Secretary of the Treasury Timothy F. Geithner
Written Testimony
Congressional Oversight Panel
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INTRODUCTION

Chair Warren and members McWatters, Neiman, Silvers, and Troske, thank you for the opportunity to testify about government policies to address the financial crisis, in particular the role of the Troubled Asset Relief Program (TARP).

Our economy is still going through an incredibly difficult period. Millions of Americans are still looking for work and are suffering from the damage of a deep recession. The impact of this crisis will be lasting.

But the actions the government took have helped stabilize the financial system and restore economic growth. Many of these actions were unpopular. However, they were essential. And they have put our economy in a much stronger position to confront the challenges that lie ahead.

Financial policies have lowered borrowing costs for homeowners, consumers, businesses, and state and local governments. They have supported small and community banks that have expanded lending to small businesses during the recession. They continue to help responsible, but at-risk Americans hold onto their homes and to repair essential channels of new credit.

TARP has been critical to this progress, and it has helped restore financial stability at a much lower cost than anticipated. We have already recovered more than half of total disbursements under the program. And TARP investments have generated $24 billion in additional revenue for taxpayers.

Authority to make new commitments through TARP will expire in October, and we are well on our way to winding down the program. We will continue to manage remaining investments in a way that protects taxpayers and supports our financial and economic recovery.

IMPACT OF GOVERNMENT FINANCIAL POLICIES ON THE U.S. FINANCIAL SYSTEM

Since this Administration took office, Government policies have substantially improved the availability of credit in the United States.

Emergency programs helped lower borrowing costs for U.S. homeowners, consumers, and businesses by rebuilding confidence in our financial system. Rates for conventional mortgages and auto loans are at historic lows. Municipal bond rates have fallen to pre-crisis levels. The cost of commercial and industrial loans that many small businesses rely heavily upon is lower than it was going into the crisis. And banks appear to have finished tightening credit standards for both large and small borrowers.

The U.S. banking system is stronger today. TARP provided a critical backstop for the stress tests of our major banks, which provided transparency and forced them to raise over $150 billion in capital from private sources. Delinquencies for many loan categories appear to have peaked.

The cost to insure against the risk of default of banks is less than half of what it was last March. That translates into lower loan rates for consumers and businesses.

TARP and other government and Federal Reserve programs have also helped to rehabilitate markets that support consumer and small business credit.

After experiencing steep declines between 2006 and early 2009, home prices are showing signs of stabilization. Inventories of homes for sale have fallen, millions of homeowners have refinanced at low rates, and TARP continues to help responsible, but struggling families stay in their homes.

Corporations continue to raise substantial capital in private markets and have built up record cash reserves, which will eventually be reinvested and fuel growth.

While substantial progress has been made, significant challenges remain. In the banking system, charge-offs for residential, consumer, and commercial loans are still elevated, and the FDIC projects that the rate of bank failures will remain high.

Despite offering relatively low borrowing costs, banks continue to report falling loan balances. To a significant degree, this reflects a natural and healthy adjustment as borrowers and lenders de-leverage after a period of aggressive credit expansion. But it does mean that many consumers and businesses are still finding it difficult to get new credit.

Nevertheless, thanks to the coordinated and forceful actions of Congress, the Obama Administration, the Federal Reserve, the FDIC, and other regulatory agencies, the U.S. financial system is much stronger today than it was in early 2009. Credit conditions overall, which dragged our economy into a deep recession in 2007, no longer pose an obstacle to growth. TARP played a critical role in achieving that outcome.

EXITING EMERGENCY FINANCIAL PROGRAMS AND REPAYING TAXPAYERS

Our progress to date in stabilizing the financial system, bringing down the cost of credit, and opening up capital markets has enabled us to wind down and terminate many of the programs put in place to address the crisis. Programs that we have terminated include: Treasury's Money Market Fund Guarantee Program; the debt guarantee component of the FDIC's Temporary Liquidity Guarantee Program (TLGP); the majority of the Federal Reserve's special lending programs; and the Treasury and Federal Reserve mortgage-backed security purchase programs.

We are well on the way to winding down TARP.

We closed the Capital Purchase Program, under which the bulk of support to banks has been provided. To date, banks have repaid approximately 75 percent of TARP funds they received, and TARP investments in banks have generated taxpayers $21 billion in income from dividends, sales of warrants and stock, and fees from cancelled guarantees. We expect TARP investments in banks to generate a positive return on the whole.

We have begun to sell our holdings of Citigroup common stock. In April and May, we sold roughly 20 percent of our stake, for proceeds totaling $6.2 billion, which is $1.3 billion above our cost. We are in the process of selling another 1.5 billion shares, and we plan to liquidate the remainder of our stake in an orderly fashion by the end of this year.

AIG is making progress in restructuring its operations, in order to repay taxpayers and reduce its risk to our economy. The company is winding down its Financial Products subsidiary, where much of that risk was concentrated. The company is working to divest two of its largest foreign insurance subsidiaries, and the proceeds will be used to pay down its loan from the Federal Reserve. And AIG's core businesses are generating profits. However, TARP investments in AIG will likely still result in some loss.

The auto industry has also undergone significant restructuring, and its prospects for repaying government investments have improved. GM sales are 18 percent higher than they were last May, while Chrysler sales have increased 33 percent. Chrysler Financial has repaid (with interest) the $1.5 billion loan that it received. GM recently repaid its TARP loans in full (with interest), and Treasury plans to begin to recover its equity investments in the company when GM launches an initial public offering later this year or in 2011. We also expect that losses from our investments in GMAC will be less than were forecast last year.

As a result of improved financial conditions and careful stewardship, the expected cost of TARP continues to fall. In August 2009, we projected that TARP would increase Federal deficits by $341 billion. Today, that number is down to $105 billion,[1] which we view as a conservative estimate. And the President has proposed a Financial Crisis Responsibility Fee that will recoup those costs from the riskiest parts of our financial system.

BROADENING THE SCOPE OF THE FINANCIAL RECOVERY

While we are winding down TARP and other emergency programs, government policies continue to play an important role in repairing the damage to our financial system, preserving stability, and broadening the scope of the financial recovery for all Americans.

Through TARP and other policies, we are working to promote and maintain stability in housing markets, and to mitigate foreclosure for responsible but at-risk homeowners. Currently, over 800,000 homeowners are benefiting from lower monthly payments in permanent or trial mortgage modifications through the Making Home Affordable program. This year we expanded that program to offer principal reduction relief for borrowers, many of whose mortgages are deeply underwater. We have also committed over $2 billion in TARP funds for programs coordinated by housing agencies in states that have suffered severe home price declines and high concentrations of unemployment. We are announcing this week our approval of the first round of disbursements through this "Hardest-Hit Fund."

These TARP-funded programs reinforce other government policies that have helped promote stability, including the first-time homebuyer tax credit and Neighborhood Stabilization grants

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[1] Treasury's Office of Financial Stability recently published updated cost estimates of TARP using publicly available data as through March 31, 2010. *See* http://www.treas.gov/press/releases/tg713.htm. The $105 billion estimate reflects projected program cost over its life, including interest on re-estimates and excluding administrative costs. This is $11.4 billion lower than what was reported in the FY2011 Budget, because of a higher projected return on Treasury's holdings of Citigroup common stock and lower projected losses on investments in AIG and the auto industry. The estimates in the FY2011 Budget were based on valuations through November 30, 2009.

under the Recovery Act. Treasury's support for the government-sponsored enterprises (GSEs) and purchases of their securities by Treasury and the Federal Reserve have facilitated most new mortgage issuance in this country and kept mortgage rates at historical lows for borrowers.

We are also using TARP to improve credit availability for small businesses. Earlier this year, we began purchasing securities backed by SBA-guaranteed loans. Announcements in early 2009 related to this purchase program and the Term Asset-Backed Securities Loan Facility (TALF) helped restart securitization markets for small business loans last year. In February, we launched a new program to invest in Community Development Financial Institutions (CDFIs)—including qualifying credit unions—which lend to small businesses in our country's hardest-hit communities. Candidates have submitted applications to their primary regulators, and Treasury has begun to receive applications and expects to begin funding by next month.

In addition, we are seeking legislation to create a new $30 billion Small Business Lending Fund outside of TARP that would provide small and community banks with new capital and incentives to increase small business lending. We have also proposed a State Small Business Credit Initiative to strengthen innovative state programs, many of which have been threatened by state budget cuts. This Panel has suggested that such a measure could be an effective complement to Treasury's other efforts to support small business lending. Last week, we were pleased to see the House pass legislation that included these proposals as well as key small business tax cuts, and we encourage the Senate to move quickly to pass these measures.

TALF and the Public-Private Investment Program (PPIP) have contributed to a recovery in security prices and facilitated new credit for consumers and businesses. Scheduled to terminate at the end of this month, TALF has supported $58 billion of asset-backed securities, along with $12 billion of securitization for commercial mortgages. Using a combination of TARP and private capital, Public-Private Investment Funds have purchased, to date, $12 billion of securities from banks. PPIP has also had a significant impact on prices for legacy assets that had contributed to the credit crunch. Prices for some of the most distressed securities backed by residential mortgages have increased 70 percent since last March, while prices for some securities backed by commercial properties have improved by roughly half over the same period.

FINANCIAL REFORM IS CRITICAL TO SUSTAINING THE RECOVERY

The success of the government programs to stabilize our financial system allows us now to shift focus from crisis response to crisis prevention.

Congress is close to passing comprehensive reforms that will make our financial institutions and markets safer. The new law will create an independent consumer financial protection agency, whose mission will be to promote transparency and consumer choice, and to prevent abusive and deceptive practices. These reforms will require stronger capital and liquidity requirements for banks and other financial companies, allowing them to absorb future shocks without relying on government support. The reforms will end "too big to fail." Non-bank financial firms, such as AIG, will no longer be allowed to exploit regulatory cracks. Large, interconnected financial companies will be subject to stricter requirements. And derivatives will be subject to strong regulation and transparency. The federal government will have the authority to close large failing financial firms in an orderly and fair way, without putting taxpayers and the economy at risk.

THE END OF TARP

Like this Panel and most of the American public, I look forward to the day when TARP is no longer needed and taxpayers have recovered every dollar invested through it. On October 3, 2010, we will cease making new commitments through the program. And as we exit from remaining TARP investments, we will adhere to the following principles.

- We will dispose of investments as soon as practicable in order to return TARP funds and reduce the federal debt.
- We will do so in an orderly manner that minimizes the impact on financial markets and the economy, while protecting taxpayer investments.
- Wherever possible, we will encourage private capital formation to replace government investments.
- We will not intervene in the day-to-day management of private companies in which we have invested.
- And, as we implement this strategy, we will seek out the best advice available.

When TARP was created, a broadening financial panic threatened the jobs and financial security of millions of Americans. Today, the economy is growing again, jobs are starting to come back, and families' savings are more secure. This turnaround would not have been possible without substantial commitments to both fiscal stimulus and financial stability. This Administration's integrated strategy to recapitalize the banks with private capital, and to support the securities markets which are critical to lending, implemented through TARP, was critical to the overall success of our economic program.

In evaluating TARP's contribution to financial stabilization and economic recovery, it is important to recognize that investments under the program have been far smaller than commonly recognized. Before President Obama came into office, Congress wisely gave Treasury the authority to commit up to $700 billion dollars under TARP to stabilize the financial system. To date, $386 billion has been disbursed under the program, and over half of that amount has been repaid. Most large banks have already repaid all TARP funds they received, with billions of dollars in profit for taxpayers. The ultimate cost of the program will likely be a fraction of the $700 billion authorized by Congress. Soon, we will return hundreds of billions of dollars in unused TARP authority to limit future debt, and to free up additional resources to meet the long-term needs of our country.

Figure 1. TARP Disbursements, Repayments, and Income as of June 21, 2010 (US$, billions)

	Disbursed [1/]	Repayments [1/]	Outstanding Funds [1/ 2/]	*Income* [1/ 3/]
Existing Programs				
Capital Purchase Program	205	142	63	*17*
Targeted Investment Program (Citi, BofA) [4/]	40	40	0	*4*
Special Assistance for AIG	48	0	48	*0*
Automotive Industry Financing Program	80	11	69	*2*
Asset Guarantee Program [4/]	0	0	0	*1*
Term Asset-Backed Securities Loan Facility	0	0	0	*0*
Public-Private Investment Program	12	0	11	*0*
Home Affordable Modification Program [5/]	1	0	1	*0*
Total	**386**	**194**	**192**	***24***

[1/] Estimates may not sum to total due to rounding.

[2/] Disbursements minus repayments.

[3/] Includes revenue from dividends, sales of w arrants and stock, and fees from cancelled guarantees.

[4/] Terminated. Treasury and the FDIC retained $5.2 billion (face value) of Citigroup Trust Preferred Securities, as w ell as w arrants, w hen the Asset Guaranteed Program w as terminated. Treasury also received $276 million from Bank of America w hen it terminated its participation in the program.

[5/] Includes $1.244 billion in disbursements for the Helping Families Save Their Home Act of 2009.

Source: Treasury.

Figure 2. TARP Commitments as of June 21, 2010 (US$, billions)

	Commitments Pre-Jan. 20 [1/]	Commitments Jan. 20 - Present [1/]	Repayments and Cancelled Commitments [1/]	Outstanding Commitments [1/ 2/]	Anticipated Future Commitments [1/]
Capital Purchase Program [3/]	194	11	142	63	0
Targeted Investment Program (Citi, BofA) [4/]	40	0	40	0	0
Special Assistance for AIG	40	30	0	70	0
Automotive Industry Financing Program	21	64	11	74	0
Asset Guarantee Program [4/]	5	0	5	0	0
Consumer & Business Lending Initiative	0	20	0	20	32 [5/]
Public-Private Investment Program	0	30	0	30	0
Home Affordable Modification Program [6/]	0	41	0	41	9
Total	**300**	**196**	**199**	**297**	**41**

[1/] Estimates may not sum to total due to rounding.

[2/] Legally binding commitments minus repayments and cancelled commitments.

[3/] Commitments since January 20, 2009, include $7 billion for banks and $4 billion for insurance companies Hartford Financial Services Group and Lincoln National Corporation.

[4/] Terminated.

[5/] While $30B has been reserved for a small business lending program, the Administration has proposed creating a $30B Small Business Lending Fund separate from TARP through legislation. Not more than $1 billion is planned for SBA 7(a) purchases and not more than $1B is planned for the Community Development Capital Initiative (CDCI).

[6/] Includes $1.244 billion in commitments and disbursements for the Helping Families Save Their Home Act of 2009.

Source: Treasury.