



Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

EliScholar – A Digital Platform for Scholarly Publishing at Yale

YPFS Resource Library

5-20-2009

Statement by Timothy F. Geithner U. S. Secretary of the Treasury before the Senate Banking Committee

Timothy F. Geithner

<https://elischolar.library.yale.edu/ypfs-documents/1408>

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact ypfs@yale.edu.



Statement by Timothy F. Geithner U. S. Secretary of the Treasury before the Senate Banking Committee May 20, 2009

5/20/2009

To view or print the PDF content on this page, download the free [Adobe® Acrobat® Reader®](#).

TG-139

Introduction

Good morning.

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

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

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

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

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

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

The Conditions We Confronted Upon Taking Office

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

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

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

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

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

Our Response

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

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

Facing these extraordinary challenges, this Administration and the Congress responded with extraordinary action. Within weeks, we enacted the American Recovery and Reinvestment Act (ARRA) that is giving 95 percent of working Americans a tax cut, creating or saving 3.5 million jobs, providing nearly 4 million students with a new higher education tax cut and helping 1.4 million Americans purchase their first home by providing \$6.5 billion in tax credits.

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

Reforming EESA

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

Transparency, Accountability and Oversight

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

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

In addition, on January 28, 2009, Treasury announced that it would begin posting all of its investment contracts online within five to ten business days of each transaction's closing. Treasury is in the process of posting all the contracts signed prior to January 28 to the

website as well. To date, Treasury has posted over 240 investment contracts on www.financialstability.gov, in addition to terms and program guidelines for all programs under the EESA.

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

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

Housing

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

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

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

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

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

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

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

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

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

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

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

Capital Assistance Program

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

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

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

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

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

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

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

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

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

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

Consumer and Business Lending Initiative

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

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

An important part of the FSP is a significant expansion of the Term Asset-Backed Securities Loan Facility (TALF) through the Consumer and Business Lending Initiative (CBLI). The TALF is designed to jumpstart the securitization markets, which in turn will increase lending throughout the economy. Under the TALF, the Federal Reserve extends loans to investors who purchased newly issued ABS. Treasury has committed funds under the EESA program to provide a degree of credit protection for the Federal Reserve's TALF loans. The program

was initially proposed in November 2008, with a focus on highly-rated ABS backed by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration (SBA). As part of our financial stability plan, we announced an expansion of the size and scope of the program, increasing the scale of potential ABS funding under TALF.

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

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

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

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

Small Business Initiative

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

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

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

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

Public Private Investment Program

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

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

By following three basic principles, PPIP is designed as part of an overall strategy to resolve the crisis as quickly as possible with the least cost to the taxpayer. First, by partnering with the FDIC, the Federal Reserve, and private sector investors, we will make the most of taxpayer resources under EESA. Second, PPIP will ensure that private sector participants invest alongside the government, with the private sector investors standing to lose money in a downside scenario and the taxpayer sharing in profitable returns. Third, the program will use competing private sector investors to engage in price discovery, reducing the likelihood that the government will overpay for these

assets. By contrast, if the government alone purchased these legacy assets from banks, it would assume the entire share of the losses and risk overpaying. Alternatively, if we simply hoped that banks would work off these assets over time, we would be prolonging the economic crisis, which in turn would cost more to the taxpayer over time. PPIP strikes the right balance, making the most of taxpayer dollars, sharing risk with the private sector, and taking advantage of private sector competition to set market prices for currently illiquid assets.

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

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

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

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

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

Auto Task Force

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

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

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

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

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

EESA Funds

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

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

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

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

Regulatory Reform

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

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

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

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

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

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

Conclusion

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


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

Meeting this obligation requires early and aggressive action by the government to repair the financial system and promote the flow of credit. It requires governments to take risks. It also requires the financial system to support sustainable economic expansion. And it

requires comprehensive regulatory reforms that deter fraud and abuse, protect American families when they buy a home or get a credit card, reward innovation and tie pay to job performance, and end past cycles of boom and bust.

This is our commitment. Thank you.

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

See "White Paper: Public Private Investment Program," U.S. Treasury, March 23, 2009,
http://www.treas.gov/press/releases/reports/ppip_whitepaper_032309.pdf 

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

Programs Announced Under Previous Administration

AIG \$40 billion

Citi/Bank of America (TIP and Guarantees) \$52.5 billion

Autos \$24.9 billion

Capital Purchase Program \$218 billion

TALF 1.0 \$20 billion

Subtotal \$355.4 billion

Programs Announced Under Obama Administration

Housing \$50 billion

AIG (Second Investment) \$30 billion

Auto Suppliers \$5 billion

Additional Autos \$10.9 billion

Expansion of Consumer and Business Lending Initiative[1]

TALF Asset Expansion (New Issuance) [2] \$35 billion

Unlocking SBA Lending Markets \$15 billion

Public Private Investment Program[3]

TALF for Legacy Securities \$25 billion

Other PPIP Programs for Legacy Assets \$75 billion

Subtotal \$245.9 billion

Total Committed (Without Potential Repayments) \$601.3 billion

Total Remaining (Without Potential Repayments) \$98.7 billion

Conservative Estimate of Potential Repayments \$25 billion

Total Committed (Including Potential Repayments) \$576.3 billion

Total Remaining (Including Potential Repayments) \$123.7 billion

Additional Funding

Additional Support for the Auto Industry

Capital Assistance Program

###

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

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

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