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Treasury Department Releases Text of Letter from Secretary Geithner to Hill Leadership on Administration's Exit Strategy for TARP

Timothy F. Geithner

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U.S. DEPARTMENT OF THE TREASURY

Press Center

Treasury Department Releases Text of Letter from Secretary Geithner to Hill Leadership on Administration's Exit Strategy for TARP

12/9/2009

TG-433

WASHINGTON – The U.S. Department of the Treasury released the text of identical letters sent today from Secretary Tim Geithner to Speaker Nancy Pelosi and Senator Harry Reid outlining the Administration's exit strategy for the Troubled Asset Relief Program (TARP) established by the Emergency Economic Stabilization Act of 2008 (EESA). The text of the letter to Speaker Pelosi follows.

December 9, 2009

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

Dear Madam Speaker:

I am writing to update you on the status of the Obama Administration's financial policies, including programs initiated under the Troubled Asset Relief Program (TARP) established by the Emergency Economic Stabilization Act of 2008 (EESA), the results they have achieved, the challenges ahead, and our plan for exiting TARP.

These policies are working. When the Obama Administration took office, the financial system was extremely fragile and the economy was contracting sharply. The Administration's financial and economic policies have helped to shore up confidence in our financial system. Credit is starting to flow again to consumers and businesses, and the economy is growing. Further, private capital is replacing public capital in our major institutions.

As a result of improved financial conditions and careful stewardship of the program, losses on TARP investments are likely to be significantly lower than previously expected. We now expect a positive return from the government's investments in banks. These banks will soon have repaid nearly half of the TARP funds they received. We also expect to recover all but \$42 billion of the \$364 billion in TARP funds disbursed in FY2009. Further, we plan to use significantly less than the full \$700 billion in EESA authority. As a result, we expect that TARP will cost taxpayers at least \$200 billion less than was projected in the August Mid-Session Review of the President's Budget.

But significant challenges remain. Too many American families, homeowners, and small businesses still face severe financial pressure. Although the economy is recovering, foreclosures are increasing, and unemployment is unacceptably high. Businesses are still cautious in the face of uncertainty about the strength of the recovery, and many small businesses face very difficult credit conditions. Although bank lending standards are starting to ease, many categories of bank lending continue to contract. This contraction has hit small businesses very hard because they rely heavily on such lending, and do not have the ability to substitute credit from securities issuance. Commercial real estate losses also weigh heavily on many small banks, impairing their ability to extend new loans.

Further, the recovery of our financial system remains incomplete. And near-term shocks to that system could undermine the economic recovery we have seen to date.

Exit Strategy for TARP

Our exit strategy for TARP balances the mandate of EESA to address these challenges with the need to exercise fiscal discipline and reduce the burden on current and future taxpayers. There are four broad elements to our strategy.

First, we will continue terminating and winding down many of the government programs put in place last fall. In September, Treasury ended its Money Market Fund Guarantee Program, which guaranteed at its peak over \$3 trillion of assets. The program incurred no losses, and generated \$1.2 billion in fees. The Capital Purchase Program, through which the majority of TARP investments in banks have been made, is effectively closed. Before this Administration took office, nearly \$240 billion in TARP funds had been committed to banks.

Since January 20, we have committed about \$7 billion to banks, much of which went to small institutions. Major U.S. banks subject to the "stress test" conducted last spring have raised over \$110 billion in high-quality capital from the private sector. And banks will soon have repaid \$116 billion of TARP funds

Second, we will limit new commitments in 2010 to three areas.

- We will continue to mitigate foreclosure for responsible American homeowners as we take the steps necessary to stabilize our housing market.
- We recently launched initiatives to provide capital to small and community banks, which are important sources of credit for small businesses. We are also reserving funds for additional efforts to facilitate small business lending.
- Finally, we may increase our commitment to the Term Asset-Backed Securities Loan Facility (TALF), which is improving securitization markets that facilitate consumer and small business loans, as well as commercial mortgage loans. We expect that increasing our commitment to TALF would not result in additional cost to taxpayers.

Beyond these limited new commitments, we will not use remaining EESA funds unless necessary to respond to an immediate and substantial threat to the economy stemming from financial instability. As a nation we must maintain capacity to respond to such a threat. Banks are still experiencing significant new credit losses, and the pace of bank failures, which tend to lag economic cycles, remains elevated. At the same time, many of the Federal Reserve and FDIC programs that have complemented TARP investments are ending. This creates a financial environment in which new shocks could have an outsized effect – especially if an adequate financial stability reserve is not maintained. As we wind down many of the government programs launched initially to address the crisis, it is imperative that we maintain this capacity to respond if financial conditions worsen and threaten our economy. However, before using EESA funds to respond to new financial threats, I would consult with the President and Chairman of the Federal Reserve Board and submit written notification to the Congress. This capacity will bolster confidence and improve financial stability, thereby decreasing the probability that it will need to be used. This is the third element of our exit strategy.

In order to accomplish these goals, pursuant to Section 120(b) of EESA, I certify that I am hereby extending the authority provided under the Act to October 3, 2010. This extension is necessary to assist American families and stabilize financial markets because it will, among other things, enable us to continue to implement programs that address housing markets and the needs of small businesses, and to maintain the capacity to respond to unforeseen threats, as described above.

While we are extending the \$700 billion program, we do not expect to deploy more than \$550 billion. We also expect up to \$175 billion in repayments by the end of next year, and substantial additional repayments thereafter. The combination of the reduced scale of TARP commitments and substantial repayments should allow us to commit significant resources to pay down the federal debt over time and slow its growth rate.

Even with this extension, we expect that TARP will cost taxpayers at least \$200 billion less than was projected in the August Mid-Session Review of the President's Budget, including \$25 billion in potential costs from new TARP commitments in 2010. We expect that the vast majority of these potential costs would come from mitigating foreclosure for responsible American homeowners as we take the steps necessary to stabilize our housing market.

The final element to our exit strategy is how we manage equity investments acquired through EESA while protecting taxpayers. We will continue to manage those investments in a commercial manner and seek to dispose of them as soon as practicable. We will exercise our voting rights only on core issues such as election of directors, and we will not interfere in the day-to-day management of individual companies. In addition, as the steward of taxpayers' funds, Treasury will continue to manage investments in a manner that ensures accountability, transparency and oversight. And we will work with recipients of EESA funds and their supervisors to accelerate repayment where appropriate. We want to see the capital base of our financial system return to private hands as quickly as possible, while preserving financial stability and promoting economic recovery.

History suggests that exiting prematurely from policies designed to contain a financial crisis can significantly prolong an economic downturn. We must not waver in our resolve to ensure the stability of the financial system and to support the nascent recovery that the Administration and the Congress have worked so hard to achieve. Improvements in the financial performance of EESA programs put us in a better position to address the economic and financial challenges many Americans still face. I look forward to continuing to work with you to achieve these goals.

Sincerely,

Timothy F. Geithner

Identical copy of this letter sent to:
The Honorable Harry Reid

cc: The Honorable Barney Frank
The Honorable Spencer Bachus
The Honorable David Obey
The Honorable Jerry Lewis

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REPORTS

- [Letter to Speaker Pelosi Attached](#)