ability to actually affect those 10,000 people today losing their homes, the 20,000 losing their jobs, what is the framework, what is the purpose here, and what do you hope to attain in terms of those individuals out there or those who will face the same considerations or the same problems they are confronting.

Secretary GEITHNER. A thoughtful question and the important place to start here. We have an enormously complicated financial system. It depends not just on banks, but it depends on a complicated process of markets. Right now, we have banks who are not part of the problem and are likely to be able to be part of the solution who are growing and expanding lending, but we have parts of our banking system which is pulling back and cutting back the supply of loans and credit they provide businesses and families across the country.

In addition to that, this market mechanism that is central to the flows of credit is just not functioning, and it is not functioning in part because of acute uncertainty about the depths and duration of this recession, about the scale of losses that will come, and it is not functioning in part because there is not enough financing in the markets willing to come in and help restart those markets.

We are going to try to address both those two things. We can't do it without very substantial support with a powerful economic recovery investment program that is going to help save or create substantial jobs, help stimulate private investment. That is a necessary, absolutely central condition. We can't help fix the financial system without trying to address the housing crisis. We need to move on all these three fronts together, and with the benefit of hindsight, it is absolutely true that one reason why this crisis is so damaging and has become so acute is because we did not move soon enough to recognize the scale of the risk this country faced and put together a comprehensive program.

And again, without very substantial support from the government to help get people back to work and support private investment, without a comprehensive housing strategy, and without direct substantial sustained commitment to strengthen our banking institutions that need assistance, and without providing support to these capital markets, we are going to live with a deeper, longer recession.

You are absolutely right that the numbers involved are large. But the basic lesson of financial crises is that the actions we take have to be commensurate with the scale of the problems we face and this is a very complicated, very challenging set of problems.

So our basic judgment is, it is going to be ultimately more effective, cheaper for the taxpayer. We are going to have less damage to our productive capacity as a country if we move more aggressively now with a very substantial program of support.

Chairman DODD. Let me quickly, with the time, just a minute or so remaining here, but the fourth point is on the foreclosure issue. For whatever it is worth, I would have made that my first point, because in a way, I happen to believe—I don't know whether you do or not, I will ask the question—that the failure to address the mortgage, the residential mortgage crisis 2 years ago when it first really—although it even blossomed before then. Senator Bunning and others actually, I think in December or November of 2006, actually had some hearings on the residential mortgage issue. We had 2 years ago this month, in fact, our first hearings on the residential mortgage crisis.

And to me, while we are talking about capital infusions or purchasing toxic instruments or legacy instruments, whatever you are calling them here, I understand that. But that person on the street, what is going to happen at home? So I am going to talk about some $50 billion. The Congress adopted a measure that I mentioned that Senator Martinez and I included, among other things, of a commitment of some $50 billion out of these TARP resources that you have toward mitigating the foreclosure crisis. Are you prepared to do that in excess of $50 billion? Tell us specifically what you have in mind on the mitigation of foreclosure.

Secretary GEITHNER. Absolutely. We are committed to use a substantial part of, at least $50 billion of the resources authorized by Congress to support a set of programs, again, to help get mortgage payments down where it is appropriate to do that, to help people refinance and stay in their homes, and again, to try to get broader interest rates down. We are committed to do that, and as I said, the President wants to outline as quickly—relatively quickly the full, comprehensive measures that we think will be important to do that. That will be part of it, but we are going to do some other things, too.

Chairman DODD. I thank you.

Senator Shelby.

Senator SHELBY. Thank you.

Mr. Secretary, just as Secretary Paulson's Treasury when he was here came to Congress with a broad concept that had not been fleshed out with practical details, it appears here that your plan is offering only at this point a conceptual plan, with many details yet to be filled in. It is hard to test the merits of a plan that is not spelled out, as you well know. As economist Simon Johnson said, and I will quote him, "If the headline amounts are vague, or we hear statements such as, 'It is too early to know,' then the entire approach is not credible and we will need to reconvene when the Treasury is properly prepared and ready for serious discussion," you know, detailed discussion.

Is there a concrete plan here, and if so, how do we assess it? We need to see, this Banking Committee and the American people, the operation details, a precise breakdown of funding needs, and proposed legislative changes, Mr. Secretary. If all you have at this point is the broad outlines of a plan, then this committee will need to have another hearing, or several, once you are prepared to offer concrete details. Maybe we are going to do this. If aggravating economic problems by contributing to the marketplace uncertainty about what steps the government will take, is this what this is? I hope not.

Mr. Secretary, what is different about the process that you are offering here to devise your plan such that we should have confidence that it is well thought out and will be effective? An essential detail of any plan should be its cost. Only people who are spending other people's money devise a plan without having good estimates on how much it will cost and what it will do. And will your pledge to provide the committee, Mr. Secretary, with a new report discussing in detail this plan—in other words, I think we need more information. Where do you stand on this.

Secretary GEITHNER. Senator——

Senator SHELBY. I see the conceptual idea, but I don't see the details yet.

Secretary GEITHNER. Senator, you are right that what we did today was lay out the broad architecture of the programs we think are necessary to help solve this thing. And we are going to be very careful to flesh out the details and design of these things in ways that protect the taxpayer and get the maximum potential benefit for the resources we are going to spend. And we are beginning the process of consultation with you today. I look forward to it. We will take that very seriously, and we will lay out the details for you that meet the tests that you will establish, as you said, high conditions for us, high standards for us, on a level of detail that allows you to evaluate the merits. I am completely committed to that completely committed to that.

Now, can I say something about cost.

Senator SHELBY. Yes, sir.

Secretary GEITHNER. OK.

Senator SHELBY. I think cost is important here.

Secretary GEITHNER. Absolutely.

Senator SHELBY. You are playing—we are playing, we are dealing maybe with trillions of dollars. Go ahead.

Secretary GEITHNER. Let me just make a few quick points. I am not standing here before you today to ask you to authorize more resources. I want to be candid, though, that I think this is going to be an expensive problem for the Nation and it is going to require substantial resources. But Congress has already authorized substantial resources and I think our first obligation is to move to use those resources as carefully and as effectively as possible. As we develop the details of this plan in consultation with you, we will have a better sense about what it is going to take to make it work and whether we are going to need additional resources and authority. And absolutely, we can't come to you and ask you for that unless we give you something that you can react to and evaluate on its merits.

Senator SHELBY. What elements of the Geithner plan can be implemented immediately.

Secretary GEITHNER. Senator, the resources the Congress has already authorized will allow us to move forward and put in place each of the key elements of the plan I laid out, including a program of capital support for institutions that need it, including a strategy to help leverage private capital with government financing to help get these markets working again, and including the proposals to expand this lending facility designed to get markets for consumer and small business credit flowing again, and they will also allow us to move forward quickly to put in place the key elements of a comprehensive housing plan, which will again be designed to help bring payments down and reduce avoidable foreclosures, get broader interest rates down.

We have resources to begin those programs, and if we believe there is a case for expanding them, modifying them, then we will come to you and ask you for additional resources and authority to help support that objective.

Senator SHELBY. Is this plan conceptually a 180-degree turn from the Paulson plan, or is it kind of the "son of Paulson".

Secretary GEITHNER. Senator, this plan is fundamentally different in broad objectives and direction. If you—can I just spend a few minutes in helping explain that.

Senator SHELBY. Sure.

Secretary GEITHNER. The path our country has pursued to date was too limited in support. It came late, came with too little broad trust and confidence, and too little direct support to the businesses and consumers and households that are most affected by the crisis, people who were careful and responsible in their actions but were damaged by the judgments of those who did not. And we are going to bring much broader, more rigorous standards for transparency and accountability, with tougher conditions to protect the taxpayer, and as you said, as you have seen, to make sure that the resources we are providing are going to support the public good, and we are going to bring a forceful approach targeted at strengthening banks, getting these credit markets flowing again so that small businesses and consumers again see the results of these programs.

Now, Senator, you will find elements in this that are common to any successful strategy to resolve a financial crisis. What we are going to be guided by is what is going to work, and as I said, what is going to engender more confidence and what is going to help get credit flowing again to the parts of the economy that need it most.

Senator SHELBY. Mr. Chairman, let me be real fast. I know others want to ask some questions.

How do we restart the securitization of markets, which you think is so important to our financial—how do we bring thrust back to that, because securitization worked so well until it was abused and misused. How do we do that? Trust is important, as Senator Dodd mentioned earlier.

Secretary GEITHNER. Senator, let me separate the longer-term challenge from the immediate. I think over time, we are going to have to fundamentally change a whole range of aspects of the basic—aspects of our market that make that work and which broke down fundamentally in this case and left us so vulnerable to this crisis. But our immediate challenge now is to try to get financing to help encourage new securitizations by lending against the highly rated securities, and our judgment is, and I think this is right, that if we do that effectively, we can help again get those markets starting to open up again.

Now, just as support of this proposition, if you look at the market's response to the initial announcement of the Fed's program on which this is based, you saw quite substantial and sustained reduction in risk premiums in these markets and you are starting to see the initial signs of some opening up now, and we want to reinforce that and work with it. But I think that is the most promising approach we have seen to meet the important objective you laid out, which is to try to get these securitization markets working again.

Senator SHELBY. Thank you.

Chairman DODD. Thank you very much.

Senator Johnson.

Senator JOHNSON. Secretary Geithner, the purpose of TARP was to restore the confidence and integrity of financial institutions. Four months later, there is still little confidence in financial institutions. What went wrong? How will the administration's new plan restore the confidence and integrity of these institutions.

Secretary GEITHNER. Senator, you are right that our system is still very damaged, and across the country, you are seeing businesses find their credit lines cut and the average American is finding a harder time to raise the financing they need to do important things like put a kid through college, finance a new home, refinance a home. You are absolutely right. We have not seen enough impact of this yet, and that is in part because the economy is weakening. We are facing an escalating, very challenging recession. And that is working against the efforts that were made over the course of the fall to help stabilize the system.

I want to underscore something, which is the action the Congress took in the fall to authorize the Emergency Economic Stabilization Act, that action made it possible for your government to take some very important steps to pull the system back from the edge of catastrophic failure and that action has helped bring a better tone of civility and some improvement to our financial system. Without that action, we would be sitting here today with a dramatically worse crisis, dramatically harder to solve, costing dramatically more resources over time.

Our best judgment is, again, and I think this is based on the lessons not just of this crisis, but the lessons of Japan in the 1990s and the lessons of this country in the 1930s, that you need to do more up front with a more realistic assessment of the scale of risks there and you need to do it in ways that are going to get credit flowing again to where it is needed most.

And so just as an example, as I said in my opening remarks, we are going to design our programs so that we are supporting banks and making sure that assistance generates a level of lending that would not have been possible in the absence of government support, and we are going to go around banks, too, to provide support directly to those markets that your colleague, Senator Shelby, said are so important to small business lending and consumer lending. If we do those things together on a substantial scale, we will have—we will make progress over time. It is not going to be even. It will be messy at times. But we will make progress, and we are going to just have to keep at it, as I said, until we help repair the system so that it is working with recovery, not against recovery.

Senator JOHNSON. The largest individual coverage bailout to date has not been of commercial banks, but an insurance company. Given the critical role of insurers in enabling credit transactions and to insure against every kind of potential loss and the size and complexity of many insurance companies, do you believe that we can undertake serious market reform without establishing Federal regulation of the insurance industry.

Secretary GEITHNER. Senator, it is an excellent question and I do believe that as a critical part of the broad reforms we are going to need to undertake to make sure a crisis like this does not happen again, an important part of that will be to reexamine the overall supervisory structure around insurance companies, and I think these proposals to have a Federal charter have a lot of merit and we will look at them very carefully. Again, my personal view is that is likely to be an important part of the plan.

Again, one of the reasons we are here today is that large parts of our system were left outside of any meaningful oversight, oversight that provided a level of constraint commensurate with the risk those institutions faced, and we are going to have to fix that.

Senator JOHNSON. As you consider such measures to address the financial crisis and the broader measures to reform our financial system, do you believe that it is important to ensure that Federal Home Loan Banks are able to continue to fulfill its liquidity function? Do you have any recommendations for helping to do so.

Secretary GEITHNER. I do believe it is very—I do believe the Federal Home Loan Bank system plays an important role in our markets. That role is more important today than it has ever been. I am in the process of consulting closely with my colleagues responsible for these issues so that we can carefully examine any reasonable proposal to help make sure that they can continue to play that role.

Senator JOHNSON. My time is up. Thank you.

Chairman DODD. Thank you, Senator.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

Mr. Secretary, may I join with Senator Dodd in thanking you for your willingness to step into as nasty a briar patch as anybody has ever tackled. We are grateful to you for your willingness to do that.

When we voted for the TARP, one of the things that attracted me to it was the prospect that by replacing private capital with public capital, we were creating a sense of stability, maybe even a bottom that would cause the large amounts of public capital that exist around the world to say, all right, now we could come in. And as I did my best to explain my vote to a very angry constituency, I would talk about that and I said we are seeing it is already happening because Dubai has put $20 billion into Citicorp. Obviously, I missed it by a lot of money and a lot of time.

There is no sign that the private capital that is waiting on the sidelines is ready to come in, and we keep putting public capital in, the value of which is that it is patient capital and is not going anywhere, waiting for the private capital to say, all right, now is the time. Warren Buffet may have said now is the time. I am not sure he still believes that in virtue of where the market is, but we see no signs of private capital coming in to say, OK, this is where we are.

I would like you to address that question. You have an enormously complicated machine here with so many moving parts, some of which, as you have indicated, have broken down and need to be repaired, and others need to be redesigned, all of it going on simultaneously. But we are in the business of asking unfair questions, so I will ask you the unfair question, when do we start to see some of the private capital say, all right. By virtue of what is going on, we now can move in the direction of taking advantage of the low prices and the opportunities that are there.

Secretary GEITHNER. Senator, I think you framed it exactly right. I think the overwhelming objective has to be to lay a set of conditions that will make it compelling for private capital and financing to come back in. And you are also right that that has not happened yet. It has happened in pockets of the market, but it has not happened yet on a broad scale. And that is in part because, again, the market is seeing, correctly, a deepening recession and they are highly uncertain about the depth and duration of that recession and the scale of losses to come and where those losses will end up, and that is partly why there is such an absence of debt financing available to help get these markets going again.

The definition of a financial crisis is that markets won't take risks that were otherwise economic. The government has to step in and be willing to take risks for a temporary period of time, carefully designed conditions, to solve that problem. Again, temporarily on conditions that allow the markets to come and replace the government's role as quickly as possible.

How quickly this happens depends a lot on how quickly we move to put in place this broad economic recovery program. That is a critical element. And again, I think it depends a lot on how aggressive we are to provide financing to these markets that are frozen. And I think you need to think about these together, working together. If you just did one, you wouldn't see enough traction and you would face a longer period of uncertainty where the market holds back from taking risk.

Senator BENNETT. You commented about getting interest rates down. De facto, they are pretty low, particularly in housing, but in other areas, and loans are not being made. When I talk to the banks, depending on which bank you talk to, of course, some say, we are trying to make loans. People don't want to borrow because their businesses aren't such that they don't want to take the risk. But others are saying the banks may say there is a housing loan available at four-point-whatever it reached when it reached its low point. Now it is, what, five-and-a-quarter or something in that neighborhood. A very attractive interest rate, but the standards for making the loan are so high by the regulators that the banks say, this is our rate but we just won't give it to you.

Do you have any sense of whether or not your program will deal with the question of lowering standards so that people whose credit—they have 20 percent down, the traditional level, they can make the payment, and so on, that they will, in fact, be able to get these loans that on paper, at least, are at very attractive rates.

Secretary GEITHNER. Senator, you are right in how you describe the problem, and you are right that those rates have come down, but it is also true that if you look at the relationship between the cost of borrowing and the comparable maturity Treasury security, those spreads are still unusually high. That is true across all types of credit, loans to businesses as well as loans to consumers. You can see it in auto financing and other things. And that is again because of this acute uncertainty about the risks ahead.

If we are effective in well-designed, powerful support for private investment and job creation and we can get financing to these markets and help provide a source of capital, continued capital for the system, then we can help bring those rates down further, and then you will see more people be able to refinance their home and take advantage of those lower spreads, more businesses able to borrow.

I do want to point out one thing. This is a very difficult balance to strike, but we want to be very careful that supervisors of banks around the country are not making it harder for strong banks to expand their lending. Very important that as we bring more credibility and confidence to our banking system, that we are careful that the whole process of care in that context does not again make the strong institution less likely to lend, and that is a very important thing. It requires a careful balance, but we are working closely—or let me say it differently. The supervisors are aware of this challenge and they are working to try to find the right balance.

Senator BENNETT. Thank you. Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator, very much.

Senator Reed.

Senator REED. Thank you, Mr. Chairman.

Thank you, Mr. Secretary. You have an extraordinary set of challenges, not one, not two, but multi-dimensional, and we recognize that your efforts are pointed at several different objectives. One is to get credit moving again, too. But could you comment, given the fact that we all recognize that there are already extraordinary losses in the marketplace, to what extent your program will help minimize these losses—again, they are substantial—and then some comments about who will absorb these losses.

Secretary GEITHNER. Absolutely, Senator. Again, a critical part of the uncertainty in markets is again what the scale of the losses are and where they will occur across the financial system and how large are they relative to the resources of the institutions that bear those risks.

Again, the most important thing we can do is to try to reduce the risk that those losses grow substantially beyond where they might otherwise get in a moderate recession, and that is why, again, you need to have—again, I think the most conservative, the most careful, the most prudent course is to be very aggressive with all the instruments of policy to try to reduce those risks, because if we are successful in limiting the depth and duration of the recession, those losses ultimately will be lower over time.

As part of this program, working with the SEC and the supervisors, we are going to try to bring more disclosure, frankly, so that the markets can find it easier to assess the exposures on bank balance sheets. That is a hard thing to do. There are still some fundamental sources of uncertainty we can't arrest. I think that is an important thing to try to bring confidence back.

At the same time, though, again, we have got to make sure the government is willing to provide capital where it is necessary and willing to provide financing where the market is not willing to provide that financing, and the combination of those two things, again, will also help reduce those ultimate risk of losses and it will help produce a higher level of lending than would otherwise be possible for our system to provide.

I just want to say this one last thing quickly. You know, we came through a very huge credit boom. Even without that, in any recession, demand for credit will slow. What our job is is to make sure that it doesn't slow dramatically more than it needs to slow so that the programs we are doing are increasing the capacity of the system to lend.

Senator REED. Thank you, Mr. Secretary. Again, we are going to have huge, huge problems just in terms of the dimensions of the problem, the size in dollars or Euros, however you measure it, and our capacity collectively to respond.

There is another aspect of this, too, is that these losses and these instruments are worldwide. Can you comment briefly about what you are doing in concert with other major economic powers.

Secretary GEITHNER. Yes. You are absolutely right. Those countries individually face a number of very difficult challenges. Some of their problems are dramatically harder than ours will be to solve and the credit losses generated by our system are spread around the world, and that is a part of what is making it hard for them, but it is not the only part of what is making it hard for them.

I believe very strongly that our actions will be more effective if we get complementary actions by other countries. That is absolutely true on the fiscal side, so that the recovery act you move forward to pass today will be much more effective if you see more powerful, complementary fiscal programs by the other major economies. I very much want to encourage that. Already, you are seeing monetary policy around the world move with substantial force, which is important. But in the financial sector, too, I think it is important there be, again, complementary actions to help stabilize and repair and get credit flowing. If we don't move together, then the impact of our action will be less, and I go to the G-7 for my first meeting later this week to help begin that process of consultation.

Senator REED. In my remaining minute, the Chairman focused on the foreclosure problem. There is a growing analytical study showing that because of foreclosures and the excess capacity in housing markets, prices are falling way past their normal decline and that, in fact, there is an over-correction going on in the marketplace which argues very strenuously for decisive action, which I hope is forthcoming.

There is another aspect of this, too. I think initially, particularly a year or 2 years ago, this perception that individual housing values were declining was not as pronounced, so that people, I think, generally were saying, well why should someone bail out my neighbor? But I think now, given what we are seeing, that these housing declines have sapped the wealth of every household, even those who are still working and paying. But that just underscores the need and I hope that there is the consensus to move aggressively.

There are a number of things that you can do, reduce principal, reduce interest rates, extend terms, but I think the message should come through clear from all of us, you have to move aggressively, clearly, and to start working.

Secretary GEITHNER. Senator, I agree with you and our objective is and our hope is that our program meets that test.

Senator REED. Thank you.

Chairman DODD. Thank you very much, Senator.

Senator Bunning.

Senator BUNNING. Thank you, Mr. Chairman.

First of all, do you think that our largest banks are insolvent? What will you do if your "stress tests" of major banks revealed some are insolvent.

Secretary GEITHNER. Senator, as you can imagine, this is a very sensitive subject and I would—it would be irresponsible for me today to stand before you and comment ever on the financial position of any individual institution in our system.

Senator BUNNING. Haven't you already done that by spending money on financial institutions and reinforcing them with TARP money and then reinforcing them again.

Secretary GEITHNER. Senator, I think I want to start with this clear statement that in a system this fragile, in an economy this fragile today, it is very important that we act effectively to help stabilize our system and to prevent the kind of broad-based catastrophic damage we have seen when the market or the government is unwilling or unable to prevent that kind of failure. So it is very important to me, and I think to the overall success of our efforts, that we act carefully and wisely to prevent that outcome.

And, of course, as we do that, again, we have to be very careful to help contain the risk to the taxpayer and make sure we are doing that with appropriate conditions, and, of course, those basic tenets will guide our approach. But it is very important to underscore that basic objective.

Senator BUNNING. OK. You have said that we have lacked oversight and that is how we got into this mess. You realize in 1994, Congress acted and gave oversight to the Federal Reserve on all mortgages. That is including the banks that lent and the mortgage brokers who lent. And so the Federal Reserve since 1994, and you have accused them of not having good oversight.

Secretary GEITHNER. Senator, let me make it clear that a substantial part of what caused this crisis was gaps in our overall regulatory framework and the exercise of the oversight authorities that Congress gave our regulators. I completely share that criticism. I think a central part of acting in the future will be to reform that broad structure, and you are absolutely right that everyone who is part of this system could have done more than was done, and I feel a deep personal commitment to making sure that we reform this system so we never again face a crisis like this. And you are right, it is going to require not just reforms to the overall thing, but a better use of the authorities Congress gave your existing regulators.

Senator BUNNING. Thank you. Yesterday, your staff told the committee that you hope to spend $1 on a bad bank, $1 trillion on the Term Asset Backed Security Loan Facility, $100 billion on foreclosure prevention, and an unspecific amount on capital for banks. That is way more than the $340 billion or so that you have left in TARP funds. How much are you going to need for the capital programs? How much of the funding for the other programs is coming from TARP, the Fed, or somewhere else? How much new money will you need from Congress.

Secretary GEITHNER. Senator, thank you for giving me a chance to address that again. At this point, we do not have a judgment about whether and how much additional authority and resources we are going to need to solve this. But you have given the administration substantial resources. We are going to use those carefully. We are trying to make sure they go as far as we can.

But I want to just clarify one thing. These large numbers for these two new programs are the amount of financing we expect to mobilize together. We believe we can do that with a relatively limited use of the authority you authorized under the Emergency Economic Stabilization Act. But as I committed to your Chairman and the Ranking Member, we will come to you as we design these programs and give you our best estimate of what they are ultimately going to cost and——

Senator BUNNING. But did you mistakenly tell your committee staff yesterday that these numbers were round numbers, or are they close, or are they approximate.

Secretary GEITHNER. No. I am just making distinction between the $1 trillion facility to support business and consumer lending and the possibility of—we are going to start at $500 billion for this private partnership investment fund. It might go up to $1 trillion. Those are about the amount of financing provided, not the resources that will require from the Emergency Economic Stabilization Act. That is the distinction I was trying to make.

Senator BUNNING. OK. Last question——

Secretary GEITHNER. That will depend, Senator, just quickly, on how exactly the programs are designed and how we most effectively minimize the risk and leverage private capital and financing.

Senator BUNNING. Last question. Since you were a member of the Fed, do you believe we have an independent Federal Reserve.

Secretary GEITHNER. Absolutely, and vitally important to our country that we preserve that.

Senator BUNNING. Thank you.

Chairman DODD. Thank you, Senator, very much.

Senator Akaka.

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

Mr. Secretary, one of my concerns has been predatory lending institutions. Today, many low-income taxpayers and their families have their Earned Income Tax Credit benefits unnecessarily diminished through high-cost short-term products, such as refund anticipation loans. RALs are a form of predatory lending. The fees on the RAL are equivalent to annualized interest rates ranging from 50 to 500 percent. These costs are excessive, especially when filing electronically.

In November, Treasury provided Pacific Capital Bank Corporation, the corporate parent of Santa Barbara Bank, with approximately $180 million in TARP resources. Santa Barbara Bank profits tremendously from its costly RAL products and charges approximately 40 percent more than its competitors. It will be important that TARP resources be used for lending, but they must not be used to support predatory lending.

So my question to you, Mr. Secretary, is what will you do to ensure that TARP resources are not used to facilitate predatory lending and exploit working families.

Secretary GEITHNER. Senator, thank you for raising this important issue. I want to just emphasize at the beginning that this crisis is partly the result of failures in consumer protection. We saw basic failures in underwriting standards and supervision ultimately contribute to a deeply damaging systemic financial crisis, and that is why it is so important that as we work with this committee on broader reforms for our financial system, we bring more care and more force and a more carefully designed set of regulations to improve the quality of consumer protection for all institutions that sell financial products to consumers.

Now, on the specific question about how to prevent exactly this, I would be happy to hear more suggestions from your staff and reflect on them, but I think that the best way to get at that is through the broader supervisory process so that those institutions, those regulators that are responsible for enforcing the laws of the land in this area are charged with the responsibility of trying to make sure that those practices don't not just violate the law or regulations, but don't violate our sense of what is appropriate for this country.

Senator AKAKA. Thank you for that, Mr. Secretary.

Valuation is critical, since overvaluing the asset results in excessive costs to the government and undervaluing undermines the intent of the TARP legislation to provide financial stability which we are trying to achieve. Ms. Elizabeth Warren testified that the Bush administration paid $254 billion for assets worth $176 billion. Mr. Secretary, can you tell me why the Bush administration paid nearly $80 billion more than the assets were worth, and what must be done to prevent this from happening again.

Secretary GEITHNER. Senator, a very important question and I understand the concerns you are raising. The actions government have to take to solve financial crises will come with costs and risks. It is our obligation and our responsibility to try to minimize those costs and those risks. And again, as I said in the beginning, our job is to try to make sure we are getting the maximum benefit to the overall economy and the financial system in the flow of credit at the least risk to the taxpayer. That is a simple framework. It is hard to execute. But it will mean that there will be cases when the government is taking actions where, on terms that are vulnerable to the kind of analysis that the report described.

By definition, in a crisis like this, there are risks the market will not take, and so any time the government asks, there is a risk that if you tried to value those interventions at the level prevailing in a market reflecting this level of fear and uncertainty, that there will seem to be a gap. But again, the responsibility we have is to design these programs so we are getting the maximum possible benefit in restoring the flow of credit at least potential risk. But these programs will come with risks.

Senator AKAKA. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Senator Martinez.

Senator MARTINEZ. Thank you, sir, very much.

Mr. Secretary, thank you for being with us and thank you for your service.

The President has outlined early on his concerns for the current economy, that our response needed to be timely, targeted, and temporary. I wonder if you could comment for us today on the overall game plan of this administration. We just less than 3 hours ago voted on a very substantial recovery plan, others call it a stimulus plan, $835 billion, give or take a few billion. It is going to now become no telling what the size of that will ultimately be. You have outlined now other expenditures of substantial funds, whether exactly the amounts of a trillion or whether that is the total investment amount.

My concern is that some of the expenditures may not be timely. By that, I mean would spend out in out years. Others far more knowledgeable than I raise the specter of potential for inflation during a recovery. Would you address all of these issues, because I think I, for one, would love to know what the big picture game plan is. What are we going to be spending? How are we going to be doing it, and in what sequence.

Secretary GEITHNER. Senator, the most immediate priority is to put in place a powerful program of effective support for job creation and private investment so we help arrest this crisis, reduce the ultimate depth and duration of this recession and get the economy back on track. That is going to require, as I said, very forceful action on the financial front as well as everything we can do on the housing front.

Now, these numbers are large, but just to make the comparison, again, I think you said this in your opening remarks, the numbers in the Recovery Act are different types of spending than the investments in loans in the financial program. What I think ultimately matters is what the ultimate costs and risks to the taxpayer of these financial programs are, and there is a very carefully designed process that CBO is the arbiter of that OMB contributes to to try to assess those costs, and everything we do will be run through the prism of trying to judge what the actual costs are to these programs.

Now, just to underscore something very important in what you said, even as we move forward to do these very, very substantial, forceful programs of support, it is very important that we give the American people the confidence that when recovery is firmly established, we have repaired this financial system, then we bring our resources and commitments back down to a position that is sustainable for our country. That is going to be extraordinarily difficult to do because if the magnitude of the challenges that we face today.

But it is absolutely critical to the credibility of our efforts that we lay out a path that brings our budget down to a more sustainable position over time, and the President will be announcing his budget in the coming weeks and you will see in that budget his commitment to achieve that objective. And part of that, of course, as you have seen him say in public, we are going to want to work with the Congress on bringing the broader reforms not just to budget process and discipline, but to our longer-term commitments in——

Senator MARTINEZ. Entitlements.

Secretary GEITHNER. ——Medicare and Social Security. Absolutely critical, very hard to do, but you have to look at them together.

But again, ultimately, it will be harder for us to meet those challenges if we don't act forcefully today to try to get the economy back on track.

Senator MARTINEZ. The Term Asset Backed Security Loan Facility is something that I think can be of tremendous help to many sectors of our economy. One of them that is particularly of interest to me is the time-share industry. Believe it or not, this is a tremendous employer in the State of Florida, where we have tremendously high unemployment and a growing unemployment, in addition obviously to the foreclosure crisis. I would love to maybe get back into the housing issue if my time permits.

But I wanted to ask you whether you thought that perhaps—the time-share industry has bundled their mortgages and sold them and been part of the same type of securitized facilities that have been in place but which today have completely dried up. Do you believe that this industry perhaps could be a candidate to address themselves to this loan facility so that they might gin up again the types of financing that keeps them on the road to rehiring folks back to work.

Secretary GEITHNER. I would want to look carefully at the conditions in that market before I responded fully to you, but what we announced today with the Fed is that we are going to expand this program to the commercial real estate, to the CMVS market, and there is a complementary program already underway by the Treasury and the Fed together to help get directly at the kind of factors that are helping keep mortgage interest rates higher. And again, our hope is the combination of those things would be helpful across the broader residential real estate, commercial real estate markets. But I would be happy to listen to the specific challenges in that area more carefully and get back to you, have our staff get back to you with whether we think there are any additional things we can do.

Senator MARTINEZ. Thank you. My time is up. I would love for you to at some point address your thoughts on a housing recovery package, which I know is part of what you intend to do as part of what you outlined today, but I would love to know more details on that as we go forward. Thank you very much.

Chairman DODD. Let me just say on that point, Senator, that this is something that, Mr. Secretary, and Senator Martinez is obviously a former Secretary of HUD and has a deep appreciation and understanding of the issues, and I would strongly recommend—in fact, I will ask you that as this moves forward in the coming, literally, day or so, as it is moving forward, that those of us up here who have a strong interest in this would like to be well informed as to the progress of how this is being developed. We always say this, but it helps so much more if we are involved in that process than——

Senator MARTINEZ. The front end.

Chairman DODD. ——being told what it is and then have a reaction that we could have avoided had we engaged in the kind of consultation that will be critical.

Senator MARTINEZ. Thank you, Mr. Chairman. I agree completely. Thank you.

Chairman DODD. Senator Tester.

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

I want to thank the Secretary for being here today. I appreciate your time.

I want to get back to the coordinated supervisor review process and comprehensive "stress test" dealing with the, I believe it is about 14 banks over the size of $100 billion. Would you ever allow those large systemic banks to fail.

Secretary GEITHNER. Senator, in my judgment, given the challenges we face in this country, it is very important that we let the world know, the American people know, that we will take whatever action necessary to help prevent the kind of failure that would cause systemic damage to our system, and I think that is a very important thing to say and it is important that our actions meet that test.

Senator TESTER. So what you are saying is that, for the most part, those 14 are too big to fail.

Secretary GEITHNER. I don't think, Senator, I want to use those words, but I do believe deeply, and I think we have had a lot of experience over the last 18 months seeing the consequences of alternative strategies, that it is important for our country that we do what is necessary to help stabilize the core of our financial system.

Senator TESTER. OK. Is there any—without being too—I mean, even as a percentage, are there some limits on how much you would put into one bank? Taxpayer dollars, I am talking about.

Secretary GEITHNER. Senator, again, I need to be careful in responding. I understand what you are asking, but I just want to be careful and responsible and candid with you. It is that what has to guide everything we do, what is going to produce the best benefit in terms of the confidence, stability, capacity for lending to support recovery, at least risk to——

Senator TESTER. And I understand that. I guess the crux of where I am going is that if, in fact, these folks are too big to fail, where is the accountability for them.

Secretary GEITHNER. I think it is—you are absolutely right that you want to make sure that where the government has to act because it is in the interest of the economy as a whole, that when you do so with conditions that are commensurate with the support we are providing. As a basic principle, conditions should escalate with the level of assistance.

Senator TESTER. OK. I want to talk a little bit about community banks. We will go to the other end of the spectrum for a bit. The Chairman talked about how they have done a pretty good job managing their risk overall. What I have heard from community banks in my neck of the woods, number one, is that the regulators have clamped down on them so they can't loan out money, and these banks aren't in trouble. What are your thoughts about that.

Secretary GEITHNER. I have heard those same reports and I think you are right, there is risk that in some parts of the country, even banks that are well-run and strong are facing pressure to be more conservative going forward, in part because we know we are facing this very challenging recession. And as I said, it is important to me and I think it is important to the supervisors that they be very careful in sending out balanced guidance that helps reduce exactly that risk.

I have talked about this with my supervisory colleagues. They have put out some guidance in this area in November and they are examining how to make sure that we avoid just the kind of problems we are facing. But again, it is important to recognize that this economy is slowing and it is requiring everyone to reassess what the risks are ahead and what were long established normal business relationships.

Senator TESTER. I understand that, but it seems a bit unfair, especially with my previous question about the big boys, that the community banks who have done a pretty good job running themselves are now being clamped by the regulators when, in fact, they are very, very close to the people who they are lending money to and understand their business model.

Secretary GEITHNER. I understand that concern. I have been exposed to it.

Senator TESTER. OK.

Secretary GEITHNER. I think it is damaging to the overall confidence in the evenness of the process and we are going to try to bring a more even set of standards across the entire system.

Senator TESTER. OK. One of the things I have been critical of is TARP funds, and I am not the only one on this committee that has, being used for bank consolidation. Last week, Eagle Bank, which received $38.2 million from the Treasury Department, bought up one of its rivals, Fidelity Trust Bank. Number one, do they tell you what they are going to do with this money when they apply for it? And number two, is consolidation something that you guys approve.

Secretary GEITHNER. Thank you for raising this question. It is a very important question. In our program, we are proposing that for any future assistance under a capital program like this, the institutions that receive it have to give us a proposal for how they would propose to use that assistance and to demonstrate to us that the resources are going to be used to expand the level of lending that would have been possible without assistance coming to an end. We are going to ask them to report monthly on exactly what is happening to lending and we are going to put those reports in the public domain so people can see them. So our objective, again, is to try to make sure that the assistance we are providing comes with conditions to make sure it is going to improve the supply of credit to where it is needed most in our economy.

Senator TESTER. I understand that, and I am out of time. Very quickly, though, I mean, is bank consolidation something that you encourage with the TARP dollars? And I understand the ground rules you laid about encouraging, but long-term, consolidation of the banking industry doesn't give me more consumer choice, it gives me less. So——

Secretary GEITHNER. Senator, I understand your concern——

Senator TESTER. Yes.

Secretary GEITHNER. ——and I share it and I am sensitive to it. I think that our financial system is stronger because we have this remarkably diverse system of 8,000 to 9,000 banks, including community banks across the country, and as you said, many of them were not part of the problem and they can be part of the solution and they are likely to be able to expand because they were more responsible than some of their competitors.

Senator TESTER. All right. Thank you for being here. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Senator Corker.

Senator CORKER. Mr. Chairman, thank you for starting the meeting with only opening comments from the two of you. I heard a sigh from the American public and from our witness, and I hope we continue to have meetings in that way. Thank you.

Secretary GEITHNER. The witness did not sigh. I just want to clarify the record.

[Laughter.]

Chairman DODD. Maybe just the people in Tennessee sighed, too.

Senator CORKER. Thank you so much.

Mr. Secretary, welcome. We look forward to working with you to solve these problems. Last night, I heard the President say that today you would outline a very clear and specific plan. Obviously, that was not the case. I am not criticizing, but obviously today's plan was vague. And I can look at that as a glass being half full. That means that hopefully we will have the opportunity to work with you to make it into something that actually works.

But I sense there is an internal debate that is taking place, and I think actually it is a debate that a lot of people are having, and that is, you know, isn't the question really not how big the losses are, but who will take them and when? And it seems to me that that really is where the focus ought to be. There is a way of sort of metering this out, if you will, and letting banks take the losses over a couple of years and basically be dead men walking. And as you mentioned, the financial world is basically working against an economic recovery right now, and obviously that is not a good thing. The other way of dealing with it would be just to solve the problem, OK? So the problem first.

It is my understanding, you know, I have looked at some of these programs that have been laid out, and in some cases it is hard to determine whether we are solving a liquidity problem or a solvency problem. I strongly believe that it is a solvency problem, but I would like for you just to say yes or not. Is it solvency or liquidity.

Secretary GEITHNER. Senator, the system is short both capital and it is short liquidity in funding, and you need to treat both those things.

Senator CORKER. And you need to treat both, but the issue as it relates to the banks and what they are doing with our money and the fact that lending is not taking place is in large part a solvency problem, is it not? I mean, on these whole loans, these accrual loans, where GAAP accounting does not allow them to go ahead and take losses now, they know those losses are coming, and so they are basically maintaining our capital and in essence creating this environment that is not causing them to lend. Is that correct.

Secretary GEITHNER. Well, I think you are right that for some institutions—and it is very important to differentiate across institutions because, again, we have a very diverse system. For some institutions, the scale——

Senator CORKER. Let us say our large institutions.

Secretary GEITHNER. Well, even among the large institutions, they are in very different circumstances. But for some institutions, the scale of possible losses ahead are large relative to their existing capital base. And it is that comparison that matters, and that is why it is important to try to give the market more confidence that these institutions are going to have the resources necessary to absorb those losses even in a rather extreme scenario. And in the absence of that, you are right, you are likely to see lending constrained.

Senator CORKER. But isn't the major debate before us today whether we go ahead and address the losses now, get our banking system on a firm footing, and allow people to invest in common shares that they know are going to grow, allow these banks to begin making loans? Or we just sort of dole it out over time, which obviously takes a little bit less cash today, a little bit less owning up, a little bit less transparency, I might add. Isn't that really the debate that is before our country today.

Secretary GEITHNER. I think that is an important choice, and my personal view is we need to err on the former side of the strategy. And I say that because if you look at the experience of other countries dealing with complicated financial problems, the crises last longer, it is must acute, it is more expensive if you try to hide it and stretch it out. And we are going to be very careful to avoid that risk.

Senator CORKER. And I think that is one of the reasons that this came after the stimulus vote, and I think that we will be talking about additional taxpayer monies. This is a battle that has already been fought and lost. I wish that we had been able to be totally transparent with the American people about the total cost of what it is going to take to deal with this economy. And I know that in future hearings we will be dealing with that as you come back asking for more money.

Let me just ask you this: Is TALF becoming yes or no, because I have two questions and I want to be brief. Is TALF becoming in essence the de facto bad bank.

Secretary GEITHNER. No.

Senator CORKER. Not happening.

Secretary GEITHNER. No.

Senator CORKER. OK. I wonder if it would be helpful to take the $9.7 trillion that a lot of people say has been allocated to bailouts—and I realize people can take liberties as to what that is. But would it be good for the Treasury to actually look at the amount of expended funds today and actually make a calculation as to where we are.

Secretary GEITHNER. Yes.

Senator CORKER. I have two more questions and I will stop, and I know I am fudging a little bit, Mr. Chairman, but I would like to understand how we are going to stress test the banks, OK? If we are going to send in teams to actually cause the banks, especially that have these accrual loans and know that losses are coming, to go ahead and get those written down? Which is not, by the way, GAAP accounting standards. And, second, I would love to know—it is February the 10th. I talked to you the other day about this, and I appreciate you taking my calls. And I do not want to be known solely for this issue, but February 17 is a big day in the auto world. We have no czar, and it is February 10. I just wonder if you might share with us a little bit as to how that stands.

Secretary GEITHNER. OK. Thank you. The answer to your first question is we are going to do it carefully, understanding the existing accounting regime and existing regulatory capital requirements. But the basic process has this basic, simple, understandable appeal, and it is part of what banks do and supervisors do, which is to look ahead at a range of possible scenarios and the losses associated with those and make some careful judgments about what is most likely to happen and to measure those against, again, the scale of resources the bank has that it can generate over time against those losses. That is the core of the thing.

But you are right about GAAP accounting, and we are going to be careful to do this, again, within the basic supervisory process, knowing that there is a set of accounting and regulatory capital requirements that we are going to leave in place. Now——

Senator CORKER. I hope you will do it like an investor would, because we are investors, and let us go ahead and take our medicine and get our country moving again. That is the most significant thing we can do as it relates to stimulating the economy.

Secretary GEITHNER. Senator, on autos, as you know, on the 17th we are going to receive from the critical parts of the industry a series of initial restructuring plans. We are going to look carefully at those. We have a team of people both at the Treasury and organized under the auspices of the National Economic Council trying to bring together the resources of the Government; two, trying to make sure we are in a position to make good judgments about what is going to produce a kind of outcome that achieves the extensive restructuring that is going to be necessary to leave these companies in a position where they are going to be viable businesses without Government support over time.

That is our basic objective. We are going to have to start by looking at their plans, and at that basis, we will be in a better position to make some recommendations for what we think is going to be appropriate and necessary going forward. But I feel as strongly as you do that time is not with us, and we need to make sure that we are in a position to make good judgments going forward.

Senator CORKER. Thank you, Mr. Chairman.

Chairman DODD. Thank you.

Let me just on that point, before I turn to Senator Warner, my hope would be, Mr. Secretary—and I gather you have not named anyone yet to be this car czar, or whatever title is appropriate. My hope is we would be looking, without any particular individual in mind, at someone who clearly has the background in making things or producing things. It seems to me it would be critically important that someone understands that. Obviously, someone out of the industry itself who had a long history would be ideal, but it need not be from the industry as long as it comes from someone, in my view, who really has an appreciation of producing a product. It seems to me in looking at this issue, we need to examine it from a broader perspective than just the financials, which are important, but from a broader perspective. So I appreciate my colleague's question in that regard.

Secretary GEITHNER. Senator, I agree with you about that in the sense that we need to make sure we bring not just that expertise, but there is a range of other expertise and policy interests that are going to be critical to making good judgments in this. And you are right that the financial things are important, but they are not the only thing that matters to making these judgments.

Chairman DODD. I appreciate that very much.

Senator Menendez is back. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Mr. Secretary, I appreciate you being here. Congratulations on your confirmation. I was happy to support you, and I think that you have started off on the right track, particularly as it relates to the elements of this that are clearly transparent, and for accountability, I think those are all good steps. But I have to be honest with you. A lot of questions still remain unanswered. A lot of details are necessary before I can give it my support. And I learned my lesson the last time when Secretary Paulson came before this Committee and in private entreaties and supported that effort, and I am not about to go through that again.

I will tell you that if to some extent this is like testing the canary in the mine to see whether it lives or dies, as far as I am concerned, it would be dead already because there is not a hell of a lot here to get a sense of.

So, with that as a caveat, you know, I am looking for a plan that ultimately prioritizes Main Street at the end of the day. I am looking for a plan that helps put cash in the pockets of people who are going to spend it and businesses that are going to create jobs. And I am looking for a plan that ultimately ensures that we are going to save a lot more people in their homes not only because as a societal thing it is good, but also in terms of home values and neighborhoods.

So, you know, right now I do not quite understand what the full plan—I got the outlines of it, but I do not quite understand what the full plan is, so let me go after two things specifically and see if I can get some sense.

I read in one of the clips today that there was an internal debate over what I call conditionality, how much conditions to put in this process, and that you won that debate internally about what level of conditions should exist.

One of the areas that I am interested in is what we are going to do about lending. You all sent us a statement—this was before you were Secretary, but I believe you might have had a little something to do with it—that suggested you were going to have lending for institutions that are sound, insist that lending go above the baseline.

I would like to get some extent, because without conditionality we did not see this happen, and so one is what type of conditionality do you envision on the lending issue, because we continuously hear about the credit crunch. And the second major tranche of questions I have is about, you know, this buying of bad assets, however we may do that. I read about and I see your statement about a public–private partnership. Well, how much of it is going to be public? How much is going to be private? How much of it is going to—what is the valuation process that you are looking to pursue? Those are two areas, I think, that are critical for the type of support I would like to give your efforts.

Secretary GEITHNER. Thank you, Senator. Let me start with lending conditions. We are going to do the following three things.

As a condition for assistance, we are going to ask the banks to provide us with a plan for how they are going to use the assistance to generate a level of lending that is above what would be possible in the absence—with what have been possible in the absence of Government support.

Second, we are going to ask them to report—require them to report monthly on what is happening to lending, with a level of detail that we will be able to see exactly what is happening, again, relative to that initial expectation. And those reports are going to be put in the public domain, so you and your constituents will be able to see exactly what is happening, not just who gets assistance but what happens with that assistance and how it affects actual judgments on lending.

As you know, it is a very hard thing to know what would have happened without assistance because, again, we have an economy where there was too much credit, credit is shrinking necessarily, and as growth slows, demand for credit from creditworthy borrowers themselves will also slow. But, again, our basic objective is to try and make sure the assistance comes with conditions that will increase the amount of lending that would have been possible in the absence of Government assistance. We are going to require firms to tell us how they are going to do that. And we are going to monitor and measure what happens in response to that.

Senator MENENDEZ. How are you going to determine in the first instance what would have been? Because potentially—I am sure this is not what your goal is, but potentially one loan might have been greater than what would have been available before.

Secretary GEITHNER. I agree. That would not be an adequate result.

Senator MENENDEZ. Right.

Secretary GEITHNER. I think that a dollar of capital——

Senator MENENDEZ. And is it loaned from one bank to the other or is it loaned—if I am loaning from one bank to another versus loaning into what I want to see, which is, you know, businesses in America and consumers in America so that we can get this credit growing, is it going to look at not only the numbers but the quality, the nature of the loans.

Secretary GEITHNER. Senator, you are absolutely right that the objective of this program is and should be to try to make sure we are getting credit to small businesses and families. That is the ultimate test of this program. And what we are trying to do is to try to meet that basic test.

You are also right that it is going to be—it is very hard to measure what would have happened in the absence of assistance. It is a hard thing to do, but the best way to do it, I think, is to have firms commit to how they expect to use it and to be able to see a level of reporting that allows you to see exactly where it is going. And people will be able to look at that and see where it is increasing and where it is not. It is hard to know what would have happened in the absence of the assistance, but we are going to do our best to try to navigate through that complicated area.

Senator MENENDEZ. Can you talk to us about asset valuations.

Secretary GEITHNER. Absolutely. Enormously difficult to decide on a mechanism that will give us confidence that the values are fair and realistic and that the Government understands the risks we are assuming. There are no perfect ways to do this. One approach is for the Government to decide. One approach is for the Government to use independent model-based estimates of valuation.

We are concerned neither of those two approaches would give us the level of comfort we need. So instead what we propose to do is design a fund that can have private capital come in with Government financing alongside the Government's capital and use that as a way to help solve this valuation problem. And we believe doing it that way will leave us with better protections against the risk in making these basic judgments independently on our own.

Now, no process is perfect, and you are right to ask what is going to be the mix of risk and return for the Government in this area. And one of the reasons why we have laid this out in general terms today is because this is enormously complicated to get right, and we are going to try to get it right before we lay out the details. And on these elements and others, we are going to come and consult and explain exactly the kind of considerations we are trying to balance and give you our best judgment on how we can solve those things.

Senator MENENDEZ. Well, I look forward to those consultations because, you know, I appreciate what you want to accomplish. I am cautious about where you are headed. And I look forward to the opportunity.

Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator, very much.

Senator Hutchison.

Senator HUTCHISON. Thank you, Mr. Chairman.

Mr. Secretary, you said early in your testimony that this was part of your collaboration, talking to the Committee. So I want to tell you a scenario that is important to me and give you my input for your collaboration.

First of all, I think you have gotten from just about everyone on this Committee that we put our faith in what was told to us about mid-September of last year, and all of us have been very disappointed in the outcome because any of us going through our States can tell you a story or 10 stories or 100 of business people who cannot get loans and people who are out of jobs. So I think your goal of bringing in a private partnership, taking bad assets off the books to get the banks to lend is the right goal. It was also the first goal that was brought to us in mid-September of last year. But that goal changed about 3 weeks later.

So I am looking at the problems that you are facing, which is how do you value those bad assets and how can there be a taxpayer upside with this model. So I go back to the last time we had the good bank/bad bank model, which was the Resolution Trust Corporation.

Now, this is what I want to ask you. I lived with many people who got taken under by the Resolution Trust Corporation. There were bad S&Ls—there is no question about it—that got way out of their league. But what happened because there was a policy of not trying to work things out, but to get assets off the book, shut down those bad actors, and it caused many good banks and good people to be taken under with that undertow.

My question to you is: If there is going to be an attitude in your policies of working things out that would be different from the Resolution Trust Corporation and one of the key areas here is that a performing loan would not be called, if it is performing, the Resolution Trust Corporation, because they were so anxious to get rid of the bad assets, sold for cents on the dollar. Property then throughout the area was devalued, so the collateral did not meet the standards of the original loan, and loans were called even when they were performing.

My question to you is: In your policies with a good bank/bad bank if you can work out the valuation of the assets, and an upside for the taxpayer, will you have a policy that will allow performing loans to go forward and you will not allow performing loans to be called, as long as they are performing.

Secretary GEITHNER. Senator, that is an enormously thoughtful question. Let me just say a few things in response.

I do not believe that the S&L crisis is the right prism through which to look at what we face today. This crisis is much more severe. It is going to be much more complicated to solve. The system we have today is much more complicated and fragile. And we are not going to get through this by adopting the basic approaches that were adopted at that time. Completely in some ways a different situation because in some sense that architecture of resolution was set up to deal with institutions that were being closed. And you are right that people were troubled by some of the judgments made in that context. But, still, the basic architecture there was to deal with the problems the Government faced after they had already taken on and assumed a large-scale of assets of those failing institutions.

In some ways, that is an easier challenge to solve than what we are trying to do here. What we are trying to do is to get the market working, to help provide some financing for those markets, and help that facilitate the process of strengthening our institutions to get private capital to come in. It is much harder to do.

Now, on your specific question of how we are going to treat performing loans in an economy where expectation of further losses may be increasing, difficult question. I would have to consult with my counterparts in the supervisory parts how they are going to do that. I would be happy to ask them to be responsive to how they are making the judgments. But I think it is an important balance to strike. In a simple way, governments make two types of errors in these things.

One type of error is to underestimate and ignore and hide the full scale of the problems in the hopes we can stretch it out over time and grow our way out of it.

There is another type of error governments make, which is to move too aggressively in ways that cause a deeper contraction of lending than would otherwise be necessary to occur.

Now, just because those two risks exist does not mean we are going to get it right if we are careful navigating through that, but that is the art of the challenge, and it is an enormously difficult, complicated challenge. But you asked a very thoughtful question. I am the Secretary of the Treasury, not the direct supervisor of these institutions. And what I would like to do is to refer that question to the four national bank regulators and ask them to come back to you with a response to your question.

Senator HUTCHISON. That would be very good, and I understand that it is more complicated this time, because you are not going to have one piece of land that has one loan that is still owned by the underlying bank. And I realize that is why it is so hard to value the assets. But there will be some of that, and it does make a difference in a community, and all of those real estate values are part of the whole housing problem as well. So I do hope that you will just keep that as a policy thought, and I agree with you the regulators' part of the problem was the Comptroller did not allow any leeway. And it was not just the S&Ls that were having this problem before. It took the banks under as well.

So I hope that in the policy the key is that you want to work things out as opposed to wanting to just get rid of things to clear the books on the backs of people who are paying, performing, and trying to do the right thing.

Chairman DODD. Thank you very much. Thank you, Senator.

Senator Warner.

Senator WARNER. Thank you, Mr. Chairman.

I want to come back to this valuation issue, but I have got a couple of other questions first. First, one of the things I was happy to see, Mr. Secretary, was some of your at least outlines of new initiatives around small business, consumer. One other area that a number of members of this Committee under the leadership of the Chairman sent you a letter on is the area around the municipal markets. We have seen enormous spreads in that area. We have seen a slowing of projects. The Chairman talked about a number of small towns in Connecticut that had projects ready to go to market. I know Senator Bennet is going to follow up on this question as well.

If we are really truly looking at already scrubbed, shovel-ready projects in terms of infrastructure and stimulus activities, the municipal market and the slowing there is an area where I would hope we would fall into being looked at for consideration, whether it is spurring purchases or some level of credit enhancement. But if you could speak to that, I would appreciate it.

Secretary GEITHNER. You are right to point out how important this problem is. There has been a little bit of improvement recently, but still, municipal authorities are facing much higher borrowing costs than they are used to facing, and that is because this elaborate structure was set up for how muni's finance themselves that relied on, frankly, some very fragile architecture. And when the basic funding sources for that dried up and when the amount of credit protection that was provided no longer proved sufficient, you saw those resources fall away, huge, acute damage to the muni markets. And there has been a little improvement, not much yet.

There are a group of people in the Treasury and the Fed that are looking at a range of ideas to help address this problem. We are open to suggestions. To be honest with you, I have not yet seen a good idea which I think would be an effective use of resources, again, relative to the costs and risks. But we are very pragmatic. You will find me very pragmatic, open to suggestions, happy to work with you on any suggestions——

Senator WARNER. That is an invitation to those of us who have been looking at this issue to share some thoughts.

Secretary GEITHNER. It is.

Senator WARNER. Thank you. I want to come back to what Senator Menendez and Senator Corker were talking about and add my sense that the sooner we bite this bullet, the better in terms of trying to get some of these—particularly clean up the balance sheets and get these bad assets off.

I have got two questions that are kind of a little bit interrelated. I assume that you feel that as you go in and make the stress tests of these banks, you are going to have the capabilities to truly assess the financial health of these banks, which consequently means you are going to have to go in on these major institutions and actually value these bad assets in their portfolio, which seems to be, from the outside at least, the nexus of a little bit of our problem so far, how do you value those bad assets. But isn't the stress test going to have to include that valuation process, number one? And I was going to try to ask these separately, but I think they are interrelated. I am very interested and excited about this notion of this public–private initiative that would include both the Fed and the FDIC and the Treasury. But I am a little bit concerned about where the timing is. If you are going to do the stress test first over here and actually value the assets, the bad assets, and then once they have gone through the stress test, you are going to put those bad assets into this public–private, or are you going to have the public–private try to value the bad assets before the stress test? Help me through that, and, again, it comes back to some of these valuation questions.

Secretary GEITHNER. Excellent questions. On the first, the supervisors—and this is their responsibility, and this is in some sense what they exist to do—are going to, again, bring a careful assessment on a more consistent, realistic, forward-looking basis to look at how these assets may perform across a range of alternative scenarios. This is something banks do every day. It is something supervisors exist to do in some sense. You are right, it is very hard to do—again, not just because of how much uncertainty there is about how long this recession will last, how deep it will be, but because many of these assets have no historical precedent, and past loss rates will not be a good guide.

So it is difficult to do, and you are also right that you want these things to go together. They do not need to all happen simultaneously for this to work, but you want them to move together. So our hope is if we provide financing through this facility for consumer and business lending to help restart the securitization markets, that will start to help free up stuff and bring down risk premia; that these funds be described as public–private investment funds will, again, provide a mix of financing in private capital, Government capital, to also provide some financing for these assets, at the same time——

Senator WARNER. A pricing mechanism, basically.

Secretary GEITHNER. Exactly. And at the same time that these institutions are moving carefully to try to make sure they have the resources and capital necessary to deal with their challenges, you want to—they do not need to happen all at once for it to work.

Senator WARNER. So you do not require the stress test to happen first.

Secretary GEITHNER. Well, that process is underway, already been underway. You want that to proceed, and you want these other things to get some traction because that will help improve the overall environment of these markets. And you want it to happen as close together as possible, but you do not need to have this tight link for any——

Senator WARNER. It is not a prerequisite to finish the stress test before you——

Secretary GEITHNER. It does not——

Senator WARNER. ——a bank would fall into——

Secretary GEITHNER. ——need to be. Again——

Senator WARNER. ——good assets off on the——

Secretary GEITHNER. You are trying to make judgments about what the scale of losses may be across a range of scenarios with those assets. And, you know, of course, people always look at what is happening in the market as a measure of that. What you are really trying to make is a broader judgment about the ultimate credit losses, taking out the kind of special factors that are making market prices today not that appropriate a measure of ultimate credit losses.

Senator WARNER. I know my time has expired, but one last plea. I am happy to see that you are going to put up everything on a Web site that is going to be transparent and hopefully user friendly going forward. But please, please, also do that for the first round for TARP. Too many folks still do not know that—at least Virginians feel that we have totally wasted all that first $350 billion, do not realize that, I believe, on February 15 we are going to be receiving some of the first interest payments on some of those investments, and the fact that we still do not have an easily understandable site that can identify the over 300 institutions we have invested in, how those investments are doing, really hurts your credibility in terms of a going forward basis.

Secretary GEITHNER. Completely agree, and in addition to that, again, we are looking very carefully at all the recommendations for the oversight bodies, the congressional oversight body, the IG, the GAO, to make sure we are taking the best of their recommendations, too. But I completely agree with you about the problem, and it makes my job much harder.

Senator WARNER. So the going backward—looking back Web site, can you give us a timeline when that is going to be——

Secretary GEITHNER. We launched the Web site today. We are starting. But we are at the beginning——

Senator WARNER. The prospective one or the retroactive?

Secretary GEITHNER. Well, one thing we did, I think the first day in office, was to commit to put the specific contracts that applied that show who got the resources and what terms on the Web site, too, and we are going to do that as quickly as possible. But we also want to show, as you pointed out—and I think you were right to point this out several times before, which is that you want to show the American people that these investments were in the form of preferred stock. They had a coupon dividend payment. That is going to come back to the Treasury in quarterly payments, and we will show those as they come in, without misleading people that, you know, these investments had risk and those flows of dividends and coupon are designed to help cover those risks.

Senator WARNER. They have risk, and hopefully we are going to, at the end of the day, come out relatively close to whole. But a lot of folks in my State think that we have taken that money and poured it down a deep hole.

Chairman DODD. Thanks, Senator.

Senator WARNER. Thank you, Mr. Chairman.

Chairman DODD. Let me endorse the proposal by Senator Warner. I think it would be tremendously worthwhile. I do not want to overcrowd your capacity to do this, but I think—it does not happen tomorrow or the next day, but it would be a great source, I think, of potentially some relief to know where this has gone. Not that they are going to be happy with the results, but at least have some idea where it is. I think it is a very good suggestion.

Before I turn to Senator DeMint—and I am sure Senator Bennet will raise this as well, but taking the Troubled Asset Program, the TALF program and I do not disagree about commercial real estate being a beneficiary of that program. But I am a little hard pressed to understand why commercial real estate would have access to those funds for a strip mall, and yet municipal bonds would not be available for the same kind of relief when it comes to a school or a water treatment facility. But I will leave you to—just that sort of glares at me in terms of the distinction. But let me turn to Senator DeMint.

Senator DEMINT. Thank you, Mr. Chairman, and, Mr. Secretary, thank you for taking on this very difficult task. I appreciate you being here today. On a day when we passed a $1 trillion stimulus and you announced another $1 or $2 trillion for a financial bailout, the stock market is down nearly 400 points, so apparently the investors—maybe they will catch on tomorrow but do not have a lot of confidence today in what we are doing. But a lot of us have had bankers come through our office. I will not spend a lot of time on this, but they kind of scratch their heads and ask us why we are throwing so much money at this thing when there are some small things we could do that would actually give them more capital in their balance sheet and more liquidity.

It has been brought up, but we appear to have clamped down on the loaning criteria of banks right now. The rules like mark-to-market, I have heard from businesses back home that banks have been forced to come in and reduce credit lines substantially, credit lines that they have had for years, because we count the entire credit line against a bank's assets even if they are only 10 or 20 percent subscribed.

The bankers just wonder why we are not willing to consider any regulatory changes that would help them help themselves. I understand the difficulty here because it is probably easier to get $1 trillion out of Congress than it is to get any good policy out of Congress. But it is just completely missing from the conversation, some things that we might could do that would allow from the bottom up some things that would help.

But we can debate what would work and what would not work. I frankly think the specificity of the presentation given the amount of money is terribly informal. As a former businessman, what we had to do to borrow $10,000 to present how much we wanted, how we were going to use it, how we were going to pay it back and when, the criteria was much stiffer than it is here today.

But I would like to—as Treasury secretary, you have more to deal with than just the TARP funds. I would like to just ask a couple of questions and hope for some short answers so I could get through this.

From former staffers at Treasury that I have talked to, they explained that we have so much debt as a Nation now that these loans are coming due regularly. We often have to borrow money in order to pay loans that are coming due, and it is kind of churning, and we are playing it fairly close to the vest already. We are talking about borrowing another trillion or two or three over the next few years.

Where are we going to get this money? Who is going to lend it to us? Are we going to print it or borrow it? And where are we going to get it.

Secretary GEITHNER. Senator, thank you for raising this. It is an incredibly important concern, and as I said earlier today, I think it is very important as we work to solve this crisis and get the economy back on track, that we also lay out to the American people and the world a path that will bring our resources and our commitments more into balance, bring our——

Senator DEMINT. I do not want to interrupt, but I have only got a couple of minutes. Are we going to borrow it or print it? And where will we borrow it from.

Secretary GEITHNER. We are going to borrow the resources necessary to solve this problem.

Senator DEMINT. Who will buy these notes.

Secretary GEITHNER. People in the United States and around the world, and, Senator, this is very important to do. I think that if we do not do enough now to solve this, then we are likely to suffer further loss of confidence in our financial management. And that will make it harder for us, I think, to try to solve these problems long term.

So I think that it is important to recognize that the more we do to try to get the economy back on track, the more likely it is——

Senator DEMINT. I understand your arguments there. I am just trying to look at the other side of this. Our debt to GDP by the end of next year will probably be twice the European nations, and we have always seen them as heavily in debt. We could not get in the European Union right now because of our debt. And we consider them the socialists.

But as I look out on a trend line, I cannot see over the next 10, or 15, or 20 years any plausible scenario where the Federal Government can even service the debt—I mean the interest on the debt that we have, given the demographic situation of our country of so many moving in retirement, and our ability to grow out of this thing is very difficult. How can we possibly deal with this much debt.

Now, let us set the argument aside that we have to do something. I mean, we have got a crisis, we do not want to miss the opportunity when we have a good crisis. But are you not concerned at all that this is going to result in high interest rates or higher taxes or inflation? How can we possibly avoid that.

Secretary GEITHNER. Very concerned. And, remember, let us start with where we are starting. We are starting with a $1.2 trillion deficit.

Senator DEMINT. Right.

Secretary GEITHNER. And it is our deep obligation to try to make sure as we get this economy back on track that we are bringing those deficits down to a sustainable level. And as I said earlier, the President's budget will lay out a path to bring that deficit down over time to a level that is sustainable and has us living within our means again. It is going to be incredibly difficult, and it is going to require not just the President laying out that proposal, but us introducing a set of disciplines on the budget process, and it is going to require that we start now to help address these longer-term entitlement problems.

You are absolutely right, I am deeply worried about it. But I think that the only way to get there is to act as forcefully as we can now to get our economy back on track and our financial system repaired and back to the point where it is working with the recovery.

Senator DEMINT. But you can produce a model that shows some projection of economic growth, some revenue stream to the Federal Government, and within that an ability to actually service the amount of debt that we have as a Nation? I mean, you have produced that model.

Secretary GEITHNER. Well, it depends, Senator, on the choices the Congress and the administration make in the coming weeks and months, because for it to work, you have to be prepared, again, to bring our resources and commitments more into balance. It does not happen without that. We cannot produce it without those hard choices, and that, again, is going to require extraordinary difficult challenges, because, again, where we are starting is a $1.2 trillion deficit without precedent in recent memory. And, again, to bring that down is going to be extraordinarily difficult. But that is why the economic recovery is designed so that it is providing as much support as quickly as possible without adding to those long-term expenditure paths. And so that will help a little bit, but we are going to have to make some difficult choices together.

Senator DEMINT. Well, I would like to know what those difficult choices are, because we are prone not to make any sacrifices. But I would think the lead you could provide this Committee is a chart of your revenue projections given the stimulus effect of what we are spending and show how revenues to the Government and whatever our spending cuts might be could actually pay the interest on this money that we owe over the next 5, 10, or 15 years.

Secretary GEITHNER. And the President's budget will do that. That is what it is designed to do, and it will do that. But that is just a start. It requires, of course, working closely together with the Congress.

Senator DEMINT. Thank you. My time is up. Thank you, Mr. Secretary.

Chairman DODD. Thank you very much, Senator. I am just recalling as a member of this Committee, not as Chairman of it, in 2001, 8 years ago, we actually had a hearing in this Committee with the Chairman of the Federal Reserve Bank coming before us, warning us because we were actually about to retire the national debt. And the issue was what are the negative implications—that was the subject of the hearing—of retiring the national debt. That was 8 years ago last month. We are now looking at a $10 trillion debt 8 years later.

Senator Bennet, I believe. Senator Bennet.

Senator BENNET. Thank you, Mr. Chairman. Thank you, Mr. Secretary, for your endurance this afternoon. I just have two questions. One is to follow up on the Chairman's point and Senator Warner's point on the municipal market, and the reason—you said there are not any good ideas yet, but I hope we will find some because as I look at it, the underlying credits of most of these municipalities and counties is actually quite good. So, in my view, the risk to the Federal Government is a lot lower than some of the other things we are talking about here. And the upside is huge if we could make sure that our local municipalities, counties, schools districts, and other folks can continue and invest money that is not the Federal Government's money in these shovel-ready projects that they all have.

So I hope we can figure out something that we can do here. I know that the work that the Fed did, and Treasury, on the commercial paper market, for example, was critical to getting that moving again, and I think we have got to find a way to get these spreads back in line.

Secretary GEITHNER. I did not mean to say there were no new ideas or good ideas. It is just that in looking at this to date—and we are going to have to work harder—I have not seen one yet. But we are open to suggestions, and we will look at this, and you are right to say it is very important. And there may be things we can do that would be very effective.

Senator BENNET. OK, great. And the second question, which is unrelated to that, is this incredibly unenviable job you have of trying to figure out how to value these assets, which, I mean, I have sort of racked my brains and talked to everybody I could find. It is incredibly complicated. One thing that you mentioned was the idea of a fund that would have both public and private money in it. And it occurs to me that, you know, part of what we need to do here is really make a market, and maybe the answer is that it is not one fund. Maybe it is more than one fund. And the RTC, interestingly, I mean, it may not be analogous to the situation we are in today, but eventually through the work of regional banks, with private capital invested in them, we worked out these issues. And I just wonder whether having multiple points of attack rather than one central fund could help spur some creativity and sharpen everybody's pencil about what the valuation should be.

Secretary GEITHNER. I agree with you. Doing it that way has some merits, and I think it is likely—I will not say it is possible. It is likely that the proposal we shape will have that feature.

Senator BENNET. OK. Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator, very much.

Senator Crapo.

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

Mr. Geithner, again, with the others here, I appreciate your coming before us today. It has already been indicated that not a lot of detail has come out today, but it is my understanding that in the approach that you have outlined, what is being discussed is the FDIC and the Federal Reserve Board providing basically debt financing to allow private participants to make bids on troubled assets, and that there is a lot of speculation, frankly, that the Federal Reserve Board would write some kind of a put option to truncate losses, allowing those who did purchase these assets to put them back at some price or at some point in the market.

Is that a fair assessment of how Treasury is approaching this.

Secretary GEITHNER. No, that is not part of this proposal. It is true that in a number of specific circumstances to date, as an effort to stabilize our system, the Treasury and the Federal Reserve and the FDIC have taken steps to help limit losses, cap losses on a designated pool of assets in some institutions. Those are things you want to do rarely. They are hard to do carefully and right. If we think there is a compelling case to do that again, then we will consider whether to do that again. But this proposal, which is designed to bring Government financing in alongside private capital with some Government capital, will not have as part of it that type of guarantee type——

Senator CRAPO. So there would not be any aspect of a Federal guarantee of the asset purchase.

Secretary GEITHNER. Not as we envision it in this proposal. In fact, part of the virtue of this proposal, again, is to try to bring a structure that allows a market mechanism to help catalyze market solutions to clean up these legacy assets.

Senator CRAPO. Well, one of the concerns—I guess this may address one of the concerns I have, but please help me answer this. I am getting back to the valuation issues that a number have raised. One of the concerns I have is how will the price be determined. Everybody is worried about that. If we have some kind of a guarantee or some kind of a put option, then obviously there is a question there as to whether the Federal Government is basically subsidizing a higher purchase price than is appropriate. But with simply the financing that you are talking about, do you believe that that would have an impact on the purchase price in terms of the Federal Government being involved in some way of subsidizing the price.

Secretary GEITHNER. Well, I would not think of it quite as a subsidy. I think you are absolutely right. In a solution where the Government is either purchasing or providing insurance or capping losses on a portfolio of assets, then you are acutely vulnerable to the risks that the Government is taking risks it cannot understand, cannot manage, may get wrong, may end up providing a level of subsidy to the institution that is not appropriate.

We are trying to avoid that risk by using this kind of structure, and, again, by providing financing alongside private capital with private asset managers, we think we are likely to put ourselves in a better position to avoid that risk. Very important to try to avoid that risk.

Senator CRAPO. I have listened very carefully to your answers to three or four different Senators today about valuation, and, frankly, I still do not quite understand. Let us assume that there is a private entity who is going to get some Federal financing in order to purchase the troubled asset. Today those private entities are not purchasing the assets because they cannot figure out what the price is.

How is the Federal financing going to assist? How is this process of price identification going to work.

Secretary GEITHNER. Part of the problem why you do not see that happening, you do not see private capital coming to work in these markets now, is because of the absence of financing on appropriate terms to do that. That is one of the reasons. There are other reasons, too, including the sort of deep uncertainty people face about what the path of the economy is and what is going to happen to those losses. But one of the important reasons you do not see that happening now and you see private capital holding back is because of the absence of this financing.

So we believe there is a very strong case, in the interest of protecting the taxpayer from risks and help solving this thing more quickly, to try to design something that helps solve that problem, again, with this mix of financing.

Now, in that case, in a sense it is the private investors that are making choices about valuation, but they are doing so with the knowledge that there is a structure that provides longer-term financing, and that changes how you look at the kind of return you need to get on these assets. Now, that is a structure that is widely present in alternative forms across markets. It can be done lots of different ways. But it is not a novel structure. The novelty in this idea is that it gets us a way we think will better leverage private capital, use our resources more carefully, and protect the Government against the risk that we end up, again, taking risks we do not understand, where we are vulnerable to having substantially overpaid for those assets.

Senator CRAPO. So if I understand you correctly, you are stating that you believe that the reason there is really not a market now for these assets is more a lack of financing as opposed to a lack of ability to determine value.

Secretary GEITHNER. I think that is central to the process. It is not the only thing. These things reinforce each other. Your colleague asked me earlier today which this is, about capital or about liquidity, and I said it is about both, because, again, it is in some sense a broad shortage of capital that is constraining the availability of financing, and that is feeding on the shortage of capital and, again, making it less likely people come in and put capital to work in this.

So I think our hope is that we can—by providing a source of carefully designed capital and financing mobilized this way, that we can help arrest that process. But, you know, it is not going to provide the decisive, clean, swift solution to this, but we think it will help.

Senator CRAPO. Thank you. Let me shift very quickly. I have got a lot of questions, but I just have time for maybe one more. As you and I have discussed privately, I am one who thinks you made the right decision in expanding the reach of the Term Asset-Backed Securities Loan Facility to include commercial mortgage-backed securities. I am interested in the proposal that you outlined today. If I understand it correctly, you have dramatically increased the leverage that is going to be provided for those funds. Could you tell me how you have done that and what you propose to do there.

Secretary GEITHNER. We do not intend to necessarily change the basic economics of the leverage. The way the proposal was initially designed, there was roughly $20 billion of capital from the Treasury in support of total financing in the range of $200 billion. That was a carefully designed process with a mix of hair cuts and other terms that, again, were carefully designed to protect the risks both to the Fed and the Treasury. So, of course, we are going to look at that carefully along with the Fed as we move to expand it both in size and in scope, and we will have to revisit that next. But, again, we want to have a mix that works from the interest of not just the Federal Reserve but the broader taxpayer. But we are not proposing to substantially expand the leverage in that now.

Senator CRAPO. All right. Thank you very much.

Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator, very much.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

I would like to turn back to the auto industry for a moment, Mr. Secretary. The focus so far from the Government has been on the supply side, and I want to urge you to look at the demand side, and the stimulus package, Senator Mikulski's tax credit should help stimulate—should stimulate demand. Talk to us, if you would, how you can, working with the Fed, ensure high priority is given to auto financing, both for dealers and for ultimate consumers, what we can do together there.

Secretary GEITHNER. As you know, the Treasury Department—well, my predecessor already took some action to help address the financing piece of the auto challenge. This Term Asset-Backed Lending Facility, this consumer lending facility, will also help directly get at the markets that are really critical for auto finance. They are recognized by the experts as being very helpful in that. Those two things will help, too.

But I think you are right, you want to—you know, as we look at and examine the best possible restructuring plan for these industries, we also want to look at trying to make sure the markets that we are financing are repaired and functioning better.

Senator BROWN. With both buyers and dealers in mind.

Secretary GEITHNER. I think that is a fair way to say it. The challenge, of course, is how to do it. But, again, if you do not get the financing right, your other problems are going to be harder to solve. And financing is key to the demand side.

Senator BROWN. And talk to me about—as the auto companies are working on restructuring, developing restructuring plans, as the administration is working on that, talk to me about how that comes together, what the timing is. Are you working with them now on restructuring plans? Or are they working on a separate track from you? And how do we integrate that, and do you hold enough money—make enough money available to implement the plans that you work out together.

Secretary GEITHNER. An important question. At this time, as the administration looks through broad policy options, the automobile industries, in separate parallel track, are putting together their restructuring programs, and we will see those in broad outline on the 17th, and that will give us a basis for making some initial judgments about whether those plans go far enough, and if not, how we are going to make sure that we achieve this important objective of helping—if there is a strong case for doing so, help the Government facilitate a restructuring that will leave them in a position, again, they are going to be viable longer term without Government support.

Senator BROWN. Thank you. Let me talk about generally with the banks and how Treasury has learned from everything, from the excessive executive compensation to dividends to the profligate spending on themselves, what Senator Tester talked about, the purchase of banks by other banks. It seems to be—and I appreciate the change in philosophy at Treasury. I appreciate the change in folks. I appreciate that Treasury has seemed to have learned something. It seems to be dawning on large financial institutions themselves that receiving billions of dollars in Federal aid means that they should scale back a bit on their own perks. But let us take it further to the whole issue of kind of the public interest, the broader debt that these banks that are getting tens of billions of dollars, the broader debt they owe to taxpayers, sort of the wider public interest here.

I understand that there is one major financial institution, and perhaps more than one, with tens of billions of dollars of taxpayer backing that is continuing to aggressively outsource jobs, back-office jobs, call centers, accounting, computer programming, IT. How do we address that? You talked in your opening statement, one of the first things you said I wrote down, "the financial system is working against recovery," and you talked about the deep loss of faith. If we are going to spend tens of billions of dollars of taxpayers' money in a financial institution, they then begin, as we are working on the stimulus package, we are here to stimulate the economy and grow jobs, they outsource the back-office jobs. How are you going to address that to make sure it does not happen? Do you make public statements about it? Do we make public statements about it? Do you build in conditions in this money that you invest in these institutions? What do we do there to stop that.

Secretary GEITHNER. To be honest, Senator, I am not sure what I can do, what we can do specifically about that problem. But what I can say is that we are going to bring much higher standards for accountability and transparency to those institutions, and the program the President and I laid out last week requires a much higher level of transparency by boards of directors to how they are managing these broad challenges. And that will help, I think, make sure that we do not see the kind of judgments made that make it much harder for us to justify public support for these institutions. But I think it is just important for me to say that I do not believe we can put ourselves in the position we are raising the prospect where the Government will come in and directly manage at that level of detail choices these institutions make. I think if we do that, there is a great risk that ultimately we will end up costing the taxpayer and the economy much more. It is a careful balance.

I understand your concern. I am deeply offended by many of the judgments they have made. It makes our job together much, much harder. But there is an important offsetting obligation we have not to create the prospect that the Government is going to come in and make these decisions for institutions that we want to remain in private hands and we want private capital come replace our investments as soon as possible, because ultimately it will be easier for us to solve this if we achieve that basic outcome.

Senator BROWN. That is not a very reassuring thing to people who read in the paper that a large financial institution, while getting public funds, is saving on employee costs by outsourcing back-office jobs instead of paying Americans to do those jobs when the unemployment rate is my State is approaching 8 percent and across the country is approaching something close to that. I do not think your answer was cavalier, but I do think that it implies something that I do not like to hear, and I hope you will revisit that, and we will do all we can to make sure you try to revisit that.

Secretary GEITHNER. Nothing cavalier in what I said. I have to be honest and candid with you.

Senator BROWN. I appreciate that.

Secretary GEITHNER. But the basic objectives that we are trying to make sure is that every dollar of assistance we provide helps get credit flowing again so this economy gets back on track. That is what guides what we do, and we are going to try to make sure the assistance is done to meet this broad, compelling public interest.

Senator BROWN. I fully understand. Thanks.

A last real quick point, Mr. Chairman. National City in Cleveland, the horse is out of the barn. PNC bought National City. I understand the need for secrecy and confidentiality. I understand all of that. But the bank no longer exists, and we never could get the answers from Treasury and from others about what really happened at National City, and I would urge you to be more forthcoming with those details to our office, to taxpayers in my State, to shareholders and former employees and people who lost much of their retirement of National City when that bank was bought with TARP funds, and they were not given—perhaps not given a chance to even apply for TARP funds. So we need to know more, and I hope that information will be forthcoming.

Secretary GEITHNER. I understand your concern, and going forward we will try to be as careful as possible and responsive as possible, and being responsive to those kinds of questions.

Senator BROWN. Thank you, Mr. Secretary.

Chairman DODD. Thank you very much, Senator.

Senator Johanns.

Senator JOHANNS. Thank you, Mr. Chairman. Let me, if I might, try to maybe set out some context for my questions. I have listened a couple of hours here, Mr. Secretary, and it strikes me that your testimony today is probably unprecedented—and I say that very, very respectfully—but just listening to what you described describes to me a level of government involvement in the financial institution that we have maybe never seen before. Probably did not even see it during the Great Depression.

We are describing a level of taxpayer support that also is just really unprecedented. Not to pin you down today on numbers, but I think you are giving us a fair warning this is going to be enormously expensive.

In that context I would like to ask you a couple of questions about the financial institutions and fixing that massive problem. Fast forward a year or two or three and hopefully we are both doing what we are doing today and this has worked. Tell me what we will have in 2 or 3 years from now when it has worked. Describe for me what the goal is, what the end zone is going to look like.

Secretary GEITHNER. The ultimate goal, of course, is that the economy itself is back on a path where we are growing at a sustainable pace and unemployment has come back down to a level where we are using the full productive resources of economy. The financials will look dramatically different for many of the reasons pointed out by your colleagues there is a very, very substantial restructuring going on across our financial system and it will not look 3 years from now what it looked like 2 years from now.

You have already seen very, very dramatic changes and you are going to see more of that going forward. But the test in some sense of the effectiveness of these programs will be whether we are seeing borrowing costs come back down to a more normal levels. And people who are creditworthy and have an idea they can finance or a company that they want to build, or an investment they want to make, are able to access credit more freely on terms that reflect the ultimate risk in those programs. That is the right test. Those two things.

Senator JOHANNS. You have referenced, though, in a number of parts of your testimony, accomplishing a goal of a credit market that is securitizing, that is bundling, and that there is a marketplace to purchase that.

And here is what I want to ask you about that. I look at that, in what percentage of this problem would relate to real estate, mortgage-backed securities.

Secretary GEITHNER. Senator, a very substantial portion sort of depends on the institutions and the type of real estate assets.

Senator JOHANNS. A lot.

Secretary GEITHNER. A substantial portion, but not the entire bulk of it.

Senator JOHANNS. Yes. Here is what I think it gave us. I think it gave us a bubble. It certainly gave us a burst of economic activity for a little while. It gave us obscene compensation plans, by anybody's definition. It gave us the inability to look at that basket of assets and decide what the value of it is. It gave us a system where people were buying those assets, probably not really knowing what the value of that asset was. It brought in a large part to the brink of financial collapse. And today, somehow, someway, we have got to explain to the American taxpayer why it is worthwhile to invest in that to save that system.

How are you going to stop that.

Secretary GEITHNER. Excellent question, and you are absolutely right that parts of that system are broken. And those basic failures were part of what made this crisis so bad. I agree with you about that.

But the programs rolling out today, we are confident will be designed again to help get those markets functioning on a more sound foundation. What this program with the Fed, we are lending against the highly rated insurances of new securitizations going forward that have as their underlying loans student loans, auto-finance loans, credit cards, receivables. Those markets worked better, those structures were more tested, longer lasting. They have more basic confidence underlying them.

But you are right. Real estate was at the heart of this and what you saw develop in the securitization markets over time helped make this worse, harder to solve and we have got to be careful not to sustain or artificially continue or try to artificially support those basic markets but I think we are being careful not to do that.

Senator JOHANNS. One last question, it comes out of the document you gave us. And I will just, and I say this as a former Cabinet Member, it would be so helpful if you would get this to us the night before your testimony. At 11:30 a.m., we've got a hearing in the afternoon, this was, it was unfair. So I would, just as one member of the committee would appreciate a more diligent response.

But you say a key component that Capital Assistance Program is a forward looking comprehensive stress test that requires an assessment of whether a major financial institution has the capital necessary to continue lending and to absorb the potential losses that would result from a more severe decline in the economy. And you are going to do this for everybody over $100 billion, they will be required to do it.

How many institutions would be over $100 billion.

Secretary GEITHNER. I am not going to get this perfect but it is roughly in the scale of twenty-five.

Senator JOHANNS. Twenty-five.

Secretary GEITHNER. And again, this is a critical part of what banks and supervisors have to do. It's an ongoing normal process. We are just going to try to bring a little more consistency and realism to how it is done.

Senator JOHANNS. OK. My last thought on this, and it is more a thought than a question. This stress test, when you publicize to the world that they lack the capital necessary to continue lending in an economy that is maybe beyond what they projected, I would think that would cause a very, very serious problem for those 25 institutions if not a literally a run on the institution. How do you prevent that.

Secretary GEITHNER. It is a very difficult, complicated process. I think it is important to recognize that the world today looks at these institutions with great uncertainty about the scale of their losses ahead. They know a lot about what their exposures are, and they know they face some risks ahead. And our hope is by bringing more clarity to that process with some support for capital, you are going to get the markets in a better position where that uncertainty is dispelled and they have got a firmer foundation to do it.

Now, again, the markets may be overestimating those risks. They may be underestimating, but right now the level of uncertainty that exists, itself, is very damaging. And it is not something that you can solve by—and you are not suggesting this and I do not mean to imply this—by trying to obscure that basic underlying problem. Because right now that problem itself is putting a huge amount of pressure on these institutions and making it much harder for them to do what is necessary to grow and expand.

They are being forced to, some of them, are being forced to contract because of that. So arresting that process is important but you are absolutely right, it is a very delicate careful balance and you need to look at these things together with some care and rigor and consistency and realism on the supervisory process combined with access to capital, combined with these other measures we are going to produce to help provide some broader financing to these markets.

It is going to be a difficult balance, but again, the markets today are living with this acute cloud of uncertainty about what those basic risks are and that itself is contributing to this dangerous dynamic where there is more deleveraging, shrinking of balance sheets, that otherwise may need to happen.

Senator JOHANNS. I could see the frown grow on your face as I asked this question, and I understand, but if we do not figure this out you are going to need a gigantic amount of capital to protect these 25 intuitions. So I just think it is something that we have to pay a lot of attention to because it puts a mark on them.

Secretary GEITHNER. Can I just, before we leave this I just wanted to say that, you know these intuitions are all in different circumstances and the scale of needs vary across institutions. And it is not fair to tar them with the same brush. They are different circumstances; we are going to treat them with carefully and differently recognizing their relative strengths and weaknesses. Again, with the basic objective of putting them in the position where they are going to have a stronger foundation to get through this thing and I do not believe there is any realistic way to get through except by trying to do that.

Senator JOHANNS. Mr. Chairman, thanks for your patience again. I went over.

Chairman DODD. No, no. Let me commend my colleague from Nebraska. We have new members of this committee who are just tremendously valuable and I include my colleague from Nebraska; just very, very good, excellent questions.

And let me underscore the point the Senator made. And I think I understand the circumstances in this particular case, but I want my colleague to know that over the last 2 years as the new Chairman of this committee I insisted that our witnesses when they come, we get that testimony ahead of time because it is very difficult. Last evening, today because of the news particularly this morning, I think we all understand some reluctance but I am confident that the Secretary will appreciate how important it is for the members up here early. I made that point to other witnesses, I appreciate my colleague raising it and I'm sure he heard the point.

And let me say too, before I turn to Senator Merkley, on this very last point I think it was a very important exchange that just occurred between you, Mr. Secretary, and Senator Johanns and that is having the flexibility here. I think part of the difficulty; it has been pointed out by members. In the first tranche, that kind of one size fits all; were you going to buy the assets, were you going to make the equity investments? And I think for some that get caught up in this either/or situation and I think the point that you made, these institutions are not all in the same place.

And to the extent that we have the flexibility to respond with creativity and imagination and yet also understanding the facts as they prevail in various cases, I thin is extremely important in how we go forward. So it was a very important exchange and I appreciate it very, very much. Senator Merkley.

Senator MERKLEY. Mr. Secretary, thank you very much for your expression of your interest in your dialog with Congress. I want to ask questions really related to the mortgage issue. We have nearly 50,000 foreclosures a week, a prediction of 2 million in the coming year. Goldman Sachs has said that we will see one in four mortgages be foreclosed on by, I believe, 2014.

How urgent is addressing the issue of mortgages as compared to the lending issues and the consumer demand issues that exist as part of this complex problem.

Secretary GEITHNER. Urgent, as important, need to move together on all those fronts.

Senator MERKLEY. Thank you. I certainly, absolutely agree.

In 1932 through 1934 there was a multi-dimensional plan that was put together, not all at once, but eventually put together to attack the collapse in the mortgage market. It included revamped rules for mortgages. The amortized mortgage was invented; the Federal Home Loan Bank System was put together. There was a separate institution; I believe the initials were HOLC that directly financed mortgages, and more than a million of them.

Is the plan the Administration going to put forward, is it going to be as multi-dimensional and sweeping as the set of strategies that were used in the Great Depression.

Secretary GEITHNER. I think it will be hard to compare these things precisely because this is a different set of circumstances, even though there are similarities. It is going to be different. But again, I think the President believes—and I completely share this commitment—that we need to put together a comprehensive program that not just addresses the foreclosures ahead, not just—well, I don't want to get ahead of the President. There's going to be a lot of pieces to this program.

Senator MERKLEY. Please do. Please go ahead.

Well, one of the pieces was certainly to address kind of the flaws in the mortgages design. We had 3 to 5-year balloon mortgages, often they were callable. They were replaced with these amortized, fixed-rate 15-year mortgages. Eventually the private market expanded that to the 30-year standard we have now.

Currently we have a number of features in our mortgage market that I certainly would describe as dysfunctional components. One is prepayment penalties that basically incentivizes the use of teaser rates because you have people trapped into the mortgages. A second is steering payments where individuals go to a broker. They are paying that broker, they think they have hired that broker, but actually the broker is working for the lender and a high proportion of our folks in sub-prime lending actually would have qualified for prime lending.

A third is the complete collapse of underwriting standards even to the degree that we had stated income loans. Are these addressing these types of dysfunctional components going to be part of the Administration's plan.

Secretary GEITHNER. Not at stage one. I think the dominant risk that we face today, Senator, is that you are not seeing enough lending. You are not seeing enough risk taking. You are not seeing enough credit provided to flow to parts of the economy, the viable credit where the parts of the economy really need those resources, and our first priority has to be to try to help stabilize this.

Make sure people can afford to stay in their homes. We get interest rates and mortgage payments down. But you are absolutely right that moving forward, as we reform the broader financial system, we are going to have to bring a very careful, comprehensive look at the quality of constraints we put on those financial institutions that make mortgage loans going forward.

And there were broad-based systematic failures in lending practices, underwriting standards that we are going to have to fix going forward. The Federal Reserve and other regulators have laid out some changes over the last year or so. We are going to be looking at those to see if they went far enough, and as part of our broad reform programs we are going to try to make you confident and make the American people confident that we are going to bring fundamental changes to the basic underpinnings of the mortgage market.

Senator MERKLEY. Well, thank you for expressing it in terms of not in Stage One. I certainly look forward to Stage Two. You know we have such a careful, now I see my time is up.

I will just close with this statement then. We have such a careful set of rules regarding conflict of interest for real estate brokers, but then when the same homebuyer having been carefully protected in a real estate transaction goes to get their mortgage it is a lamb to the slaughter. We need to make sure that those mortgages provide a foundation for successful families. Not a mechanism to strip wealth from families. I look forward to working with the Administration and thank you for your concerted interest in this area.

Chairman DODD. Thank you, Senator, very much.

Senator MERKLEY. My staff just told me I had a minute left. I saw the red light here and I thought I was a freshman Senator.

Chairman DODD. If you have another question go ahead.

Senator MERKLEY. I have, the last one here and that is do you anticipate that primarily you are in Stage One as you put it. You are going to depend upon renegotiation by the lenders or will there be direct assistance to buy out those mortgages, perhaps the lenders take a haircut and basically restabilize families with loans that are not underwater and that are fixed for a long-term.

Secretary GEITHNER. We are looking at all those things, and I know this is frustrating today, and we will consult carefully and we have been spending a lot of time looking at all of the ideas in those areas and the President will lay out what he believes, where we believe the best possible plan is. But I do not, today; I cannot tell you exactly what precisely is going to make up this program. It would be unfair to him and to the process.

Senator MERKLEY. Well, certainly my encouragement is that we not simply depend upon lenders to renegotiate because of the fact that those mortgage packages have been securitized, put in tranches, resold.

It is enormously frustrating. I have a constituent named Lisa who asked me to share her story. She is from Hood River. She has contacted her lender 14 times. Has never been able to get a conversation going about renegotiating her loan. She is told that, of course, this servicer that she is reaching does not own the loan anymore. For consumers to penetrate that maze is very difficult and, of course, for the owners of the loan to take any action given that the cash-flows have been securitized is very difficult. So it is difficult on both ends and I really encourage the Administration to look at it in a much more direct way.

Secretary GEITHNER. I understand that, and I think you are seeing that across the country, too and that is why it is hard to solve. But we are on it and we are going to do out best.

Senator MERKLEY. Thank you very much.

Chairman DODD. Well, that is very important and all of us have Lisas in our states. The Senator is absolutely correct. We have tried a lot of different ideas here, but penetrating this, 2 years ago we sat in this committee and tried to even, we brought all of the stakeholders together. We have tried on numerous occasions and no success so far, that is why I am very hopeful and I appreciate your answer that you put that as a priority along with the issue of the lender issue. This nine to 10,000 foreclosures a day and the declining, spiraling down evaluation where eight million homes in this country are underwater today. And where mortgages exceed the value of homes it is just devastating.

Secretary GEITHNER. It is devastating.

Chairman DODD. Senator Vitter.

Senator VITTER. Thank you, Mr. Chairman and thank you Mr. Secretary for all of your work. I have two statements and then some questions.

The first statement is I appreciate efforts at consultation, getting out input. However, having said that I think having a major announcement and a major committee hearing today with the complete lack of detail that we have quite frankly was a big mistake. And I think it is another version of the American people hearing how cataclysmic the crisis is with no fleshed out solution and it is a tough problem and the solution may take time. I'm not arguing that. I'm just arguing how it is presented and I personally do not think in that context it is a coincidence that they Stock Market went down 4.6 percent today, worse since December 1st.

The second statement is about housing. I am very glad one of the four key pillars you outlined is housing. With a lot of folks I have been pushing to fix housing first and I think we need to that. I agree with the Chairman that that should be listed as number one not number four. And I hope that is addressed in a very meaningful way, not as just sort of political window dressing because mortgages affect a lot of voters, but as part of the heart of the problem. That is where the problem started. It certainly grown beyond but I think that is where the solution can start.

Obviously, the devil is in the details. So I will wait to hear what those details are.

The first question, I jotted down your phrase. You said this approach was "fundamentally different in broad objectives and directions." And yet, when I look at the three elements sort of under your purview, not counting housing, capital assistance is what we have been doing for banks. Public–private investment fund is sort of a TARP redo, a new model of the TARP concept. And the third element is TALF, to expand that. So to me that is continuation more of the same, maybe greater volume, but very much more of the same.

How is that fundamentally different in broad objectives and directions.

Secretary GEITHNER. Senator, let me just respond to your first point. I am here to testify today, the same day I laid out the broad objectives, principles, and programs that we believe are the best path forward to help fix this financial crisis. And you are absolutely right that we did not lay out today a level of detail to allow you to examine their efficacy and we are not claiming here today that we did that, and you are absolutely right.

And we are going to be careful in doing that so that when we provide you the details they represent, again, the level of care and discipline the choices of this consequence require. And I do not want to put my department in the position of giving you partial details of things we have not worked out ahead of when we do that. I do not think that would be fair.

And you are right that this is not a highly elaborated, detailed set of comprehensive proposals. I have been in office for 2 weeks and we wanted to do this in a way that was careful and responsible, meeting the imperative of laying out a broad program initially in its broad design as we worked with you and others to design the basic details. But I understand your concerns, but we are not claiming to do other than that.

And it was judgment call to make about whether that was—we had limited control given the time of life of whether that was appropriate to do on the same day we were testifying.

Senator VITTER. And again, just to underscore, I am not suggesting you rush something before it is ready. I am suggesting you not talk about something for 4 hours before it is ready and you have the details.

Secretary GEITHNER. I understand that concern too; on the other hand, I think it is important that we lay out, again, the broad objectives and strategies that we believe will help get us through this. And if we wait and we take the approach, we do not lay that out ever until we are at the point where we have solved every problem and every detail and I think that itself will create greater risk of uncertainty. But I understand your concern about it and I am sensitive to it too. Very sensitive to it.

Now on the basics, what is different? I am going to go back and say what I said at the beginning. To solve an economic crisis of this magnitude requires very substantial fiscal force alongside monetary policy. It requires aggressive action to help stabilize the financials and get credit flowing again. And you are right, as I said, and the President believes it requires moving aggressively sooner to help arrest this dangerous spiral in the housing crisis.

The fundamental thing that is different is us bringing a plan where we are moving together on all of those fronts. That has not happened to date for lots of complicated reasons. It cannot, we cannot make that mistake going forward. The second thing that we are doing, is we are trying to transform the level of transparency and oversight in accountability that comes with this program. So that everyone has more confidence, that we are doing this in ways that are going to meet the basic objectives of the program with a level of transparency that allows people to watch and oversee how these judgments are being made. That is a necessary and important thing to do.

There are important aspects of the comprehensive solution of how to stabilize banks and to go around banks to get these credit markets going again, which we believe are essential. Now if they share elements of what is necessary in any financial crisis to solve a problem, then we are going to do it if we think it is effective. And the fact that you see in this element, element of some past strategies does not mean it is not the right strategy for the country.

Again, what we are going to try to do is to bring the best set of proposals together. They can have the best prospect of fixing these problems at the least cost to the taxpayer. It is going to be hard to do. People will disagree on whether we got that balanced right, but we are going to lay it out to you and let you make that judgment too as we move forward.

Senator VITTER. What is the rough timeframe in which we will be discussing the details, number one. And number two, will we consider all of this and the relevant details including the costs together, rather than being presented the details of one part before understanding the broader context.

Secretary GEITHNER. A fair point. As I said, we are going to lay out the details of the housing strategy relatively quickly. You will be able to see that. The proposal to expand this Consumer Business Lending Facility built on this term asset backed lending facility has an architecture that has already been laid out to the market and we are going to propose as quickly as possible how we plan to adapt that to meet the needs of a larger program. And on these other component pieces of it, we are going to move as quickly as we can in parallel and lay them out. And we will do so in ways that gives you our best judgment about the ultimate costs and risks, but we believe we have been given substantial resources and authority to be able to begin this program on a very ambitious scale at the outset.

And if we think there is a case to come back and ask for resources and authority we will do that, but of course we understand that, before we can ask you to make that judgment, you need to be in a position where you can look at the details of the signs and make your own judgment about whether you think we are coming to a reasonable balance.

Senator VITTER. Well, again, just to underscore, I would encourage that when you come to us, because it is clear you will at some level for something, that it be with all of this fleshed out reasonably and with a global ask rather than sort of piecemealing it.

Secretary GEITHNER. I agree with you. I think that is a sensible approach and we will try to meet that test.

Chairman DODD. Let me just challenge the members as well. I mean this, obviously process questions are important and I do not minimize them. But what I think what is also going to be critically important is there be substantive suggestions that those of us have to the Treasury and to others who will be involved. If we have ideas that we think would be helpful and constructive in terms of making this program work—I am being a bit presumptuous here, Mr. Secretary—I think my members here, both Democrats and Republicans, would like to be a part of the process. And so in addition to the process issues that we are going to deal with, the timing of everything and so forth, I think we would also like to feel as though we had some contributions to make to this.

If we are going to be the ones asked ultimately to support what I think you have suggested here today is a substantial amount of resources to support this program, that we also need to be involved in what John Glenn used to talk about: the takeoff, not just the landings. And so I would invite my colleagues and hopefully you will be, and your staff, receptive to the ideas and suggestions that are made by the members of this committee.

Secretary GEITHNER. And we are here in that spirit today, and again, I did not come before you today to ask this committee to support additional resources and authority. I came to give you the broad outlines of the proposals we think offer the best prospects of fixing this problem. And as I said at the beginning you have already provided substantial resources that allow us to move and do this. But we are at the beginning of this process of conciliation, and we will take that process very seriously.

Chairman DODD. I thank you. Senator Schumer.

Senator SCHUMER. Thank you, Mr. Chairman, and I want to thank you also, Secretary Geithner for being here and your patience. I know there are a lot of qualms on both sides of the aisle not having the details.

And my friend from Louisiana said well, if you are not going to have the details why come before us? Let me say this, previously we had specific proposals sort of rushed out and they didn't work. And it is easy to pick holes in them and I certainly have, but we are in uncharted waters here. This is really tough stuff.

I think it is fair to say that historically we have never seen a moment like this. Even in the Great Depression, you know, where we knew what was happening—runs on banks but it was not as complicated. So in this situation where, thank God, there is not a major institution ready to fail at the moment. It is better to get it right than get it quick. And yet, to assure people that you are thinking about this and working on it and giving so broad brush strokes, and then later fill in the details obviously completely before you come to us for approval to me makes sense. It is hardly ideal, but neither is the situation we are in. We are in a rotten situation where nobody knows what to do and I have not heard a lot of people, you know there is a lot of criticism and that is legitimate, but I have not heard anyone else enunciate a comprehensive broad plan that everyone says, "Eureka! That is it. That is going to make it work." And that is understandable because we are in such tough times.

So I have a great deal of sympathy for the way you are doing this and I think when people learn the details knowing the thoughtful nature that you and others in the Administration, the President himself is putting into this they are going to feel pretty good about it. They are not going to feel great because there is no great solution.

A question that has not been asked, I have managed to come up with one. What about protecting the taxpayers? Just give us your broad thoughts on this since we are leveraging up to $350 billion of taxpayer money. That is a huge sum. Turning it into over a trillion and maybe $2 trillion with the Feds magnifying glass. How can we be sure that the taxpayers are protected in spending that money and what steps are being taken to ensure the taxpayers enjoy the upside of any recovery.

I think that is really important to assure people, because we are Americans, we are optimistic. Most of us believe we are going to have a recovery at some point and we do not want to be left holding the bag. We should come first because the taxpayers laid it out.

Secretary GEITHNER. It is very important to us that we, again, design these programs that have the least risk to the taxpayer and the most benefit for getting our economy back on track. That is the overriding principle that guides everything we do.

I will give you an example of how we try to navigate through this. In this lending facility that you described, this is designed in a way so that we have independent pricing with haircuts or margins that are designed to be conservative in normal times so that the overall economics of this work in a way that, as conditions normalize, markets' demand for this will fade away. It won't be economic to use these facilities. Demand will fade. That is the basic structure.

This comes with a level of capital protection for the Federal Reserve and the taxpayer as well as those additional protections to make sure that the ultimate risks to us are very, very limited. Now, they will not be zero——

Senator SCHUMER. And just one other. Obviously. What about the return to us, should this all succeed.

Secretary GEITHNER. Well, again, these lending programs come with a return. The capital investments that we will make will be designed to come with an appropriate return to the taxpayer and an appropriate share of the overall benefits to the companies that get that assistance. Getting that balance right is hard to do, but you are absolutely right that the assistance we provide should come with not just appropriate protections for our risk, but some gain for the taxpayer from the benefits we are providing to those institutions.

Senator SCHUMER. Right. Well, I hope you will just think of ways to do that. I think that is very important. And in the past when we have done things like this, RTC, *et cetera,* at the end of the day, the Federal Government has made money, although much later, later date.

All right. My last question, Mr. Chairman, and this one is something near and dear, I know, to you, Mr. Chairman, to me, to my colleague, friend, and roommate, Senator Durbin, and that is bankruptcy. I still fail to see how we can get a real handle on the foreclosure situation with sticks as well as carrots. Everyone is focused on the carrots and all the carrots alone have failed. The only thing that brings that tranche holder who doesn't want to come to the table is the fear of bankruptcy.

Tell us where we are at on that. You didn't mention that today. It doesn't have to be in this proposal, in my judgment, but I would like to see it move forward in the next month or two one way or another. Could you pleas.

Secretary GEITHNER. It will be an important part of the President's plan. As you know, the President believes that we need to bring bankruptcy reform to the mortgage market. You have to do that very carefully so we don't make it less likely, harder for private capital to come in the future. We are working with your colleagues to find the best way to do that, the best vehicle to pass that, but I think the President believes, I believe that that is an important part of this plan.

Again, I just want to emphasize, though, at that same time that we want to do it very, very carefully because this is a delicate situation, complicated balance, and we want to make sure we are not making the process worse as we go forward. But it will be part of the President's proposals and we are working with you and your colleagues on the best way to work that into legislation.

Senator SCHUMER. Thank you.

Chairman DODD. Thank you, Senator.

Senator Kohl.

Senator KOHL. Thank you, Mr. Chairman.

Mr. Secretary, earlier, Senator Warner talked about municipal bonds. I would like to continue that discussion by talking about mortgage revenue bonds issued by housing finance agencies. Last July, Congress recognized the important role that housing finance agencies play in the mortgage market. We doubled the bond volume cap and also allowed these agencies to use bond proceeds to refinance mortgages for troubled homeowners. However, due to the frozen credit markets, housing finance agencies have not been able to sell their mortgage revenue bonds.

These mortgage revenue bonds provide affordable mortgages for low- and moderate-income families all across our country. I have written to you and also Chairman Bernanke suggesting that TARP funds be used to purchase the housing finance agency bonds or expand other programs to support these securities.

You did say this morning, Mr. Secretary, that banks have not been willing to lend even to qualified borrowers. Housing finance agencies are ready and are willing to lend. One thing that you could do to help restore credit and support stalled housing markets is to use TARP funds to buy the bonds of housing finance agencies. Is this a viable suggestion? Is this a viable possibility, that you will use TARP funds to do that.

Secretary GEITHNER. Senator, I am going to need to look more carefully at that proposal before I respond, but I will do it and I will make sure we get the right people around the table to do it carefully and we will come back to you with a thoughtful, considered answer.

Senator KOHL. All right. Mr. Secretary, the problem we are facing is not just or not only having a system in place which you are clearly giving the indication that you are prepared to do, and are in many ways probably quite capable of doing, to ensure that our financial markets go forward in a more orderly way in the future. But there is a political problem here, as you know. All across the country, the percentage of people who have any confidence in the financial industry in our country is probably in the single digits.

Most all people in this country feel that the financial industry and the people who have been running our financial industry have brought this country to its knees and people in this country to their knees, working people all across our country who have lost their jobs in many cases, their savings, their retirement accounts, and they see this as something that has occurred because the financial giants in our country were selfish and not concerned about the public good, only concerned about themselves, and now we find ourselves in this place.

Well, here we are today and you are the face. You are the person who is now going to represent the financial industry going forward. My concern is huge and the question I am asking you is, how do you intend to deal with this people problem, not just the system problem but a people problem, because I believe unless we can restore people's confidence in the people who are running our financial industry, whether on Wall Street or in banking communities all across our country, you are going to have and we are going to have a hard time in finding approval for the funds that you may well be asking us to come up with on behalf of taxpayers to do what it is you believe needs to be done.

So what are your plans? Are they going to be here with you in a month or two or three? Are we going to see these people? Are they going to discuss the errors that have been made, make necessary apologies, and convince the American people that the future is going to be different, or are we simply going to have to trust you and your systems.

Secretary GEITHNER. Senator, I am not here to represent the financial community. I am here as the Secretary of the Treasury and my job is to help the President put in place programs that are to help meet the public interest in helping solve this crisis. And everything we do will be designed to improve confidence in the American people that we are going to use their resources wisely with much higher standards for transparency and accountability, with the kind of tough conditions we need to make sure that money goes to generate lending, in ways people will be able to measure and monitor, and in ways that will give us more confidence and you more confidence that the money we are providing is going to help get lending going again to parts of the economy that need it most and to the people that have been most affected by judgments, responsibilities, things that they did not make.

You know, the tragic thing about this financial crisis is the people that were responsible and careful were deeply damaged by the actions of those who were not. And we have a responsibility to try to address that and mitigate that damage, and that is what will guide our overwhelming approach.

It is going to be hard to do. It is going to involve risk. We are not going to get it right in every time. But we need to move aggressively to try to do it at the same time we are passing economic recovery and helping solve the housing problem, and that basic set of principles and values will undermine what we do—underpin what we do, and I want to say again what I said this morning, which is that support from the government to financial institutions is a privilege, not a right, and when we provide this support, it is not for the benefit of those banks. It is for the benefit of the people that depend on those banks, on the communities they serve, the business and people that depend on them, and everything we do will be designed to make sure that the resources we provide, again, have more direct benefits on the people who need credit in order to survive.

But I share your concern. I have heard it across the halls of Congress. I have heard it from all your colleagues. I have watched it build, and I completely understand that there is a deep sense of public skepticism, distrust, and anger about what they have seen and the damage they are suffering because of that, and that basic recognition is where we have to start, and that is why we believe we are going to have to come at this with as much fundamental change as possible.

Senator KOHL. Thank you, Mr. Chairman.

Chairman DODD. Senator Kohl, thank you very much.

Mr. Secretary, let me commend you for your response. I think it is a very important answer you just gave to Senator Kohl's question.

I just have a couple of questions and then I will turn to Senator Shelby for any closing questions he may have. I know Senator Corker apparently has a question or two, as well. We will try to wrap this up. You have been very patient over 3 hours now in front of us.

One is I just, quoting the President on the economic recovery package, and I want to get your views on this quickly, if I can, I will quote him. He says, "We will put people to work repairing crumbling roads, bridges, schools, by eliminating the backlog of well-planned, worthy, and needed infrastructure projects," and going on to include investment in public transit, as well, and our nation's energy grid as part of the investment in the so-called "green" infrastructure. Why don't you explain the importance of investing in infrastructure both in creating jobs, the estimated 35,000 with every billion that is invested in infrastructure, and increasing prosperity in the future, number one.

And second, the second issue is the Neighborhood Stabilization Program, and this was part of the effort and part of the stimulus package that has been critically important. One of the solutions to the problem is to help communities devastated by the foreclosure crisis to take abandoned properties off the market and either rehabilitate or demolish them, as circumstances warrant. Leaving these properties there is a blight. Obviously, it has a huge impact on valuations in properties in the neighborhood, as well.

I think we have now—this program was dropped as part of this recent negotiation and I understand obviously there is a broader set of questions here, and I am not asking you to comment on all of that, but just on the Neighborhood Stabilization Program itself as part of the effort here to get valuations more stabilized on housing.

Secretary GEITHNER. Senator, let me begin where you ended. I know that the Secretary of Housing, Shaun Donovan, knows a lot about this, knows a lot about how to design sensible programs to meet these objectives. We are happy to work with you on how best to do that, understand the importance of that.

I think on infrastructure, you are right to point out that infrastructure spending is one of the most powerful things we can do to achieve these two basic objectives, which is create employment opportunities and try to make the investments that, again, help this economy grow at a more rapid pace in the future. A critical part of any effective broad program of recovery will—should have as its core carefully designed infrastructure programs that meet that objective.

You know, you want to do it carefully. You want to make sure you are spending the money wisely. And you want to make sure it happens quickly enough to have a substantial impact. But it should be and will be, I believe, the core of any program that meets these broad objectives of saving or creating 3.5 to four million jobs.

Chairman DODD. Well, I hope that is the case. I am concerned that as we go through this process right now, and obviously it is a lot of money—no one is arguing that it is too small, although some may make that case—but that we may have missed an opportunity here not to have more as the infrastructure. We have never seen in this nation's history economic growth, whether it was the Eisenhower Federal Highway System, the Erie Canal, you can go back and the Rural Electrification Programs in the 1930s, in 24 months, put two million farms, just that one program alone. And I am worried that we are really not—we are shortchanging ourselves in this area.

And so while we are going to deal with the immediate problem, hopefully, that when you come out of the problem and you have in place the infrastructure that allows that economy to grow in the 21st century that will not have been there, we will have missed the opportunity. They are not shovel-ready in every case. They are future-ready. They are science-ready. And so I appreciate the fact of shovel-ready and the benefit of that, but I feel we are missing those future ready elements that are going to be absolutely critical, if you have any quick closing comment on that point.

Secretary GEITHNER. Well, I believe I understand that concern and we will work with you to see if we can, again, meet that test. It is a difficult balance of trying to make sure these resources go where they can be spent as effectively as possible, as quickly as possible, with the maximum long-term gain to our capacity to grow, with the least risk that they add to unrealistic expectations about future spending. That is the balance, but it sounds to me like you have exactly the right framework for thinking about it.

Chairman DODD. Thank you very much.

Senator Shelby.

Senator SHELBY. I just want to pick up on a few points. One, Senator Dodd brought up with you there, this stimulus package. Sure, it has got some good things in it. Jack Welch, who is someone that I respect, you know, he had a great career as one of our major industrialists, as you well know, at GE, he said on television Sunday that this might be important or something like this, but that straightening out the banking system, bringing trust, making loans to the communities, I mean the people in the communities, was 1,000 times more important than this stimulus package. Do you disagree with Jack Welch?

Secretary GEITHNER. I believe that you have to do both, and if you don't do the financial thing well and powerfully and effectively, then the stimulus package will be dramatically less effective.

Senator SHELBY. Now, you are not telling us you believe—you have been at the Fed a long time in New York—that the stimulus package is going to turn around our economy, are you?

Secretary GEITHNER. I believe that without the stimulus package, we face a much more damaging, much more devastating loss of economic output and jobs, and I think that—but again, if you combine a recovery package designed with enough force with not just a housing program, but with an effort to get the markets back——

Senator SHELBY. Sure, overall——

Secretary GEITHNER. ——you will have a much more effective package.

You are right that there is substantial stimulus in effectively designed economic financial recovery programs. There is effective stimulus in capital and there can be effective stimulus in providing financing to these markets to help get them working again.

Senator SHELBY. But this economy is not going to grow until we tackle and solve and bring confidence in our banking system, is it, Mr. Secretary.

Secretary GEITHNER. I think that is right. That is exactly right. The challenge, of course, is how to do that with a mix of transparency and support.

Senator SHELBY. Sure. We know that.

Sir, let me ask you this, just going back, because I think it is important to touch on a few things. You were President of the New York Fed for 5 years before you were Secretary. As President of the Fed, you were in a money center area for the Central Bank. You are also a bank regulator. The Fed regulates the holding companies, am I correct.

Secretary GEITHNER. That is correct.

Senator SHELBY. ——in addition to that. Most of the big money center banks are holding companies, are they not?

Secretary GEITHNER. That is correct.

Senator SHELBY. OK.

Secretary GEITHNER. They were organized with holding companies——

Senator SHELBY. Let me give you a little background. In 2003, 2004, 2005, 2006, I had the great privilege of chairing this committee, and Chairman Greenspan would testify here, and other bank regulators, too, as to the health of the banking system, just like they have under Senator Dodd as chairman, and every time, and the record reflects this, basically, the answer was—the question is not just by me, but my colleagues on both sides of the aisle, including Senator Sarbanes and probably Senator Dodd here—what is the health of the banking system? It is good. It is good.

You were a bank regulator up there in New York. Do you believe that our regulators—you are part of it, not just you—have failed the system and the American people? I do. And I believe, and Senator Dodd knows, in this committee, we are going to have to restructure our regulatory system, working with you, Mr. Secretary, and others, to get it right. Do you believe that that was the best thing our regulators could do? I don't think they knew what was going on in these banks, with all due respect to you, too. And I don't want to put it all on you, but you were there in the driver's seat.

Secretary GEITHNER. Senator, let me just say three things, and I have said this before in testimony before this committee and others. I believe that there were systematic failures in supervision and regulation across our system. Every supervisor and regulator that was part of the system could have done more to prevent this.

Second thing, I worked very hard in my capacity at the New York Fed and I took a lot of very important initiatives to help make this system less vulnerable to the crisis that was likely to happen. I did this in markets that were critically important, including with these core institutions, and those efforts made a substantial difference. Now, they did not achieve enough.

And I want to say just one more thing, because I take responsibility, Senator——

Senator SHELBY. Yes, sir. This is important.

Secretary GEITHNER. ——that I completely agree that we are going to have to look at everything and it is going to require comprehensive reform, and the system we came into this crisis with was not designed effectively enough, not just to contain the risk of crisis, but it did not give your government the tools necessary to contain the damage and it is deeply tragic that we came into this without that broad authority, and a critical part of our agenda will be to bring comprehensive reform to the system.

But absolutely, everyone could have done more. I don't think anybody part of the system could not sit here today and say that they are anything but deeply troubled by eh failures that happened, and although I worked very hard from the first day I took office to try to make this system more resilient, those efforts, although they were effective and helped mitigate the risk of this crisis, they did not achieve enough.

Senator SHELBY. Is it troubling to you, and was it troubling to you, that there was AIG and others in the derivatives business, so to speak, and they were regulated, as they are under the McCarran-Ferguson Act. The Fed had no real power over them. I mean, maybe inherent. That was State insurance commissioners who looked at the risk. Did the Fed really know and understand the derivatives and the risk to the system, the systemic risk? And if so, why did they let it happen.

Secretary GEITHNER. There was no one as part of this complicated supervisory process we have who had the ability to see the broad set of risks across the system, where that risk was most concentrated, and as I said in my remarks earlier today, there were pockets of the system where you had huge amounts of leverage buildup with no meaningful oversight, terribly vulnerable to the kind of shock to confidence we have seen. That happened outside the banking system, in aspects connected to the banking system, but we also saw, of course, concentrated risk emerge in the system itself.

But you are right. Nobody in the system had the adequate picture of where those risks were most acute and most damaging.

Senator SHELBY. And we can't go down that road again, can we.

Secretary GEITHNER. We have to change that. Hard to change, but a vitally important thing to do.

Senator SHELBY. My last observation here. It is my understanding, Mr. Secretary, and you are the new Secretary, that the Federal Reserve, the Treasury, and the FDIC have spent $3 trillion and pledged $5.7 trillion more to respond to the crisis. If that is correct, $8.7 trillion amounts to nearly two-thirds—it was brought up earlier by one of my colleagues—of the value of everything produced in the U.S. last year. And that combined with a trillion dollar stimulus, more or less, that would be $9.7 trillion, which would have been enough to write a $1,400 check to every person in the world.

I had seen estimates last year that there—we are looking at the future now, not just that—that there were estimates that there were $3.5 trillion in bad assets to deal with in our banking system. We are probably beyond that number. I hope not.

Do you believe, as Secretary of the Treasury, unlike the TARP deal, that the American people need to know, should know the truth of the debt, where this money is being spent, and the risk to the future of this whole economy and the debt that we are putting on our children and grandchildren.

Secretary GEITHNER. Absolutely.

Senator SHELBY. Do you believe that they need to know that.

Secretary GEITHNER. Absolutely, and Senator, can I just say one thing.

Senator SHELBY. Yes.

Secretary GEITHNER. The resources you pointed—the commitments you pointed to——

Senator SHELBY. I understand.

Secretary GEITHNER. and the resources that the Fed has taken, has expended——

Senator SHELBY. Exposure, that is.

Secretary GEITHNER. ——these are not resources spent——

Senator SHELBY. But they are——

Secretary GEITHNER. No, I don't think that is the right way to think about it. They are loans provided against collateral with protections for the Fed and the taxpayer and they return to help cover those risks. So although the numbers are large, this is a huge problem, a hugely complicated financial system, and the ultimate risk to the taxpayer is a small fraction of that. It is not zero, but it is a small fraction of those resources, completely different from——

Senator SHELBY. You are not telling us there is no risk to the taxpayer here.

Secretary GEITHNER. Absolutely not. I am saying there is risk to the taxpayer, but the expenditures and the cost to the taxpayer of a dollar of spending or tax cut is completely different from a dollar of loans provided by the Fed against collateral, and CBO and OMB have a carefully designed process with a lot of integrity to try to make realistic estimates of what those risks are to the taxpayer in that context. But they are a small fraction of a dollar of spending or tax relief.

Senator SHELBY. Would you as the Secretary furnish this committee a detailed report of all the debt, where it is, the exposures, the guarantees and so forth, so we know what road we are traveling down? We know we are in uncharted waters.

Secretary GEITHNER. I commit to working with my colleagues at—the Chairman of the Fed and my colleagues to try to provide as honest and candid a picture as we can. And I think you are right, that you want to see a comprehensive picture——

Senator SHELBY. Unvarnished.

Secretary GEITHNER. Unvarnished, candid, and realistic.

Senator SHELBY. Thank you, Mr. Chairman.

Chairman DODD. Let me just point out, too, the AIG was regulated as a thrift holding company by the OTS, which is a separate set of issues, by the way—well, they were some by that, but the point—in fact, we are going to have a hearing in this committee just on the AIG issue coming up so we can look at it, because one of these issues of forum shopping by industries looking for regulators that might have been more amenable to their interests is a matter of concern to this person and to this committee.

Senator Corker.

Senator CORKER. Thank you, Mr. Chairman. I will be brief, and thank you for being here for 3 hours and 23 minutes.

I think, actually, what the Secretary committed to earlier was not just Senator Shelby, a combination of where we are, but also an honest evaluation of where we are in the money, out of the money, as to guessing how much is actually gone as it relates to its fair value put in. I think you were going to also assess where we were as it related to those investments.

Secretary GEITHNER. Let me see if I can be careful——

Senator CORKER. Well, some of the TARP money, for instance, AIG is probably—that is an investment that is probably toast. The automobile situation probably has some valuating down to go. I mean, there are a number of things I thought you were going to look at and kind of say, OK, we have got $9.7 trillion committed, OK. I realize that much of that—most of that—the vast majority of that will be coming back. But you were going to give some kind of judgment as to where we were in that with some of the loans being bad, some of the losses that will be taking place on TALF, and that is why we put up collateral, to give security to the Fed so they can actually do these things, some assessment of where we are as a country with our funding.

Secretary GEITHNER. Senator, I just want to be careful that I don't misstate it. I think it is important for us to try to lay out comprehensively the risk these broad programs entail, how we are trying to protect against that risk, and there is, again, a separate important process with integrity that CBO and OMB go through to try to assess and measure and estimate those costs.

What I don't think I can do is come here today and tell you exactly today what those investments are worth if we consider them today against some observable standard in the market. That is probably something that we cannot do. But I think putting together a broader picture of what these broad lending facilities mean and what these investments mean so people can see them together is a reasonable thing and I would like to try to be responsive to that.

Senator CORKER. This is not a criticism, this is an observation, and I want to start with the glass is half full part again and say that I think is correct that Chairman Dodd and Senator Schumer pointed out that, in essence, this is an opportunity, as Senator Vitter, to work together to try to solve this problem, and that is probably a good thing.

I would also make the observation that we have been here for 3 hours and 23 minutes and have no discernible idea as to how we are going to solve this problem. It would give me——

Secretary GEITHNER. No, Senator. I don't think—I wouldn't want to encourage you in that view.

Senator CORKER. Well, we have been here for 3 hours and 23 minutes and I am highly encouraged toward that view, so—I mean, we basically have some platitudes that—and again, I am not being critical——

Secretary GEITHNER. Well, but you are, Senator. Let me just say——

Senator CORKER. Well, I am observing that, in essence, last night—I would be critical about this. I think the White House and you all could communicate in that last night, the President said that you would be very clear and there would be specific plans. Today, we lost probably a trillion dollars in the market as people look for those very clear and specific plans, and instead heard guidelines and some platitudes. I mean, I haven't heard today what your commitment is to solving this problem. I know some tools that might exist, and they sound like some reasonable tools. But I have not heard of this comprehensive plan to deal with this problem and that creates uncertainty.

And by the way, I think it is perfectly OK for a Treasury Secretary who has not been here that long not to yet know how to solve that problem, but I, just as an observer, sitting here for three-and-a-half hours, missing maybe 10 minutes for a meeting about Israel, to say that I haven't heard how yet we are going to solve this problem.

Secretary GEITHNER. Senator, what we laid out today was—and this is what we planned to do and committed to do—was to lay out the broad set of principles, the broad objectives, and some new programs that we believe need to be a necessary part of the solution to this program. And we will consult with you as we design what we think are the detailed design features necessary to meet your test of understanding.

But what I can't do, because it would add to more uncertainty, was to give you clarity where we are not confident that we have found the best possible mix of measures to protect the taxpayer. But we laid out today what we think is a necessary part of the solution and people will want to see the details and they will want to know and see how it works. But what we have done is try to lay out, again, that this is going to be hard to solve. It is going to require a comprehensive approach and it is going to require a scale of resources and actions we are not comfortable—have not seen before, and we need to move on all fronts to do that. Now, that——

Senator CORKER. I rest my case.

Secretary GEITHNER. That is what we set out to do and that is what we laid out today. And again, we will work with you as we flesh out the details——

Senator CORKER. And I look forward to that. I rest my case on my previous comments.

Let me ask you this question. Transparency is something that I think you have highlighted today, and I greatly appreciate that. I think all those comments have been good.

On February 17, the automobile companies will be putting forth their detailed plans as to how they are going to be solvent—I am using the wrong word, but their plans as to what is going to be in place on March 31. It is going to outline their negotiations with the bond holders. It is going to outline their negotiations regarding the VEBA accounts. It is going to outline their negotiations with the UAW.

In the name of transparency, I am assuming that you will transmit that to us as soon as you receive it.

Secretary GEITHNER. Senator, that is my expectation.

Senator CORKER. Well, I look forward to seeing that. I might not sleep much on the 16th. That is going to be—have you conveyed to them the fact that the terms of the deal as laid out is what you expect to see happen.

Secretary GEITHNER. Senator, we expect them to lay out their best judgment of a restructuring plan that leaves them viable in the future without government support. That is the basic objective.

Senator CORKER. The basic of the loan agreement.

Secretary GEITHNER. Exactly.

Senator CORKER. That has been——

Secretary GEITHNER. I think it is pretty clearly laid out there.

Senator CORKER. Yes.

Secretary GEITHNER. You know, they are going to have their views on how best to achieve that and this is going to be the beginning of that process, frankly, not the end of that process.

Senator CORKER. No, it is not the beginning of the process——

Secretary GEITHNER. Well——

Senator CORKER. I am sorry. That was supposed to be culminated on that day——

Secretary GEITHNER. It is the next——

Senator CORKER. ——or they are to file bankruptcy on March 31. I mean, it is pretty—it is not the beginning.

Secretary GEITHNER. I am sorry. It is the next critical stage in your process, which you are right, has begun earlier, and we are not at the beginning. I correct myself. I apologize for saying that.

Senator CORKER. I think that there has not been much progress there. Our office has sort of turned out to be sort of a switchboard operator with all of the stakeholders, and my sense is they still are—and we want these companies to be successful and we laid out these concepts so that they would be successful and would use this crisis to sort of come together and solve this problem.

My sense is there is not much really happening. I know Chrysler, the lenders, many of them have talked with us. They are all secured lenders. They feel like their collateral is whole even if the company bankrupts. And I do hope that over the next 6 days, there is lots of conversation, because I am concerned that those benchmarks are not going to be met and I truly want these companies to be successful.

Let me just—one last thing, Mr. Chairman, since we are sort of at the end of this anyway. I do look forward to talking to you, as I have mentioned, and called you when you were named to solve these problems. I do think today has been somewhat interesting, but I do think it gives us an opportunity to go forward and work together.

We read an op-ed by a gentleman named Max Holmes talking about each of the four major banks establishing a good bank-bad bank, not one big aggregator bank, but each of them having a bad bank. These four banks would be Bank of America, Citigroup, J.P. Morgan, and Wells Fargo. They have got about $8 trillion in assets, OK, and 36 percent of the deposits in our country are there.

This scheme that they laid out really was very simplistic, and I don't know if you have looked at that. I know they have sent papers to Treasury. We obviously have gotten back-up information, as we do with most interesting op-eds. Can you speak to that, or have you looked at that in any detail.

Secretary GEITHNER. Senator, I have not looked at that specific proposal, to my recollection, but I will. But I have seen a variety of different proposals like that and it is possible they are going to be an important part of the solution. But I think that at the core, though, you still have this basic problem, which is how do you design a structure where we can be confident and you can be confident that the government is taking risk it understands and that the valuation is a problem, an enormously complicated problem to solve to our satisfaction in that context.

So there are all sorts of different structures you can use like that with new banks, newly established, dedicated to, but you still have to figure out how you solve that core problem. Again, what has to guide us is how to try to achieve the most benefit in terms of helping these institutions restore confidence in their viability with a mix of support from the government to do that. And again, we are trying to navigate through the complicated shoals of that challenge.

But we will look at—I have seen proposals like that. I am happy to take a careful look at that. I am happy to talk to you about it in more detail.

Senator CORKER. Well, listen, thank you, and on the public–private issue, I absolutely encourage you to figure out a way to leverage the private sector. I did notice that the risk was going to be a side-by-side risk and would just encourage that the risk be, we stand behind and the private equity be out front and take the first dollar loss. But we look forward to working through these issues with you and thank you very much for your testimony.

Secretary GEITHNER. I will feel as strongly on that as you do.

Senator CORKER. Thank you.

Chairman DODD. Mr. Secretary, listen, I want to thank you immensely. I am sitting here and just thinking back. This committee has been deeply involved in these issues now for 2 years, some—Senator Shelby may correct me, but I think we have had some 82 different hearings or meetings——

Senator SHELBY. Maybe more.

Chairman DODD. ——on the subject matter, to the point of almost exhaustion, and then, of course, beginning in September nonstop virtually from the original proposal that Senator Shelby and I were in that room on the night of September 18 when the Secretary of the Treasury and the Chairman of the Federal Reserve Bank told us we had a matter of days to respond or watch the, I think the melt-down of the financial system is the direct quote, those 13, 14 days to try and respond, 40 days before a national election. And then the automobile industry hit up here for the month of, I guess it was November, I forget now when exactly, November-December. And obviously an election, new administration coming in.

And one of the complaints, and I think a very legitimate one, was not so much of what—of course, I don't know, others who voted against the whole thing, but for those of us who voted for it, that the importance of doing what we did in September—now how it was managed and run has been the subject, I think, of most of the disagreement—most of it—and obviously lurking as one of the major complaints. It didn't seem to be consistent moving from one step to the next. It seemed to contradict previous moves, creating a lot more uncertainty.

You have had this job for 14 days. The President has had his for twenty-one. We have been through 8 years of watching a country go from literally debating whether or not we could manage resolving or eliminating the national debt to a $10 trillion debt in 8 years. And obviously the problems that go back with the residential mortgage markets.

This is the first step today. I know of no case in my years here where a Secretary of the Treasury, 14 days from assuming office, has appeared before a Banking Committee to respond to a situation like this. And obviously, the criticism we don't have all the details—had you given us all the details, I suspect what I would have heard here is no consultation. You are going off once again and haven't thought out this problem. So in a sense, I will used darned if you do and darned if you don't, because in effect, that is what I am hearing in many ways.

Now, I appreciate you being here. We have a lot of work to do together, and that is what you suggested today. So I take this as the first step in a process. And we don't have a lot of time, the window is closing and we have got to move. We want to be careful, obviously, and your point of doing this carefully and deliberately so you are not appearing before this committee again being castigated because you moved too quickly without a lot of thought involved in what the implications would be at great cost to the taxpayer.

So it is a delicate balance, a difficult question, and to a large extent, we don't really know—because we have never been here before—where this is going to take us. And no one has had—anybody who speaks with absolute certainty about what needs to be done ought to be questioned immediately, in my view.

So I thank you for your presence here today, and we will have ongoing conversations immediately with you and your office as to how we proceed. But I personally want to thank you for your efforts.

Senator SHELBY. Mr. Chairman.

Chairman DODD. I think the broad framework that you have given us here is a good place to begin. It is obviously not the end, but it is a good place to begin, and with that, I thank you very much. Let me conclude the hearing.

Senator SHELBY. One quick comment. I hope you will not, once you flesh out your concept, it will be a TARP II or something like it. If it is, you are headed down the wrong road again.

Chairman DODD. Thank you very much.

The Committee stands adjourned.

[Whereupon, at 6:07 p.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Thank you Chairman Dodd for holding this hearing today. I am pleased we continue oversight of the Financial Rescue Program and how it is using billions of dollars of taxpayer funds.

To date we have seen little transparency, accountability, or responsibility from companies receiving funds, and implementation of TARP by the Treasury Department has been haphazard, fragmented, and inconsistent. This entire situation is deeply frustrating. Not only is the American public outraged, we now find ourselves with no good options and facing the prospect that our economy could get worse before it gets better.

I have joined many of my colleagues in critizing the previous administration's handling of the TARP program. Secretary Geithner, I look forward to your testimony and I look forward to hearing more about the Adminstration's plan to stabilize the financial system and unfreeze the credit markets. It is clear that a new plan for TARP is desperately needed.

PREPARED STATEMENT OF SENATOR ROBERT F. BENNETT

Last fall, the gears of credit and financial markets were grinding to a halt. We heard in private meetings with the treasury secretary and the chairman of the Federal Reserve that unless we stepped in very, very quickly and in a massive way these markets would completely seize up and largely fail within a matter of days not weeks. The impact of this would be catastrophic to our economy. Regardless of whether the problem was the result of Wall Street greed or mismanagement in the banking industry, one thing was certain; without action to free up the credit markets, the effects would be severely felt on Main Street. I heard from Utahns involved in all spectrums of our economy—from high tech to ranchers—that said they were feeling the pain associated with a freeze in our credit markets. If things did not change and change quickly, their businesses, which depended on credit to finance growth, pay suppliers and meet payroll, would be crippled—possibly beyond repair.

The Fed and Treasury had a $700 billion dollar plan and told Congress that a failure to act quickly to pass it would result in devastation to the economy far in excess of the $700 billion dollar price tag. The thought of government intervention was difficult for me to stomach, but with the entire economy facing a serious emergency, I decided that bold government action was urgent in this situation. While many of the leading economists and financial market experts differed on ideas of how the administration and Congress should address the problem, one thing was nearly unanimous; something had to be done immediately.

The core concept of the financial stabilization bill that we passed was to empower the Treasury Department to either purchase some of these distressed securities from financial institutions through a reverse-auction process or make capital injections directly into our distressed financial institutions. Taxpayer funds were to be used as investments acting as "patient capital" in these illiquid markets. Many experts predicted that the government, and therefore the taxpayers, would eventually make a profit on the resale of the securities when the markets return to functioning properly. Protecting the taxpayer and returning the full $700 billion (or at least a large part of it) back to the government was central to my support of the original TARP program. As part of the effort to do that, I supported the decision to limit the first outlay of $350 billion, with the second $350 billion to be made available only after a report of progress of the program was made to Congress.

In my view, the progress report that accompanied the request for the second $350 billion was inadequate—we still don't know exactly what happened to that money. Accordingly, I voted against the second $350 billion disbursement or drawdown of TARP funds. We were not given the necessary assurances that additional TARP funds would be used in ways that would continue to protect the taxpayer and had some likelihood of recoupment.

What I want to hear from you today, Mr. Secretary, is how will the taxpayer, who provided the second $350 billion as well as the first, be ultimately protected. The Senate just passed a so-called "stimulus bill" with a price tag of nearly a trillion dollars of taxpayer funds. Some projections, including one produced by the nonpartisan Congressional Budget Office, show that while the bill will provide some short term stimulus, the long run economic consequences could actually be negative. I recognize that there are many short term risks and problems in our markets and economy; however, I am just as concerned that the government's intervention in the markets could have severe long term consequences and costs. The taxpayer exposure could well be in the trillions and comes at a time when private investors may be far less likely to buy treasury bonds than they are now.

The problem is uncertainty and an ensuing lack of confidence: uncertainty in the value of bank assets, uncertainty in the credit worthiness of borrowers, and uncertainty in our economic future and growth. Private capital is sitting on the sidelines because of this uncertainty. How do we end the uncertainty and bring such capital back into the marketplace? Our record up to this point is not very good. While I believe that the original TARP was somewhat successful in avoiding a complete credit meltdown, the way it has been implemented and the discussions related to how TARP II will be implemented have increased uncertainty, rather than diminished it.

So, Mr. Secretary, again, I hope you can provide us with some assurances today that the billions of dollars that taxpayers are being asked to commit will be protected; first, through a structure that offers and even encourages a quick repayment mechanism, and second, by means of a plan that provides certainty and encourages private capital to re-enter the marketplace. Our goal can no longer be a short term fix; we must have a program that allows the market to function as freely as possible now and in the future. Thank you.

PREPARED STATEMENT OF TIMOTHY F. GEITHNER

SECRETARY, DEPARTMENT OF THE TREASURY

FEBRUARY 10, 2009

Chairman Dodd, Ranking Member Shelby, and Members of the Committee: thank you for inviting me to be here today.

This morning, as the Senate continues its work on an economic recovery plan to help create jobs and lay a foundation for stronger economic future, I announced our Administration's plan to restart the flow of credit, strengthen our financial system, and provide critical aid for homeowners and for small businesses.

Right now, job losses are accelerating and credit has slowed to a trickle. On top of the financial and economic challenges we face there is another—a lack of faith.

The American people have lost faith in the leaders of our financial institutions, and are skeptical that their government has—to this point—used taxpayers' money in ways that will benefit them. Together we can change this.

To get credit flowing again, to restore confidence in our markets, and restore the faith of the American people, we have proposed a fundamental reshaping of the government's program to repair the financial system.

It all begins with transparency. We propose to establish a new framework of oversight and governance of all aspects of our Financial Stability Plan. The American people will be able to see where their tax dollars are going and the return on their government's investment. They will be able to see whether the conditions placed on banks and institutions are being met and enforced. They will be able to see whether boards of directors are being responsible with taxpayer dollars and how they're compensating their executives. And they will be able to see how these actions are impacting the overall flow of lending and the cost of borrowing.

These new requirements, which will be available on a new Web site FinancialStability.gov, will give the American people the transparency they deserve.

Second, we are going to bring together the government agencies with authority over our Nation's major banks and initiate a more consistent, realistic, and forward looking assessment about the risk on balance sheets. We're calling it a financial "stress test." We want banks' balance sheets cleaner, and stronger. And we are going to help this process by providing a new program of capital support for those institutions that need it.

Institutions that need additional capital will be able to access a new funding mechanism that uses money from the Treasury as a bridge to private capital. The capital will come with conditions to help ensure that every dollar of assistance is used to generate a level of lending greater than what would have been possible in the absence of government support.

Third, together with the Fed, the FDIC, and the private sector, we propose the establishment of a Public–Private Investment Fund. This program will provide government capital and government financing to help leverage private capital and get private markets working again. This fund will be targeted to the legacy loans and assets that are now burdening many financial institutions.

By providing the financing the private markets cannot now provide, this will help start a market for the real estate-related assets that are at the center of this crisis. Our objective is to use private capital and private asset managers to help provide a market mechanism for valuing the assets. We are exploring a range of different structures for this program, and will seek input from this Committee as we design it.

Fourth, working jointly with the Federal Reserve, we are prepared to commit up to a trillion dollars to support a Consumer and Business Lending Initiative. This initiative will kick start the secondary lending markets, to bring down borrowing costs, and to help get credit flowing again.

In our financial system, 40 percent of consumer lending has historically been available because people buy loans, put them together and sell them. Because this vital source of lending has frozen up, no financial recovery plan will be successful unless it helps restart securitization markets for sound loans made to consumers and businesses—large and small.

This lending program will be built on the Federal Reserve's Term Asset Backed Securities Loan Facility, announced last November, with capital from the Treasury and financing from the Federal Reserve.

And because small businesses are so important to our economy, we're going to take additional steps to make it easier for them to get credit from community banks and large banks.

Fifth, we will launch a comprehensive housing program. Just as the name of this Committee makes a link between banking and housing, so must our efforts to strengthen the financial system.

The President has asked his economic team to come together with a comprehensive plan to address the housing crisis. We will announce the details of this plan in the next few weeks.

Our focus will be on using the full resources of the government to help prevent avoidable foreclosures and to reduce mortgage interest rates. We will do this with a substantial commitment of resources already authorized by the Congress under the Emergency Economic Stabilization Act. We welcome the ideas and input of this Committee in this important effort.

And finally, President Obama is committed to moving quickly to reform our entire system of financial regulation so that we never again face a crisis of this severity. And, again, that effort can only succeed with the collaboration and support of this Committee and other Members of Congress.

Let me close by saying that our challenges in this financial crisis are more complex than any our financial system has ever faced, requiring new programs and persistent attention to solve. But the President, the Treasury, and the entire Administration are committed to working with you to see it through because we know how directly the future of our economy depends on it.

Thank you, and with that, I'd be happy to take your questions.

FINANCIAL STABILITY PLAN

The Financial Stability Plan: Deploying Our Full Arsenal To Attack the Credit Crisis on All Fronts

Today, our nation faces the most severe financial crisis since the Great Depression. It is a crisis of confidence, of capital, of credit, and of consumer and business demand. Rather than providing the credit that allows new ideas to flourish into new jobs, or families to afford homes and autos, we have seen banks and other sources of credit freeze up—contributing to and potentially accelerating what already threatens to be a serious recession. Restarting our economy and job creation requires both jumpstarting economic demand for goods and services through our American Recovery and Reinvestment Act and simultaneously ensuring through our new Financial Stability Plan that businesses with good ideas have the credit to grow and expand, and working families can get the affordable loans they need to meet their economic needs and power an economic recovery.

To address the financial crisis, the Financial Stability Plan is designed to attack our credit crisis on all fronts with our full arsenal of financial tools and the resources commensurate to the depth of the problem. To be successful, we must address the uncertainty, troubled assets and capital constraints of our financial institutions as well as the frozen secondary markets that have been the source of 40 percent of our lending for everything from small business loans to auto loans.

To protect taxpayers and ensure that every dollar is directed toward lending and economic revitalization, the Financial Stability Plan will institute a new era of accountability, transparency and conditions on the financial institutions receiving funds. To ensure that we are responding to this crisis as one government, Secretary Timothy Geithner—working in collaboration and joined by Federal Reserve Chairman Ben Bernanke, FDIC Chair Sheila Bair, Office of Thrift Supervision Director John Reich and Comptroller of the Currency John Dugan—is bringing the full force and full range of financial tools available to cleaning up lingering problems in our banking system, opening up credit and beginning the process of financial recovery.

Financial Stability Trust

A key aspect of the Financial Stability Plan is an effort to strengthen our financial institutions so that they have the ability to support recovery. This Financial Stability Trust includes:

a. A Comprehensive Stress Test: A Forward Looking Assessment of What Banks Need To Keep Lending Even Through a Severe Economic Downturn: Today, uncertainty about the real value of distressed assets and the ability of borrowers to repay loans as well as uncertainty as to whether some financial institutions have the capital required to weather a continued decline in the economy have caused both a dramatic slowdown in lending and a decline in the confidence required for the private sector to make much needed equity investments in our major financial institutions. The Financial Stability Plan will seek to respond to these challenges with:

- Increased Transparency and Disclosure: Increased transparency will facilitate a more effective use of market discipline in financial markets. The Treasury Department will work with federal bank supervisors and the Securities and Exchange Commission and accounting standard setters in their efforts to improve public disclosure by banks. This effort will include efforts to improve the disclosure of the exposures on bank balance sheets. In conducting these exercises, supervisors recognize the need not to adopt an overly conservative posture or take steps that could inappropriately constrain lending.
- Coordinated, Accurate, and Realistic Assessment: All relevant financial regulators—the Federal Reserve, FDIC, OCC, and OTS—will work together in a coordinated way to bring more consistent, realistic and forward looking assessment of exposures on the balance sheet of financial institutions.
- Forward Looking Assessment-Stress Test: A key component of the Capital Assistance Program is a forward looking comprehensive "stress test" that requires an assessment of whether major financial institutions have the capital necessary to continue lending and to absorb the potential losses that could result from a more severe decline in the economy than projected.
- Requirement for $100 Billion-Plus Banks: All banking institutions with assets in excess of $100 billion will be required to participate in the coordinated supervisory review process and comprehensive stress test.

b. Capital Assistance Program: While banks will be encouraged to access private markets to raise any additional capital needed to establish this buffer, a financial institution that has undergone a comprehensive "stress test" will have access to a Treasury provided "capital buffer" to help absorb losses and meet capital adequacy ratios—and also serve as a bridge to receiving increased private capital. While most banks have strong capital positions, the Financial Stability Trust will provide a capital buffer that will: Operate as a form of "contingent equity" to ensure firms the capital strength to preserve or increase lending in a worse than expected economic downturn. Firms will receive a preferred security investment from Treasury in convertible securities that they can convert into common equity if needed to maintain capital ratios to preserve lending in a worse-than-expected economic environment. This convertible preferred security will carry a dividend to be specified later and a conversion price set at a modest discount from the prevailing level of the institution's stock price as of February 9, 2009. Banking institutions with consolidated assets below $100 billion will also be eligible to obtain capital from the CAP after a supervisory review.

c. Financial Stability Trust: Any capital investments made by Treasury under the CAP will be placed in a separate entity—the Financial Stability Trust—set up to manage the government's investments in U.S. financial institutions.

Public–Private Investment Fund

One aspect of a full arsenal approach is the need to provide greater means for financial institutions to cleanse their balance sheets of what are often referred to as "legacy" assets. Many proposals designed to achieve this are complicated both by their sole reliance on public purchasing and the difficulties in pricing assets. Working together in partnership with the FDIC and the Federal Reserve, the Treasury Department will initiate a Public–Private Investment Fund that takes a new approach.

- Public–Private Capital: This new program will be designed with a public–private financing component, which could involve putting public or private capital side-by-side and using public financing to leverage private capital. on an initial scale of up to $500 billion, with the potential to expand up to $1 trillion.

- Private Sector Pricing of Assets: Because the new program is designed to bring private sector equity contributions to make large-scale asset purchases, it not only minimizes public capital and maximizes private capital: it allows private sector buyers to determine the price for current troubled and previously illiquid assets.

Consumer and Business Lending Initiative—Up to $1 Trillion

Addressing our credit crisis on all fronts means going beyond simply dealing with banks. While the intricacies of secondary markets and securitization—the bundling together and selling of loans—may be complex, they account for almost half of the credit going to Main Street as well as Wall Street. When banks making loans for small businesses, commercial real estate or autos are able to bundle and sell those loans into a vibrant and liquid secondary market, it instantly recycles money back to financial institutions to make additional loans to other worthy borrowers. When those markets freeze up, the impact on lending for consumers and businesses—small and large—can be devastating. Unable to sell loans into secondary markets, lenders freeze up, leading those seeking credit like car loans to face exorbitant rates. Between 2006 and 2008, there was a net $1.2 trillion decline in securitized lending (outside of the GSEs) in these markets. That is why a core component of the Financial Stability Plan is:

- A Bold Expansion Up to $1 Trillion: This joint initiative with the Federal Reserve builds off, broadens and expands the resources of the previously announced but not yet implemented Term Asset-Backed Securities Loan Facility. The Consumer and Business Lending Initiative will support the purchase of loans by providing the financing to private investors to help unfreeze and lower interest rates for auto, small business, credit card and other consumer and business credit. Previously, Treasury was to use $20 billion to leverage $200 billion of lending from the Federal Reserve. The Financial Stability Plan will dramatically increase the size by using $100 billion to leverage up to $1 trillion and kick start lending by focusing on new loans.
- Protecting Taxpayer Resources by Limiting Purchases to Newly Packaged AAA Loans: Because these are the highest quality portion of any security—the first ones to be paid—we will be able to best protect against taxpayer losses and efficiently leverage taxpayer money to support a large flow of credit to these sectors.
- Expand Reach—Including Commercial Real Estate: The Consumer and Business Lending Initiative will expand the initial reach of the Term Asset-Backed Securities Loan Facility to now include commercial mortgage-backed securities (CMBS). In addition, the Treasury will continue to consult with the Federal Reserve regarding possible further expansion of the TALF program to include other asset classes, such as non-Agency residential mortgage-backed securities (RMBS) and assets collateralized by corporate debt.

New Era of Transparency, Accountability, Monitoring, and Conditions

A major and legitimate source of public frustration and even anger with the initial deployment of the first $350 billion of EESA funds was a lack of accountability or transparency as to whether assistance was being provided solely for the public interest and a stronger economy, rather than the private gain of shareholders, bondholders, or executives. Going forward, the Financial Stability Plan will call for greater transparency, accountability and conditionality with tougher standards for firms receiving exceptional assistance. These will be the new standards going forward and are not retroactive. These stronger monitoring conditions were informed by recommendations made by formal oversight groups—the Congressional Oversight Panel, the Special Inspector General, and the Government Accountability Office—as well as Congressional committees charged with oversight of the banking system.

a. Requiring Firms To Show How Assistance From Financial Stability Plan Will Expand Lending: The core of the new monitoring requirement is to require recipients of exceptional assistance or capital buffer assistance to show how every dollar of capital they receive is enabling them to preserve or generate new lending compared to what would have been possible without government capital assistance.

- Intended Use of Government Funds: All recipients of assistance must submit a plan for how they intend to use that capital to preserve and strengthen their lending capacity. This report will be submitted during the application process, and the Treasury Department will make these reports public upon completion of the capital investment in the firm.

- The Impact on Lending Requirement: Firms must detail in monthly reports submitted to the Treasury Department their lending broken out by category, showing how many new loans they provided to businesses and consumers and how many asset-backed and mortgage-backed securities they purchased, accompanied by a description of the lending environment in the communities and markets they serve. This report will also include a comparison to their most rigorous estimate of what their lending would have been in the absence of government support. For public companies, similar reports will be filed on an 8K simultaneous with the filing of their 10-Q or 10-K reports. Additionally, the Treasury Department will—in collaboration with banking agencies—publish and regularly update key metrics showing the impact of the Financial Stability Plan on credit markets. These reports will be put on the Treasury FinancialStability.gov Web site so that they can be subject to scrutiny by outside and independent experts.
- Taxpayers' Right to Know: All information disclosed or reported to Treasury by recipients of capital assistance will be posted on FinancialStability.gov because taxpayers have the right to know whether these programs are succeeding in creating and preserving lending and financial stability.

b. Committing Recipients to Mortgage Foreclosure Mitigation: All recipients of capital investments under the new initiatives announced today will be required to commit to participate in mortgage foreclosure mitigation programs consistent with guidelines Treasury will release on industry standard best practices.

c. Restricting Dividends, Stock Repurchases and Acquisitions: Limiting common dividends, stock repurchases and acquisitions provides assurance to taxpayers that all of the capital invested by the government under the Financial Stability Trust will go to improving banks' capital bases and promoting lending. All banks that receive new capital assistance will be:

- Restricted from Paying Quarterly Common Dividend Payments in Excess Of $0.01 Until the Government Investment Is Repaid: Banks that receive exceptional assistance can only pay $0.01 quarterly. That presumption will be the same for firms that receive generally available capital unless the Treasury Department and their primary regulator approve more based on their assessment that it is consistent with reaching their capital planning objectives.
- Restricted from Repurchasing Shares: All banks that receive capital assistance are restricted from repurchasing any privately held shares, subject to approval by the Treasury Department and their primary regulator, until the government's investment is repaid.
- Restricted from Pursuing Acquisitions: All banks that receive capital assistance are restricted from pursuing cash acquisitions of healthy firms until the government investment is repaid. Exceptions will be made for explicit supervisor-approved restructuring plans.

d. Limiting Executive Compensation: Firms will be required to comply with the senior executive compensation restrictions announced February 4, including those pertaining to a $500,000 in total annual compensation cap plus restricted stock payable when the government is getting paid back, "say on pay" shareholder votes, and new disclosure and accountability requirements applicable to luxury purchases.

e. Prohibiting Political Interference in Investment Decisions: The Treasury Department has announced measures to ensure that lobbyists do not influence applications for, or disbursements of, Financial Stability Plan funds, and will certify that each investment decision is based only on investment criteria and the facts of the case.

f. Posting Contracts and Investment Information on the Web: The Treasury Department will post all contracts under the Financial Stability Plan on FinancialStability.gov within 5 to 10 business days of their completion. Whenever Treasury makes a capital investment under these new initiatives, it will make public the value of the investment, the quantity and strike price of warrants received, the schedule of required payments to the government and when government is being paid back. The terms of pricing of these investments will be compared to terms and pricing of recent market transactions during the period the investment was made, if available.

Housing Support and Foreclosure Prevention

There is bipartisan agreement today that stemming foreclosures and restructuring troubled mortgages will help slow the downward spiral harming financial institutions and the real American economy. Many Congressional leaders, housing advocates, and ordinary citizens have been disappointed that the Troubled Asset Relief Program was not aimed at ending the foreclosure crisis. We will soon be announcing a comprehensive plan that builds on the work of Congressional leaders and the FDIC. Among other things, our plan will:

- Drive Down Overall Mortgage Rates: The Treasury Department and the Federal Reserve remain committed to expand as necessary the current effort by the Federal Reserve to help drive down mortgage rates—freeing up funds for working families—through continuation of its efforts to spend as much as $600 billion for purchasing of GSE mortgage-backed securities and GSE debt.
- Commit $50 Billion to Prevent Avoidable Foreclosures of owner-occupied middle class homes by helping to reduce monthly payments in line with prudent underwriting and long-term loan performance.
- Help Bring Order and Consistency to the various efforts to address the foreclosure crisis by establishing loan modification guidelines and standards for government and private programs.
- Require All Financial Stability Plan Recipients to Participate in Foreclosure Mitigation Plans consistent with Treasury guidance.
- Build Flexibility into Hope for Homeowners and the FHA to enable loan modifications for a greater number of distressed borrowers.

Small Business and Community Lending Initiative

Few aspects of our current financial crisis have created more justifiable resentment than the specter of hard-working entrepreneurs and small business owners seeing their companies hurt and even bankrupt because of a squeeze on credit they played no role in creating. Currently, the increased capital constraints of banks, the inability to sell SBA loans on the secondary market and a weakening economy have combined to dramatically reduce SBA lending at the very time our economy cannot afford to deny credit to any entrepreneur with the potential to create jobs and expand markets. Further adding to this frustration is the sense that community banks—which still engage in relationship lending that serves their local communities—have been overlooked not just during this crisis, but over the last several years.

Over the next several days, President Obama, the Treasury Department and the SBA will announce the launch of a Small Business and Community Bank Lending Initiative: This effort will seek to arrest the precipitous decline in SBA lending—down 57 percent last quarter from the same quarter a year earlier for the flagship 7(a) loans through:

- Use of the Consumer and Business Lending Initiative to finance the purchase of AAA-rated SBA loans to unfreeze secondary markets for small business loans.
- Increasing the Guarantee for SBA Loans to 90 percent: The Administration is seeking to pass in the American Recovery and Reinvestment Act an increase in the guarantee of SBA loans from as low as 75 percent to as high as 90 percent.
- Reducing Fees for SBA 7(a) and 504 Lending and Provide Funds for Both Oversight and Speedier and Less Burdensome Processing of Loan Applications.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM TIMOTHY F. GEITHNER

Q.1. I want to follow up on our exchange about how your public–private partnership investment proposal will work and how it would value troubled assets. You suggested that the Administration intends to provide longer-term financing that has been absent during the credit crisis, and the presence of stable financing could allow investors to accept lower returns in exchange for greater leverage, which magnifies returns. Could you please provide additional information regarding how the private sector pricing of assets will function, what assets will qualify for Federal financing, and what steps the government plans to take to attract the necessary level of private sector participation?

A.1. Despite the progress that has been made over the past several months, the financial system is still working against economic recovery. One major reason is the problem of "legacy assets"—both real estate loans held directly on the books of banks ("legacy loans") and securities backed by loan portfolios ("legacy securities"). The excessive discounts embedded in these legacy asset prices are now straining the capital of U.S. financial institutions, limiting their ability to lend and increasing the cost of credit throughout the financial system. The lack of clarity about the value of these legacy assets has also made it difficult for some financial institutions to raise new private capital on their own.

To address the challenge of legacy assets, the Department of the Treasury—in conjunction with the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve—has announced the Public–Private Investment Program (PPIP) as part of its efforts to repair balance sheets throughout our financial system and ensure that credit is available to the households and businesses, large and small, that will help drive us toward recovery. Private sector investors competing with one another will establish the price of the loans and securities purchased under the PPIP.

The Legacy Loans Program provides FDIC debt and Treasury equity co-investment to attract private capital to purchase eligible legacy loans from participating banks. By lifting private demand, the program will facilitate market-priced sales of troubled assets, which will help to cleanse bank balance sheets and reduce the uncertainty associated with these assets. A broad array of investors is expected to participate in the Legacy Loans Program. The participation of individual investors, pension plans, insurance companies and other long-term investors is particularly encouraged.

The Legacy Securities Program is designed to draw private capital into the markets for securities tied to residential and commercial real estate and consumer credit by providing matching equity capital under PPIP and debt financing from the Federal Reserve and Treasury under the Term Asset-Backed Securities Loan Facility (TALF). Treasury will initially approve up to five asset managers with a demonstrated track record of purchasing legacy assets who will have a period of time to raise private capital to target the designated asset classes. Treasury funds will be invested one-for-one on a fully side-by-side basis with these investors. Private sector investors competing with one another will help to establish the price of these assets and should reduce the uncertainty surrounding financial institutions holding these securities, potentially enabling them to raise new private capital.

Since TARP funds will be invested alongside private capital, the taxpayer has the opportunity to participate in the asset's upside alongside with the private investors. Further, private market participants dong with the government stand to lose their entire investments in a downside scenario. This approach is superior to the alternatives of either hoping for banks to gradually work these assets off their books or of the government purchasing the assets directly as it provides a market discipline to the process.

Q.2. In what ways will your stress test for major banks be different than the CAMEL system that financial regulators use in determining a financial institution's underlying condition?

A.2. CAMEL ratings and the stress test are handled by the bank supervisory agencies: the Federal Reserve, Office of the Comptroller of the Currency, Office of Thrift Supervision, and the Federal Deposit Insurance Corporation. However, the forward-looking stress test is not a part of typical supervisory review, which is the process that informs CAMEL ratings. This exercise is a specia1, forward-looking assessment to evaluate the capital needs of major U.S. banking institutions under a more challenging economic environment. It is an extraordinary examination developed to help address some of the challenges of the current environment and ensure that banks have sufficient capital to lend and contribute to economic recovery.

Q.3. As we have discussed, I support expanding the reach of the Federal Reserve Board's Term Asset-Backed Securities Loan Facility (TALF) to include commercial mortgage backed securities. Would you please expand upon when you think the roll-out of TALF for commercial mortgage backed securities will take place?

A.3. As you know, the Treasury and Federal Reserve have publicly stated that commercial mortgage-backed securities (CMBS) will be eligible for the Term Asset-Backed Securities Loan Facility (TALF). We are working to ensure that this asset class is added to the list of eligible collateral for TALF funding in a timely manner. Treasury and Federal Reserve staff are currently working through some of the terms with which borrowers can pledge CMBS at the TALF. Of course, borrowers will need to meet certain eligibility criteria that will protect taxpayer money. The amount TALF is willing to lend against a given amount of collateral, will reflect the riskiness of the CMBS assets provided as collateral, while lending rates on the TALF loan will provide additional protection against potential losses.

In short, we are working as quickly as possible to make sure that CMBS is included in TALF, while keeping in mind that the lending terms must protect taxpayer money. We will provide you with further guidance as soon as our analysis is complete.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR WARNER FROM TIMOTHY F. GEITHNER

Q.1. Mr. Secretary, our Virginia Housing Finance Agency, which, like its counterparts across the country, plays a critical role in providing affordable home loans to first-time homebuyers in our state, is unable to issue tax-exempt Housing Bonds on which its lending programs largely depend. All HFAs are facing similar constraints. I think you would agree that we cannot afford to have state HFAs sidelined now, because, through no fault of their own, they cannot issue Housing Bonds. We need them now more than ever.

I understand the Treasury is looking seriously at a variety of ways to intervene to support the Housing Bond market and state HFAs, including through TARP. What are you considering and when can we expect to see details?

A.1. Treasury appreciates the critical role state HFAs play in extending affordable and sustainable mortgage loans to lower-income borrowers, and we are aware of the challenges HFAs face in the current market. We are considering a range of policy responses to support the HFAs in carrying out their mission, and will work with Fannie Mae and Freddie Mac to support HFAs in serving homebuyers. In analyzing the potential options, we will consider our TARP authorities under the Emergency Economic Stabilization Act as well as our GSE authorities under the Housing and Economic Recovery Act. While we are not yet prepared to provide details, Treasury staff would be happy to work with members of your staff as we develop the program.