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Chairman Issa, Ranking Member Cummings, Members of the Committee, thank you for the opportunity to testify today about the Troubled Asset Relief Program ("TARP"). As the Acting Assistant Secretary for Financial Stability, I am responsible for overseeing the program on a day-to-day basis.

I recognize that TARP has not been popular. There is good reason for that—no one likes using taxpayer dollars to rescue financial institutions. Nonetheless, sitting here today, more than two years after Congress passed the Emergency Economic Stabilization Act ("EESA") that created TARP, it is clear that the program has been remarkably effective by any objective measure.

First and foremost, TARP helped bring the economy and our financial system back from the brink, and it helped pave the way for recovery. Fear that our major financial institutions are going to fail has receded. Banks are much better capitalized, and the weakest parts of the financial system no longer exist. The credit markets on which small businesses and consumers depend—for auto loans, student loans, credit cards and other financing—have reopened. Businesses are able to raise capital. Mortgage rates are at historic lows. Of course, the economy has not yet fully recovered and there is still much work to be done. Unemployment is unacceptably high and the housing market is still weak. But the worst of the storm has passed.

Second, we did not use all the funds originally provided, and we are unwinding TARP far faster than anyone ever thought possible. Congress originally authorized $700 billion for the program. We will spend no more than $475 billion. And of the $410 billion disbursed to date, we already have received back a total of $270 billion, representing $235 billion in repayments and $35 billion in additional income. Approximately $166 billion remains outstanding in various institutions, and I am hopeful that we can recover most of that over the next couple of years, market conditions permitting.

Finally, the ultimate cost of TARP will be far less than ever contemplated. The total cost was initially projected to be approximately $341 billion. That number, however, has steadily declined over the past two years. The latest estimates, both from Treasury and the Congressional Budget Office ("CBO"), are that the overall cost of TARP will be about $25 to $50 billion, which is largely attributable to our efforts to help responsible homeowners deal with the housing crisis. All the other TARP programs and investments, when considered as a whole, likely will result in very little or no cost to the American taxpayer.

Overview of the Government's Actions

I would like to begin by providing a brief overview of the actions taken under TARP and of how these actions were part of an overall government strategy to repair the damage caused by the financial crisis.

In the fall of 2008, our economy stood at the brink and we faced the risk of a second Great Depression. As the crisis spread, the previous Administration and the Federal Reserve took a series of unprecedented actions to help stabilize a financial system that was at the edge of a catastrophic collapse. These actions included:

- Providing broad-based guarantees to the financial system, through programs such as the FDIC's Temporary Liquidity Guarantee Program and the Treasury Money Market Fund guarantee program;

- Initiation of extraordinary facilities, through the Federal Reserve, to support liquidity across the financial system; and

- Support for the Government-Sponsored Enterprises ("GSEs"), pursuant to the Housing and Economic Recovery Act.

However, the severe conditions our nation faced required additional resources and authorities. Therefore, the Bush Administration proposed EESA, which created TARP. It was enacted into law on October 3, 2008, with the support of both Democrats and Republicans in Congress.

Actions Taken by the Bush Administration under TARP

The Bush Administration originally proposed TARP as a means for the government to buy mortgage loans, mortgage-backed securities, and certain other "troubled assets" from banks. The fact that it was not used for this purpose promptly after passage has led to criticism of the program. However, by early October 2008, lending between banks had practically stopped, credit markets had shut down, and many financial institutions were under severe stress. It was clear there was not sufficient time to implement a program to buy mortgage-related assets. In this context, the Bush Administration determined that immediate capital injections were needed to stabilize the banks and to avert a potential catastrophe. EESA provided this authority, because the statute had been broadened in the legislative process.

Therefore, during the fall and winter of 2008, the Bush Administration used approximately $300 billion of TARP authority as follows:

- $234 billion was invested in banks and thrifts, including $165 billion in eight of the largest financial institutions (plus commitments of additional funds to two of those banks);

- $40 billion was invested in American International Group ("AIG") along with additional funds from the Federal Reserve; and

- Approximately $20 billion was provided to the auto industry.

The combined effect of the actions taken by the Federal Reserve and the previous Administration helped stop the panic and slow the momentum of the financial crisis. But despite these extraordinary actions, when President Obama took office in early 2009, the financial system was still paralyzed and the economy was contracting at an accelerating rate.

The nation had already lost 3.5 million jobs in 2008 and was losing additional jobs at the rate of 750,000 per month. Home prices were falling, and foreclosures were increasing. Businesses were cutting back on investments and were unable to raise capital. For individual families who needed credit—who wanted to buy a house or a new car, or put a child through college—it was more difficult to borrow money than at any time since the Great Depression.

Actions Taken by the Obama Administration under TARP

Against this background, the Obama Administration, working alongside the Federal Reserve, put in place a broad strategy to restore economic growth, free up credit, and return private capital to the financial system. The Administration's strategy combined the American Recovery and Reinvestment Act, a powerful mix of targeted tax measures and investments, with a comprehensive plan to repair the financial system.

This plan represented an important shift in strategy. The Financial Stability Plan shifted the focus away from support of individual institutions to restarting the broad markets for capital and credit that are critical for economic growth. It was designed to maximize the chance that private capital bore the burden of solving the problems of the crisis. We provided support for the housing market and for homeowners in order to facilitate broader economic recovery. And when we did provide extraordinary assistance to individual firms, our assistance came with tough conditions.

The Administration's Financial Stability Plan had three central components:

- *First*, to recapitalize and bring clarity to the banking system;

- *Second*, to restart the credit markets that are critical to borrowing for businesses, individuals, and state and local governments; and

- *Third*, to help stabilize the crisis in the housing market.

As part of that plan, the Treasury Department has taken the following actions under TARP over the last two years:

Recapitalizing the Banking System

Our financial system needed to be recapitalized. But private capital could not be raised until the condition of the major financial institutions was made clear. Treasury worked with the federal banking regulators to develop a comprehensive, forward-looking "stress test" for the nineteen largest bank holding companies to determine which ones would need more capital to remain well-capitalized if economic conditions deteriorated significantly more than expected. The stress test was conducted with unprecedented openness and transparency, which helped restore market confidence in our financial system. Treasury allowed banks needing capital to reapply for further assistance under TARP, but only one did so. Since completion of the stress test, these banks have raised an aggregate of more than $150 billion in private capital, and 13 of the stress test banks that had TARP investments have repaid the government in full.

Jumpstarting the Credit Markets

The second key aspect of the Financial Stability Plan was committing resources in order to restart key channels of credit to households and businesses.

- Through the Term Asset-Backed Securities Loan Facility ("TALF"), a joint program with the Federal Reserve, we helped restart the asset-backed securitization markets that provide credit to consumers and small businesses. Since TALF was launched in March 2009, new issuances of asset-backed securities have averaged $10.5 billion per month, compared to less than $2 billion per month during the height of the crisis.

- Through the Public-Private Investment Program ("PPIP") for legacy securities, we matched TARP funds with private capital to purchase legacy mortgage-related securities. This program helped return liquidity to key markets for financial assets and clean up the balance sheets of major financial institutions. Since the announcement of PPIP in March 2009, prices for eligible residential and commercial mortgage-backed securities have increased by as much as 75 percent. Moreover, although the funds are still in their early ramp-up phase, they have been successful in earning a positive return for taxpayers.

- Through the SBA 7(a) Securities Purchase Program, we committed to help unlock credit for small business by purchasing securities backed by small business loans. Markets for these securities have since returned to healthy levels.

Stabilizing the Auto Industry and AIG

Treasury provided additional assistance to General Motors ("GM") and Chrysler on the condition that those companies fundamentally restructure their businesses. These restructurings involved sacrifices from all stakeholders—shareholders, unions, auto dealers, and creditors—and have enabled the companies to become more competitive. This assistance also helped the many suppliers and ancillary businesses that depend on the automotive industry. Our actions helped save countless jobs across the country (as many as a million, by one estimate) and helped create many new ones. Since GM and Chrysler emerged from bankruptcy, the industry has added 88,500 jobs. Moreover, our strategy has restored the auto companies to profitability. For the first time in six years, Ford, GM, and Chrysler are all operating at a profit.

Treasury also took steps to restructure the assistance that had been provided to AIG under the Bush Administration. This involved making an additional commitment of support and working with AIG toward repaying the government by selling non-core businesses and completing other restructuring initiatives. Treasury worked with the Federal Reserve and AIG to recruit an almost entirely new board of directors and several new members of senior management, including the Chief Executive Officer. The management team, in turn, has taken a variety of steps to reduce risk and to focus on AIG's core insurance businesses. And we have now entered into a recapitalization transaction that paves the way for full repayment to the federal government, as described below.

Support for Small and Mid-Sized Banks

While the Obama Administration made no further investments in the nation's largest banks, Treasury invested $11 billion in more than 400 other banks and thrifts, most of which were small and community banks. In recognition of the fact that they had fewer alternatives to raise capital, the smallest banks were also given additional time to apply for assistance. The Obama Administration focused on small banks not only because EESA required that assistance be made available to financial institutions regardless of size, but also because of the critical role small banks play in so many of our nation's communities. They are critical sources of financing to small businesses, which are responsible for generating nearly 70% of private sector jobs, as well as to many families. Because community development financial institutions serve small businesses and consumers in the communities hardest hit by the recession, communities that are typically underserved by large financial institutions, a special program was established to help those institutions.

Helping Responsible but Struggling Homeowners

Finally, the Obama Administration took a series of actions to help address the crisis in the housing markets. The focus of our strategy has been to provide stability to housing markets and to give Americans who can afford to stay in their homes a chance to do so. By reducing mortgage rates and by providing sensible incentives to prevent avoidable foreclosures, these policies have helped begin to put a floor under housing prices and have given millions of Americans a chance to stay in their homes.

In particular, under TARP, we launched the Making Home Affordable ("MHA") program to help responsible homeowners avoid foreclosure. The Home Affordable Modification Program ("HAMP"), the largest MHA program, has helped hundreds of thousands of struggling families stay in their homes and has reduced their mortgage payments by a median of over $500 per month. In addition, it has spurred the mortgage industry to adopt similar programs that have helped millions more at no cost to the taxpayer.

As the housing crisis has evolved, Treasury responded by taking additional actions. For example, we have expanded MHA to address the problem of second liens, to provide incentives for other alternatives to foreclosure such as short sales, to provide additional help to the unemployed, and to encourage principal reduction. In addition:

- Treasury launched the Housing Finance Agency Hardest Hit Fund to help state housing finance agencies provide additional relief to homeowners in the states hit hardest by unemployment and house price declines.

- Treasury and the Department of Housing and Urban Development enhanced the FHA Short Refinance program to enable more homeowners whose mortgages exceed the value of their homes to refinance into more affordable mortgages.

The TARP housing programs were not meant to prevent all foreclosures. To protect limited taxpayer resources, these initiatives have strict eligibility criteria, and most have pay-for-success incentives: funds are spent only when transactions are completed and only as long as those contracts remain in place. Therefore, most of the funds have not yet been disbursed. They will be disbursed over the current decade.

Of course, we have faced many challenges in developing and implementing these programs. We often have been forced to balance conflicting policy goals—such as how to design programs that encourage the participation of struggling borrowers and help them get back on their feet, while minimizing the cost to the government, moral hazard, adverse selection, and operational and financial risks and complexity. Implementation has been difficult, and much work remains to be done to ease the housing crisis. But that should not obscure the importance of what has been accomplished. Our housing programs have established key benchmarks and borrower protections that are now viewed as industry best practices. As a direct and indirect result, millions of families are still in their homes today because of these programs. They have avoided the intense pain, cost, and disruption of losing their homes. Their neighbors and their local communities have benefited as well. A vacant home is dangerous and costly to a neighborhood. Therefore, we will continue to try to help as many eligible homeowners as possible, in a manner that safeguards taxpayer resources.

The Economic Impact of Our Policies

In any assessment of a response to a financial crisis, there are several important measures of success, such as what is the effect on availability of credit and economic growth? How quickly is the government able to return the financial system to private hands? What was the direct financial cost of the interventions? And finally, has the response left the financial system able to support rather than impede economic growth?

On all of these measures, I believe TARP and the government's other emergency actions have succeeded. Secretary Geithner testified in detail about the effects of our actions in his recent appearance before the Congressional Oversight Panel in December. Also, we discussed various measures of the effectiveness of these programs in the TARP Retrospective that we published on the two-year anniversary of the program.

Although we can never know with certainty where we would be today without these emergency policies, one of the most comprehensive independent analyses of the overall impact of our response, by economists Mark Zandi and Alan Blinder, concluded that without the Recovery Act, TARP, and other government actions, GDP would have still been contracting in 2010 at the astonishing rate of 3.7 percent, unemployment would have reached 16.5 percent, and we would be experiencing deflation. In short, they say, "this dark scenario constitutes a 1930s-like depression."

Exiting and Winding Down our Investments

We have moved quickly to reduce the dependence of the financial system on emergency support and to return private institutions to private hands as quickly as possible. For example, the programs to provide guarantees to money market funds, bank debt, and bank transactional accounts have expired. And, Treasury has exited its TARP investments much faster than anyone anticipated. Of the total of $410 billion invested in various institutions, we have already recovered more than $235 billion, as well as $35 billion in additional income. Approximately $166 billion remains to be recovered.

Banking Institutions

A total of $245 billion has been invested in banking institutions, of which $208 billion has been recovered. When President Obama took office, the U.S. government had made investments in financial institutions representing 75 percent of the entire banking system by assets. Today, our remaining investments in banks represent only approximately 10 percent of the banking system. The largest banks have fully repaid. Moreover, the TARP programs to provide assistance to banks as a whole will result in a positive return to the taxpayer.

Citigroup was one of the largest recipients of TARP assistance, as we invested a total of $45 billion. At the time, many doubted whether Citigroup would survive and whether the government ever would be repaid. As of last December, however, we have recovered the entire $45 billion, and we have realized a positive return in excess of $12 billion on our overall investment. Moreover, a recent report by the Special Inspector General for TARP concluded that the government assistance provided to Citigroup was carefully designed and that it achieved its primary goal of restoring market confidence.

Auto Industry

We have recovered a total of $27 billion of the $80 billion invested in the auto industry. We completed a highly successful initial public offering of General Motors in November of last year. Since the company emerged from bankruptcy in July 2009, the government has recovered almost half of its $50 billion investment and has reduced its stake in GM from 60.8 percent to 33.3 percent. We now have a pathway to exit for the remaining investment. We also are working on pathways to exit for our investments in Chrysler and Ally Financial.

AIG

Earlier this month, AIG closed a major restructuring plan, which represented the culmination of two years of efforts to "resolve" AIG. AIG repaid the Federal Reserve $47 billion and Treasury now has a pathway to recover its investment as well. Market prices will fluctuate and there is no guarantee of what the ultimate returns will be. However, if we are able to sell our investments in

AIG at current market values, including the AIG shares that Treasury received from the trust established by the Federal Reserve, taxpayers will get back every dollar put into AIG and will realize a positive return.

The Total Cost of TARP

In terms of direct financial cost, TARP will rank as one of the most effective crisis response programs ever implemented. Independent observers, such as the Congressional Budget Office ("CBO"), initially estimated that TARP would cost $350 billion or more. Now, because of the success of the program, TARP is likely to cost only a fraction of that amount. Most recently, CBO estimated that the cost of the program would be as low as $25 billion.

The cost of TARP is likely to be no greater than the approximate amount spent on the program's housing initiatives—expenditures that were necessary to prevent even greater losses and hardships to American families and local communities, and that were never intended to be returned. The remainder of the programs under TARP—the investments in banks, AIG, credit markets, and the auto industry—likely will result in very little or no cost. When the Treasury's entire investment in AIG is included, we may realize a positive return for taxpayers.

Furthermore, the cost of the government's broader response efforts is remarkably low when compared to past systemic crises. An IMF study found that the average net fiscal cost of resolving roughly 40 banking crises since 1970 was 13 percent of GDP. The GAO estimates that the cost of the U.S. Savings and Loan Crisis was 2.4 percent of GDP. In contrast, the direct fiscal cost of all our interventions, including the actions of the Federal Reserve, the FDIC, and our efforts to support the GSEs is likely to be less than one percent of GDP. The true cost of this crisis to the economy, however—the jobs, wealth and growth that it erased—is much higher, but that damage would have been far worse without the government's emergency response.

Robust and Effective Oversight

TARP has been subjected to unprecedented oversight since its inception. The Emergency Economic Stabilization Act of 2008 established four separate oversight avenues for TARP: the Financial Stability Oversight Board ("FinSOB"); specific responsibilities for the Government Accountability Office ("GAO"); the Special Inspector General for TARP ("SIGTARP"); and the Congressional Oversight Panel ("COP").

Treasury cooperates with each oversight body's efforts to review TARP programs and to produce periodic audits and reports. On average, Treasury responds to approximately 85 requests for information per month (over 4 per business day) by these entities. To date, Treasury also has responded to 72 reports from GAO, COP, and SIGTARP; and Treasury has participated in at least 25 Congressional hearings on TARP. Individually and collectively, the work performed by TARP's oversight bodies has made and continues to make important contributions to the development, strengthening, and transparency of TARP programs. Treasury welcomes this oversight and, to date, has adopted 114 recommendations made by these oversight bodies.

Treasury prepares separate financial statements for TARP on an annual basis. In its first two years of operations, TARP's financial statements received unqualified ("clean") audit opinions from the GAO, and separate reports on internal control over financial reporting found no material weaknesses—unprecedented achievements for a start-up operation of this scale. As a result of these efforts, the Office of Financial Stability received a Certificate of Excellence in Accountability Reporting ("CEAR") from the Association of Government Accountants.

In addition, Treasury regularly provides comprehensive information to the public to help American taxpayers better understand the status of our programs. This includes:

- A monthly report to Congress that details how TARP funds have been used, the status of recovery of such funds by program, and information on the estimated cost of TARP;
- A monthly housing report containing detailed metrics on the housing programs;
- A quarterly report on the PPIP program that provides detailed information on the funds, their investments, and returns;
- A report on each transaction (such as an investment in or repayment by an institution) within two business days of completing the transaction;
- A quarterly report that details all dividend and interest payments;
- Periodic reports on the sale of warrants, which includes information on auctions as well as on how the sale price was determined in the case of any repurchase of warrants by a TARP recipient; and
- Monthly lending and use of capital surveys that contain detailed information on the lending and other activities of banks that have received TARP funds.

Finally, Treasury posts on our website every TARP investment agreement and contract, all program guidelines and application materials, procurement contracts, and other material pertaining to the program.

Conclusion

TARP succeeded in what it was designed to do: it helped bring stability to the financial system and lay the foundation for economic recovery. And it did so at a fraction of the expected costs. TARP was not designed to solve all our problems. We recognize that the American people are still feeling the effects of the financial crisis, and the economy continues to show signs of significant damage. The Obama Administration will continue to work to address these challenges. Nevertheless, TARP did its job. Today, thanks to a comprehensive and careful strategy to address the financial crisis, we are in a much stronger position to address our still very substantial remaining economic challenges.

Both political parties deserve credit for these achievements—the successes of TARP resulted from bipartisan cooperation. Congress enacted the program at a time when the financial system was falling apart and on the verge of disaster. In that moment, leaders from both parties stood up, stood together, and did what was best for the country. It was unpopular, but necessary. And it worked, better than anyone could have predicted. As Secretary Geithner has stated, TARP was "one of the most effective crisis response programs ever implemented."