U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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TESTIMONY OF INTERIM ASSISTANT SECRETARY FOR FINANCIAL STABILITY NEEL KASHKARI BEFORE THE HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM, SUBCOMMITTEE ON DOMESTIC POLICY

Washington, DC—Chairman Kucinich, Ranking Member Issa, members of the Subcommittee, good morning and thank you for the opportunity to appear before you. I would like to provide an update on the Treasury Department's actions to stabilize our financial markets and restore the flow of credit to the economy. We have taken action with the following three critical objectives: one, to provide stability to financial markets; two, to support the housing market by preventing avoidable foreclosures and supporting the availability of mortgage finance; and three, to protect taxpayers.

We have acted quickly and in coordination with the Federal Reserve, the FDIC, OCC and colleagues around the world to help stabilize the global financial system and it is clear that our coordinated actions have made an impact. Before we acted, we were at a tipping point. Credit markets were largely frozen, denying financial institutions, businesses and consumers access to vital funding and credit. Financial institutions were under extreme pressure, and investor confidence in our system was dangerously low.

At the same time, we recognize that a program as large and important as this demands appropriate oversight. We are committed to transparency and oversight in all aspects of the program and continue to take strong action to make sure we comply with the letter and the spirit of the requirements established by the Congress, including regular briefings with the Government Accountability Office, the Financial Stability Oversight Board, and the Inspector General. We are also committed to continuing to meet all of the reporting requirements established by the Congress.

EQUITY PROGRAM

As the markets rapidly deteriorated in October, it was clear to Secretary Paulson and Chairman Bernanke that the most timely, effective step to improve credit market conditions was to strengthen bank balance sheets quickly through direct purchases of equity in banks. In early October, after consulting closely with Chairman Bernanke, Secretary Paulson explained that Treasury would use the financial rescue package granted by Congress to purchase equity directly from financial institutions – the fastest and most productive way to use our new authorities to help stabilize our financial system. Working with our banking regulators, we have now approved dozens of applications from banks across the country.

We will soon post the term sheet for private banks. We feel very strongly that healthy banks of all sizes, both public and private, should use this program to increase lending in their communities.

With a stronger capital base, our banks will be more confident and better positioned to play their necessary role to support economic activity. Further in support of this goal, just two days ago, our banking regulators issued a statement underscoring the responsibility that banks have in the areas of lending, dividend and compensation policies, and foreclosure mitigation. Treasury commends this action and believes it is critical to focus on the importance of prudent bank lending to restore our economic growth so that we do not repeat the poor lending practices that are a major cause of the current economic problems.

HOUSING/MORTGAGE FINANCE

On housing, we have worked aggressively to avoid preventable foreclosures, keep mortgage financing available and develop new tools to help homeowners. Here, I will briefly highlight three key accomplishments:

One, in October 2007, Treasury helped establish the HOPE NOW Alliance, a coalition of mortgage servicers, investors and counselors, to help struggling homeowners avoid preventable foreclosures. Through coordinated, industry-wide action, HOPE NOW has significantly increased the outreach and assistance provided to homeowners. HOPE NOW estimates that nearly 2.5 million homeowners have been helped by the industry since July 2007; the industry is now helping about 200,000 homeowners a month avoid foreclosure.

Two, we acted earlier this year to prevent the failure of Fannie Mae and Freddie Mac, the housing GSEs that affect over 70 percent of mortgage originations. These institutions are systemically critical to financial and housing markets, and their failure would have materially exacerbated the recent market turmoil and profoundly impacted household wealth. We have stabilized the GSEs and limited systemic risk.

Three, just three days ago, HOPE NOW, FHFA and the GSEs achieved a major industry breakthrough with the announcement of a streamlined loan modification program that builds on the mortgage modification protocol developed by the FDIC for IndyMac. The adoption of this streamlined modification framework is an additional tool that servicers will now have to help avoid preventable foreclosures. Potentially hundreds of thousands more struggling borrowers will be enabled to stay in their homes.

PRIORITIES FOR TARP

On Wednesday, Secretary Paulson outlined three critical priorities and related strategies for the most effective deployment of remaining TARP funds: one, to further strengthen the capital base of our financial system; two, to support the asset-backed securitization market that is critical to consumer finance; and three, to increase foreclosure mitigation efforts. These priorities are necessary to reinforce the stability of the financial system so that banks and other institutions critical to the provision of credit are able to support economic recovery and growth, and to help homeowners avoid preventable foreclosures.

Let me briefly discuss these three priorities and strategies. One, in order to continue their critical role as providers of credit, both banks and non-banks may need more capital given their troubled asset holdings, continued high rates of foreclosures, and stagnant global economic conditions. To do this, we are designing further strategies for building capital in financial institutions and are evaluating programs which would further leverage the impact of a TARP investment by attracting private capital, potentially through matching investments.

Two, we are examining strategies to support consumer access to credit outside the banking system, specifically, the asset-backed securitization market. This market has played a critical role for many years in lowering the cost and increasing the availability of consumer finance. However, the market is currently in distress and its illiquidity is raising the cost and reducing the availability of car loans, student loans and credit cards.

Three, we continue to aggressively examine strategies to mitigate foreclosures and maximize loan modifications, which are a key part of working through the necessary housing correction and maintaining the strength of our communities. The new program which I highlighted above with the FHFA, the GSEs, and HOPE NOW is just one example and we will continue working hard to make progress here.

CONCLUSION

Our system is stronger and more stable than just a few weeks ago. Although a lot has been accomplished, we have many challenges ahead of us. We will focus on the goals outlined by Secretary Paulson and develop the right strategies to meet those objectives. Foremost among these will be to ensure that the financial system has sufficient capital to get credit flowing to consumers and businesses. Thank you and I would be happy to answer your questions.

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