Follow Up from Congressional Oversight Panel Hearing of March 4, 2011

Testimony of the Department of the Treasury Acting Assistant Secretary Timothy Massad

The following are requests for responses made by Panel Members at the March 4, 2011 hearing on the Troubled Asset Relief Program (TARP).

Question: **Could TARP have been structured in such a way as to mitigate or eliminate the moral hazard presented by providing government support for financial institutions?**

Response: In the fall of 2008, the Emergency Economic Stabilization Act (EESA) was passed to provide the tools necessary to help manage an unprecedented financial crisis. The Troubled Asset Relief Program, created under EESA's authority, helped stabilize the financial system and pave the way for economic recovery – at a far lower cost than anyone initially estimated.

At the time TARP was passed, financial regulators did not have the proper tools to deal with the failure of large interconnected financial institutions. Through the creation of an orderly liquidation authority and the consolidated supervision of the largest, most inter-connected financial companies among other things, the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) ends "too-big-to-fail." Under the DFA, the Federal Deposit Insurance Corporation has the authority to wind down any firm whose failure would pose substantial risks to our financial system. Under this liquidation authority, failing firms will be placed into a government-run receivership, holders of common stock and other providers of regulatory capital to the firm will be forced to absorb any losses, and culpable management of the firm will be terminated.

Question: **Please submit in writing what the Department of the Treasury did to raise bank capital requirements. What is Treasury's view on implementing sliding scale capital requirements for large banks and its role as a tool to manage systemic risk?**

Response: The Treasury Department does not have the authority to set capital requirements for banks -- this responsibility rests with the independent regulatory agencies. Treasury has, however, worked with the federal banking regulators to address these issues, including through the development of the Supervisory Capital Assistance Program (SCAP), or "stress test". The purpose of SCAP was to ascertain the capital needs of the 19 largest U.S. bank holding companies should losses materialize at greater than expected rates during the crisis period. Treasury also provided the Capital Assistance Program under TARP to make capital available to institutions that needed to raise capital but were unable to do so.

Additionally, working with the US regulatory agencies, Treasury played a significant role in gaining commitment from G20 Leaders and Finance Ministers to support substantial improvements in international capital standards. The new Basel III standards will significantly increase the quality and quantity of capital that banks must hold, as well as implement a new supplementary leverage ratio. These new standards will better align regulatory capital requirements with the risks to which banks are exposed.

When Assistant Secretary Massad testified, he noted that capital levels in the banking industry had increased, and Chairman Kaufman asked Treasury to provide information in support of that view. In this regard, Tier 1 capital for banks industry-wide has grown 19% percent since the third quarter of 2008 and Tier 1 capital ratios are substantially higher than during the pre-crisis period. Tier 1 capital ratios for the U.S. banking industry reached 12.7% in 3Q10, up from 11.7% in 4Q09 and 10.0% in 4Q08. For bank holding companies that participated in the SCAP program, the Tier 1 capital ratios also rose over the same period of time, reaching 12.2% in 3Q10, up from 11.3% in 4Q09 and 10.0% in 4Q08.

<u>Question</u>**:** **As you look at the powers you have and don't have to manage TARP going forward after this committee disbands and with the notion that Congress is listening, what powers would you like to have that you don't have? Assume someone gives you a magic wand, what powers that you do not have, would you like to have?**

Response: As you know, our authority to make new financial commitments or implement new programs under TARP has ceased, and we have made substantial progress in winding down TARP. Our focus today is to divest the remaining investments made under TARP in an orderly manner and to continue to implement the housing programs created under TARP. We have the powers we need to accomplish both tasks.

In the area of housing, there has been discussion of whether there are alternative or additional programs or measures that should be implemented to help address the housing crisis, and we continue to work with Members of Congress who wish to explore such options.

Our immediate legislative focus, however, is to oppose the efforts to terminate the Home Affordable Modification Program (HAMP) and other housing programs already in place. Ending the Making Home Affordable (MHA) Program now, without a meaningful alternative in place, would extinguish a program that has addressed and will continue to address the needs of hundreds of thousands of struggling homeowners. In addition, ending the FHA Short Refinance program, at a time when the program is gaining interest and traction among lenders, will eliminate a program that can provide a new loan that is cheaper and more sustainable for the homeowner and reduces their negative equity.

<u>Question:</u> **The web portal allows not only housing counselors and borrowers to submit data directly through a web-based system to their servicer, but even more importantly, to allow them to assess the status of those modifications. Can you give us an update as to how frequently and the volumes of usage on that system?**

Response: The Department of the Treasury does not operate a borrower document portal. However, pursuant to the Dodd-Frank Act, Treasury is in the process of preparing a website that provides an evaluation of the net present value (NPV) of a mortgage modification. This web portal will allow borrowers to input borrower and mortgage-related data into a calculator and be provided with an assessment that could be used to determine if the borrower may be eligible for modification under HAMP. The calculator will perform a calculation based on Treasury's methodology for determining NPV. Based on this determination, borrowers will be able to bring this result back to their servicer to help determine if the inputs used by their servicer in making NPV calculations were correct, thereby increasing the transparency of the process. While the model will evaluate potential eligibility, only the servicer can make the final evaluation and underwriting decision. We expect the portal to be available on the website this spring.