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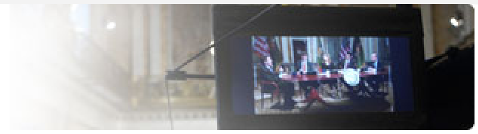

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Chairman Moore, Ranking Member Biggert and members of the Subcommittee on Oversight and Investigations, thank you for the opportunity to introduce myself and to discuss Treasury's efforts to stabilize and repair the nation's financial system. Today, I will provide you with an update on our efforts to stabilize the financial system through a comprehensive range of programs under the both the Troubled Assets Relief Program (TARP) and the Financial Stability Plan (FSP). I will also update you on coordination with our four oversight bodies and discuss some of our challenges and priorities going forward.

Introduction

First, I would like to describe my own background and offer a few thoughts that are guiding me in my new assignment as the Assistant Secretary for Financial Stability.

I began my career as an officer in the U.S. Navy, spending four years on active duty, including one year in Vietnam.

After business school, I spent 28 years with Merrill Lynch, leaving as president in 1999. This was a time when Merrill was noted for its commitment to strong corporate values. I learned from my experiences at Merrill that the long-term success of financial institutions depends on sound corporate governance, including independent checks and balances, tight control over risk, and executive compensation geared to long-term performance on behalf of clients, as well as shareholders. I believe that I contributed to strengthening Merrill's governance practices in the 1990s.

Since leaving the firm a decade ago, I've led two other major financial institutions through transitions necessary for their long-term success. In 2002, I became chairman and C.E.O. of TIAA-CREF, a leading provider of retirement and asset management services. We adapted the company to changing markets, created independent risk management and doubled the company's capital so we could withstand a harsh investment climate.

As a result, TIAA-CREF is now one of very few financial companies that carry a triple-A ratings. And during my tenure, TIAA-CREF became the first company in the Fortune 100 to allow its stakeholders an advisory role on executive compensation.

Last September, I was named C.E.O. of the Federal National Mortgage Association as that company was placed into government conservatorship. I joined the Treasury Department in April.

Update on Treasury's Financial Stability Programs

Over the past 18 months, the downward spiral in our financial system and escalating housing crisis was causing tremendous harm, not only to financial firms of all sizes, but also to ordinary families and businesses across the country.

In response, last October, Congress passed the Emergency Economic Stabilization Act (EESA), establishing the Troubled Assets Relief Program (TARP) and giving Treasury the necessary tools and flexibility to stabilize the financial system and restore the flow of credit to consumers and business.

Our mandate under EESA is two-fold: to stabilize the financial system while protecting the taxpayer. Let me be clear that Treasury has designed each and every one of our financial stability programs with these two objectives in mind. The American people have benefited from the financial rescue package. The financial crisis, and the ensuing economic downturn, would have been far worse without this legislation and our implementation of it through the TARP.

Today, I will update you on our progress.

In just 10 months since the passage of the EESA and only six months under the new Administration, Treasury has moved aggressively to confront the worst financial crisis in decades.

Treasury has created 10 programs under the TARP and the Financial Stability Plan. [1] Together, these programs provide much needed capital to the financial system, help struggling homeowners stay in their homes, initiate the recovery of the markets for consumer and business lending and provide a mechanism for removing legacy toxic assets from the balance sheets of financial institutions. More specifically:

- Treasury has invested more than $200 billion in 657 financial institutions of all sizes through the Capital Purchase Program
- We have provided support to three systemically significant institutions
- Treasury launched an unprecedented housing program to help millions of homeowners\We have assisted with the restructuring of both General Motors and Chrysler through the bankruptcy process, accomplished with speed previously considered impossible; as a result, both companies are leaner and better able to compete today;
- Together with the Federal Reserve, Treasury helped to restart the securitization markets, a key source of credit to consumers and businesses; and
- Earlier this month, Treasury launched the Public-Private Investment Program to help remove legacy assets from the balance sheets of financial institutions so they can redeploy capital to support new lending; and
- Treasury issued regulations guiding executive compensation at firms receiving TARP funds.

To date, we have allocated about $643 billion to our EESA programs. We have actually spent $362.6 billion of that amount. We have also received over $70 billion in CPP repayments from 34 institutions and $6.6 billion in dividend payments from participants in all TARP programs. Finally, we are beginning to receive proceeds from the sale of warrants by Treasury through the CPP.

As you can see from that summary, Treasury has accomplished a great deal in just 10 months, all while building a new office of financial stability. However, we have much more to do, as described later in my testimony.

Update on the Capital Purchase Program (CPP)

In the brief time that I have, I will give you some additional details on our key programs:

First of all, I am pleased to report on progress we have made through the Capital Purchase Program. Treasury established this program in October 2008 to stabilize the financial system by building the capital base of viable U.S. financial institutions, enabling them to continue to lend to businesses and consumers during this unprecedented and prolonged financial crisis. We designed the CPP to support the broad range of institutions that compose our financial system,
including small, community, regional, national banks, Community Development Financial Institutions and insurance companies. The amount of an investment has ranged from as small as $301,000 to as much as $25 billion. In May, Secretary Geithner announced the re-opening of the CPP for small and community banks across the country, recognizing the critical role these
banks play in our communities.

The CPP has been a success in achieving its goals and I want briefly highlight this success:

- Treasury has provided capital to 657 institutions across 48 states, including more than 300 small and community banks, enabling them to absorb losses from bad assets while continuing to lend to consumers and businesses. We continue to invest in banks every week.
- Treasury ensured that the CPP benefits banking communities of all types by issuing 7 terms sheets to include publically-held intuitions, private institutions, S-corporations, and mutual institutions.
- As illustrated by Treasury's Lending and Intermediation Survey, the 21 largest CPP participants have been able to sustain their lending activities during this crisis, despite the significant headwinds posed by this recession.
- At least in part as a result of the CPP, we have seen important signs of stabilization in the financial markets. One key metric we use to measure the impact of the CPP is the three month LIBOR-OIS spread, a key measure of risk in the financial system. This spread has fallen from a high of 364 basis points in October 2008 to 31 basis points today.

While the CPP's primary objective was to stabilize the financial system, it was also designed to protect the taxpayer by requiring firms to pay Treasury a dividend and provide Treasury warrants. To date, Treasury has received an estimated $5.2 billion in dividend payments on these CPP investments. We have also just begun to dispose of the warrants received in connection with these investments, which provide an opportunity for the taxpayers to realize the upside on the investments. Although we have sold only the warrants of a few banks, Treasury has received over $200 million from such sales.

Warrants Disposition Process

This Committee and many others have expressed an interest in Treasury's warrant disposition process. Treasury has laid out a consistent and clear process for valuing warrants in a manner that protects taxpayers. We apply the same process consistently across all banks, large and small. Treasury is committed to getting fair value for the taxpayers for these warrants and we have made that process public on our website. I have also attached our policy statement and FAQs on this subject with my testimony for the record. Let me briefly outline this process.

When a publicly-traded institution repays Treasury's investment under the CPP, it has the contractual right to repurchase its warrants at fair market value through an independent valuation process directly from the Treasury. As part of this process, the firm will submit its valuation of the warrants and then Treasury, using a robust set of procedures, will determine whether the offer reflects fair market value and then will accept or decline that offer. If Treasury and the firm cannot agree on fair market value for the warrants, the warrants will be sold by Treasury using an auction process.

One source of complexity in valuing the warrants held by Treasury is that these financial instruments do not trade on any market and therefore do not have observable market prices. Simple models cannot give us a price. Their values can only be estimated. We have therefore established and are following a comprehensive approach to estimating these values, which involves using a variety of inputs including a set of well-known financial models. These models include, but are not limited to, binomial and Black-Scholes option-pricing models, which are widely used in financial markets. Treasury also consults with third-party market participants as to what they would be willing to pay for the warrants. We obtain quotes from at least three separate market participants that regularly invest in, or trade, similar securities. In addition, we have retained outside investment managers to provide full, independent valuations. Together, these various methods constitute a robust and consistent process for estimating value and protecting the taxpayers' interests. The significant differences in the modeled valuations that Treasury and outside observers arrived at are due to differences in modeled assumptions as well as variations in stock prices as of the dates the valuations were made.

Treasury decided to sell the warrants within several months after they are eligible for sale, rather than hold them for a substantial period. In reaching that decision, Treasury carefully considered its obligations under EESA and weighed a number of policy and financial considerations.

- First, the President has clearly stated that his objective is to dispose of the government's investments in individual companies as quickly as is practicable. Accordingly, Treasury decided that the extraordinary government interventions that were necessitated by the crisis should be unwound as quickly as is consistent with Treasury's mandate under EESA to restore liquidity and stability to the financial system, while protecting the interests of taxpayers.
- Second, the potential upside inherent in the warrants is reflected in their current valuation, which takes into account the possibility that the underlying stock price could rise in the future. Therefore, selling the warrants in the near term, as opposed to holding them, does not give away the potential upside inherent in the warrants.
- Third, the standard valuation models take into account an option's remaining life. The option value of the warrant decays on an accelerating basis as its remaining term decreases.

As you know, there has been intense interest in this process from Congress and our oversight bodies. As with all aspects of the TARP program, Treasury welcomes the recommendations and comments of others as we constantly strive for improvement, transparency and accountability in our programs. In developing our valuation and repurchase process, we consulted with numerous experts, market makers, and industry participants. As we move forward, it is important to note that less than one-quarter of one-percent of the warrants that Treasury holds have been disposed of. We will continue to refine our process with the aim of protecting the taxpayer's investment.

Making Home Affordable © Modification Program

Next, I will describe the Administration's effort to keep Americans in their homes. Within a month of taking office, on February 18th, President Obama and Secretary Geithner announced the Making Home Affordable (MHA) Program, a critical element of Treasury's Financial Stability Plan. This program was broadly designed to stabilize the U.S. housing market and offer assistance to millions of homeowners by reducing mortgage payments and preventing avoidable foreclosures.

This program has three key initiatives: the Home Affordable Refinance Program, the Home Affordable Modification Program SM, and support for the Government-Sponsored Enterprises (GSEs)- Fannie Mae and Freddie Mac. In addition, we have announced a number of new measures, such as the Second Lien Program and the Foreclosure Alternatives Program. We are working closely with servicers to expand nationwide capacity to accommodate the number of eligible borrowers who can receive assistance through the program. In addition, we are taking a number of steps to expedite implementation, including more standardization of documentation and disclosure of the NPV evaluation.

An initiative of this scale has never been previously attempted. Already our progress has been substantial and momentum continues to build. Among the markers of our success to date:

- We have signed contracts with 31 servicers, including the five largest. Between loans covered by these servicers and loans owned or guaranteed by the GSEs, more than 85 percent of all mortgage loans in the country are now covered by the program.
- Over 180,000 trail modifications are underway and 354,000 trial modifications have been offered under the program.

At this early date, MHA has been successful in modifying mortgages for at risk borrowers to sustainably affordable levels, and helping to avoid preventable foreclosures. We are on pace to meet the program's stated goals of helping millions of Americans avoid foreclosure.

Yet, we recognize that much more has to be done to help homeowners and adopt to changing economic forces. Challenges remain in implementing and scaling up the program, and we are committed to rapidly overcoming those challenges, reaching as many homeowners as possible and helping to keep them in their homes.

Term Asset-Backed Securities Loan Facility (TALF)

Another successful program is the Term Asset-Backed Securities Loan Facility (TALF), which Treasury and the New York Fed established to re-start the critical non-bank securitization market. Treasury and the Federal Reserve significantly expanded the TALF to include as eligible collateral both newly-issued and legacy commercial mortgage-backed securities ("CMBS"), as well as securities backed by insurance premium finance loans.

We are already seeing the positive impact of TALF on facilitating the flow of credit to consumers and small businesses. Since TALF was launched in March, the cost of financing of TALF-eligible collateral has fallen by 40-60 percent from its December 2008 peak. In the aggregate, TALF has supported $53 billion of newly issued consumer asset backed securities. The market for new issuance of ABS had shut down at the end of 2008 and remained effectively closed until TALF became operational. Importantly, we have seen renewed participation in the securitization market from a range of institutional investors, such as pension funds. This re-starting of the market translates into increased consumer and small business lending and, in some cases, lower loan rates for consumers.

Public Private Investment Program (PPIP)

Earlier this month, Treasury announced its selection of nine asset managers for the Legacy Securities Public Private Investment Program (PPIP) to remove legacy assets from the balance sheets of financial institutions. The PPIP is a critical element of Treasury's Financial Stability Plan and is designed to support market functioning and facilitate price discovery in the important asset-backed securities markets, allowing banks and other financial institutions to re-deploy capital and extend new credit to households and businesses

Under the PPIP, Treasury will provide up to $30 billion of equity and debt to funds established with private sector fund managers and investors to purchase legacy securities. The PPIP allows the Treasury to partner with leading investment management firms in a way that increases the flow of private capital into these markets while maintaining an "upside" for US taxpayers.

Treasury took a number of comprehensive measures to enhance the potential of this program and to protect the taxpayer. We consulted closely with the SIGTARP as we developed a robust framework for compliance, governance and controlling conflicts of interest. Treasury also ensured that the PPIP includes a spectrum of minority, women and veteran owned businesses that represent our communities. The pre-qualified Legacy Securities PPIP fund managers selected by Treasury have established meaningful partnerships with these types of businesses in roles that include asset management, capital raising, broker-dealer, investment sourcing, research, advisory, cash management and fund administration services. Collectively, the nine pre-qualified PPIP fund managers have established 10 such unique relationships in five states.

The selected fund managers will begin raising private capital in the next month and we hope to have our first purchases under the program within a few months.

Automotive Industry Financing Program

In December of last year, Treasury began to institute measures to prevent a significant disruption of the American automotive industry, which would pose a systemic risk to financial market stability and have immeasurably harmful on the U.S. economy. Our auto program required the participating institutions to implement plans to submit achieve long-term viability.

In only a few months, both General Motors and Chrysler – working with their stakeholders and the President's Auto Task Force – have achieved remarkable progress. After moving at unprecedented speed through fair and open bankruptcy processes, both the New Chrysler and the New GM have emerged from a fair and open bankruptcy protection as stronger global companies. While these transformations have required exceedingly difficult sacrifices from all stakeholders, they have given the two great American companies a new lease on life and have kept hundreds of thousands of Americans working. For more details, I invite you to read the testimony of my colleague, Ron Bloom, head of the auto task force, who testified yesterday.

Impact of our Programs

The TARP has been a key to stabilizing the financial system and preventing greater deterioration in the availability of credit to households, businesses, and communities. Treasury's actions through the TARP and the Financial Stability Plan have provided significant support to institutions and core financial markets and had a positive effects on bank and nonbank lending activity, reinforced by other actions Treasury and the regulators have taken since the onset of the crisis in 2007.

In particular, the May release of the results of the Supervisory Capital Assessment Program, or the Stress Tests, for the nation's 19 largest bank holding companies has provided greater transparency with respect to capital levels for these large institutions and has helped to increase investors' confidence in banks and financial markets more generally. The 19 participating banks have been raising funds to meet their capital buffer requirements, announcing fund-raising measures totaling approximately $120 billion, including $32 billion in non-FDIC guaranteed bonds. Ten of these 19 banks have already re-paid Treasury's CPP investment.

Amid signs of recovery in the financial markets in the first half of 2009:

- Credit spreads for AAA investment grade corporate bonds have fallen 110 basis points since their peak in October.
- High yield corporate issuance in the first half of 2009 was about $62 billion, up 26% from the same period last year.
- Issuance of asset-backed securities has also recently improved in response to the TALF, with $53 billion in consumer securitizations this year.

There are also some signs that the economy is beginning to mend:

- Consumer confidence has increased significantly after sliding in the early part of the year.
- Housing starts have moved higher – starts of single-family units were up 32 percent through June since their low in February.
- House purchases have begun to pick up in some parts of the country

Nevertheless, our financial system and our economy remain vulnerable. Even with the modest improvement in conditions many forecasters expect in the second half of this year, unemployment is still rising and house prices continue to fall. The level of home foreclosures remains high and strains in commercial real estate continue to build. This is why Treasury must remain vigilant. We must press ahead with our financial stabilization efforts to alleviate strains in the financial sector and, at the same time, ensure that the broader economy will be supported by comprehensive economic recovery programs.

Transparency and Accountability in all EESA Programs

Upon taking office, President Obama committed to increased transparency, accountability and oversight in our government's approach to stabilizing the financial system. Secretary Geithner further underscored Treasury's commitment to transparency in all our programs

Today, I want to update you on the many steps we have taken since the creation of TARP and over the past seven months to fulfill that commitment. One of the Secretary and my priorities is to ensure that we enhance and provide transparency as our activities evolve. I will regularly update Congress on our progress.

Oversight Bodies

We have productive working relationships with our four oversight bodies: the Special Inspector General of the TARP (SIGTARP), the Government Accountability Office (GAO), the Congressional Oversight Panel (COP) and the Financial Stability Oversight Board (FINSOB).

We believe that communication is essential, so we regularly interact with the oversight entities regarding all TARP programs and keep them apprised of our progress on their recommendations Our respective staffs interact several times a week and I personally meet with the SIGTARP weekly.

Treasury has given careful consideration to each of their recommendations, many of which track initiatives that Treasury either has already taken or is in the process of implementing. The GAO has consistently noted the progress that Treasury has made in meeting its recommendations.

In the rare cases where we have declined to implement a recommendation, we have sought to reach the recommendation's objectives by other means that we consider to be more practical or effective and have explained our approach to the oversight bodies. In those rare situations, we have explained our reasons to the oversight body and to Congress in detail.

Reporting

Treasury has met each of its Congressionally-mandated TARP reporting requirements on time and we will continue to do so. We publish all of these reports on our website, in addition to sending them to the respective Congressional Committees of oversight.

As of July 20, 2009, Treasury has published:

- **64 Transaction Reports:** in accordance with section 114 of the EESA: these include details on each investment in every institution under every program, as well as repayments of TARP investments. That includes dates and amounts invested.
- **8 Section 105 Monthly Congressional Reports:** these provide qualitative program updates and detailed financial statements on all our programs
- **7 Tranche Reports:** in accordance with section 105 of the EESA, these reports outline the details of the transactions related to each $50 billion incremental TARP investment

Treasury is often asked about lending activities by banks participating in the CPP. So, in January, we launched an important initiative to help the public easily assess the lending and intermediation activities of banks participating in the CPP, starting with the top 21 banks since they account for over 50% of lending in our communities. Treasury has now published 6 monthly Lending Surveys. Then, in March, we expanded the survey to include all banks in the CPP, and have now published 3 Lending Reports with data from over 500 banks.

Treasury, Congress, our oversight bodies and many banks agree that these reports are of critical importance in helping the public understand the lending environment during this crisis. That is why, as the largest banks have repaid Treasury's CPP investment, we have asked and they have agreed to continued participation in the "top 21" Lending Survey until the end of the year. That includes 10 of the largest banks that repaid Treasury last month and account for 22% of banking system assets and 15% of loans. Treasury commends this decision by the 10 banks and we are grateful for their work in helping us to provide such useful information to taxpayers.

Website

In addition to publishing monthly and weekly reports, Treasury has launched a public communications initiative designed to more directly communicate how our policies will stabilize the financial system and restore the flow of credit to consumers and businesses. A key element to this enhanced public outreach effort is providing user-friendly resources online. Earlier this year, Treasury launched a new website- *www.FinancialStability.gov* that details financial stability programs in a simplified and straightforward manner. We continue to improve this site every month.

Specifically, FinancialStability.gov provides all of our TARP reports, lists the institutions participating in Treasury's programs, and makes available all of the detailed contracts defining those investments. As of today, Treasury has posted more than 500 investment contracts, in addition to terms and program guidelines for all programs under the EESA.

Challenges Ahead and Priorities

Financial stability is a necessary precondition to the resumption of economic growth. Treasury and other institutions of government have accomplished a great deal in a short amount of time to achieve this goal.   However, we recognize that we have more work ahead of us. The work of Treasury's Office of Financial Stability, which I direct, is essential to President Obama's and Secretary Geithner's plans for financial stability and economic recovery.

Ending the financial crisis is not primarily about helping banks, but about restoring the flow of credit to consumers and businesses and alleviating the real hardships that Americans face every day.   Healthy and vibrant financial institutions are critical for this, as they are they key sources of a range of financial services that we depend on every day. Without healthy banks, consumers cannot access the credit they need to buy homes, manage their everyday expenses and make other financial commitments.   Small businesses cannot buy the new equipment, raw materials and inventory that they need to expand.   Larger businesses cannot make the continuous adjustments required to function in a changing global marketplace.

It is with thee goals in mind that we have created the programs under the TARP and the Financial Stability Plan.   As I work with my dedicated colleagues in Treasury on these programs, I will strive to be a prudent investor on behalf of the American people and to protect the taxpayers who have entrusted us with so much of their money.

My top priorities will be the following:

- First, I will carefully review the controls over taxpayers' money, giving special attention to compliance with laws and directives, managing risks and internal audits. In this regard, I will work closely with Congress and all oversight bodies.
- Second, I will strive to maximize the effectiveness of financial stability programs, restoring soundness to financial institutions and liquidity to our markets.
- Finally, I will emphasize transparency and interaction with Congress so that the American people will know:
- What we are doing with their money
- Why we are doing it and
- How it is helping the financial system, the economy and their lives.

Thank you and I look forward to answering your questions.

[1] Asset Guarantee Program (AGP), Automotive Industry Financing Program (AIFP), Capital Purchase Program (CPP), Systemically Significant Failing Institutions (SSFI) Program, Targeted Investment Program (TIP), Capital Assistance Program (CAP), Term Asset-Backed Securities Loan Facility (TALF), Making Home Affordable (MHA) Program, Public-Private Investment Program (PPIP) and Unlocking Credit for Small Businesses