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Financial Markets Regulation Wire

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REP. DENNIS J. KUCINICH HOLDS A HEARING ON TARP OVERSIGHT: ASSESSING TREASURY'S EFFORTS TO PREVENT WASTE AND ABUSE OF TAXPAYER FUNDS

March 12, 2009 Thursday

EVENT DATE: March 11, 2009

TYPE: COMMITTEE HEARING

LOCATION: WASHINGTON, D.C.

COMMITTEE: HOUSE OVERSIGHT AND GOVERNMENT REFORM COMMITTEE , SUBCOMMITTEE ON DOMESTIC POLICY

SPEAKER: REP. DENNIS J. KUCINICH, CHAIRMAN

WITNESSES:
REP. DENNIS J. KUCINICH, D-OHIO CHAIRMAN REP. ELIJAH E. CUMMINGS, D-MD. REP. DIANE WATSON, D-CALIF. REP. CHRISTOPHER S. MURPHY, D-CONN. REP. DANNY K. DAVIS, D-ILL. REP. JOHN F. TIERNEY, D-MASS. REP. EDOLPHUS TOWNS, D-N.Y. EX OFFICIO
RANKING MEMBER REP. BRIAN P. BILBRAY, R-CALIF. REP. DAN BURTON, R-IND. REP. JOHN L. MICA, R-FLA. REP. MARK SOUDER, R-IND. REP. DARRELL ISSA, R-CALIF. EX OFFICIO
REP. DENNIS J. KUCINICH, D-OHIO CHAIRMAN REP. ELIJAH E. CUMMINGS, D-MD. REP. DIANE WATSON, D-CALIF. REP. CHRISTOPHER S. MURPHY, D-CONN. REP. DANNY K. DAVIS, D-ILL. REP. JOHN F. TIERNEY, D-MASS. REP. EDOLPHUS TOWNS, D-N.Y. EX OFFICIO
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WITNESSES: NEEL KASHKARI, ACTING INTERIM ASSISTANT SECRETARY, FINANCIAL STABILIZATION, Treasury DEPARTMENT
RANKING MEMBER REP. BRIAN P. BILBRAY, R-CALIF. REP. DAN BURTON, R-IND. REP. JOHN L. MICA, R-FLA. REP. MARK SOUDER, R-IND. REP. DARRELL ISSA, R-CALIF. EX OFFICIO
ANTHONY SANDERS, PROFESSOR, W.P. CAREY SCHOOL OF BUSINESS, ARIZONA STATE UNIVERSITY
MARK BOLGIANO, PRESIDENT, CEO, XBRL US, INC.STEVE HORNE, VICE PRESIDENT, MASTER DATA
STEPHEN HORNE, VICE PRESIDENT, MASTER DATA MANAGEMENT, INTEGRATION SERVICES, DOW JONES & CO.
NEIL BAROFSKY, SPECIAL INSPECTOR GENERAL, TROUBLED ASSETS RELIEF PROGRAM
RICHARD HILLMAN, MANAGING DIRECTOR, FINANCIAL MARKETS, COMMUNITY INVESTMENT, GOVERNMENT ACCOUNTABILITY OFFICE

TEXT:

KUCINICH: Good morning. This is the Domestic Policy Subcommittee of Oversight and Government Reform. I'm Congressman Dennis Kucinich, chairman of the committee.

The subject of today's committee hearing is entitled, "Pulling back the TARP. Exposing Treasury's failure to monitor the ways financial institutions are using tax payer funds provided under the Troubled Asset Relief Program."

Our first witness today will be Mr. Neel Kashkari, the acting interim assistance secretary for financial stabilization, the Department of Treasury. We are joined today by a number of members of Congress and including the new Ranking Member, Mr. Jim Jordan of Ohio.

And, I want to welcome Mr. Jordan to this position on the subcommittee and I want to let you know, sir, that I'm looking forward to working with you. It's very interesting. In this subcommittee, we have an Ohio connection not only Mr. Jordan, but Mr. Ice (ph), is originally from Ohio. Mr. Turner is from Ohio, is well represented in this -- and our witnesses from Ohio. So, I suppose this is Buckeye Day on Capitol Hill.

We are going to -- we are going to begin with an opening statement. I want to thank Mr. Cummings for being here, as well as the gentleman from Vermont, Mr. Welch.

And the witness with unanimous consent -- the witness Mr. Kashkari -- when we get to his testimony is going to be given 10 minutes. You may not need it all. But given the gravity of this subject, he is going to be given 10 minutes to make his opening statement, without objection.

The Troubled Assets Relief Program has provided about $200 billion in capital injections to hundreds of banks. The money was provided with virtually no strings attached.

Most of the banks didn't even bother to account separately for the federal monies. It's debatable, whether the efforts of those that did amount to anything meaningful. Treasury does not even ask TARP recipients for detailed accounting of their use of TARP funds.

Because some of the banks are multinational banks, the kinds of transactions they are doing include billions in loans and investments in other countries at precisely the time that a liquidity shortage has impaired credit markets in the

U.S. And the recession deeper then anything seen since the Great Depression is impairing production and employment.

Nevertheless, several very large transactions conducted after these banks received billions in a taxpayer funded bailout include an $8 billion of financing arranged by Citigroup for public authorities in Dubai, a $7 billion investment by Bank of America in the China Construction Company, a $1 billion investment by a J.P. Morgan subsidiary in expanding operations in India.

Unfortunately, the legislation Congress passed creating the TARP required very little of the recipients to receive taxpayer funded subsidies. The Treasury regulations and contracts crafted to implement the TARP did not require much of anything other than someone signed for the money.

It may be argued that transactions such as these are beneficial to the balance sheets of the banks that are making them that. That they have some indirect benefit to the U.S. financial system as a whole. Really?

The banking system is in serious enough trouble to require massive amounts of federal support. Shouldn't that federal support be directed and channeled to the domestic economy? Are these examples of large investments in loans to foreign entities among the kind of transactions the American taxpayers should be supporting with TARP monies when we face significant credit problems here at home?

How does a multi-billion dollar financing deal to Dubai ease the liquidity crisis in the United States of America? What about other kinds of uses of funds; corporate spending on lavish parties. The continuation of contractual agreements to pay for naming rights on professional sports stadiums. Corporate sporting event sponsorships? This is what the taxpayers expect our government to do with TARP funds? Is this what Congress intended?

If it was the business judgment of the very same bankers in charge that governed their decisions before the financial crisis and arguably helped create the crisis, is it tolerable to continue to defer to that judgment and allow them to spend taxpayers' money with no explanation, little accountability and no questions asked?

Under the precedents set by former Secretary Paulson, the Paulson TARP program makes no demands on TARP recipients for detailed information about their spending. Even though the statute obligates Treasury to be able to prevent waste and abuse of TARP monies, Mr. Paulson's Treasury Department did not even bother to set standards for waste and abuse of TARP funds.

"Trust them" is essentially what seems to pass for oversight of the capital purchase plan. Treasury has no concrete idea of how TARP monies are being used, they don't ask questions of TARP recipients about their use of funds and don't gather sufficiently detailed information from TARP recipients to know what to ask about.

The problem is not a lack of authority. Under the agreements between Treasury and the TARP recipient financial institutions, Treasury has brought contractual authority to scour company books in search of, among other things, waste and abuse by TARP recipients. But in practice, Treasury is not doing so.

The serious shortcomings in the creation and implementation of the Emergency Economic Stabilization Act, namely the absence of definitions of waste and abuse for explicit conditions for the use of TARP funds resulted in the inescapable conclusion that Treasury's oversight will not find waste fraud or abuse, because it isn't looking for it.

Now to read Mr. Kashkari's testimony today, we find nothing to contradict that conclusion, with all due respect.

In fact, Mr. Kashkari was asked to testify on the steps that Treasury has taken to detect and prevent the waste of TARP money.

Mr. Kashkari's testimony does not address that question. Rather, he describes Treasury's efforts to do something else, to determine the impact of TARP money on the bank's lending activity.

Treasury has submitted 90 pages -- 90 pages of Intermediation Snapshots from the largest 20 TARP recipients. But what does that prove?

Perhaps, very little. There are significant shortcomings to Treasury's reliance on the Monthly Intermediation Snapshots.

First, only the 20 largest TARP recipients report anything at all. Obviously, there can be a little monitoring of the impact of TARP monies on the credit activities of the 297 TARP recipients, which do not file Monthly Intermediation Snapshots.

Second, the snapshots do not provide details about any individual transaction, no matter how significant.

Third these snapshots address the lending side -- the lending side of recipients' business. They do not address any other investment of expenditure.

And forth and importantly, they address only new lending and not the contraction of existing lending in the form of foreclosures and elimination of credit lines.

If the amount of new lending does not more than make up for the amount of lending contracted -- and that's through foreclosures, decreasing credit limits, calling back loans, then the net amount of credit in the economy is shrinking.

Telling one side of the credit story without telling the other does not give us a fair and balanced view of the realities small businesses and individuals know so well. At best the snapshots might serve the purpose of monitoring at the most general levels some impact TARP funds may be having on certain new lending activities, but they don't reflect the net impact of contracting credit activities on existing borrowers. And they tell us nothing about the use of TARP funds which is the focus on this hearing.

Unfortunately, Mr. Kashkari's testimony is not responsive to the purpose of this hearing outlined specifically in the letter of invitation sent to him on February 25. And Mr. Kashkari's silence on the subject to this hearing speaks volumes.

The inescapable conclusion is that Treasury is not conducting oversight of the TARP monies disbursed through the Capital Assets Purchase Program to prevent wasteful or abusive use of hundreds of billions of dollars of taxpayers' funds.

Perks for company management were considered, sound business judgment before the financial crisis and taxpayer bailout and are considered sound business judgment now using taxpayers' money.

Loans to foreign governmental authorities were considered sound business judgment before the crisis and bailout, and they are supposedly sound business judgment now using taxpayers' money.

Investments in foreign company operations, even if it results in more lay offs in the United States, were sound business judgments before and they're sound business judgments now using taxpayers' money.

In its current form, the Capital Purchase Program of TARP leaves recipient companies free to use federal funds as they would any other source of income before the crisis and before taxpayers provided the bailout.

Treasury's development of the TARP program generally and the Capital Purchase Program specifically has introduced no new transparency or accountability that did not exist before taxpayers were given the bill for cleaning up the mess.

It is perpetuated business as usual. It's the first of the so called, sound business judgment, judgment of the same corporate management, in many cases that led to the crisis were embroiled in now.

TARP was developed in the previous secretary of the Treasury. Nearly every observation that will be made today originates on his watch.

But if the new administration is to avoid perpetuating the approach of the past, real change is going have to be necessary.

It should start with the collection of detailed information about how TARP recipients are using taxpayer funds and the imposition of conditions and standards for how they may use the monies taxpayers have provided and may be called upon to provide in the future.

My colleagues on this committee -- with news reports projecting that at least another 2 trillion dollars -- another 2 trillion dollars would be requested of taxpayers, it is my hope that this hearing today will help propel the new Department of Treasury to reform the intolerable deficiencies of the TARP program, thereby making recipients accountable to the public, for the use of taxpayer funds.

Finally, we owe it to the America taxpayers to provide a complete comprehensive accounting of all TARP funds that have already been allocated.

And after such a thorough accounting is made available, then let the people decide if their hard earned tax dollars are being spent wisely and in the best interest of the American economy and in the best interest of United States of America.

I yield now to the Ranking Member, Mr. Jordan of Ohio.

JORDAN: I thank the chairman, and I will be brief. Our Ranking Member Congressman Issa will provide our opening statement.

We were in just to the committee yesterday, and there were 15 opening statements that we don't include from our side.

But I did want to say to the chairman, I look forward to working with you in this committee.

Since the first time we met, I think at orientation session at Ohio General Assembly 1994, I have always appreciated the chairman's passion and intensity that he brings in the legislative process.

So, I do look forward to working with you with this Congress and with committee.

And with that, I will turn over to our ranking member.

KUCINICH: I thank the gentleman. I just want to say that Mr. Jordan is a champion wrestler, and I look forward to working with you as well.

ISSA: Thank you, Mr. Jordon, and thank you Mr. Chairman for holding this extremely important hearing.

Mr. Kashkari welcome. It's not easy for us to hold a hearing on the TARP, the Troubled Asset Relief Program or as some people think it's called, the toxic asset relief program, because the TARP suffers from a lack of transparency and accountability.

In our previous hearing, we asked questions such as, how much have you spent, where is the money, what is it worth today?

But as of February 6th, the Treasury Department has verified the $300 billion taxpayers funds have been provided to our nation's financial institutions in the form of preferred shares, warrants, loans, and insurances against loss. Now, that figure, of course, is outdated today and we hope to hear an update.

Well, the department of -- while the Treasury department currently monitors aggregate monthly levels of some banking activities, it does not require any recipient of TARP funds to disclose the details of any individual transaction that the recipient would not have entered into but for the TARP money.

In other words, we do not know if $300 billion of taxpayers' money has changed the -- anyone's behavior.

As a result, neither the Treasury Department nor Congress nor the general public truly knows the outcome achieved by injecting taxpayers' money.

Mr. Chairman, this lack of transparency simply is unacceptable. We could certainly make the case that this level of transparency and the need for it may not have been anticipated prior to September of last year, but a government of the future must be designed for transparency.

We must ensure that all of our institutions, whether receiving federal funds or simply operating on an interstate basis be in fact be prepare to provide transparency. That means interoperable systems and data basis.

We must understand however, the true transparency requires attention not only to what information is disclosed, but to how the information is disclosed.

To illustrate this principle, consider that we receive a deluge of information from the SEC in the form of 10-Ks and other documents.

As a matter of fact, my understanding is that there are about 15 million pages of text.

If that is simply text and in order to figure out the state of the top 200 or so companies in America, you would have go through 10 or more million pages of documents then that information in fact is not information; it's simply pages of text. Good luck sifting through it.

In this day and age, every American understands that if they don't do it themselves, they could download their bank or other financial institution a monthly statement, receive it online, import it into Quicken, into a spreadsheet, into some other accounting system, home accounting system, so they could quickly look at their financial statements, keep track of them from month to month, and do analysis of the trends in their own investments.

So, knowing that you can do this on a personal basis, one would ask, what can we do on a national basis?

The answer is, without a promising technology such as XBRL that can standardize all financial reporting for easy accessibility, we will not be able to do the same on a global basis. More than 40 countries have already adopted this standard, including China.

United States is currently requiring the disclosure of information to the FDIC in XBRL format.

However, the SEC has been slow to act, took most of last year to consider it, and only recently has approved the final rule that will mandate XBRL for all public company reporting with some companies required to comply starting in June of 2009.

Continuing with XBR technology, it is clear to the public that when we talk about lettered technologies and call them technologies, that they may ask is this difficult?

I'm going to say here today that although we'll receive extensive information later today, it is not difficult.

It is simply the federal government requiring that financial institutions -- those providing mortgages into the public market, those operating with the public trust such as public corporations, and those receiving TARP money, provide information in a way that we do not have to re-massage it, that it is transparent to a computer.

They still have the right using this technology to withhold information or to be assured that the government will keep confidential information confidential.

But only with this sort of a common format can we, in fact, begin to dis-separate what is often called toxic assets, which in fact is good assets mixed with bad, with no ability to decide which is which. Without it, we're back where we were before September.

Mr. Chairman, I absolutely look forward to Mr. Kashkari's answers on what he can see today, what he knows today, but more importantly, for both the first and second panel, I'm desperate and America is desperate to ensure that we do not come back to a hearing three, four, five months from now and find out that we still don't know where the money went, we still cannot quickly decide what assets are good and what assets are bad.

Lastly, Mr. Chairman, I believe that when we look at the problem, and Mr. Kashkari has been looking at this in a huge way.

America had a debt level of about 300 percent of GDP, or about $45 trillion, plus or minus, of debt.

Historically, America ran 100 to 120 percent of debt, to GDP, meaning 15, maybe $20 trillion of debt.

The unwinding of this debt, even with the trillions of dollars that are either pledged or the hundreds of billions of dollars that have been delivered, we still has a long way to go.

I look forward to hearing from Mr. Kashkari, how they plan to find the stabilized level of debt that America should be.

I believe that whether it's the international institutions that have gone on business as usual as the chairman said, providing dollars to foreign investors, or its our domestic spending, that we have to come to grips with how much of the contraction was appropriate because of an excess, an excess that we all found interesting and valuable, but in fact didn't realize that when in unwound was inevitably going to give us huge problems.

For example, if, in fact, our 100 to 120 percent of GDP, is not the new norm, but rather 200 percent of GDP is the new norm, we still have a 15 trillion or so dollar contraction of debt that will be permanent.

I know that's not the subject for today, but it is a subject that I'll look forward to people at Treasury and others, working with economists to discover, because we have to decide what portion of America's hard-earned money is going to put into stimuluses, TARPs, and others, and how much in fact is going to have to be written off to -- we can't go back to the roaring '20s, and we can't go back to the roaring arts (ph), if you will.

Mr. Chairman, thank your indulgence. I look forward to this hearing and yield back.

KUCINICH: I want to thank Mr. Issa, who is the ranking member of the full committee for his participation, and I think that all members would agree that Mr. Issa is business acumen, brings the real strength to our deliberations, not only today but always, so thank you sir.

It's my honor now to introduce the chairman of the full committee, who is our new chairman and under whose guidance we have to craft today's hearing and under whose guidance we will go even deeper into the workings of this TARP program as well as the broad range of government oversight reform issues facing the United States Congress and America.

At this time, it's my honor to introduce distinguished gentleman from New York, Mr. Towns, the chairman of the full committee.

TOWNS: Thank you very much, Congressman, (inaudible) the subcommittee, and, of course, Ranking Member Jordan for convening this hearing.

Oversight of the Treasury's TARP program is an important topic for this committee, and I'm pleased that Mr. Kashkari is here today to update us on the program.

It is quite clear to me, at this point, that Treasury does not have the information or personnel in place to conduct vigorous oversight of the TARP program, and that bothers me.

The information we have received about the types of data the government is tracking (inaudible) too vague to develop measures of the programs effectiveness.

I am afraid we are reaching a point where Treasury just does not know what Wall Street is doing with government funds. In fact, I don't think they even know how much they don't know.

In my view, Congress has been extraordinarily generous in allowing the Treasury Department and the Federal Reserve a latitude in dealing with the current financial crisis.

I have a Federal Government unprecedented investment of billions of dollars, demand for the scrutiny, and particularly concern about AIG.

Today, the government has invested $160 billion, that's B as in 'boy' in AIG, and stated last week that AIG may require further support.

It should come as no surprise that Congress has expressed the need to know exactly how this money has been spent, on what basis it has been spent, and exactly who are the beneficiaries of this record federal subsidy?

But we cannot take it on blind faith that federal financial support of AIG or other firms is being carried out in a sensible manner. We just can't take that.

This hearing should tell us what information Treasury is collecting and what information is being shared with the Congress and what information is completely unknown to anyone responsible to the American taxpayer.

I hope we come out of this hearing with a plan for obtaining the information necessary to make responsible decisions about our economy and the burden that the American people are bearing to bail out Wall Street.

Let me just say this is not a one shot deal. We're not going to go away. We owe it to the taxpayer.

Mr. Chairman, on that note, I yield back.

KUCINICH: I thank the Chairman of the full committee and it's an honor to serve with you.

At this time, of course, all members of this committee, without objection are going to have five minutes for an opening statement. Any other members who seeks recognition? Mr. Souder of Indiana, you deserve to have an opening statement.

Mr. Cummings of Maryland.

Thank you.

CUMMINGS: Thank you very much. Thank you very much, Mr. Chairman, I want to thank you and I want to thank the Chairman of the full committee for -- and ranking, for making this hearing happen -- going to take place.

I was just sitting here just thinking about our last hearing. And during that hearing, Mr. Kashkari presented, and there were some issues that we bought up, that he did not know about.

And I realized that there is a lot to get your arms around, I understand that. But I want us to -- I want us to -- the reason why this hearing is so important is that we are in probably one of the worst economic circumstances that we've been in our lifetimes.

And I do believe that President Obama is doing everything in his power, along with Treasury Secretary Geithner, to straighten up this mess, and it is this (inaudible).

The problem is that unless there is transparency and unless there is accountability, it's going to impossible to maintain the trust of the public, and we need the public trust.

Right now, the people in my district are losing their savings, their homes, and -- as a matter of fact, I was in the town hall meeting the other Day, Mr. Chairman, and a gentleman said to me, he said, "You know what? I stopped looking at my statement, because I'm afraid to look at it. It will put me in a bad mood for the next month or so. So, I don't even look at it anymore."

And so -- and they are losing their jobs. And at the same time, they turn around and they hear about the AIGs of the world, and they hear about the Citigroups, the abuses of this money. And you know what they ask themselves? The question -- the question they ask is "Why is my tax dollar being used in this way?"

But then they think -- I think that really alarms them, is when they hear the oversight panel in this recent report write -- say, and I quote, "The panel still does not know what the banks are doing with the taxpayer's money?"

It's going to be very difficult for the president and for Secretary Geithner to turn this ship around, unless we have a situation where there is that transparency and the accountability.

But if you don't know -- if you don't know what's going on, that's a real problem. And so we found out just recently, that AIG was given retention payments. Now these retention payments were supposed to be -- to retain people, but these were the very people that they were letting go.

There is also something else is happening here, Mr. Chairman. And there is an arrogance on the part of some of these company executives with regard to the American taxpayers' dollars.

And so I am hoping that, in the words of Mr. Towns, that we'll be able to come up with Chairman Towns' plan to address this. But the question also becomes is, "Do we have -- does the Treasury secretary have enough authority to do the things that he needs to do?"

And I'm hoping that those questions will be answered today. And so I look forward to the testimonial of Mr. Kashkari and the other witnesses.

And again, I thank you all for holding this hearing.

KUCINICH: Thank you very much, Mr. Cummings.

The chair recognized Mr. Fortenberry of Nebraska.

FORTENBERRY: Just briefly, Mr. Chairman, let me thank you for the opportunity to join you on the subcommittee. I think it is a critical subcommittee for the well-being overview of public policy in this country.

But also I want to commend you for -- for picking this particular topic, as the one that clearly sets the priority for the inner paradigm of this committee.

Clearly, people want to know where their money is going to. And Mr. Chairman, if I could offer this: I think it is very important to review back when the taxpayers were asked to bailout financial institutions in the name of resetting the economy, stabilizing the economy. There was a questions floating around, or the suggestion that these institutions were "too big to fail." I think we should be asking, "Are they too big to succeed?"

One of the real problems that we have in this country is financial consolidation, a liberalized credit system that brought about use of exotic financial instruments, as well as, what seems to be reckless behavior. So I am hopeful that this subcommittee and this particular hearing, delves deeply into this issue to at least answer one question, as to where the money is going. And then secondly, if this is an appropriate investment?

KUCINICH: I want to thank our new committee member Mr. Fortenberry of Nebraska for his presence on the subcommittee and also for his observation. The question you posed -- about whether or not a company is too big to fail? And your further question about the issue of consolidation in the economy, and its effect on the economy. Is something that is a proper subject for this domestic policy subcommittee? So with the cooperation of our Chairman, Mr. Towns, we would look forward to delving deeply into that issue.

FORTENBERRY: I appreciate your comments. Thank you.

KUCINICH: I thank the gentleman. The chair now recognizes Mr. Welch of Vermont for his opening statements.

WELCH: Thank you, Mr. Chairman. There does seem to be clear unanimity here about the absolute requirement that there be full accountability. And I want to focus attention on one specific area.

We've used a lot of money from TARP and other programs for AIG, and there is going to be another $30 billion that already has been authorized with no additional requirement, that AIG disclose as how specifically that money is used.

In this new use of TARP funds, it is a significant departure from previous TARP assistance through AIG. And as long as it continues to be given without requiring AIG to fully disclose how that money is being spent, it's going thwart our efforts to provide the answers to the American taxpayer. AIG has been unwilling so far to provide significant information on what financial institution, either domestic or foreign, are counterparties -- the counterparties with outstanding credit default swaps. That's why for example, we still don't know who received much of the money that the Federal Reserve gave to AIG.

I think we are all in agreement. The taxpayers are entitled to know how their money is being spent. And what I'd like to know on behalf of the American taxpayer, is basically this: One -- does Treasury agree that AIG can use this money to fulfill credit default swap obligations with taxpayer money from TARP.

Two, if so, does Treasury have a specific plan to track each and every dollar that AIG uses to pay counterparties.

And three: What plans does Treasury have to compel AIG to release information to Treasury and the American taxpayer on what counterparties are paid?

Keep in mind AIG is 80 percent taxpayer owned, so in a way, AIG is us. Now the justification of course for giving any aid to AIG is the systemic risk that Treasury and the Fed have concluded exists, if we let it go under. It's -- one thing however, if that systemic risk and the funds that are transferred are used to protect Americans -- average Americans who have annuity and insurance policies with AIG.

It's quite another if that money is being used basically to hedge the debts (ph) and reward speculators, investment banks hedge funds, that simply get along on some of these credit default swaps. So, Mr. Chairman, my question really goes to getting specific information on how money is being used to pay counterparty, and what counterparties are on the receiving end of this benefit.

And I yield back.

KUCINICH: I want to thank the gentlemen for his opening statement, and to complement it, to introduce into the record, an article on yesterday's "Washington Post" by David M. Schmick (ph) called "Tim Geithner's Black Hole," which discusses directly the point that you raised about AIG and the credit default swaps.

So I thank the gentleman.

The chair recognizes a former chair of the government oversight committee, Mr. Burton of Indiana.

Thank you for being here, Mr. Burton.

BURTON: Thank you, Mr. Chairman, and thank you for having this hearing. You look the same in person as you do on TV.

I will tell you, Mr. Kashkari, I don't think there is a member of Congress that really knows where all this money has gone. And I think that's one of the biggest problems we have is -- we go back to our constituents and they say, "Well "where are you spending all this money?" And we can't give them an answer. And we say, "Well, you just have to trust Mr. Kashkari and the secretary of the Treasury and it will get done."

Today, I see here that $8 billion of the loan that was -- of the TARP money that was given to Citigroup went to Dubai. A billion by J.P. Morgan Treasury Services, it was used in development of cash management, trade finances, finance solutions in India; $7 billion investment by Bank of America in China Construction Bank Corporation. And we need to have a complete rundown, or as complete as possible, so we can explain to our constituents, why we are doing this, and what the end result is going to be.

And we can't do that right now. And we are supposed to grant you and other members of the administration the funds that are necessary to get this economy moving. And for us to be able to do that, we need to be able to convince our constituents, that this is the right thing to do. And we can't do that right now. I mean the people back home are madder than hell about what's going on, and they need to have the facts.

The other thing is, currently, only the largest 20 recipients of TARP CP funds are required to file reports of any type with TARP overseers. The other 297 financial institutions do not.

I think that should be much broader. I think that there should be a report that goes to the TARP overseers, but also to the Congress of the United States. You're going to have a much easier time when you come up here, Mr. Kashkari, if we have the facts so that we can go back home and at least make the case that this government's doing the right thing.

Every time I go home, people say, "My gosh, you spent 700 billion on TARP. You spent $787 billion on the stimulus package. You spent $408 billion or $10 billion yesterday." I mean we're talking about trillions of dollars, and then Geithner over at Treasury says he's going to have to put $2 trillion or $3 trillion into the financial institutions to get them up and running the way they should.

And we all want the economy to flourish. But we have to have the facts. And I really hope you'll take this to heart. I know that you hear all this stuff, and you say, "Oh my gosh. I wish these guys would never shut up." But if you want to have the American people to be supportive, we have to have the facts.

With that, Mr. Chairman, I yield back and announce my time.

KUCINICH: I want to thank the gentleman from Indiana. And I just want to say in support of your statement. I have here a news release from Citigroup with the headline: "Citi Arranges More Than $8 billion for Dubai." They received 25 billion in bailout funds and I believe it was October 26th, and this news release is dated December 14, 2008. Without objection, this will be submitted to the record.

The chair recognizes, I think, Mr. Kennedy is next, Mr. Kennedy from Rhode Island, thank you for being here. You may proceed.

KENNEDY: Thank you, Mr. Chairman. And following up the former chairman from Indiana, about Dubai -- Bank of America sent $7 billion to China Construction Bank Corporation after it received funds from US tax dollars, Mr. Chairman.

I think the frustration that we all have here, and I heard it from my constituents last week, was that they're prepared -- as one of my constituents said, "We're prepared to take our medicine. We want to make sure we take it the same as everybody else."

And they don't see themselves as taking their medicine the same as everybody else. They see us aggregating the profits of the very wealthy in this country and socializing the loss of the middle class in this mess that we have here.

They see their tax dollars going to pay off those who have savings, those who have dividends, those who've made out the best in the '80s and '90s; during this great wealth that has been made and accrued over the last several decades, while they the people who are the wage earners in this country, the people that don't have savings, the people who are paying payroll taxes, are bailing out the very wealthiest in this country. There's something inherently wrong in this picture. And they're not about to have the wealthiest in this country be the only ones with a voice down here.

And what's inherently wrong here is that we're aggregating the profits and socializing the losses. And that we're not making sure that the medicine is shared equally amongst all the American people in terms of how we're making sure that we're all getting back on track evenly here.

And that I think, Mr. Chairman, is what we need to get about doing, so that we're not making sure that just a few of the people, the American people, are the ones who are left paying the bills here and letting all these others get off scot-free.

KUCINICH: I want to thank the gentleman from Rhode Island and thank him for being on this subcommittee.

The chair now recognizes the gentlelady from California, Ms. Watson.

WATSON: I want to join with my colleagues in thanking you for holding today's hearing. The Emergency Economic Stabilization Act of 2008 authorized the TARP program for the dispersal of $700 billion of taxpayers' money in two tranches to attempt to restore liquidity and stability to the financial system.

To date, the Treasury Department has committed approximately $299.6 billion to the TARP funds to participating financial institutions. With nearly half of the allocated TARP money drawn down and an economy which continues to shed job and capital daily, it is crucial that today's hearing gives us an honest perspective on the Treasury Department's efforts to regulate the use of TARP funds, an insight into how to guarantee that these funds are effectively spent in a manner that maximizes the eventual returns to taxpayers.

While increasing liquidity to our banking system is a key consideration for the Treasury Department in orchestrating and distributing the TARP funds, it is also a legally mandated responsibility of the Treasury Department to maintain internal control of these funds to prevent waste and abuse of the taxpayers' money.

The current global economy crisis is a result of a systemic unwillingness on behalf of institutions and individuals at all levels to routinely self examine their financial practices, to verify that they are responsible and sustainable in the long run.

Now, as we continue to implement an unprecedented, reorientation of the relationship between business and government, it is critical that we apply this lesson to the actions of the Treasury Department and to all of the TARP recipient institutions.

And Mr. Chairman, I would particularly like to think each of today's panelists for cooperating with this committee and I sincerely hope that the testimony we hear today will provide us with a detailed assessment of the ways institutions have utilized their TARP funds, and, the ability of the Treasury Department to oversee the transactions.

When, we go home to our district, as other members have described, we get inundated, the telephone calls and personal visits. "What is going on? When can I lower my market payment? When can I have the interest lowered? What are you doing?"

And, these angry calls are constant. So, I would like to take back information when I go back to the district tomorrow, based on what we hear from the witnesses that will address their concerns. So, I thank you very much, Mr. Chairman, for this very significant hearing today. I yield back.

KUCINICH: And, I thank the gentlelady for constant participation in these subcommittee meetings.

Now the chair recognizes Mr. Tierney of Massachusetts.

TIERNEY: Mr. Chairman, I'm prepared to go the witness when we can. Thank you.

KUCINICH: OK. I thank the gentleman for his presence here.

If there is no other member of Congress or of this committee who is ready to proceed, we are going to now move to introducing our first panel.

Mr. Neil Kashkari was designated as the acting interim assistant secretary of the Treasury for Financial Stability on October 6, 2008. He was asked by the new administration, the Obama administration to stay on for the sake of continuity and continues to serve in a difficult role during this transition.

In his capacity, Mr. Kashkari heads the Office of Financial Stability, which oversees the Troubled Asset Relief Program. He is also the assistant secretary of the Treasury for International Economics and Development.

Mr. Kashkari joined the Treasury Department in July 2006 as senior adviser to U.S. Treasury Secretary Henry Paulson, Jr. In that role, he was responsible for developing and executing the department's response to the housing crisis, including the formation of the HOPE NOW alliance, the development of the subprime fast track loan modification plan, and the Treasury's initiative to kick-start the covered bond market in the United States.

Prior to joining the Treasury Department, Mr. Kashkari was a vice president at Goldman Sachs and Company in San Francisco.

Mr. Kashkari, I want to thank you for being before this subcommittee today. I know I will speak for all the members in saying that. And we are looking forward to your testimony.

As you know, it is the policy of the committee and Oversight in Government Reform to swear in all witnesses before they testify. I would ask that you please rise and raise your right hand. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth. Thank you.

Let the record reflect that the gentleman answered in the affirmative. We've already, at the beginning of this hearing, I had a unanimous consent for Mr. Kashkari, to have a 10 minutes, if he needs it -- up to 10 minutes, if you need it, sir, so that you'll have sufficient time to make your statement.

KASHKARI: Thank you, Mr. Chairman.

Good morning. Thank you, Ranking Member Towns -- it should be Chairman Towns, Ranking Member Jordan, Ranking Member Issa and members of the subcommittee. I appreciate the opportunity to appear before you today.

As you know, I was appointed by the prior administration and the Obama administration asked me to remain at Treasury for a brief period to help with the transition. I am honored to provide whatever help I can to the new administration.

The American people provided Treasury with broad authorities under the Emergency Economic Stabilization Act to stabilize the financial system. And it is essential we communicate our actions in a clear and transparent manner to maintain their trust.

Today I will briefly review the actions, Treasury has taken to stabilize the financial system and describe the steps we are taking to monitor the activities of recipients of government capital. Many years in the making, the credit crisis erupted during the summer of 2007. Last year, the crisis intensified and our major financial institutions came under severe pressure from deteriorating market conditions and the loss of confidence.

In a short period of time, several of our largest financial institutions failed. In March, Bear Stearns; in July, IndyMac, in September, we witnessed the conservatorship of Fannie Mae and Freddie Mac; the rescue of AIG; the bankruptcy of Lehman Brothers; the distressed sale of Wachovia; and the failure of Washington Mutual. Eight major U.S. financial institutions effectively failed in six months, six of them in September, alone.

This stress was reflected in something called the LIBOR-OIS spread. It's a key measure of risk in the financial system -- typically, five to ten basis points. On September 1, the one month spread was 47 basis points. By the 18th, when Treasury and the Fed went to the Congress, the spread had climbed to 135 basis points. By the time the bill passed, just two weeks later, the spread had nearly doubled again to 263 basis points.

Credit markets continue to deteriorate. And the spread just one week later, spiked to 338 basis points, almost 50 times normal levels. Our nation was faced with the potential, imminent collapse of our financial system. So many people ask me, "What if the financial system had collapsed?" Businesses of all sizes might not have been able to access funds to pay their employees, who then wouldn't have money to pay their bills. Families might not have been able access their retirement funds. Basic financial services might have been disrupted.

This severe economic contraction and large job losses we are now experiencing were triggered by the credit crisis. However, had the financial system collapsed, this recession, including terrible job losses and numerous foreclosures could have been far, far more severe. Now, a program as large and complex as the TARP would normally take many months, or even years, to establish, but we didn't have months or years. We moved as quickly as possible to implement programs to rapidly stabilize the system and prevent collapse.

In the 159 days, since Congress passed the law, we have successfully implemented the capital purchase program, having now invested in 489 institutions in 47 states and Puerto Rico, 489 banks in 47 states with approximately 30 new investments each week. The median investment is $16 million. The vast major of these institutions are banks in our communities.

Treasury also help the Federal Reserve establish a lending program through reduced borrowing cost for consumers, including auto loans, student loans, credit cards, small business loans, and that will begin funding this month.

We are planning to expand this lending initiative to include other asset classes, such as commercial mortgage back securities. Under Secretary Geithner's new financial stability plan, Treasury also announced a new capital assistance program and launched a multi-part housing program to reduce borrowing costs and to encourage long-term sustainable loan modifications. Finally, we are developing a public/private investment fund to purchase illiquid assets from banks also to support new lending.

Now, during this time, Treasury has unfortunately had to step in to stabilize several large institutions whose failures would pose a systematic risk to our financial system and to our economy. We regretted having to take these actions; to put so many taxpayer dollars at risk to support firms that had made bad decisions. But our choice was clear, when consequences of inaction so severe and the potential cost of the taxpayers of inaction so much greater than the cost of intervention. Today, that LIBOR-OIS spread, which had peaked at 338 basis points, has now fallen to 34 basis points.

We believe the combined actions of Treasury, the Federal Reserve, and the FDIC have prevented a financial collapse, but we still have much more work to do to get credit flowing to our communities. Now, in terms of monitoring. In January, Treasury began collecting data from the 20 largest recipients of capital under the CPP representing almost 90 percent of the capital deployed under that program.

(UNKNOWN): Mr. Chairman. Could I just interrupt just for a second here?

KUCINICH: Not customary to interrupt the witness. So, I'd -- unless it's something urgent, I prefer that Mr. Kashkari would proceed with his statement.

(UNKNOWN): Thank you, Chairman.

KUCINICH: Thank you.

KASHKARI: We published our first monthly lending survey in February. This survey shows, bank by bank, the lending and intermediation activities of institutions by category such as consumer, commercial, and real estate loans. This survey is published monthly on Treasury's Web site.

Now in recessions, credit levels typically fall as both borrowers and lenders become more cautious. The first survey shows that lending held up remarkably well despite one of the most severe quarterly economic contractions in recent decades. Without capital from Treasury, those lending levels would likely have been much lower. And we are also developing a narrow survey for smaller institutions that receive government capital to monitor their lending monthly. So, we will be surveying all institutions. And the new cap program that secretary Guidner has announced will also require institutions to indicate their expected use of funds and to increase and track lending against the baseline. So, we can monitor that.

Now, with investments in almost 500 institutions and 100 more in the pipeline, we must ensure that our investments are targeted at stabilizing the economy, but we must also take great care not to try to micro manage recipient institutions. However well intended, government officials are not positioned to make better commercial decisions than lenders in our communities.

The government must not attempt to force banks to make loans they are not comfortable with, nor should we try to direct the lending from Washington. Bad lending practices were at the root cause of this crisis and returning to those practices will not help end the turmoil. The EISA was one of the several initiatives taken by the federal government to stabilize the financial system and absolutely necessary preconditioned to economic recovery.

We believe the combined actions of Treasury, the Federal Reserve, and the FTIC have helped prevent a financial collapse. Nonetheless, the current crisis took years to build up and will take time to work through, and we still face real economic challenges.

There is no single action that federal government can take to end the financial market turmoil and end the economic downturn, but the authorities Congress provided last fall dramatically expanded the tools available to address the need of our system.

Mr. Chairman, I would just add, I know many members of the subcommittee have many questions.

I have cleared my day. I am happy to stay as long as you would like and answer all of your questions in as sterile a manner as possible.

Thank you, sir.

KUCINICH: We all appreciate your presence here Kashkari. Thank you for your testimony. We are now going to proceed with questions.

Members will have five minutes each for the purpose of asking questions. I am going to begin, and then I will go to our Ranking Member Mr. Jordan, and I would ask all members to please try to observe the five minutes because, as Mr. Kashkari said, he will stick around and so we are open to having several rounds of questions.

I would like to begin, Mr. Kashkari, with questions about the foreign uses of TARP funds. When Congress created the TARP, it was responding to a crisis in this country. U.S. businesses couldn't get a loan. American consumers couldn't get a loan. TARP was supposed to restore liquidity and the functioning of the credit market for them. So, how you justify to the American taxpayers a bank's decision made, after receiving tens of billions of dollars in TARP monies, to make a $7 billion investment in a Chinese construction company?

KASHKARI: Chairman, thank you, sir. I'll offer two comments to answer your question. First, we must remember that many of these financial institutions are global institutions, and they take deposits from savers all around the world, and they make loans all around the world.

And while, we may isolate and identify one transaction here or one transaction there, it's impossible because money is fungible, and I know you've all heard this comment before -- to track -- did that money come from U.S. deposits, did that money come from foreign deposits?

We also have to be careful that if we set hard rules not letting our largest institutions do business abroad, other countries may say, OK, they are going to reciprocate and not let foreign banks then lend in America.

So, I understand your concern. I absolutely do. But we also walk a fine line let the businesses make commercial decisions, support the system as a whole to get lending flowing.

KUCINICH: Now, isn't it true that this loan was made after Citigroup received TARP funds. Isn't that true?

KASHKARI: I don't know the details of it, but it appears to be the timing as such. Yes, sir.

KUCINICH: Excuse me. I want to go back to that. I want to restate the question. Isn't it true that this decision to make this purchase happened after Bank of America made this purchase of stock, and after they receive the TARP funds?

KASHKARI: Congressman, I don't know when -- Chairman, I don't know when Bank of America made various investment decisions. I do know the dates of the announcements, and it appears the announcement was after the TARP investment.

KUCINICH: Right, I have here for the record the Bank of America had exercised remainder of China Construction Bank option and it's November 17th. They received the TARP funds in October, Mr. Kashkari.

When it's hard to get a loan in this country, is it Treasury's opinion that a bank that receive TARP money is justified to arrange financing for an $8 billion loan to the government of Dubai?

KASHKARI: Sir, again, I want to provide a thorough answer to you -- to Mr. Chairman.

Our highest priorities are two-fold. Number one, stabilizing the financial system and number two, making sure these banks can pay the taxpayers back. And so, we've taken great care to not try to micro manage institutions; to encourage them to use the capital in commercially reasonable ways.

We put specific protections in. We prohibited them from buying back stock. We prohibited them from increasing their dividends; to create economic incentives for them to want or lend the money, and earn a return on that money.

KUCINICH: But how does if you know -- people back home, as Mr. Cummings always likes to ask, people back home want to know, how does arranging an $8 billion loan to Dubai after someone gets TARP funds? How does that benefit the U.S. taxpayers whose money is being used? How does helping a construction company in China get $7 billion after this Bank of America received TARP money? How does that help the U.S. taxpayers? Could you explain this?

KASHKARI: Sure. Thank you, sir. When our global firms do business abroad, and if they can make money and earn money abroad, that makes those institutions stronger. It puts those institutions in a better position to pay back the taxpayers, because they are earning money. They're raising deposits around the world.

KUCINICH: So are these investments better? And is it better -- are you telling the American people, that it's better to invest in an other country than it is for these banks, who have TARP money, to invest in our own country?

KASHKARI: Absolutely not, Mr. Chairman. We absolutely want our banks investing in the U.S. lending in our communities.

KUCINICH: Did you know they were investing in China, in India and in Dubai and god knows where else, do you know that?

KASHKARI: Well, I know that our large global financial institutions do business around the world.

KUCINICH: But do you know specifically that companies got TARP funds and the credit freeze in this country? They get the TARP funds, and then instead of investing in American businesses, many of whom are starved for investment capital, they then export American taxpayers dollars, that were given under emergency circumstances, did you know that?

KASHKARI: Well, again, Mr. Chairman, this comes back to the one of the -- one of the hardest problems we've had, honestly. I've had in my seat -- is communicating this concept of tracking the dollars, and where do taxpayer dollars go, versus others dollars they got from deposits abroad, as an example.

It's this fungibility question that we keep coming back to. And so, Mr. Chairman, it has been very hard for us to say, this dollar went for this purpose, the tax dollars went for another purpose. We want our banks to be healthy. We want them to lend in our communities. We want them to use their capital appropriately. We want them to show judgment in light of the economic crisis that we're facing. These are tough -- these are...

KUCINICH: I thank the gentleman. My time has expired. I'm going to go now to the ranking member, Mr. Jordan.

You may proceed, Mr. Jordan. We'll come back. There'll be anther round of questions.

JORDAN: Thank you, Mr. Chairman. Mr. Kashkari, we appreciate you being here. I want to attempt to -- at least in my mind, cut to the chase. At the end of your final sentence, in paragraph six, you say, "Finally, we're developing a public-private investment fund to purchase illiquid assets from banks to support new lending."

Is that, in fact -- wouldn't you agree -- was the whole motive for doing the bailout in the first place? As I said to a group of farmers in my office this morning, I said, "The $64,000 question, or more appropriately the $700 billion question is, when are we going to be able to go after these assets, these mortgage-backed securities that caused the problem?"

That's how it was packaged to Congress. That's why members of both parties voted for it, and supported the plan. And that was on October 3rd, 2008. To date -- am I correct in saying that not one mortgage-backed security has been purchased?

KASHKARI: Yes, sir.

JORDAN: And so -- I want you take as much time as you possibly can to talk about this developing program to do exactly what was supposed to happen five months ago. I think that, in my mind, is the key question, the key focus, and what has to take place if this is going to work. So take as much time -- much time as I have left on my five minutes, and walk me through that.

KASHKARI: Absolutely, sir. This is a program that Secretary Geithner is very focused on, right now. We've got teams of Treasury working with the regulators -- I'm sorry -- OK, I apologize. This is a program Secretary Geithner is working on, right now. We've had teams of Treasury working with the regulators to finalize the program. It will combine private sector capital with government capital to go after and buy up these assets, sir.

JORDAN: If I could just interject here. And we've had Secretary Geithner in front of the Budget Committee, and he's talked about -- he said basically the same sentence as you just said right there. Can you give us an idea how quickly that's going to happen?

And as the Chairman alluded to, I believe in his opening comments, or someone on the panel did, is it a -- is it a staffing concern that is prolonging this decision or this program getting off the ground? Talk about that as well.

KASHKARI: I expect -- I believe Secretary Geithner has said that he expects it to come out very quickly, you know as early within a few weeks. Again, people are doing a lot of work on that right now around the clock. It's not a staffing issue.

These are complex issues that involve not just Treasury, not just the Federal Reserve, but the banking regulators. So these are complex issues that we need to make sure we get right, sir.

JORDAN: Public-private partnership you're talking about. What kind of encouraging statements -- comments are you getting? What kind of feedback are you getting from the private sector side? Do they -- are they buying into this approach that you are floating out there and talking about, right now?

KASHKARI: We believe they are. In fact, we'd received inbound, unsolicited proposals from people on the private sector saying, "We have capital on the sidelines. We want to go after these assets."

One of the key challenges right now is, there is no financing available for the private sector investors. And so by marrying government capital, taxpayer capital, with private sector capital, and providing financing, you can enable those investors to then go after those assets at a price that makes sense for the investors, and at a price that makes sense for the banks.

Because if the private sector capital doesn't have any financing behind it, the returns they need, will result in prices that are too low and the banks won't want to sell. So providing the financing is a key component. And it's not -- it's something that the Treasury has to do with the regulators. It's complex, but the right people are focused on it.

JORDAN: OK. Thank you. Yes. I yield to the gentleman from California.

ISSA: Mr. Kashkari, I wanted to follow-up on something that Chairman Kucinich had gotten into. Yesterday, it was widely reported that Citibank had, I understand, two months in a row of making positive money. If they ceased overseas loans, my understanding is, it's more than half of their total business. What would have happened to those profits? In other words, as much as we, here in the day want American dollar -- American taxpayer dollars to go to American investment, if in fact we limited them from continuing their overseas operations, what would be the effects on the profitability of companies like, even Bank of America, but certainly Citibank?

KASHKARI: I expect the profits would fall dramatically, and they may in fact -- they need more taxpayer dollars to support them.

ISSA: Thank you, Mr. Chairman.

KUCINICH: I thank the gentleman -- will come back on the Republican side, Mr. Issa. And I'm going unanimous consent in connection with your line of questioning, introduce an article from the "Washington Post" on Friday, March 6th, relating to this public- private partnership, "U.S. To Invite The Wealthy To Invest In The Bailout," by David Cho, consumer lending. It discussed this very matter.

Mr. Cummings, you are recognized for five minutes, you may proceed.

CUMMINGS: Thank you, Mr. Chairman.

Mr. Kashkari, I just wanted to talk about -- just AIG for a moment. You realized they have these, what they call retention agreements. Are you familiar with that?

KASHKARI: Yes, sir.

CUMMINGS: And one of the disturbing things about these retention payments, was that they were supposed to -- that kind of -- I understood it at first, that they wanted to retain key people for certain units, because they added value to those units, and if they were to sell them, they would sell for less. I believe those were going to leave. But then, their Financial Products Division, they were given -- they gave over $400 million worth of bonuses, and this is the very unit that everybody admits pretty much caused a lot of the problems for AIG. And then later on, they talked about -- an SEC filing, recent filing, they say, they were giving retention payments for people that were going to be terminated. Now, are you familiar with that?

KASHKARI: No, actually, when you mentioned it earlier, that was the first time I heard about.

CUMMINGS: This is -- that's shocking to the conscience, isn't it?

KASHKARI: It sure is.

CUMMINGS: I mean, you see, that's the kind of thing. And when I talked earlier about the public being concerned, this is bigger than you. This is bigger than the Treasury. This is -- and the reason why I say that, is that when people begin to hear these kinds of stories, and they hear about retention payments being paid for people who are leaving, for people who brought down the company, they don't -- what it does -- and they are at the same time, they see the moving van coming up to their house taking their stuff away.

And they are afraid, like the man said in my district the other day, to even look at their statement, when they're getting the pink slip. Do you know -- I mean, some kind of way we got to get around it. And then, you say something that I hadn't heard before. When you talked about how -- in your statement you said, we should not -- you said, "the government must not attempt to force banks to make loans, whose risks they are not comfortable with, or attempt to direct lending from Washington." Bad lending practices are what the root cause. And I understand all of that. But there has got to be -- number one, transparency. And the American people have got to see that they are getting something out of the deal. That's the problem.

Duh! I mean -- and they are upset about that, they don't understand it and we -- and I know the president is doing a lot of great things, and I believe that we are going to -- I know we are going to get through this, we have to get through. But the question then becomes is -- while the president and all of you are going in one direction trying to uplift the American people and get this economy right.

Is it that -- it's already like going uphill, but I am wondering, if you don't see the problem that the transparency has, whether the lack of transparency and accountability, what it does is it puts ice on that hill that you were trying to get up.

And what does that mean? It means that it's going to a take a longer time, and it's going to mean that a lot of people are not going to have the trust. We need to get out of this mess as fast as we can. And I just don't think a slippery slope helps it. You got me?

KASHKARI: I do, Congressman. I couldn't agree more that the communication challenge that we face has been enormous. And if you look at what the president has done and what Secretary Geithner has done around some of the new programs, they've put in place requirements that the banks specify, "here is exactly how we are going to use the new funds." We are going to track that. We are going to measure and increase our lending, relative to a baseline of what it would have been otherwise.

And so there will be increased transparency, if the president said before the joint address to Congress: He gets it. The challenge that we all face is: How do we get these programs to work? Make sure we provide the right transparency, strike the right balance.

CUMMINGS: And this isn't my question. At what point do we say to the banks, "We are giving you a billion. Bank, why don't you loan back, you know, a fourth of that, or do something to help?"

In other words, you act like we got to sit by and say "Oh, Bank, here's our money, stay afloat," and while our people can't get the kinds of loans that they want. I know you are doing some things with regard to loans, but I'm just saying these are the banks that are getting the big bucks."

KASHKARI: Well, Chairman, I'm glad you raised this. This is a really fundamental point that I think we don't talk about enough, which is the banks are a big part of the story.

Banks typically provide 60 percent of credit in our economy. The non-banks, the securitization market provides the other 40 percent. The banks are lending -- not as much as we would all like, but they are lending.

The securitization market is gone, right now. It's completely frozen. And so we have now launched this new consumer business lending initiative with the Federal Reserve, specifically, to get loans to people buying cars, small businesses, credit cards, et cetera, to get the lending going again.

So, part of it is the banks. Part of it's transparency for the banks. But a big part of it is the non-bank market and we have now launched a whole separate program to get at that problem.

CUMMINGS: Thank you very much, sir.

KUCINICH: I thank the gentlemen.

Chair recognizes Mr. Issa.

ISSA: Thank you, Mr. Chairman. Precautionary -- there are so many questions, and I appreciate your willingness to stay for a very long day.

First of all, you don't know a lot about me. And, you know, people come in my office and see bunch of paths (ph) and they think that means technology. Long before I was fortunate enough to be in electronics, the Army paid for me to go to "tech (ph) school," as it was called back then in Massachusetts. And I got to see early on how computers were not interoperable, but how they could be, and how when you needed to do big projects, you made them interoperable.

When we look at XPRL, you are very familiar with that technology -- in a nutshell, if everyone were reporting in a XPRL compliant fashion so that various companies that are developing software to read and to analyze, were able to see with that common set of, if you will, reporting, would your transparency, that you don't have enough of today, be virtually absolute?

This is assuming that mortgages were put in that format, that credit cards were in that format, obviously, that 10-Ks and 10-Qs were all in that format, something that's coming, and of course, the FDIC, all the material that's already in that format, in addition to the 40 countries or more that are already reporting. If you had all that today here in Washington, would you have the transparency you need to do your job and do it well?

KASHKARI: Congressman, I think you would definitely help to provide common data format and a seamless way to flow all that data up to one interface that the American people can look at easily.

The only caution I'll offer, is as a businessman, you know, you are hesitant, business people are hesitant to provide some of their details to their competitors. And so it may still not answer, well, how many individual loans or to whom did this individual loan get, but it would certainly help the transparency.

ISSA: Assuming for a moment, that where information goes is separate from whether or not it's in that format. If everyone that you had, or were willing to loan money to, or were part of this stabilization, were -- already had the data in that format, and could deliver down your request would you then have the transparency you want?

KASHKARI: Again, I believe it would help. I don't know enough about it to know if it would be perfect, but I believe it would help.

ISSA: Can I have your commitment today? You know the second panel, which may not -- we may not get to it if we keep you all day, includes the president of that organization...

KUCINICH: Mr. Gentleman, yes, we will get to that.

ISSA: OK. I'm willing to stay tonight too, but the second panel includes the president of that non-profit organization. And, you know, I'm not touting any one format for data, but I'm concerned that unless we both go forward with a common interface that you can at least avail yourself of, and obviously, find out -- I think we're going to hear that retrospectively they can, in fact, analyze many of the things you're not analyzing.

If we don't do both of those, you're going to be back here in two or three months not having yet speed (ph) and we're going to be asking you some of these same questions about transparency.

KASHKARI: I'd be very happy to look into it, sir.

ISSA: Thank you. For the record, because I know it's not a fair question to hit you with today, I would appreciate this committee getting an understanding of where Treasury believes that -- if the figure is correct that I've read -- that we're right about 300 percent of GDP in debt, historically -- long-term historically, 100 to 120 -- where you believe we're going to settle out in sort of the post- euphoria period? So that this committee can begin understanding how much contraction you're not trying to fight, and how much contraction you are trying to fight in the loan market.

KASHKARI: Absolutely. I'd work with our economists to look at that. You're completely correct. Deleveraging is taking place. It's necessary. We don't want it to over-correct. And we don't want the adjustment to be too rapid or disorderly.

ISSA: I have one tough question, and I want to be fair. I hope we're not blind-siding you. But you're familiar with the "Wall Street Journal" report of 22nd of January of '09? They talked about political influence?

KASHKARI: I am.

ISSA: You are. I'd like to give you a full opportunity to talk in terms of the pressures that you or others have been under. What effect they are having? Whether they provide guidance? Or whether that pressure is undue coming from Congress?

The "Journal" talks both about Ohio potential influence, and it talked about New York -- Massachusetts influence. But I'd like you to talk more broadly, not necessarily just that article, tell me what it's like when -- for you, with various groups, including perhaps some of us on the dais, being concerned about our individual banks, off of the dais.

KASHKARI: Actually, thank you very much for asking me that, because that's a very important topic and I appreciate the chance to set the record straight. We have built a very robust process at Treasury, where the banks that are applying for TARP funds, they send an application to the regulator. The regulator submits a recommendation to the Treasury. We have a formal process of reviewing that, getting more data if we need it, and then making a decision.

I have certified part of the Obama administration's transparency initiative has begun having the head of the office, so I have, certify to Congress now in, January and at the end of February, that all of our investment decisions, from the beginning October 3 to the current period, have been made purely on the merits of the case, the economic merits and not due to any undue influence, and I feel completely confident that we have a great track record of that.

Now, we do get calls from members. We do get calls from governors who are concerned about their districts or their businesses, et cetera. It's important for us to get that feedback of what's happening around the country. Most of the time we just refer people who call to the regulators, because the bank regulators regulate these institutions. So I feel very confident in saying there's no undue influence at Treasury. I'm the person who signs each of these, and I'm positive of that.

Having said that, I'm concerned that these stories have been out there, because they serve to undermined confidence, so if you'd like to ask further questions about that, I'd love to go into it...

ISSA: Perhaps in the second round. Thank you, Mr. Chairman.

KUCINICH: His time has expired. I appreciate his questioning.

The chair recognizes Mr. Tierney of Massachusetts.

TIERNEY: Thank you, Mr. Chairman. Thank you for having this hearing, as well, on that.

Mr. Kashkari, thank you for being with us here today.

May I ask you a question that I think our constituents have raised? We have extensive taxpayer money invested with these banks now. Their feeling is that we are investing in banks that are operated by individuals who were complicit in getting us into this financial situation. Why are we not using the leverage of our investment to change some of the boards of directors and some of the principal offices of this corporations to get them out and get other people in?

KASHKARI: Thank you, sir. We must segment our broadly available programs. I mentioned we have 489 banks, who we have invested in. The vast majority of those are healthy banks lending in their communities. There is no reason for us to go in there and try to make any management changes there.

We also have these one-off institutions, where we've had to intervene to stabilize them. In the case of AIG, as an example, we fired the management. Brought in new management, and we are trying to help them have enough time to pay back the taxpayers.

In the case of Citigroup, our recent agreement with Citigroup, they have agreed to change their board of directors. So, that a majority of the board is made up of independent outside directors.

So, we hear you. We agree with that perspective. And when we have to take extraordinary action, we are coming in to make sure that these businesses are well managed and that we do not reward failure.

TIERNEY: Is there an action that the Treasury can take to amend the agreements, to define waste, fraud and abuse? And then to put a provision in that when we see it -- and I assume at some point, you're going to send people out to these banks to survey things -- when we see it, we could take action, whether it is to reverse that expenditure or not?

I mean, people look and they see stories of money being invested in conferences, sporting events, endorsements, and things of that nature -- and perks and bonuses to people that ought not to be getting them.

When are we going to have the position as investors here to be able to just take those outside of that side and recapture that money if it's happening?

KASHKARI: Congressman, in the new program that the administration has announced, we are going to make sure that boards of directors adopt very clear and published expense policies on things like airplane flights and conferences and perks, et cetera. And then certify that they are meeting their standards. The standards will be public for the world to see, and for the world to judge. And if we can offer out opinion on what those standards look like, as well, when we see them, number one.

Number two, remember, in terms of fraud, there are very strong laws in place for fraud already. And we will go -- if anybody tries to defraud the Treasury or the taxpayer, we are going to be bring the full arsenal of tools we have available to us to go after them.

And, then third, Congress has provided four bodies of oversight for the TARP: special inspector general, GAO, congressional oversight panel, Financial Security Oversight Board.

Later this afternoon, you're going to hear from the special inspector general, whose very mission, is to go after waste, fraud and abuse. So, we are working at it. And there are independent oversight bodies looking at it, as well.

TIERNEY: And, I think people do think that some of those conferences, jets, perks and bonuses get to be waste, fraud, and abuse. And, as the definition of them is something -- we determine those words are not -- that, that money can be prohibited from being spent in that way during this interim period, or at least, we claim that if it was. It would be very important for people, I think Patrick (ph) placed some good comments on that about the way people are feeling.

Let me ask you this, as well. On the asset purchase program that you are planning to do, Secretary Geithner is planning to do: What will be the taxpayer assurance, or protection, for their money on this? Will they form a partnership with these hedge funds or other investments groups? And how will they get their money back? What will be their collateral on the interim?

Because the general impression of that now is going to be, here are these people, the hedge fund people, who benefited most from a broken system that people think they are complicit of breaking. And now they are going to be partners, using taxpayer money to come in, and get tremendous profit potential on the other end.

How do we tell people that that's the good concept, if you think it is? And tell people why that's being done as opposed some alternative method and what's their protection that they will get their tax money back?

KASHKARI: Congressman, as I indicated earlier, the details are being finalized now. But one way of doing that, but I don't want to commit to this. But one way of doing that, is if the taxpayer dollars are side by side, meaning exact economic terms with the private sector dollars. So, if the private sector wins, the taxpayers win. If the taxpayer loses, the private sector loses. By perfectly aligning our interests, we think that may be the best way to protect taxpayers. At the end of the day, there is an aversion to taking risk right now, because the markets are nervous. And so, we as the U.S. government, as the taxpayers, have to now step in and be willing to take some risk.

TIERNEY: They are no less nervous.

KASHKARI: I understand.

TIERNEY: They are more nervous, particularly playing with, what they think is, a cast of characters -- if I can use that loosely -- that may or may not even be applicable or fair -- but they perceive these people as being part of the problem, who are now going to benefit. And will you just comment to that in the remaining time? What should you tell people that these are the people we are dealing with now? They profited during the time that this was all being driven into crisis. They may have been responsible for some of that. And now they are going to be our partners going forward and they may benefit greatly from that.

KUCINICH: Gentleman's time has expired, but Mr. Kashkari, please answer the question of the gentleman.

(UNKNOWN): Thank you, Mr. Chairman.

KASHKARI: Thank you, Chairman. We do not yet know which investors will come to the partnership, but my expectation is you will see pension plans coming. You will see people's retirement funds through mutual fund type organizations that will be investing.

So, there may be some well known investors that people recognize. My assumption is that most of the capital is going to come from the savings of the American people.

KUCINICH: OK, I thank the gentleman. And we're going to get more into that in the next round.

Mr. Souder of Indiana, you may proceed with your question. Thank you.

SOUDER: Thank you. Mr. Kashkari, my district needs credit -- number one manufacturing district in the United States. Elkhart County has RVs with an 18.3 percent unemployment there (inaudible) typically 13 to 17 percent throughout all my county.

I have a couple of fundamental questions. It was a tremendous insight, not very understood Congress, that only 60 percent of the credit comes from banks, and you said that securitization group is 40 percent, has zero, right now. In the banks, do you know how much of that's going to financing in the loans as oppose to actual new purchases?

KASHKARI: Congressman, I don't have that on my finger tips. I believe it's -- some of that is included in our survey. I can go back and find those numbers and get them to you.

SOUDER: It's a fundamental question because Congress and the general public wants more transparency. Do you feel your problem is transparency right now?

KASHKARI: Oh, forgive me, sir...

SOUDER: We are talking about us being able to see in transparency, as we do oversight, building trust -- American people. Do you feel that you don't know what's going on? In other words do you need more transparency?

KASHKARI: I don't believe so. I think the challenges that we are facing -- this credit crisis has been unpredictable, and it's gotten deeper along the way. And so the challenges we have are striking the right balance on taking aggressive action that we know is going to work, but also protecting the taxpayers.

That would be easy if we are willing to just throw money out of the window and not care about protecting the taxpayers. We could probably clean this up. But it would cost the taxpayers a lot of money, and so striking that balance is hard.

SOUDER: And then following up with that, as you've heard several times, we were told from the beginning that we were going to get toxic mortgages. Yet every person who comes in, every angle that comes in, different presidents say, they are going to do toxic mortgages, and they didn't.

When you got into this, how much of this was actually toxic mortgages, as oppose to toxic credit cards, toxic student loans, toxic car loans? And as a troubled asset, if you purchase this, is that really going to fix the problem?

KASHKARI: So, that's a good question. There is no question that the start of this was about mortgages. But the crisis in the mortgage market, residential plus commercial mortgages, is a $14 trillion market. So, the crisis in the mortgage market puts a huge burden on the financial system, which made the financial system pullback from all of these other markets.

So, when we're doing things on student loans, or credit cards, or auto loans, that's not to try to solve the root cause of the problem. That's, frankly, dealing with the symptom to help the American people get through this while we stabilize the root cause, the mortgage market, the financial system. Does that make sense?

SOUDER: Yes. Because it'd be much harder to take a LL Bean sweater back as an asset that's been securitized through a credit card than a mortgage. And that's why it's important to know what; that many of us believe that -- while -- I want to ask a question about mark-to-market. Because that's partly under your assumption of -- that you needed to get into the banking to provide capital when part of at least in the banking sector -- it's not clear in the securitization sector -- that having a declining economy is turning things toxic that weren't toxic, and the banks don't know where their bottom is.

In my area, where the unemployment is accelerating, where among the people who are employed are still the biggest G.M. pickup plant in the world. The 50 percent of the G.M. suppliers are in my district. So if you are lender right now, you don't know where the bottom is. You don't whose house is where, and the mark-to-market has exacerbated that problem. Now, it also started several problems by not having real market values, and I understand that.

But isn't there some way that in today's accounting era and computers that there could be some kind of a blended -- because a lot of these assets aren't going to be sold. In Indiana, many people don't move all that much. Yet the housing is just gone to nothing. So the bank assets are declining.

What's going to happen to agricultural land if we don't support the ethanol as that market changes, and that they can't -- the assets don't have any value. So, they don't know how to make a loan for a pickup, or an RV, or the various things that we make. Until we get that credit market, they don't even know how to do a credit evaluation on an individual.

So, why aren't we looking at some of this mark-to-market to stabilize the asset valuation? Because -- how can they make a loan when they don't know what their assets are?

KASHKARI: Congressman, this is a very important point. A lot of people have asked us about it. The challenge is -- and there is no question mark-to-market is what we call pro-cyclical, so it exaggerates swings in both directions. The challenge is, right now, investors don't have confidence in the statements that they're seeing, even with the mark-to-market, and so they are cautious. For us to go in the middle of a crisis and to change the accounting rules, it's not going to increase confidence.

SOUDER: Let me interrupt you for just a second here...

KASHKARI: Sure.

SOUDER: Because I've run out of time. Mr. Chairman. I didn't do an opening statement. So can I have it just as a follow-up to this?

KUCINICH: I know his time is expired, but if you have a quick question, you could respond.

SOUDER: In this challenge, it's been clearly documented even from the transparence that there is, that there is really a small number of counties that got inflated where these toxic mortgages are. That when you only had 2 percent inflation in your asset, the argument that they don't know what the value is, is just not there.

That's why can't you -- the 80-20 rule, 20 does 80 percent of your sales, that's clearly true here in these mortgages.

Why can't that be applied in some way to these assets? It's not like there isn't a historical tracking. This is computerized. I don't understand why there is lack of confidence in everything all over the United States when, in fact, it tends to be localized inflated markets.

KUCINICH: You can respond briefly.

KASHKARI: Thank you. There is no question housing market is very regional. And there are regions where there are maximum run-up and now the maximum run-down. But the crisis is so large and severe, it has affected the confidence of the American people and investors, and so they are all nervous right now.

And so, again, it's hard for us and the government to say, "You shouldn't be nervous, go ahead and make that loan." What we need to do is attack the root cause of the problem. Get credit flowing until confidence can return, and then the system can start functioning as it should.

KUCINICH: I thank the gentleman.

The chair recognizes the gentle lady from California, Mrs. Watson.

WATSON: Thank you so much. Mr. Kashkari, you might have answered this. But I am still confused. And to quote your words again, you are saying to us that "we should not be involved in micromanaging recipient institutions," you know, where does the money go. And you said, "However well intended, government officials are not positioned to make better commercial decisions than lenders in their community." Bad lending practices were at the root of the cause of this crisis. What would be your definition of "waste, fraud and abuse"?

You know, how do you determine that there were bad practices? How did we get into this mess? And what are you going to do about it? Could you try to clarify for me what you define as "abuse and fraud"?

KASHKARI: Absolutely. What got into this mess were banks making loans that -- to borrowers who could not afford to pay. Also homeowners have responsibilities, as well, for taking on loan that they couldn't afford to pay.

Regulators had a role to play, because they are the supervisors of these institutions -- for allowing the banks to make bad loans. And so those are the bad lending practices that I was talking about. And so, in a time when people are nervous, ordering a bank to make a loan that they think is too risky is a dangerous place to go. Now in terms of waste, fraud and abuse, I think fraud is clear especially when it relates to, either banks lying to borrowers or borrowers lying to banks, or banks lying to Treasury and the U.S. government.

Again, we're going to come down on them very, very hard. In terms of waste, the administration has put out some specifications around, when we have our new capital program up and running, the banks are going to have to define a very clear expense policy on what they think is appropriate and what's not appropriate. And they are going to have to certify that they are meeting that policy. And that policy will be available for the American people to see.

WATSON: All right. Tim, if I write you a letter in regards to what I just inquired about, would you respond? And can I put that up on my Web-site for my constituents to refer to.

KASHKARI: Absolutely.

WATSON: We are trying to get to the bottom of this risky business, and I am going to now give some of my time to my colleague, because there was a question that...

(UNKNOWN): Thank you for yielding on that. Just as a follow up on that, you talked about "this is what you're going to do" on the next program.

What about the money that's already out there? That's a substantial amount of money. And how are we going to track that money and stop that practice from either continuing or being started with the funds that are already there?

KASHKARI: Well, Congressman, again, we have to -- I segment those firms receiving exceptional assistance from the broadly available programs.

We have -- and we can debate this -- we have a view that when we're lending to a small community bank, that wasn't part of the problem.

(UNKNOWN): Let's take them out.

KASHKARI: OK, let's take them out.

(UNKNOWN): Let's talk about the ones that are in the news every day, that grate at you and me and our constituents on that. The large firms got a big chunk of dough. They continue to have conference in a very fancy place. They continue to fly like they are zillionaires. They continue to sponsor sporting events in big boxes, corporate boxes, whatever, what about them?

KASHKARI: Absolutely. And we've been pretty vocal that we want the institutions to take prudent action and reflect on the kind of economic environment we're in, and the help that they've already received.

(UNKNOWN): But other than reflection, is there any enforcement mechanism. Are we -- that's precatory language. I wish you would do better, and that would be great. We all wish that. Can we enforce them into doing better? Or is that (inaudible)?

KASHKARI: Well, I think we can. We have in many cases, with the exceptional cases, we've asked banks to put together expense policies that we are able to review. And then if they want to make any changes to their expense policies, they have to get Treasury's approval.

(UNKNOWN): That's all going forward, that's possibly...

KASHKARI: No. Some of that is going back...

(UNKNOWN): But are you telling me that we can't do anything about the money that's out the door, that it can't be recaptured?

That people cannot be -- and those people who made those decisions, and they've got our money, maybe we should have some impact on having that money invested, and get rid of them. These are not the small community bank, because they are problem. We are all comfortable with that.

But with these fat cats that are running around, still wasting money in that sense, and not listening to the precatory language -- what we wish they would do. Why not use some leverage and let the investors just talk with those people, and it would -- people would understand gravity of the situation?

KASHKARI: Well, I will say that when we have seen things that we felt were over the top and, you know, just really grated on us, the way it's grating on you, and grating on your constituents, we have let the banks know.

And whether we have a legal ability to force them to do something, they generally get the message. And say, "We got it, sorry. It's not going to happen again." Now, the fine line we all have to walk.

I mentioned two objectives. There are many objectives, but our two biggest objectives are stabilizing the system and having the taxpayers paid back. And so, banks do need to market themselves.

They, unfortunately, do need to have sales conferences, so people want to come in, learn their products, sell their products. Some of the press stories that have really inflamed people, when we've looked into them, they've been more ordinary core sales conferences that actually didn't cost the banks much money.

I am not defending it. I am just saying, we have to walk a fine line and allow the banks to run their business and compete, so that they can pay the taxpayers back.

(CROSSTALK)

(UNKNOWN): I think we are talking about the ones that don't -- the ones that were over the line...

KASHKARI: Fair enough.

(UNKNOWN): ...and getting back the money that they waste on that. And leaning on them, legally or not to say, "Show good faith." If you get any future money, you better find a way to get that money back into the till to meet the taxpayers...

KUCINICH: Time has expired. I thank the gentlelady and the gentleman.

Chair recognizes Mr. Burton of Indiana. You may proceed.

BURTON: Thank you, Mr. Chairman.

When you first started dispensing the TARP funds, did you have oversight procedures, definitions in allowable, prohibited uses of TARP funds and uniform disclosure in reporting standards when you first started dispensing them?

Or did you just start, saying, "Oh, my gosh, we got to give money to this bank, or this institution because it's about to go under?" I mean I just how prepared you were to start loaning that money or putting that money out there.

KASHKARI: Congressman, we -- as you remember, when we started out with asset purchases, and then in the data that I reflected in my testimony, conditions deteriorated very rapidly, much more quickly than we'd expected. So, we moved as fast as possible to put capital into the system.

One minor comment there is, remember, we are buying shares in these companies, preferred stock getting warrants. So, it's not literally giving cash. We are getting securities back, and the banks are paying dividend. We've received over $2 billion in dividends in the first quarter.

BURTON: You bought Citigroup, and so far you lost -- but the point I am trying to make is, did you have the time, or the inclination, to put these procedures in place before you started putting that money out there?

KASHKARI: We did not put specific tracking procedures in place in terms of...

BURTON: So, you were trying find out as quickly as possible and flying by the seat of your pants, so to speak?

KASHKARI: Moving as quickly as possible.

BURTON: Yes. Well, that's an old (inaudible) "flying by the seat of your pants." You know you were hesitant when Mr. Souder asked you the question about: Did you know really what's going on? And my question is: Do you have the manpower over there?

I've been told that Mr. Geithner -- Secretary of Treasury Geithner doesn't have an awful lot of staff people in place, or systems in place, so that he can really start completing his tasks as quickly as possible because he doesn't have adequate staff. Do you have adequate staff? And does Mr. Geithner have adequate staff? And if not, how long is it going to take?

KASHKARI: Congressman, I do. The Office of Financial Stability had zero people on October 2nd. We have more than 100 full-time employees and we are growing every day. The staff is fully operational. It was one of our highest priorities to make sure that the program could run well, and we'd have a smooth transition.

In terms of Mr. Secretary Geithner, he has a very strong team of political appointees around him. And the senate confirmed the appointees, the White House is moving as fast as possible and are making real progress, from what I understand.

BURTON: Well, it was reported in, I think, the "Wall Street Journal," that several of the slots that were very important had not been filled. And with the seriousness of the situation, I was wondering if upped the speed, and you say you are?

KASHKARI: I am. Especially, I can speak in great detail to my office, the Office of Financial Stability. We have a wonderful career staff of people who are passionate about these issues, and are working around the clock.

BURTON: OK. I have one last question. We've dispensed a total -- I don't know how much is that you've already put into the system but -- about $700 billion of TARP funds. How much more are you got to need?

KASHKARI: Congressman, I don't...

BURTON: It's very important.

KASHKARI: I know that.

BURTON: Because every time we talk to anybody about what's going on, we get kind of an ambiguous answer. When Secretary Geithner was testifying on how much (OFF-MIKE) in funds, he was going to need to prop up the financial institutions; he said, "Well, $1 trillion or $2 trillion, or maybe $3 trillion. I mean, you know, we're not talking about dollars here, we are talking about trillions. And so what's the formula for letting us know how much more you're going to need, and can you give us that?

KASHKARI: We have enough. There -- my staff just said that we've deployed about $325 billion cash dollars out the door. More than that has been obligated, at this point.

BURTON: Is that the second tranche effort?

KASHKARI: No. That's within the first tranche still -- actual cash dollars that have left Treasury. Again, more than that has been allocated to various programs. We have enough to get Secretary Geithner's new programs up and running and working. And as we get them up and running, get them working, when the bank's capital -- they are under this capital assessment right now, where the regulators are analyzing the bank's capital positions under various economic scenarios, that will give us a lot more information about how much more is needed, and as we see our programs get up and running, we're going to learn a lot. So congressman, I cannot give you a number today, nor can I give you a date. But we will come -- let you know.

BURTON: As soon as you could get that, we'd like to have it, number one. But one more question: Do you think if we had across- the-board tax cuts plus capital gains tax cuts, it would assist in stimulating the economy and helping you out?

KASHKARI: Congressman, I must respectfully defer to my colleagues, who focus on tax and budget issues. I am solely focused on financial stability, sir.

KUCINICH: The chair thanks Mr. Burton.

And I just -- Mr. Burton, I just want to let you know that -- at the beginning of the hearing, we introduced into the record, an article from the "Washington Post" dated Tuesday March 10th, 2009 by David Schmick (ph) that predicts that the bailouts will run another -- as much as another $2 trillion.

Here is a marked up copy of it and we can go back to that in the next round.

The chair recognizes the gentleman from Rhode Island, Mr. Kennedy.

Thank you for being here, sir.

KENNEDY: Thank you, Mr. Chairman. I appreciate your holding these hearings. Just a follow up with my colleague from Indiana about staffing issues, if I could? Could you answer for me, what the staff is, at the inspector general's office, for rooting out fraud and waste -- at the I.G.'s office, or the Treasury's office, for this TARP program?

KASHKARI: You'll hear from Mr. Barofsky. I believe his staff is in the order of 20 people or so, right now.

Sorry, sir, could you hear me? Mr. Barofsky, the special inspector general, you'll hear from him later today, who can give you an updated number. My understanding is -- he has about 20 people in his office right now and is growing quickly, as well.

KUCINICH: If the gentleman will yield briefly, Mr. Barofsky is on the third panel.

KENNEDY: All right. So 20 people for -- for 8,000 banks in this country. Or how many banks do we have?

KASHKARI: We've invested in 489 institutions through the capital program.

KENNEDY: And how many more banks are...

KASHKARI: Several hundred, may be 500 to 1,000 more are in the pipeline.

KENNEDY: But we're talking about -- by banks also, top -- several banks with assets -- 75 percent of our nation's assets are in the top several banks. And we have 20 people -- 20 people doing the audits of those things?

KASHKARI: Well, again, I'll respectfully defer to Mr. Barofsky. He -- I know that he is growing his staff quickly and is leveraging the resources of the other law enforcing agencies.

KENNEDY: I think that's where -- I think, where concerns come in, because before we're going to be able to pass another nickel in this Congress, we're going to have to get the due diligence on these things because our constituents are going to demand it.

The foreign entities that have received dollars -- I mean, I asked my first question. My Bank of America in Rhode Island received $45 billion from the capital purchasing program, first the sum in the TARP. And Ken Lewis, CEO of Bank of America said, "Taxpayers want to see how this money is used to restart the economy." And then they went around and laid off 121 employees at a facility in my district in Rhode Island. And then after they received $7 billion in TARP funds, they went ahead and loaned it overseas to China. So we have questions. And we want to know where are these dollars going? Are they going to foreign entities? Are they -- what dividends are they paying and to whom? I mean, are they going to pay little old grandma's annuity? Or are they going to pay whose (ph) bondholders?

And what of the salaries that are being paid? I mean, there are a lot of the culture on Wall Street -- people have got so accustomed to saying, "They are worth $2 million a year." And I don't know, but they're just -- you know, when people are earning, on average, 40 grand a year in my district, and that's median wage, that -- they just don't' get people in Wall Street asking for hundreds of thousands of dollars, let alone millions. And yet, that's the culture in Wall Street -- to just ask for these sums of money.

So I can tell you, we've got to have a new kind of salary type compensation system. I know some firms have put new executive compensation systems in place. But that's got to be done, because -- and we need to insist on in terms of our conditions in loaning these dollars, for no other reason than, they are not going to receive any more dollars. Because once our constituents learn, that any one of these folks are earning these kinds of salaries in the wake of our constituents earning just what they are earning. They are just not going to be satisfied with the way this is going. So I might ask you to comment on that.

KASHKARI: Thank you, congressman. This is an area we've done a lot of work on. Beginning with imposing the executive compensation requirements that were specified in the EESA, we imposed those, day one, in the program.

The Obama administration has now -- in early February -- the Treasury Department -- came out with new, tighter executive compensation policies. And then in the stimulus bill, there is an amendment that also has executive compensation policy.

So we've taken this issue very seriously. There is a team right now at Treasury working on stimulus -- the new law; putting act together with the administration's new policies to come out with a robust set of new regulations that are govern the banks that are taking the TARP funds and covering many of their top executives on how much they can earn and what form that compensation is. So we heard it. We've got the message. We are working hard on it.

KENNEDY: I understand it's a lot of mid level management, too. We are not just talking...

KUCINICH: The gentleman's time has expired. I thank the gentleman.

Chair recognizes Mr. Turner of Ohio.

TURNER: Thank you, Mr. Chairman. Thank you, Mr. Kashkari. I appreciate you being here. I will tell you upfront, I voted against this program. I voted against this program because of basically four reasons.

One, I didn't believe there was a very good definition or focus on what the program was to do. We were first told it was toxic assets. Now, it is not that.

Two, I think there was a lack of understanding of the process. What happens after the monies are made available to that process?

Third, I didn't think it addressed the practices that got us here to begin with. It didn't stop the practices that were occurring.

And four, it was unclear as to where the money was needed and how much was needed. Now, you have been very forthcoming. I want to congratulate you. You are doing a very good job in answering our questions.

But no one can still answer those four questions. I mean, we are now several billions dollars, hundred billion dollars into this. And we are still -- where we don't have a clear focus of what we are going to be doing with these funds. We are not certain as to what the process is going to be. We have not addressed at all any of the practices that got us in this place. And still, you are unable to tell us how much money this is going to take.

I wanted to comment on one thing that you had said. You had said -- I want to ask you how did we get in this situation -- you said that, "banks loaned borrowers money that they couldn't pay. Homeowners have responsibilities and regulators have responsibility."

I want to tell you that I come from Ohio. Montgomery County, Ohio is the place where I live, center of my district. And we have the foreclosure crisis and we've had it for over a decade. It's been about 27,000 foreclosures have occurred in my county since, the six and half years that I have been here in Congress; the county that has a population of around 500,000, unbelievable numbers of foreclosures.

I believe that it's not just that banks loans money that people who couldn't pay. I believe, from the experience that we've seen in our county of people who have tried to address this issue, it's an actual structural issue. It's a leverage ratio that predatory lenders and subprime lenders were actually targeting homeowners and loaning them money that was in excess of the value of the home which, of course, results structurally in a situation where, when there is financial stress, that you have to go to foreclosure.

If you have no equity, you have no option other than to go to foreclosure. And the big banks initially would say, "Well, we are not really part of that." But they were, because what was happening is, I believe, the structural aspect of loaning greater than the value of the property. People didn't care, because they were selling these things are securities on down the stream. So they didn't care if it was a workable loan, or if the asset was overvalued, because in the end, they weren't going to get stuck in the musical chairs of these assets.

I think in the end, when we get these evaluated, we are going to find that this is somewhat the largest theft in history that has occurred. People who overvalued assets, sold them down the stream, and the American taxpayers are stepping in, unfortunately, with their own dollars to try to make up the gap.

Here is my concern specifically about an issue that was alluded to in the beginning of this discussion. Some of the monies that are being provided are going to -- appear to, a system transaction, where the money is leaving the country. Now, I think everybody up here understands that there are international practices of the flows of capital and that needs to happen for our economy to be successful also.

But the Fed chairman yesterday, Bernanke, stated this, asking about the crisis itself. He says, "In my view, however, it is impossible to understand this crisis without reference to the global imbalance in trade and capital flows that began in the latter half of the 1990s."

Well, back to my concern about the practices haven't changed. One of my concerns is, that the manner in which this is occurring does not have any protections, or requirements, the dollars address the issues of our economy and that portions of -- large portions of these dollars are leaving our economy.

That would put us on the wrong side of the ledger and in the same types of practices that Bernanke just said, are underlining this. We know that you can't -- in providing dollars -- stop international flows of capital. We don't want that. But I am concerned that what you are doing might facilitate or incent additional dollars leaving our economy that are specifically intended to prop up our economy. Could you please comment?

KASHKARI: Sure, Congressman. Thank you. I didn't catch all of Chairman Bernanke's remarks, but I believe he is referring to -- there are many economists think that there has been glut of savings around the world in developing countries, and it's been coming into our capital markets.

So the cash is actually been flowing the opposite, it's been flowing to America, which has given us very low borrowing rates and encouraged us, some would say, to take on more debt, maybe more debt than we can afford.

And so I think we have to be careful, especially, right now. We want all the capital we can get to get through this crisis. And we need to let the global economy restabilize to a new equilibrium where savings and all of these things are balanced.

So, I take your point. I hear it. I agree with the spirit of it. I'm just offering a word of caution about saying, "Let's stop money flowing in this one direction because it will end up stopping and coming back the way that we want it."

KUCINICH: The gentleman's time has expired. But I do want to say, we are going to have two more members to ask questions and then we'll take a brief reassess.

I also want to tell the gentleman from Ohio that since you've raised the question about Montgomery County and of course Dayton, and since my own community in Cleveland, was a subject of a "New York Times Magazine" article this past week, we are going to go back to Ohio and we'll come to your community, as well. And maybe we can get the hearing on the same day in Cleveland and in Dayton. But I just wanted you to know that this committee is going to be going deeply into these affected areas.

I thank the gentleman for raising the question.

And the chair recognizes Mr. Welch.

WELCH: Thank you, Mr. Chairman. Thank you, Mr. Kashkari. Just a few things to establish where we agree. You'd agree, obviously, that the taxpayer is entitled to know where taxpayer money is spent.

KASHKARI: Yes.

WELCH: And I assume you'd agree that shareholders would be entitled to know how shareholder money is spent.

KASHKARI: Yes.

WELCH: And of course the biggest recipient of taxpayer money to date, one of the biggest is AIG and that's where the taxpayer is funding money and the taxpayer is, in fact, an 80 percent owner. Correct?

KASHKARI: Yes.

WELCH: And we are providing that money in order to avert -- a conclusion that's been reached the Treasury and the Fed that to let AIG go down would cause systemic failure, correct?

KASHKARI: Yes.

WELCH: Now, do you -- Donald Kohn, who is the vice chair as you know of the Federal Reserve says that AIG has no obligation to name the counterparty who have been paid via taxpayer money that has been transferred to AIG, correct?

KASHKARI: I've read Governor Kohn's or Vice Chair Kohn's testimony, but I don't remember that exact quote, but I defer to you, sir.

WELCH: OK. Do you agree with him?

KASHKARI: I believe institutions, such as AIG that receive extraordinary assistance, have a moral obligation to disclose as much as possible to the American people.

If I may permit -- if you permit me, I'll give you a thorough answer. The challenge here is, as I indicated earlier, we want to prevent a financial collapse and stabilize the system, and we want to pay back the taxpayers.

And so we have to be careful that, just as any business, if you put -- if you force businesses to expose all of their business decisions, all of who their customers are, all of who their counterparties are, that may actually put them at a competitive disadvantage, and it makes it harder to pay back the taxpayers.

WELCH: I get it. So then you agree with the Governor Kohn. We'll leave it to AIG to decide what information they will disclose and they won't disclose, with them making the final decision on whether that is a business interest or not, correct?

KASHKARI: No. I believe we can work with the Fed to work with AIG and figure out -- take a look from Treasury's perspective as to what's appropriate to disclose.

WELCH: Some of that AIG money that's to avert the systemic failure is to make certain that average Americans, who have AIG insurance policy, AIG annuity, and AIG financial products, pensions, don't get hammered, correct?

KASHKARI: Yes. Correct.

WELCH: But some of the counterparties are eyes-wide-open investors. Some of the largest investment banks that we used to have in this country -- hedge funds and speculators -- who made bets that turned out sour.

Do you believe that it would be of interest to the American taxpayer to know whether their money is being used to protect those annuity holders, those insurance policy holders, those pensioners, on the one hand, versus the hedge funds, speculators, investment banks on the other -- just yes or no.

KASHKARI: Congressman, I'd like to provide you with a thorough answer because this is important.

WELCH: No. The question is a simple one. In your opinion, do you think it would be of interest to taxpayers to know whether it's a hedge fund, investment bank, speculators being assisted with their money? Or annuity holders, pensioners, and insurance contract holders?

KASHKARI: The answer is: They're all being benefited, because there's unfortunately, there's no way we can go in to stabilize an institution and say, "Just the policy holders are stabilized."

WELCH: Why not?

KASHKARI: Because if we did that, the other counterparties would put the firm in the bankruptcy and that would cause the whole firm to fail. That's the unfortunate choice we don't have. If we step in to support a systemic institution, all of their customers, all of their counterparties benefit whether we like it or not.

WELCH: So, if the taxpayer -- it's the taxpayer money, the shareholder money, and you believe they have a right to know how taxpayer and shareholder money is being used. Nevertheless, you are accepting allowing AIG to decide what we'll know, when we'll know it, and under what terms?

KASHKARI: Forgive me, sir. As I mentioned, I think the Treasury can work with the Federal Reserve, work with the company.

WELCH: Why haven't they done it? There's a lot of money out the door. A lot of time has passed. And if they're going to do it, why wouldn't they have done it before the money is out the door rather than after the fact?

KASHKARI: Congressman, it's a good question. I think that we are fighting a lot of fires at the same time, and this is a very important issue and I hear the...

WELCH: With all due respect, there is unanimous agreement, I think, on both sides of the aisle that we want to know how the money is being spent. There is an acknowledgement on your part that that will give the taxpayers some basis to have confidence that we're doing something that really is a pretty bitter pill to swallow, but we are doing it for good reason...

(CROSSTALK)

KUCINICH: Gentleman's time has expired. But, Mr. Kashkari, do you want to respond briefly? And then, we'll go to Mr. Fortenberry.

KASHKARI: Again, Congressman, I thank you for the comment. We got the message. We'll look into it, sir.

KUCINICH: Let me say to Mr. Welch, we are going to on the second panel. We are going get in to some specifics about the how the money is actually been spent, so just keep that in mind.

We'll go to Mr. Fortenberry for his five minutes and then we will recess. Mr. Fortenberry?

FORTENBERRY: Thank you, Mr. Secretary for the hearing today. I'm sure there are other ways and easier ways you can make a living, and so I do want to say from the outset, I appreciate your professionalism and dedication to public service during these difficult times in spite of the tensions around these polices.

KASHKARI: Thank you.

FORTENBERRY: There is an article today in Omaha's "World- Herald." It's basically the headlines. It's says banks remain strong, referring to our local banks despite profit decline.

And the director of our banking system in Nebraska says, on average, they are very soundly operated. Now, these are fundamentally local banks not the outside banks that are there. But an editorial comment before I start the questioning. I believe it is -- these local institutions mainly owned by local families that have proximity to their portfolio obligation, which by their very nature then are more transparent, as well as accountable, and I think that's a lesson that we need to think through, as we looked at the entire systemic crisis, difficulties whatever you want to term it.

In that regard, as I said in my earlier statement and I appreciate the chairman's intent to unpack this further perhaps later and may be we will see you again. Our finance -- is our financial system or our financial institutions too consolidated?

You have nine banks now with approximately 50 percent of all deposited assets in this country. Five banks, if I recall correctly, hold about 37 percent. Are we venerable because of that reason?

KASHKARI: I think we clearly are. Look where we are today. Look at the actions we've had to take to support systemic institutions. There is no question that we must undergo, as a country, very thoughtful regulatory reform; to look it what our financial systems should look like in the future; to make sure that we're not here again. There's no question. There are benefits to scale. But, when the cost, because these institutions are get to be so big, are then going to be borne by the taxpayers, that's a real problem.

FORTENBERRY: I appreciate that insight. Now, let me just move to second most specific question. It's my understanding that Goldman Sachs, the recipient of about $10 billion in TARP funds, actually repurchased their own stock to the tune of $2 billion last December. Now, earlier, you had said this is a prohibited activity. Can you explain?

KASHKARI: Sure. I don't have the details of the Goldman transaction. My understanding of it, because I think the chairman put out some data on this in the last few days, is that in the case of Goldman, my understanding is those were stocks that were repurchased over the course of the year, but reported at the end of the year, is my understanding.

We put in place restrictions. They cannot buy back their stock. The only way they can buy back their stock is if it's part of a normal ongoing share plan for their employees. So, if they want to incentivize -- if some of these banks incentivize their employees with a restricted stock. And they want to maintain their share account, we enabled that one carve out. So if you want to incentivize your employees over the long term, then you can buy back the shares that are -- only those shares that are associated with the long-term compensation agreement. That's the only place where firms, under the capital purchase program, are able to buy back their stock.

FORTENBERRY: Is that exception consistent with what happened with Goldman Sachs?

KASHKARI: In that case, I don't know, because my understanding of that -- and I haven't looked at it in detail, but I can. My understanding is, the bulk of those share repurchases were done before Treasury became an investor in Goldman Sachs. And so those would have -- because it happened before we went in, it would not be subject to our...

KUCINICH: If the gentleman would yield, that's my understanding, too.

KASHKARI: Is that right? OK, thank you.

FORTENBERRY: Third question, it's related to Mr. Welch's question, as well. Please explain how extensively you actually review the books of these companies receiving TARP funds?

KASHKARI: We review applications as they apply to the TARP. So they have application that they submit to their regulator. The regulator, in many cases, have been regulating these institutions for many years.

For the large institutions, the regulators are physically on site. The regulators look at all of the data they have on these institutions, and prepare a recommendation to Treasury. We then review that recommendation from the regulator, and the data they provide us, and we review the application in making our decision on whether or not to invest. And I can walk you through that decision process if you are interested. For the vast majority of banks...

FORTENBERRY: ... ongoing really.

KASHKARI: For the vast majority of banks, I mentioned, we've invested in 489 banks so far; 30 more, 40 more each week. We do not go in and do ongoing -- going through their books.

Again we're taking a policy perspective that the vast majority of these are healthy, well-run institutions. We just want them to make good commercial decisions and extend loans to their communities. It's the one-off cases that we've had to go in and look at a lot of detailed analytics around their financial position, their balance sheet etcetera, when determining are they systemic? Do we need to step in? How much do we need to step in?

FORTENBERRY: Can you name those institutions? And then how frequently you are doing this review?

KASHKARI: Well in the one-off cases, it's been the auto companies, the auto finance companies, AIG, Citigroup, Bank of America, are the one-off cases that we've done something extraordinary.

In each case, we've gone in, in a lot of detail. Remember, with the regulators, the regulators are on site. They are the ones sending us regular updates on what's happening at the banks, what's happening with their portfolio there?

FORTENBERRY: They are embedded.

(CROSSTALK)

FORTENBERRY: Mr. Chairman, may I ask in unanimous consent to ask Mr. Kashkari just two questions, obviously not now, because you have the whole day...

(CROSSTALK)

KUCINICH: In the next panel, we are going to hear from some specifics on the use of TARP funds and we are going to hear on the third panel from the Inspector General for the Troubled Assets Relief Program. So stay tuned.

Recess for one-half hour. Thank you.

(RECESS)

KUCINICH: Meeting will come to order. We are going to begin a second round of questioning of Mr. Kashkari. Thank you for remaining here and if necessary, we'll have a third round. We will soon be going to the second and third panels.

And, I appreciate the patience of all of the witnesses. I appreciate the continued presence of all members and I was just finishing up on both. I accept we have some more questions.

I'd like to begin, Mr. Kashkari, and point out that you are familiar that GAO has testified, and will testify today that they are still concerned about the TARP's inability to track the use of TARP funds.

And that the challenges are going to grow as the TARP programs grow. The special inspector general will testify today that, and I quote, "If by percentage terms, some of the estimates of fraud in recent government programs apply to the TARP program, we are looking at the potential exposure of hundreds of billions of dollars in taxpayer money lost to fraud." And that is direct quote."

Can you, Mr. Kashkari, point to anything Treasury is currently doing to prevent waste, fraud, and abuse funds from the CPP program?"

KASHKARI: Thank you, Chairman.

First, as I mentioned previously, we rely very heavily on the regulators when assessing banks, a group who are applying for investment funds. So, the banks -- I mean the bank supplies to the regulators, regulators make a recommendation to Treasury. The regulators have been regulating these institutions, in most cases for years, some cases they have people on site.

KUCINICH: Isn't it true that regulators look for fraud? They don't look for waste and abuse?

KASHKARI: I think the regulators the look at the entire business operations to look at how well managed the banks are.

KUCINICH: But, you are saying TARP doesn't look at it, you defer to the regulators?

KASHKARI: We work closely with the regulators, sir.

KUCINICH: But TARP, you work closely with it, but your mission, as you see it, is to look for this, is that right?

KASHKARI: Our mission is...

KUCINICH: Is to look for waste, fraud and abuse?

KASHKARI: We want to use the taxpayers dollars efficiently and protect the taxpayers. And so, we do it in a number of different ways. In part, we do in it in concert with the regulators. In part, we put contractual provisions in governing what banks can do and cannot do.

KUCINICH: But you don't look at abuses. That's what I'm trying to get to. I really am looking at the function of the TARP here. We understand that you've taken this responsibility on, and that you've agreed to stay to help with the transition. I understand that.

We're trying to understand the systemic situation here. Because if we don't know that Treasury is currently doing something to prevent waste, fraud and abuse funds from the CPP program, and we don't know for sure that you -- that your operation is looking at it, then how can -- the question comes: How can you find fraud if you don't know how they are using the money? Is that a fair question?

KASHKARI: Of course, it's a fair question, Mr. Chairman. Let me just give you an example of some of the compliance procedures we built in. We have procedures that we are putting in place where CEOs must certify to Treasury that the statements that make to Treasury are correct; that they are needing...

KUCINICH: I got the procedures. I just want to -- and excuse me for interrupting.

KASHKARI: Sure

KUCINICH: But I've got two minutes left. I understand that Treasury is doing its best to understand impact. And I'm sure you are aware of GAO's skepticism; that you'll -- whether or not you are going to be able to do it. But, as you know, promoting financial stabilization is only one of two goals of the Emergency Economic Stabilization Act. The other is public accountability.

I'd like to read from a legal memo prepared by the Congressional Research for this hearing. And I call my colleagues attention to this.

According -- and I move to put the entire memorandum in the record of this hearing. According to this memorandum from Congressional Research, this is a quote.

"Given -- to understand the objective of ensuring that the authorities and facilities provided to the Secretary of Treasury -- that is the TARP funds -- are used in a manner that, quote, 'maximizes overall returns to tax payers,' end quote, and provides, quote, 'public accountability, the internal control system that TARP is required to establish arguably should include monitoring how those funds are being used by recipients."

It goes on to say, "Therefore, it appears that TARP overseers will need to gather information on at least those recipients' major financial transactions, particularly, in those areas that have been the primary areas of concern, executive compensation, payment of dividends, purchase of other banks and certain types of marketing promotions."

This, of course, means naming rights, for instance, which is mentioned in the memo. At this time, does Treasury at least gather information on recipients' major financial transactions on an individually identifiable basis.

KASHKARI: Chairman, may I provide a thorough answer, sir.

KUCINICH: Can you give me a yes or no, though?

KASHKARI: Sir, we do not ask for transaction by transaction data.

KUCINICH: So the answer is 'no.'

KASHKARI: Yes. But I would like to -- if I may, sir, I would like to provide a thorough response.

KUCINICH: OK. You can respond and then my time has expired and then we'll go to Mr. Jordan, but we're going to come back on this question.

KASHKARI: Thank you, sir. The internal control provision that you are referring to in the law -- I have it in front of me -- specifies the Treasury shall establish an effective system of internal controls. We have PricewaterhouseCoopers working with us developing the internal controls within Treasury. We've spoken with both the GAO, the special I.G., and Treasury's own analysis.

This provision about the use of TARP resources is about Treasury's use of TARP resources. The law does not direct us to impose internal controls over the 500 banks that we have invested in, just to be precise.

KUCINICH: OK. Thank you. We're going to -- I'll come to that in the next round of questioning.

We're going to go to Mr. Jordan. Jordan, you are recognized for five minutes.

JORDAN: Mr. Kashkari I want to go back to where I was an hour and half ago with this whole concept. Again, I was one of the individuals who did not vote for the TARP program back last fall.

But here is what I'm trying to understand. You're a sharp guy. Tim Geithner is sharp guy. Hank Paulson is sharp guy. Tim Bernanke is a smart guy. How was it that back in October 3rd that all of you were convinced, and the package was sold to the Congress that you're going to able to -- what did you think then that was going to allow you to go after the toxic assets, troubled assets?

That since then you haven't been able to do. I mean, it was just assurance that members got, the public got, the taxpayers got that you couldn't, in fact, clear the bad stuff out, moving back towards normal and yet now five months later, still not there. So tell me what you thought you knew, but yet found out you didn't really know. Walk me through that again, if you can?

KASHKARI: Thank you, I am happy to. When we went to the Congress, you're right, we talked about and the plan was to purchase mortgage related assets in large volumes to get those markets moving again.

The crisis intensified so much just in the two weeks we were negotiating with Congress and one or two weeks that followed, that we had to move even faster. Dollar for dollar, putting a dollar of capital in, goes much further, as you understand with leverage, than just buying a dollar of assets. So we had to take the most aggressive action we could to stabilize the system. So that's why we ended up leading with capital.

Now, for an asset purchase program to work, it must be done in very, very large scale. Once we concluded in the fall that we had to allocate almost half of the money for the capital program, and we have this one-off contingencies that we had to deal with, we were left with fewer resources. And the question was: If we only spend half the money on asset purchases, would it be big enough, in light of the $14 trillion residential and commercial mortgage market?

What Secretary Geithner has done is, say, "Look, lets take the available resources. Lets combine it with the private sector and leverage it up so we can increase our purchasing power and go make a big dent in a very big market."

And so it just -- it's about speed of implementation. It's about impact and it's about scale with which to go at the problem.

JORDAN: Let me ask another question. Talking with some folks reading about this phenomenon. Would you agree that the mark-to- market concept is good in the framework of disclosure, but not so good in the context of -- in the regulatory context? And if so, are there some reforms we can do then to kind of fit that statements that are going to help us as we move forward?

KASHKARI: I think the mark-to-market issue has a lot of benefits. And I think it is good in terms of disclosure for investors. But keep in mind, right now, we have an environment where investors are questioning the value and the meaning of regulatory capital standards.

And so, if we said, while there is going to be one set of standards for the books that the investors get to see, but don't worry there is a different set of standards for regulators to use, that may not support more confidence for investors as they look at the institutions. I think mark-to-market is a very important issue. I know the SEC has recently done a study on it and I think we need to look at it as we go ahead...

JORDAN: You, personally, what do think -- if any -- changes can be made to that mark-to-market rule that can be positive? Well, let me go back, do you agree that there is some potential with what I just described mark-to-market in the disclose sense, but some amending in the regulatory context?

KASHKARI: I think that, that is something that's worth looking at. I will tell you, I am probably not the best. There are better experts than me on the accounting treatment of mark-to-market versus accrual accounting, for example, and in the regulatory context.

I think that these are things we should look at. But especially, in the middle of the crisis that we are in, I think we should be cautious about making changes that seem like a good idea at the time. I think we need to get through this crisis. We need to have a thoughtful discussion. Analyze these issues, and then make the long- term changes that we need to make.

JORDAN: Thank you, Mr. Chairman.

KUCINICH: I thank the gentlemen.

Chair recognizes Mr. Tierney.

TIERNEY: Thank you. Thanks for coming back Mr. Kashkari. We appreciate it.

Earlier, we talked about the fact that you are going to have these partnerships that are going to partly with taxpayer money and partly with other investors going out and getting the bad assets. And I mentioned that some of them might be hedge fund people that -- taxpayers might think we are getting benefit of that, and already doing things that cause lot of the problem. You said that instead that most of the money would come from pensions or other investors.

Given the fiduciary responsibilities of people that run these pension funds, giving the stressed nature of this troubled assets, what is the sales pitch that you are going to make to them, to think that they can invest in them and still meet their fiduciary responsibility? Because now, I know there are lot of people who have interest in those pensions. People, who are going, like, god, that's where our money is going to go?

KASHKARI: Thanks for providing me the opportunity to follow up. If you look at pension plans, big pension plans and retirement programs for teachers or government workers or employees, they allocate different parts of that money to different classes of investments.

They will allocate some to government securities, some to equities, some to alternative asset classes, such as private equity or even hedge funds, and those are typically much smaller asset classes, much smaller segments.

So it would not surprise me to see major pension funds saying, "OK, we are going to put a small slice of this towards real estate assets or mortgage related assets because we think the prices up in the long term are attractive"

And so, I don't want to give anybody the impression that huge pockets of people's pension plans are going to be put at this. But I think if you look at the amount of savings we have as a country, retirement savings in small slices can add up to big dollars.

TIERNEY: So you are basically saying that it will be good investment a with small slice, to go and buy these toxic assets so you -- with your other investors, one little slice ought to go towards, really, troubled assets.

KASHKARI: I think that's a reasonable position that portfolio managers are going to be looking at and analyzing as they make their decisions.

TIERNEY: All right. I would think that you might get some of the hedge funds do that. I think people, unless they can see a bigger upside on that, how do you expect them to do that?

Can you -- just following up on other questions asked earlier about AIG. Mr. Welch had asked about, can't we favor those people that are AIG is dealing with, its co-partners or whatever, over certain other group that maybe ought not to be favored as much. You said, well, if do that, if we discriminate with one set of people against another, then the remaining people can frame the company into bankruptcy. Can you explain to us how it is that they are able to do that? And secondly: What would be the consequences of AIG's bankruptcy?

KASHKARI: Thank you. If I have a contract with financial institution and that financial institution just decides not to honor my contract, I have recourse. I can sue them as a creditor. I don't know the different legal requirements. A group of creditors could come together and say, "OK, you haven't honored your obligation to me. You may have paid off your policyholders, but you haven't honored you commitments to me. I am going to go the court to try to get my money," and which may end up pushing the company in bankruptcy, et cetera.

So, again, this is something that, as I indicated earlier, nobody wanted to do. But the unfortunate consequence of bailing out an institution is you help everybody in the institution. You really don't get to pick and chose.

Now, if we had allowed AIG to go into bankruptcy, not only would potentially -- AIG has 30 million policyholders in the U.S. -- 30 million. Not only could those policyholders be put at risk, but all of the businesses that AIG provides insurance for, all of their business customers around the world, I think they operate more than in 100 countries, could all be exposed to some type of financial risk. There could be various collateral calls from other institutions. And so, the judgment was not "We like AIG or we want to help AIG." It was: The system as a whole could be put at risk if this were allowed to go into bankruptcy especially at a time when the financial markets are still in the state of low confidence.

TIERNEY: Your feeling is it all 30 million of those people would lose their policies, and their businesses would all go under, that this whole thing would be such a tragedy. You couldn't risk it, or is there just some uncertainty that nobody wanted to risk?

KASHKARI: I think that there is a large uncertainty. And the downside, the risks of the downside are much larger than even the large dollars that we're having to spend to support the institution.

I don't want to suggest that everybody's policies would be gone. I think that's an overstatement. But I think there would be a lot of risk for everybody that is a customer, or a counterparty, or a partner of AIG in any respect.

TIERNEY: Thank you. I yield back, Mr. Chairman. Thank you.

KUCINICH: I thank the gentleman.

Mr. Souder, you may proceed for five minutes.

SOUDER: I wanted to follow-up again on some credit questions. I have 58 percent of the RV market in the country in my district. I have (inaudible) biggest G.M. pickup plant, and I need to credit opened up. And I want to illustrate that couple of different things.

Congressmen Donnelly, DeFazio, and I had an amendment to the car, truck, motorcycle that include RVs on retail floor plan financing. Because part of the problem in retail floor plan financing, and let me deal with the RV, the auto has similar -- is that there were basically three major companies that did it: TexFund (ph), G.E. Capital -- they pulled out. You can't sell anything if you can't get it to a dealer; that these are fairly large participants, particularly for motor homes and nobody would take the market.

So, we try to get a trend (ph) set. It didn't pass the Senate with House advisory, and that the similar -- one of the problems there is, is that, in American manufacturing, because of legacy costs, because of health and pensions and our wage rate, we make bigger vehicles. The smaller stuff tends not to be American made. So, they require bigger and longer term investments.

Let me give you one illustration. In one lot, in a major city in the south, they tried to have -- clear their lot of some of the RVs and motor homes. They sold eight, which was not a good sale day.

Of those eight, two were in the $350,000 to $500,000 range. Four were in the $100,000 to $250,000 range, and two were used, towables under $25,000. All had credit scores -- the buyers -- of over 700. Only one was actually financed, and it was $15,000 used towable.

The reason is that they nobody wants to take a 15 year, $500,000 mortgage, right now, partly going back to the mark-to-market question, which we need point out, assumes that you're going to liquidate the premise underneath it. So the combination of the retail floor financing and the lack of, for bigger purchases, is hammering the car, auto, truck RV markets. And unless we can figure out how to get some liquidity into that system, we declared bankruptcy this morning. There's (inaudible) all over the place, and spilling into manufactured housing, and we try to address a little of the housing and the housing credit.

But this is a huge double problem, compounded by -- and one other thing I wanted to raise to you, as you look at how to handle this -- that there are buybacks, which the auto companies are starting to get into, but the RV industry, that aren't on their books. They never had a problem before because when one dealer can't sell it, they'll move it to another dealer. But if they can't get retail floor plan, and all of a sudden this stuff comes back, out they go. Thousands of people being laid off, when in fact, there appears to be some market.

How do we open that credit market up if they don't know, in the lending institutions, what their assets are? That's why we keep bringing up the variation mark-to-market?

KASHKARI: Congressman, thank you. This is a huge issue. It's a huge issue that we are -- we have teams of people working on. And this goes back to the new facility, under then consumer and business lending initiative.

It's called the TALF program that the Federal Reserve has set up. It's going to start funding in a couple of weeks. It's ready now. It's finally launched. That's going to specifically bring down costs of borrowing for auto loans, for credit cards, for student loans, for small business loans.

Right now, as a starting point, it's a $200 billion facility. We have a plan to increase it to $1 trillion facility and add other asset classes.

So we are looking at all different sort of asset classes to see what else we can put in there; to get liquidity to the markets, so that people can buy motor homes and RVs and cars and trucks, et cetera, until we get through this crisis. So I assure you, Congressman, we are focused on this, too. We get the same calls as you get; not as many as you get because it's your district. But we get the same calls you get. We know it's a real problem, and we think we're on the right track to bring down the borrowing costs.

Because, who can go afford today and buy a car and pay a 14 to 15 percent loan? No one's going to do it. We need to bring these rates down so that out businesses can continue to do business.

SOUDER: And there needs to be some kind of addressing of this size volume of loan and length of loan question. Some of the RV people had talked to me initially about, could they pool but with a see (ph) such that they help share if some went bad. There's got to be some kind of risk sharing on the longer term and sizable loans or that market will not free up. And those tend to be our American manufacturer, because we're skewed to the higher value end and those big areas; construction and auto, truck, I believe are close to 50 percent of much of our American economy.

The retail sales, if you take a manufacturing job or a value added, or whatever, it's going to circulate at different rates in a productivity and multiplier effect than a service job, or a labor intensive job. And that sector is overwhelmingly tied to construction and auto.

It tends to go boom-bust. But the way the financial markets are flat (ph) so deeply, it's not clear how we get it restarted, especially, if the debt that the government is taking on starts to crowd off private borrowing and private equity. They are going to be in mark-to-markets chewing them up which was change, not of -- say it's a problem changing back because if it change to with it probably triggers it that -- it's not clear (inaudible) credit market, because capital is going to so tight.

KASHKARI: Congressman, we think the new facility that the Fed has set up is going to help restart not just the market and gets rates down, but bring private capital back.

Because the way it's designed, it's designed that the private sector puts in capital, the government lends to it, gets the markets going again, and then our hope is, as the credit markets heal themselves, then the private sector would be able to go back and then the government can step back -- it can step away. So, we're focused on this.

One other thing I would add, don't forget the administration has an auto task force. A whole team of people focused just on the autos to try to get them to a place of long term viability, and so there is a team working there.

Treasury, it's an inter-agency program looking at autos, looking at auto suppliers, looking at some of their financing constraints, as well. So, we're coming at it from both directions.

KUCINICH: I thank the gentleman.

Chair recognizes Mr. Cummings.

CUMMINGS: Mr. Kashkari, there are a lot of banks that are returning their money, is that right? They want to return the money?

KASHKARI: Yes.

CUMMINGS: And apparently want to return this TARP money because of restrictions and the things that you talked about little bit earlier that the Obama administration is demanding, and the public is demanding.

How do you feel about that? I'm just curious. I mean, I'm interested in the few words, but I got some other things I want to ask?

KASHKARI: Sure. I'm concerned because in many cases the banks that want to return the money -- or we've had 200 banks that we've approved that have said, "No, thank you." And in most cases, the ones that are saying "no, thank you," or who expressed interest to return are the strongest, healthiest of our institutions. Those are the very ones we want to take more capital because they are in the best position to extend credit. And so I understand -- in any case.

CUMMINGS: Well, now that leads me to something else. So, they are the stronger -- the stronger banks.

They want to give the money back, because they don't want to go abide by the Obama and rules -- President Obama's rules, and seems like then they should be in a better position, particularly, if they had the money to make the loans. And so it sounds like they are more -- they might be more interested in continuing to operate as usual as opposed to seeing our economy come out of this great slump that we are in. I'm just curious.

KASHKARI: It's a -- it's a tough problem to answer with a precision because...

CUMMINGS: Yes.

KASHKARI: As I indicated earlier, 60 percent of our credit is from banks, 40 percent is non-banks. I know the 40 percent is not working, right now. We're trying to get that going.

If you look at the lending survey that we did do, which covers the majority of the banks in the country in terms of dollars, lending has held up remarkably well. A lot of banks, especially the smaller banks will say, they are just scared, because they are hearing so much noise out of Washington.

They'll say, "Do I really need the headache of taking this additional money?" I know if I took additional money, I could put it work, but there are so much coming out of Washington right now.

They are calling us and saying, "You know what, no, thank you. I just -- I don't know, I don't know what's coming and so, no, thank you."

And so we're disappointed by that because we want the strongest banks to take more money because they can turn around and extend credit.

CUMMINGS: So, you already said in your statement that you didn't feel that public officials, like, you have any business telling banks how to lend, because they are in a better position to do it, to make those determinations. And I don't know how you can say that with a straight face. After all, a lot of these banks did some poor decision making. They got us into this mess. And so I'm just wondering -- and I know about that latitude that you talked about -- but I am wondering this new program that you're talking about with regard to the auto loans and paying that money. How does that work? And how might that have an effect on banks negatively or positively?

KASHKARI: This program at the Federal Reserve, we call it "facility." What the Fed says, they will lend money to people who buy securities. So new securities, bunch of auto loans are packaged together that meet certain standards. Investor wants to buy those securities? They can get a loan from the Federal Reserve to buy those securities. The investor has to put in some of their own money.

CUMMINGS: Got you.

KASHKARI: And then they will that for up to three years. And so it enables private capitals to come off the sidelines to get money into these markets with the federal government providing some of the lending to those investors.

So, it is complicated. But the market -- the investors have said they really want it. And the car companies and the student loan companies and small business companies have all said this should really help them by bringing down rates for borrowers. At the end of the day, this program is all about bringing down rates for our consumers.

CUMMINGS: And how does that effect the banks?

KASHKARI: Well, the banks in this case...

CUMMINGS: What's your hope?

KASHKARI: The banks, in this case, are -- it's not the main priority of this program. This program is about getting lending to consumers.

The banks have a role to play, because they are the ones who buy all these auto loans, package them up, and then sell them to investors. So, the banks have a role, but this is not about the banks extending credit. This is about getting credit going from the non- banking market to the consumers into the car market.

CUMMINGS: I got you. And so but I was just wondering if this then establishes with some kind of competition? In other words, these are people who are borrowing money from a non-bank.

KASHKARI: Correct.

CUMMINGS: And so, I was just wondering how much competition that gives to the bank, and whether that spurs any activity.

KASHKARI: I think it's a good thing.

KUCINICH: You may respond and then the gentleman's time has expired, but please respond.

KASHKARI: Thank you, Chairman. I think the more diverse sources we have of credit in our economy, the better we are going to be. And so, we need to get the non-banking market going. We need the banks to do more, but we really need to get the non-banking market going. That's where the big hole is right now. So we need all of it.

CUMMINGS: Thank you.

KUCINICH: Thank you. We're going to go to round three. Mr. Kashkari picking up where we left off. You said that Treasury's internal controls need apply only to Treasury, and not to the banks that have sold equity to Treasury.

KASHKARI: Yes, Congressman. I am referring to the internal control provision in the EESA.

KUCINICH: I understand, but I would gently remind you that, that view is somewhat extreme. It's at odds with legal analysis of your duties to monitor these TARP funds by the banks who got them. CRS has spoken to this directly and it's not alone. The GAO is also of the opinion that your legal duty is to monitor the use of TARP funds by the banks which receive them.

It seems to me that you maybe alone in the view that Congress didn't mean what it said in Section 116 of the EESA. We called you in there. We wanted Treasury to safeguard the TARP monies from waste and abuse. That is the meaning of the incorporation of the Federal Managers Financial Integrity Act Title 31 Section 3512c. And I think that you are taking a position that is not tenable and one that is pointedly lacking in responsibility for the office that you hold. And that is that, you just said it's not your job.

Now granted, you have come in under extraordinary circumstances. But we have a new administration coming in. And I'm hopeful they are going to take a fresh look at this law. And if you want to comment on what I said, you feel free to and then I've got some follow up.

KASHKARI: Thank you, Chairman. We take protecting taxpayers money extraordinarily seriously, extraordinarily seriously. What I was referring to is that the section you are referring to, the internal control provision of the EESA. I personally spoke with the GAO and the special inspector general about their interpretation of this. And they agreed with me and you'll hear from them on the third panel. They agreed with our assessment that this internal control provision is talking about Treasury's own internal controls within Treasury, and we're working -- we've made a lot of progress on our own...

(CROSSTALK)

KUCINICH: So you're saying that you publicly acknowledge that you have a responsibility for the internal controls of the TARP funds once they go to the banks?

KASHKARI: No. I'm saying, we have the responsibility for internal controls within the Treasury organization, and we have responsibilities to the taxpayers to make sure the money is used appropriately and in the best policy interest of the country. But internal control provision is very narrowly focused. It doesn't mean we don't have to protect the taxpayers. We have other mechanisms...

(CROSSTALK)

KUCINICH: Are you saying Congress was not specific enough in its charge to you?

KASHKARI: I've been advising Congressman -- Chairman, forgive me, I'm not an attorney. I've been advised by our lawyers of Treasury that Section 3512c of title 31 United States Code, is specifically about internal procedures within federal government agencies. And that's what we're referring to. That's what the law refers to right here on line 16.

KUCINICH: We're going to hear more about this point in the third panel. We don't think it's arcane. We think it relates directly to your responsibilities when we began this day talking about how banks, who've got TARP funds, are moving the money out of the country.

It's my opinion, and apparently the opinion of some members of this panel, that there should be accountability from the Treasury Department as to U.S. taxpayers' funds being spent by TARP recipients in other countries, especially, when we have such dire straits here. Now in the time that I have remaining on this particular round, I want to talk about the impact of the TARP funds.

Congress has heard repeatedly the representations of large TARP recipients, about the billions of dollars of new credit they are creating. They're going to tell their side of the story and you repeated them today.

You stated on page 10 of your testimony that all loan amounts appear to be going up. But the lending is much reduced compared to the period before the crisis. Isn't that so?

KASHKARI: Yes, as I indicated.

KUCINICH: OK.

KASHKARI: OK.

KUCINICH: But then what about the other side of the picture? Are you collecting data from the banks on the contraction of existing credit that is occurring now? This goes to some of the question Mr. Souder raised. Where have you shown the declining credit due to foreclosures and a suspension of credit lines that our constituents are experiencing? How do those numbers compare to past period?

And Mr. Kashkari, if the new credit doesn't more than offset the extinction of existing credit, does the economy experience a net positive effect from credit activities or net negative effect? And do you -- if you can respond to that, and my time has expired.

KUCINICH: Thank you, Chairman. There is no question that in recessions, credit levels fall, because both lenders and borrowers are nervous about taking on new obligations and extending credit. There is no question about that.

And when we look at the lending levels that we are seeing, we know that they're higher than they would've been absent the TARP funds. We think they've held up remarkably well in light of the severe economic contraction we had in Q4.

But, again, as I look at the broader credit problem, the banking sector is part of it. A much bigger problem at this point is the securitization market, the non-banking sector. So banking is not as high as we'd like it to be. Securitization is zero. And it was 40 percent before this started. So we need to get that going, too.

KUCINICH: And my time has expired. I just want to comment that -- at no time in the history of this country have we ever had a period where we were in recession. And there's massive amounts of federal dollars, by the time this thing is through, maybe trillions of federal dollars, going in to prop up the economy. And where's the money going in terms of the net new credit to report to us?

Mr. Souder?

SOUDER: I want to continue along this a little bit. Clearly, because of Enron, we had to look at what I guess is called "fair value measurement," which is (inaudible).

The challenge here that we have, because what went in, in November 2007 -- so to talk about a change, it appears to be one of the changes that helped trigger the credit crisis. With all due respect, because it exposed those who were not fair market value, and then caused a panic beyond that, because it was a broad slate at everybody's valuation.

When in fact, in areas of the country like mine, we had been having 2, 3 percent growth, not 100 percent growth in housing. The national went up 200 percent, while the economy is going about 3. It doesn't take a rocket scientist. It takes business 101 -- that you've got a mismatch. But that mismatch was not universal.

So we did a universal solution, that in particular -- I'm fastening (ph), because the more you read, the more you study about this, there has been a major changing in financing in the country, in securitization and moving outside the Fed-regulated and into this 40 percent other sector, that you're talking about.

If the banks are tightly regulated, then we slam fair market measurements on them. Now, if we fund the securitization group, getting to Mr. Cummings's question, are they going to have to play by the same rules as banks? And then, if they have to do fair market measurements, we're right back to where we were. There's got to be some kind of addressing an underlying concern.

But let me first ask: Into this -- trying to get 40 percent securitization, are they going to come on? That was where the biggest problem was, are they going to come, if they're going to (inaudible), are they going to come in under similar banks?

Some of them are converting to that.

KASHKARI: Correct.

SOUDER: Is this going to be a mandatory thing? Is it going to be supervisory? Is this where transparency starts to become a huge deal, because if the problem sector really -- the most part it was not a bank, it was a division of the bank to compete with this 40 percent?

KASHKARI: The 40 percent part is made up of a lot of different type of institutions. So you've got big banks, like CIT -- non-banks like CIT or G.E. Capital, et cetera. You have pension plans, insurance companies, who either buy assets to match their liabilities. You have various kinds of funds all around the world.

So it's hard to define them as one category, because there's all sorts of dogs and cats investing in the non-bank market and buying these securities.

And most of them, to my understanding, are -- in many cases, they are marking those securities to market, and so they do see the asset prices go up and down. So I think your points have a lot of merit.

I would say the one other point, in terms of accounting and transparency that's been at the root cause of this problem, is it has been almost to peer into these mortgage-backed securities, to figure out which loans are in there, who wrote the loans, how are they doing. And because investors had a hard time peering into the mortgage-backed securities, let alone CDOs when they were bundled together, they didn't know which mortgages were good, which securities were bad, so they pulled back from all of them. And, that's an example, where -- like in your district where the home prices didn't take off, they are suffering.

(CROSSTALK)

SOUDER: They had a lot about (ph) hearing to your reading about Countrywide and so on. That, basically, if you were paying 6 percent, but with less risk than you were paying 14. When you start to see the high rates of return beyond the normal rates of return that, (inaudible) $3.7 billion.

KASHKARI: John Paulson.

SOUDER: That when he was here and I asked him a similar question, he said how do you think I made my money? That he could see this. Anybody who was studying could figure out which ones were inflated and which ones weren't. It wasn't like that confused it was sloppiness.

People wanted the high return that you had to either be in pharmaceutical speculation, energy speculation, or housing speculation, if you are getting higher than 6 or 8 percent. And the pension funds -- I have done that, I just -- I'm not very tolerant of the -- if people say, "Oh, we couldn't figure out what was going on." We need more transparency -- that they were paying close enough attention.

But, in this non-bank financial sector, and trying to monitor how they are doing, I have Lincoln Financial in my district; that -- are the annuities (inaudible). They bought a bank because they are now applying for TARP funds.

And, we saw a number of others convert to banks. But, you suggested that the Federal Reserve is setting up a separate fund that won't require them to be like a bank.

KASHKARI: Correct. So, the new program that the Fed has set up, that Treasury is supporting to get lending going, if many, many financial participants can use...

SOUDER: Can you regulate them? And what guidelines are they going to have? And are they going to be similar regulation? Because while we are all in Congress obsessed about the banking sector, you are telling us that there is a 40 percent and Fed is floating out up to a trillion, while we are dealing with $700 billion in your funds.

KASHKARI: So the Fed and Treasury designed very important procedures and restrictions to make sure we know the quality of the collateral that we are going to be getting. Because when the Fed loans in this new program, they are going to get the securities as collateral.

So, it's only going to be new loans, new securitization in this current program, and very strict guidelines in terms of what's eligible to make sure that we protect the taxpayers.

There is not with it, per se, going to be new regulations that go for the people who are lending money into that system, but we are making sure the taxpayers are protected.

SOUDER: Thank you.

KUCINICH: Mr. Kennedy?

KENNEDY: Thank you, Mr. Chairman. You've painted for us a very stark picture in terms of what we have in front of us. And that is, we have the uncertainty in the markets and yet, we have the necessity to act quickly.

We are going to be confronted with this choice, as to how to put out an end to this uncertainty by putting up however many more billions of dollars to stave off continued decline in the markets, and continued recession that's going to lead to further dislocation of our workers in this country.

And, the president spoke very clearly of the need to act now or act later.

The question I have for you is: Given the fungibility that you say these financial institutions are involved, with respect to the world markets, how can we be certain that the dollars that are going to be going into this public-private funds, our dollars that are going to absolutely mean the end of the uncertainty with respect to those toxic assets when we're part of an international world economy now? And we want to make sure that whatever final package, is the final package, and that there isn't going to be another shoe to drop, so to speak.

I mean, that's what my constituents want to know. We want closure, just as much as the president does. We want to be able to move on. We don't want this recession to drag on any further, and we also don't want to overpay for these toxic assets any more than they have to be. But we understand that if we let this recession drag on, it's going to cost us a great deal.

And I'd ask you to comment on this, because I think this is a fundamental point, that most economists have been talking about is. What is it that we have to put to staunch, to wrap the tourniquet around? And how do we wrap a tourniquet around something that is involved in a global economy, in terms of assets?

KASHKARI: Thank you, Congressman. I'll answer your question in two parts.

First part, the global nature: We cannot act alone. So we have our programs. We are consulting closely with our counterparties in other countries, who are taking similar measures that are tailor made for their system.

The world's leading economies all need to act, and I think that they are acting with different speeds, but they are acting. And we're going to continue to have an active dialogue to encourage all of us to move in a coordinated fashion, number one.

Number two, Secretary Geithner's financial stability plan has laid out a broad framework to do this. There's not one piece of it that by itself will solve everything. We have the capital program that he has laid out, to make sure our banks have enough capital, even in a worse economic environment if they can continue to lend. That's very important. That is underway. The details are out there.

Number two is the lending program that we talked about, scaling up from $200 billion to $1 trillion to make sure our consumers and our small businesses can get the credit they need right now. That's underway. It's going to start funding in a couple of weeks.

And then third is the public-private partnership that we just talked about to go after the bad assets. Not one of these tools by itself will be the final -- the final solution. We believe these three tools, combined with the other tools that the Fed and other regulators have done, will get at this.

Fundamentally, we have a credit crisis that has hurt our economy. And now the economy is looping back into a vicious cycle and it's hurting the financial system again. And so, we've got to go at it from the financials perspective. And then the stimulus bill that the Congress passed and the president signed is also going to be very important to getting the economy going. We need to go at it from both directions.

SOUDER: I would say that, obviously, as we've heard this morning, transparency. We need to be able to show the American public just how this links to them. And I understand the college loans, I understand the -- making payroll in businesses, I understand peoples vested pensions and annuities.

But we need to make that even clearer to people. Because right now, that case has not been fully made, and until it's fully made, we're not going to be able to come back to the American people and say to them, this is in your interest. Because right now they don't see it is in their interest.

And there is only one person who can really make that argument. That's the president of the United States. You can have 535 members of Congress out there trying to explain to the American people how getting this financial system back on track by infusing it with more dollars is going to do this for them when all they are seeing is it kind of trickle down. They've got to understand that this is a part of the lifeblood of the economy and the life blood of our financial system is one and same.

Right now, that's not becoming very transparent, as you've seen from this hearing. And until that becomes transparent, it's going to be very hard for our people's representatives, us, to be able to give the president what he needs in order to infuse anymore assets into this kind of recovery.

So, we certainly want just to get of out this situation, but we need really clear leadership and explanation from the top, and that's the only way the president can deliver.

KUCINICH: Gentleman's time has expired.

Mr. Issa.

ISSA: Thank you, Mr. Chairman.

Mr. Kashkari, you've been as good as your word. It's been quite an afternoon and I appreciate your time. One question I have for you. Earlier, I asked about, if you will push back, or influence, or advocate members of Congress, but now let's switch to the other side. Tell me about the pushback you inherently get, or you're getting, or resistance you're getting from the mortgage industry, from the banking industry on giving you the facts and figures you might need in order to better analyze the underlying assets that we so often call toxic?

KASHKARI: So far, Congressman, every time we've asked for data from any recipient banks they've all complied with us, because they know they need to. It's in the country's interest and their interest to comply.

And that's really focused on lending levels, which many people ask us about, and as I said, we're going out to every institutions to collect the data not just the top 20.

We have not gone out and done a survey of so-called toxic assets, per se. I think if we ask them for the data, they will provide it to us. We have -- again, we work closely with the regulators, who have a lot of this data already.

I know that the OCC, the OTS and the FDIC, for example, collect loan level data from all of their banks and roll that up to look at what's happening in mortgages around the country. So, we get the data from different places, partly from the banks, partly from the regulators. As yet, we haven't had any push back to the data that we have asked for.

ISSA: OK. Earlier today, there were some talk about loans going to Dubai and China, and other places. Isn't it true that United States is the net debtor around the world?

KASHKARI: Yes.

ISSA: So, if we wanted back all the money, that if you will, re- loaned and invested in other places, and the rest of the world did the same in return, wouldn't we suddenly have trillions of dollars of shortfall far beyond what we are putting in with TARP?

KASHKARI: I believe so, yes.

ISSA: OK. I just -- I had that impression -- a little CNBC and Fox Business News, it seemed that it was that way.

I am sorry, Congressman Kennedy has left. But he talked about certainty, one time, et cetera. From your standpoint, having lived with multiple tranches of different solutions, TARP being one of them, do you think we're well served by having one more? This is it? It encompasses everything or never going to come back, or should we look at smaller steps with more congressional oversight.

In other words, do what you think is right. Come back to us and tell us what you've done, rather than the $700 billion, which by your own admission, really never got used in the original way and will be probably gone before we begin buying those assets in any great numbers.

I don't want to say that he was wrong, but wouldn't you say the opposite is true that we should ask for careful and deliberate actions, even if they are not complete? Agree to those -- authorize you and then have you come back when you learn more?

KASHKARI: I think there is merit in that. But I am cautious, because sometimes we have to take action that is so unpleasant, but it is so urgent. We just have to move...

ISSA: Sure. And I am suggesting little tiny sizes, but the $700 billion which was 350-350, represented by your own statement -- at least 489 different transactions.

So, going forward, you don't need a trillion all at once next time. That in fact, although we may authorize and anticipate a trillion, though the periodic reporting that we could expect in the TARP 2 and the updates and the increments could in fact be more manageable, because we are not dealing with overnight crisis in which you don't know how much you need to put out, but you might need to put it all out in one day, so to speak.

KASHKARI: I think it could be. And I think that this is consistent with the way Secretary Geithner is thinking about it because in his new program, we can get going with the available capital we have. We can assess that they are having the desired effect and then come back and ask, if and when he decides to ask for more, do so then.

ISSA: Now, I have got a kind of long arm question for you and it's a big one and it's a little outside your resource. If you feel uncomfortable completely answering it today, I hope you would come back with your thoughts.

Up until now, members of the Congress have been saying, we've got to put -- and the administration to administration is saying, "We have to put money in, in order to free up mortgages."

And I am not persuading anyone today from that view. But another scenario: If we hadn't put a penny into the backend, the banks, and instead we put a hypothetically sufficient amount, whatever it was, into the refinancing of new mortgages, so that bank said, "Look, I am calling the loan. Here is the foreclosure" -- because, as you know, they are not doing foreclosures right now in many cases. There are people staying in their homes months and months and months waiting to see what happens.

If they have done all the foreclosures, and people who could make a monthly payment on a future mortgage had available mortgages, if we facilitated the front end of the new mortgage with trillions of dollars of capability, wouldn't we in some ways have mark-to-market, refinanced, found the good people, renegotiated in much less time than now?

We are putting money in. The chairman and others have made the point that it doesn't necessarily seem to be trickling down. We are pushing it on this end, asking it to end up here. Rather than saying, "Do what you think is right, and we will take care of people who are credit worthy, whether they are existing homeowners or future for homeowners on those foreclosed properties."

KUCINICH: The gentleman's time has expired, but I would ask if you would answer his question.

KASHKARI: Thank you. I think, Congressmen -- I think we are doing both. So I think that actions taken to stabilize Fannie and Freddie to make sure that mortgages were still available and FHA is very important.

I don't think we could just say, "Forget the banks." We are just going to start up all new lending programs because we didn't know they had been administering that. The banks for -- our frustration is they have thousands of branch offices in all of our communities. And they are the tentacles out there to get credit out there. So I think we need to do both: Providing the government support for the lending, like the new program that I talked about, as well as, helping the banks get through this time.

KUCINICH: I thank the gentleman. We are going to go for a fourth round with Mr. Kashkari.

One other thing that I am concerned about: The "Washington Post" reports on a public-private partnership. They said last week, "the government is seeking to resuscitate the nation's crippled financial system by forging an alliance with the very outfits that most benefited from the bonanza, preceding the collapse of the credit markets, hedge funds and private equity firms."

The article goes on to say that they had been invited to buy up recently issued highly rated securities. These securities finance consumer lendings, such as credit cards, and student, and auto loans. The program would involve the government lending nearly $1 trillion. This is the public-private partnership you are talking about?

KASHKARI: Yes.

KUCINICH: OK. So -- and in this graph, that smart work that the folks put out, they say that with government assistance to stimulate purchases of the securities, investors borrow from the Fed for $10 million worth, an investor might put up $1 million and borrow $9 million.

Then it says the second part, the public part, "the government offers to cover losses of consumers' default and the asset-backed security declines in value." And it goes on to say that, "if the asset-backed security value falls, an investor may lose only his original $1 million and the Treasury and the Fed would absorb additional losses," which means that the exposure under this -- according this report -- the exposure of the Treasury and Fed could be as much as 90 percent?

Now, here is my question: The Obama budget says that he has put marker, place holder, of $250 billion anticipating that would be the loss if the government goes forward with its $750 billion TARP 2. We see that there is a discussion among -- more money going to the FDIC. We know that the amount of losses, according to the president's new budget, is 33 percent estimate. We know that the amount of loss that you had before is around 30 percent. That's what number is being thrown about. Is it possible that if we go forward with a total of what could be about $3 trillion in TARP funds, rough figure, if the estimated loss would be 30 to 33 percent, we are looking at taxpayers being stuck with $900 million, to $1 billion, to $1 trillion?

Now, think about it. Every -- if there's $3 trillion -- and you can have somebody else could do the math here -- but you have 300 million Americans, is that like $10,000 per capita. Is that like $30,000 or more a family that we are into this already? And then you get to this. Check this out. Today's headline "Washington Post": "Rays of Hope for Big Banks Spur Rally on Wall Street."

Citigroup apparently is doing some recovery. And the article says -- this goes to what Mr. Kennedy raised and what I want to raise your focus on right now -- investors were being dealt more signs yesterday. The corporations were shedding more jobs, seen by many, as a way for companies to steady themselves during a deepening recession. United Technology, a large industry company, said it expects to lay off 11,600 employees. AOL said it's executing a second major round of lay offs, shedding 10 percent of its workforce. I am from Cleveland. Our economy's been falling apart.

We got foreclosures everywhere. The subprime loan bandits have capitalized in my city and crushed neighborhoods in my city. There are steel mills in trouble. We have auto plants that are in trouble. And the banks are doing -- are starting to come back according to this.

But we don't see any evidence that we're going to come back. What can you tell the people in neighborhoods across this country? That they should go ahead and put trillions of dollars of their money at risk when we are reading these reports that they could -- that it looks like huge losses are in the offing under the best circumstance? Why aren't we taking a controlling interest in mortgage-backed securities? And the government directing loan modification instead of -- so, it's a lower principle, lower interest -- instead of leaving it up to people who are still freezing credit here in the States, while they're shipping jobs and money overseas.

This, to me, is a textbook definition of political insanity. And I would just like -- do you ever think about theses things; about the inherent contradictions that are in this? About how Wall Street might have one view of the world, but the rest of Americans, just to beset with all these problems, as a result of Wall Street?

KASHKARI: Thank you, chairman. I think about these things all the time. And let me -- you asked a very important, but complex question, so please permit me to give you a thorough answer to your question.

First, let's talk about the foreclosure piece. The administration has now come out with, what I think, is a very good loan modification program: a $75 billion program to encourage servicers and lenders to make long-term sustainable loan modifications. That program is getting up and running, right now.

We have teams of people reporting to me that are working on implementing that, right now. We feel very good about that. I think that's going to make an important difference in our communities, number one.

Number two, in terms of the loss estimates, I would like to offer my perspective on that. I think we have to segment our different programs because different programs have different classes of risk for the taxpayers.

So, for example, the lending initiative that I have spent a lot of time talking about today, which Secretary Geithner wants to take it to a $1 trillion, is secured by very high quality collateral. We expect -- where investors were in the first loss? Actually, there are multiple losses for investors before Treasury is exposed, the taxpayer is exposed.

My expectation is the losses on that program, or the risk on that program, are much, much lower than the risk of the some of the other things that we have had to do. So I don't think it's -- I'm just telling you candidly, I don't think we can take the loss estimate for one program and scale it out and apply it. I don't think it's going to be that aggressive.

Nonetheless, they are all real risks. We're all taxpayers, and none of us like putting our dollars are at risk to have to do what we're having to do. But the economic consequences for all of us are much, much greater if we don't do these distasteful things that we're having to do; these -- putting taxpayer dollars at risk, intervening in these markets. We're having to do this. It's in our own interest. We need to get through this crisis as quickly as possible so that the economy can grow again, so we can create jobs. And then, we need to reform our regulatory system, so we don't get back here again.

KUCINICH: My time has expired.

I'd like to call Mr. Souder.

SOUDER: I thank you for your time today. And I wanted to leave you with a couple of thoughts. One encouraging thing is, all these hearings, which I know have to be frustrating to you, it is amazing how much about finance Americans are going to be learning in this process -- what risks are. I forgot what a risk was; that in my house I bought it from a local small town bank, Rabobank. Next thing I knew, I was sent to Brussels, to ABN AMRO (ph), or whatever that company is.

Now it goes to a company owned by the Chinese. If we're not careful here, we'll slam down our own mortgages on ourselves. This money is all over the place and least securitized and much more complicated than most of us can think about, when we got our home mortgage, which may not even have the name of the company we are dealing with.

But the transparency question -- one is, I know that some banks are nervous about getting in because they're worried that if they get this funds, they're going to get a call from you or somebody that says, (inaudible) "Why did you do that?" They're very concerned about the big hand of government here because they're watching the micro management? What's the fair salary? How do you do this?

And on the other hand, from the taxpayer perspective, you can hear today a lot of the frustration with transparency. And I think while you need to have your private ability -- and I am very worried -- we're about in the process of potentially destroying private sector capital because of the amount of money that the government is going to be taking, how we're going to micromanage this with different loans, categories.

It's a frightening thing there might be public-private partnerships, but it's a scary time if you are more of a private sector person, partly drawn by the private sector. But in the transparency question, I understand the point here, but even in mark- to-market, there is a deep suspicion that because the change only occurred in '07, that the reason we can't come back is, is that hedge funds, buying short and long and all those kind of stuff, have a choke hold on the system and it's not transparent and that would seem logical to a traditional banking (inaudible) system.

We can't see what's happening and that leads to a mistrust. Because it seems to a hardworking person who gets up in the morning and goes to work and starts a small business, and tries to get an expansion loan and then bank calls down and says, "We're not going to keep your revolving loan credit there."

We're having struggles, partly if somebody speculate against me and I can't see it and so, one of the advantages of the education process that we're going through is, is that it's also generated a fear that some people are manipulating. And I think that the demand of transparency is going to overwhelm the desire to be -- have flexibility in your decision.

When you touch the government, you get the full scale of the government and this is very worrisome to many of us. At the same time, I don't know how to do it, because even I don't have a lot of trust right now.

(UNKNOWN): Thank you.

KUCINICH: Thank you, gentleman, Mr. Cummings.

CUMMINGS: And I was just sitting here thinking about what somebody watching this. Whether the American people would -- how would they feel about all of this?

The -- this hearing -- the newspapers are running story -- by the way, just the case your staff had told you. "Kashkari says that we should stay out of the banking business of lending." That's the story that's come on. That was all over the place.

And then you've got AI -- Reuters, it just came out with a story an hour ago. I just want to quote from the story. It says, "six months after the U.S. government stepped in save an insurance giant overwhelmed by derivative losses, AIG continues to bleed red ink."

Its stock and bond holders have been crushed, but one group has suffered almost no damage: banks that bought credit protection from AIG financial products.

Regulatory filings show that since the Federal Reserve announced its rescue of AIG on September 15th, about $50 billion of government money has passed through the company to the banks.

"Treasury is providing a massive wealth transfer from taxpayers to Goldman Sachs and other parties, and it's something that absolutely should be investigated," said Eric Hovde, chief executive of Hovde Capital Advisers, where he manages financial services focused on hedge funds.

And I think, well -- the reason why I mentioned that -- is it seems like the banks are coming out of this pretty good. They're getting money. Whether they want it or not, they get it. If they don't like your rules, you know what they say, "Screw you. We'll give it back."

Then we've got you saying we shouldn't meddle in their business. Taxpayers are saying, "We just want a loan."

Then you tell us -- and I am sure this is a good thing, this entity that you're creating to help people get loans and auto loans and all of that, but the problem is this. It seems as if we're going -- I mean it seems that we are helping the banks tremendously. But they basically -- I mean -- and they could be more of a part of the solution to the problem. But I kind of think, maybe --whether it's intentional or unintentional, that we just said to them, "You go, Guys! We're going to keep on giving you the money and you do whatever you want" because the top guy says, "Congress don't -- we shouldn't be trying to determine who they lend to." They are the decision makers -- as President Bush said "the deciders." And the deciders have gotten us into the jam that we're in today. And I guess what I am trying to say is that I want to go back to that analogy that I gave.

I believe that you are all doing everything in your power. I believe that you loosely, I think you've given it everything, and I think you are very, very competent. I think the whole team is. But I feel like it's going up a hill. But not becoming any easier -- when the banks could help us up this hill by having some gravel down there so we can get something -- so that we get our grip on something, we get ice.

And I don't know whether it's -- sometimes I think that the folks on Wall Street operates in a whole different world. I don't know if they even have a clue -- a clue -- about the people who are looking at this right now. I really don't. So, when they say a million dollars, it's like $25 to the folks who are losing their homes. And so you've got to say something to me, you got to do something for me, to tell me these banks -- to help out.

I mean, I don't want to leave this hearing with them saying, "Thanks! Now, we've really got our way." And it's very, very painful.

KUCINICH: You may respond to Mr. Cummings, and then we'll conclude this round.

KASHKARI: Thank you, Congressman. I share your frustration. Every time I open the paper and I read another story of some shin dig somewhere. I just wonder what are these guys thinking.

They are not helping themselves. They are not helping me. They are not helping Washington or the people, our leaders, who are trying to get us through this. They aren't helping the American people who have confidence. And so I think that there have been many cases of enormous lapses of judgment in some of the actions that the banks have taken.

And I also, sir, I don't want to leave you with the wrong impression. My comments about, "we don't want to micromanage these institutions" -- I am talking about the hundreds maybe thousands of institutions we are investing in, community banks all around our country who did not create this problem. But we want to encourage them to participate because they are in the best position to step up and increase credit. So, that's where my comments were directed there.

For the institutions, the one-offs that made terrible decisions and they need extraordinary assistance from the federal government to prevent them from being destabilized, then we absolutely have obligations and responsibilities to make sure that they run their businesses in a prudent and sound manner and that they can pay back the taxpayers. Again, my two highest priorities are financial stability and paying back the taxpayers.

CUMMINGS: Thank you.

KUCINICH: I thank the gentleman. Mr. Kashkari, you've been here for four rounds of questioning. We are going to conclude the questioning of you and thank you for giving this committee your time here and giving this country your service.

We know this hasn't been easy for you as a witness, but I think that you've been a good witness in representing the point of view that Treasury has been conducting as policy. The difference that we have is that we have -- this whole hearing has been about -- challenging the policies about what we believe is Treasury's failure to monitor the ways in which financial institutions are using taxpayers funds.

And I think that, as I conclude and send you with appreciation of this committee, I -- one of things I've seen here and Mr. Souder brings it up, there is a fundamental flaw in government intervention in the markets. I mean this is why we're here. The government's intervening in markets and it's picking winners and losers. So, when the issue came up about micromanaging, we have to remember that Congress has a constitutional obligation for oversight.

We're a co-equal branch of government, and we cannot defer to Treasury when there are trillions of tax dollars at stake. I know you understand that, which is the whole point of this hearing.

And that the reason why we are here in the first place is that the banks could not perform their fiduciary responsibilities. So, when we want to defer to the banks again, you could understand why we'd have some problems with just letting that go unchallenged and are not insisting the Treasury -- as we move forward -- has to look at their responsibilities for monitoring the ways in which financial institutions are using these taxpayer funds under the Troubled Asset Relief Program.

So with that, I just want to say that you've appeared before the subcommittee on two occasions. You have conducted yourself in a way that I think reflects honor in service of the country. And I want to thank you for your presence here and all the members of this committee, who have talked to about your presence here today. While we make an issue with your presentation, we think that you have certainly been an excellent witness for the Department of Treasury.

So, thank you, Mr. Kashkari.

We are going to proceed. The first panelist now -- Mr. Kashkari is now discharged -- and we're going to take a five minute recess, and it's only five minutes as we get the second panel together and we're going to combine the second panel and the third panel together without objection.

But we are going to take a five minute recess. We'll be back in five minutes.

(RECESS)

KUCINICH: We are fortunate to have an outstanding group of witnesses on our second panel. And, joined us -- we are combining the first and the second panel.

This is the Domestic Policy Subcommittee of Oversight and Government Reform. The topic for today is Peeling back the TARP, Exposing Treasury's Failure to Monitor the Ways Financial Institutions are Using Taxpayer Funds Provided Under the Troubled Asset Relief Program.

Our first panel has been with Mr. Neil Kashkari, and we are going to go the second panel and moving right in to this, I want to introduce the members of the panel.

They include Professor Anthony B. Sanders, Professor of Finance and Real Estate at the WP Carey College of Business, of Arizona State University, where he holds the Bob Herberger Arizona Heritage Chair. He has previously taught at the University of Chicago, the graduate school of business, University of Texas, at Austin, McCombs School of Business, and the Ohio State University, Fisher College of Business. In addition, he served as director and Head of asset-backed and mortgage-backed securities research at Deutsche Bank in New York City.

Mr. Stephen Horne is Vice President of Master Data Management and Integration Services for Dow Jones Business, and Relationship Intelligence. Mr. Horne has over 30 years of experience in master data management, consumer relationship management, Web data applications, and very large database development. Mr. Horne specializes in large scale data integration and data utilization from the Dow Jones Master Database and performs business development strategy for these areas. Previously, Mr. Horne was a consultant for Generate, a startup relationship mapping and Web-based data collection firm that was acquired by Dow Jones to become the Dow Jones DRI division.

Mr. Mark Bolgiano -- is that the correct pronunciation -- is president and CEO of XBRL U.S. Incorporated, the leading advocate for the use of extensible business reporting language, which promises to increase the transparency of reporting and disclosure of corporate financial information. Mr. Bolgiano joined XBRL U.S. as its first president and CEO on December of 2006. Previously, he led the technology and online communications operations of the Council on Foundations as Vice President and Chief Financial Officer.

We are also joined by Mr. Neil Barofsky. Mr. Barofsky was confirmed by the senate as a special inspector general for the TARP on December 8th, 2008 and was sworn into office on December 15th, 2008. Prior to resuming the position of special inspector general, Mr. Barofsky was a federal prosecutor in the United States Attorney's Office for southern district of New York for more than eight years. In that office, Mr. Barofsky was a senior trial counsel, head of the mortgage fraud group, which investigated and prosecuted all aspects of mortgage fraud, from retail mortgage fraud cases to investigations involving potential securities fraud, with respect to collateralized debt obligations. Mr. Barofsky received the Attorney General's John Marshall award for his work on the case that led to the conviction of former President of Refco Inc. and that's Tony Grant, and the guilty plea of Phillip Bennett, Refco's former chief executive officer.

Mr. Richard Hillman has served 31 years with the U.S. Government Accountability Office and is currently the managing director of the GAO's financial markets and community investment team. This team helps the Congress improve the efficiency of regulatory oversight in financial and housing markets in the management of community development programs. Over the past decade, Mr. Hillman has produced scores of reports and led a wide variety of efforts assessing the economy, efficiency and effectiveness of federal and state regulation of financial services sector.

It's the policy of the committee of Oversight and Government Reform to swear in all witnesses before they testify. I want to thank all of you for being here and ask that now you would rise and raise your right hand.

Do you solemnly swear to tell the truth, the whole truth and nothing but the truth?

Thank you. You may be seated. Let the record reflect that each of the witnesses has answered in the affirmative. As with panel one and two, I ask that each witness give an oral summary of his or her testimony, and I would especially ask that you keep this summary under five minutes in duration.

I would like you to bear in mind, that your complete written statement will be included in the hearing record, and we're going to -- excuse me one minute. We're going to go from my left to right.

We're going to start with Professor Sanders.

You have five minutes, and I think we will cover some of the territory in Q&A. So you may proceed.

SANDERS: Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, thank you for the invitation to testify for you today.

I testified before you on November 14th, 2008 on the subject of the Troubled Asset Relief Program, TARP. At that time, we understood that the Treasury had not purchased any loans from the financial institutions using TARP funds. Instead, TARP funds were deployed to numerous financial institutions.

My testimony today focuses on the lack of transparency surrounding these, the TARP funds, and as well as some related Treasury and Federal Reserve programs. Transparency is of critical importance to the stability financial markets, as well as the reputation of the U.S. and the international economy. For example, research has found that the frequency of stock market crashes is higher in countries with companies that are more opaque or less transparent to outside investors.

A recent paper on asset mortgage securitization side, has concluded that in order to attract investors, transparency is essential. The less transparent a market is, the more poorly understood it will be by investors, and the higher will be the yield to those investors to demand for the -- compensate for the uncertainty.

Thus, whether we are talking about loans that originated and securitized security by banks or how TARP funds were deployed to the banks, transparency is critical to returning trust to our financial system, and comforting investors, both U.S. and globally.

When we consider that our own federal government borrows funds from overseas investors, transparency would be a vital tool in restoring confidence to tarnished financial system of the United States.

Greater transparency of the TARP can alleviate concern amongst U.S. taxpayers about any investment community, that the funds are being used appropriately and not wasted.

Without transparency, we are no longer the shining city on the Hill, rather we are New York City during the blackout of 1977. For example, there should be more transparent asset valuation so we understand how Treasury in the Federal Reserve or valuing the banks relative to private market valuations -- that is, the stock market.

If the Treasury systematically is overvaluing the banks, it is an indication that we are still in danger from toxic assets, particularly mortgages that have not been dealt with. So asset valuation is more transparent and the market is confident that banks have written down toxic assets, such as bad mortgage loans, and accurately priced these assets, any effort to resource the building confidence in our financial system will ultimately fail.

One can argue that all assets, including TARP funds, are fungible -- meaning that it's very difficult, if not impossible to trace how TARP funds are spent. For example, if Bank A receives $15 billion of TARP funding, it is so large and complex that a paper trail cannot be filed, that presents serious problems. Despite our accounting and regulatory reporting on these institutions, the TARP funds seemingly sank into an abyss or black hole.

Clearly greater transparency is required, so that the TARP funds are spent in a non-wasteful manner.

Currently, financial institutions report that information that you find in SEC filings 10-Ks and Qs, and call reports that are produced quarterly. However, this information is not real time. It's highly aggregated. As a consequence, it is difficult to follow the money from these filings. Although banks can report on the use of TARP funds in a timelier fashion than Treasury, even daily, the quality of these reports may be of dubious substance given the size and complexity of the financial institutions that have received TARP funds.

For example, our largest financial institutions have hundreds of divisions and subsidiaries and perform operations in numerous countries. For example, Citigroup has operations in over 100 countries, and includes such banks as Banamex (ph). For a regulatory body, Congress, the executive branch, and financial institutions themselves to understand where the TARP funds have gone, there is a need for more aggressive forms of auditing to prevent such exposures.

Traditional auditing of financial institutions is a time consuming and labor intensive process. The offices of special inspector general for the Troubled Asset Relief Program, SIG TARP, produced initial report to the U.S. Congress on February 6th, 2009, detailing the allocation of TARP funds, which is an admirable first step in providing transparency for the TARP program, but it does not address how the recipients of the TARP fund have actually spent the money.

An approach that can offer real time measures of the expenditure of the TARP funds or any other allocation of government funds, volumetrics, it is possible to obtain vast amount of reported information on loans, corporate benefits, golf tournaments, concerts, retreats, and aggregate them into usable form for regulators and other market participants.

Now, should taxpayers be concerned about a particular bank using TARP funds for naming a sport stadium? While it can be argued that naming of a sports stadium or a professional golf tournament is part of a marketing strategy, it can also be argued that the price that the bank pays for these naming rights is far in excess of their advertising value.

While it may be reasonable argument to name sport stadiums, these institutions must be aware of the backlash by taxpayers and regulators against perceived squandering of U.S. taxpayer dollars in an economic crisis.

The same argument applies to rock concerts, corporate events, executive compensation and perquisites.

KUCINICH: I'd like to ask the gentleman, if he could try to wrap up his testimony, and I know will get to back to the Q&A.

SANDERS: Transparency for the use of TARP fund recipients, represents us (inaudible) how we understand, how tax dollars are deployed, particularly in economic climate. In summary, the TARP should be wrapped in saran wrap rather than a lead veil that superman can't even penetrate. Taxpayers have the right to know what should be done with their wealth. And transparency helps achieve more economically sound use of TARP funds and eliminate waste. Thank you for letting me share my thoughts.

KUCINICH: Saran wrap.

Mr. Bolgiano,

BOLGIANO: Good afternoon, Mr. Chairman, members of the subcommittee.

It's my privilege to testify today about XBRL or Extensible Business Reporting Language. I am here as the president of a non- profit organization, XBRL U.S., that advances XBRL as an open free, open source standard.

We all benefit from Internet standards. . And I am not going to take any time to try to explain the concept. But just in the way that the Web standard brought us browsers, and global access and search to a huge amount of information. Or PDF gave us high fidelity to the print document, or even e-mails makes it possible for any of us to exchange messages, regardless of what software, what device or even where we are.

XBRL simply makes a common dictionary available, and a consistent structure, so that all financial reports can use a common format, so that it could be shared and exchanged at much lower cost with much lower time to do the process. As we've heard for the last few hours, it is very labor and time intensive to analyze and parse financial reports.

XBRL documents are more consistent, and they are searchable, and they are machine readable. And it can transform a 1,500 page 10-K annual report that's nothing but a long stream of text, into a structured index document, that could be readily processed.

But it's not the technology plumbing and wiring that's really the issue. What's important about this standard, and any standard, is that the world chooses to agree on it. And the world has agreed on XBRL as the standard across the world for business reporting. I'd like to take just next few minutes to elaborate on this, and refer to my testimony in more detail to make the points that XBRL is real. It's ready, and it's relevant to the discussion of the subcommittee today.

First of all it's real. Every quarter 8000 banks report to the FDIC using this format, and they have since 2005. I'll again refer to the testimony on the efficiencies of oversight and regulation gained by the FDIC by using XBRL.

One hundred companies today voluntarily file to the SEC their financial reports using XBRL. And over the next two years, SEC rules will phase in all publicly traded companies will submit their financial reports, including the industrial disclosures and footnotes, that have numbers embedded in narrative text, like the pension footnote in XBRL.

All mutual funds, all credit rating agencies will be filing to the SEC phased in, these rules have just been promulgated, and they will be phased in over the next two years. So XBRL is real. It's in production. The dictionary that the SEC uses, developed by our non- profit by bringing together lots of industries and professions for the common good, contains every concept in U.S. GAAP, Generally Accepted Accounting Practices. And we are building on that to include as detailed in the testimony, mortgage-backed securities.

This is ready for use and it's being applied right now in our market. It's also ready in terms of having a strong organizational underpinnings. Our non-profit brings together the accounting industries, the CFOs that issue, all the way to the investors and everyone in between including technology companies, for the common good, to make sure that we get a high quality agreement between industry and government to publish out these functionaries (ph).

And finally, I am going to say, it's relevant in that, again and again, we heard today about: We are not sure. We can't see. We don't know. The fact that you can't provide oversight to something you can't see. And this common standard does offer a powerful tool for the government and for markets to get true visibility and transparency into the facts, into the books.

With that, I'll conclude my remarks and again, I thank you. I'll just end with one point that, transparency is no longer a matter of technical capability. It's a decision that's waiting to be made.

Thank you, Mr. Chairman. Thank you, subcommittee.

KUCINICH: Thank you very much, Mr. Bolgiano.

Mr. Horne, you may proceed.

HORNE: Good afternoon, Mr. Chairman, Ranking Members Jordan, members of committee. My name is Steve Horne and I want to thank you for inviting us here to speak to you today.

I am going to show you an example of what Professor Sanders and Mr. Bolgiano were just speaking of. And the question is getting to TARP transparency and I've got some slides up in the board, you may not be able to see them too well, those who have the handout have the slides included.

The question you've raised is: where did the money go? And I think that's the question everybody has been asking since this morning started. I am going to show you how to take what is complex financial information and make it simple and then transparent.

I am showing on the slide here eight of the CPP institutions. I intentionally left off AIG, because being in SFFI they have different things that we have to look at and we can talk about those other time if you wish.

But these companies collectively received just about $200 billion of the total TARP outlay from tranche one. They collectively represent over $10 trillion in assets. They have greater than 14,000 subsidiaries, any of which could receive funds that have been infused into the institutions themselves.

They have greater than 6,000 executives making decisions as to how to use these corporate assets. And in the first 100 days since TARP funds were approved, there has been greater than 40,000 of the co-public events, which consist of regulatory filings, press releases and other kinds of public disclosures about these firms regarding TARP, specifically TARP.

Now, let's look at institutions that illustrate the complexity. OK. I don't expect anybody to read this chart. OK. Rather, I am making a point of the structural complexity -- in this case of just Bank of America. And I chose Bank of America because they were alphabetical. So any other institution is going to kind of look this way.

This is a portion -- and only a portion -- of B of A's 2,435 subsidiaries and divisions. The reporting banks on the slide are shown in red. Investment firms are shown in blue. Any of the subsidiaries and divisions may be a beneficiary of the funds or a part of the total $45 billion in total capital infusions that have come into this institution through TARP to Bank of America.

A hundred and four of these subsidiaries and divisions filed with, up to 20 or more government agencies, and there is no single holistic view of the institution that come in through those agencies. Furthermore, the information sometimes comes into disparate and incompatible format. And my friend here, Mr. Bolgiano, has commented on the fact that we are very big subscribers of the concept of XPRL because that is a compatible format.

In other cases, it's aggregated to a holding company level, but you lose all the details of the transaction that are underneath. OK. Now, lens can be put on individual transactions that roll the data into a single view of the institution. OK.

Now, in the time line that's shown on my chart here, instead of looking at greater 10,000 of Bank of America events, a regulator could highlight, what it might call the seminal events, chosen by them, which show the key transactions of the funds that moved through the institution.

In addition, the aggregation of the non-public regulatory data as proposed under Congressman Maloney's bill, TARP Accountability and Disclosure Act, would be available to the regulator as well. At the request of the committee, we have a sample of transactions that are in excess of $1 billion, as well as, charitable contributions and marketing events during this first 100 day period.

The first TARP infusion at the beginning of the chart, took place in October 28th last year and $15 billion were taken onto the Bank of America books as partial receivable; the remaining $10 billion was paid out when the Merrill Lynch transaction was completed.

Other events, including the issuance of new debt, the lay offs, the charitable contributions, continues to impact the balance sheet as highlighted in this time line. So let's drill into one of these events. OK?

Just last week, the Bank of America filed their 10-K, SEC Annual Report for 2008. Now, here in the right side of the chart, what you're going to see is a statement about their new Q4 lending activity. And other institutions that made similar types of statement.

Now to use an analogy, think of your own checking your account. You know your balance. You just can't look at the deposits. You have to look at the withdrawals, too. So the add transparency, one must look at the offsetting activity shown in the summary, including write- downs, foreclosures, toxic asset reductions, et cetera, to get to the balance as you would in your own checking account.

You might question, the lending activity is occurring between the banking institutions and federally sanctioned lending institutions, just Freddie Mac, Fannie Mae, FHA, et cetera. None of this is contained within the filings themselves.

Now compare this single institution. We're looking at three separate -- an aggregated view of three separate institutions. In this case, Bank of America, Citigroup, and J.P Morgan Chase. These banks were recipients of more than $75 billion during the Q4 period of 2008 of TARP funds that were reported increased lending activity.

Similar offsets took place at these institutions, as well. What we see here is $75 billion in capital infusions and less than $100 billion -- or $100 million rather in increased net credit facilities to the American people. Now, that's what's on the balance sheet. What's off the balance sheet is another thing entirely, but that means it's not transparent.

How do we reconcile the overall lending activity from the institutions reporting to the federal government? Public data plus the additional data including Congressman Maloney's bill will enable the ultimate provider of information to go from a complex collection of separate transactions across thousands of organizations to greater transparency of funds, distributed to the government through private institutions.

I want to thank you, Mr. Chairman, Ranking Member Jordan, members of the committee for your time and attention.

KUCINICH: You gave us lot to think about here and sure there would be a lot of questions.

Mr. Barofsky, special inspector general.

BAROFSKY: Thank you, Mr. Chairman. Chairman Kucinich, Ranking Member Jordan, members of the subcommittee; I'm honored to appear before you today as the special inspector general for the Troubled Asset Relief Program, or as we call it SIGTARP; $300 billion is already gone out the door. And including the recently announced programs, Treasury intends to combine TARP funds with Federal Reserve and others, to more than quadruple, the original $700 billion allotment, fund at least eight separate programs involving approximately $2.9 trillion.

These huge investments of taxpayer money will invariably create opportunities for waste, fraud and abuse, and will require a strict oversight. To meet this oversight challenge, I have focused SIGTARP on three areas since our inception; enforcement, transparency, and oversight.

First, enforcement; of the four primary bodies set forth in the Stabilization Act, we alone are responsible for investigating those who seek to criminally profit from the TARP. To meet this challenge, we've developed key relationships with other law enforcement and prosecutorial agencies from coast to coast. Have already shut down one securities' fraud in Tennessee and several other criminal investigations pending.

Today, I'm also pleased to announce our newly formed TARP Task Force. The TARP has been announced the trillion dollar Federal Reserve/Bank of New York program that will be seeded with up to a $100 billion in TARP money. It's intended to restore liquidity into securitization market and lending government money to investors, including hedge funds, to buy newly issued asset-backed security.

We've been vocal in our warnings about susceptibility of this program to fraud and today we converted those warnings into action by putting together a team of federal law enforcement and regulatory investigators to address potential fraud in the TALF.

Members of this task force will include the SEC, the FBI, the Postal Inspection Service, ICE, Treasury's Financial Crimes Enforcement Network, Federal Reserve, Inspector General and the IRS, who'll operate out of New York and Washington and will provide training to both federal and local law enforcement and prosecutorial agencies, to provide a conduit to ensure quick response to any tip released, whether generated from our hotline, 877-6-2009, through

Federal Reserve or elsewhere.

Together the members of our task force will combine our shared experience in securities fraud investigation and combine our resources to identify and cut off potential fraud schemes before they can fully develop, to deter would-be criminals and bring to justice those who seek to commit frauds with the TRAP.

For any would-be fraudster, our message is clear. If you try and steal from this program, we will fine you. We will investigate you. And we will put in jail. My office is also focused on transparency since my first day in the office. And our audits are going to bring transparency both to those running the TARP program and the TARP recipients.

We're conducting the survey that TARP recipients use of fund. And on both recipient's plans for complying with executive compensation condition as well as Treasury's plans that in overseeing compliance. We are also conducting audits on the impact of outside influences, such as lobbyists on the TARP application process and a case study and the circumstances under which Bank of America received approval for $45 billion in cash, a $100 billion in asset guarantee in four different transactions from three separate TARP program.

As for oversight, we had and will continue to coordinate our oversight activities with my co-panelist, Rick Hillman and his colleagues at GAO, as well as the other inspector general, whose responsibility touched on the TARP.

We also decided to have a positive impact on TARP programs before the money goes out of the door. Treasury has adopted several of our recommendations and we'll continue to make recommendations to Treasury to address potential fraud as the new programs are rolled out.

TARP program has changed significantly since Stabilization Act was passed last October. Originally intended to purchase and manage $700 billion of toxic assets, that effort now stands as just a proportion of only of the eight intended TARP programs and less than 25 percent of total $2.9 trillion involved.

We must change with it and I ask that you support S383, Special Inspector General Act of 2009 that unanimously passed the Senate early last month and would give my office support and hiring flexibility to react as the TARP programs grow and evolve.

Quick passage of this important essential legislation helped me continue to build the necessary core of my office to meet this challenge.

Chairman Kucinich, Ranking Member Jordan, members of the committee, I commend you for your efforts to ensure proper oversight of trillions of dollars of American taxpayer funds. And I'd be happy to answer any question you may have.

KUCINICH: Thank you, Mr. Barofsky.

Mr. Hillman is the person who is the managing director of Financial Markets and Community Investment for the United States Government Accountability Office.

Thank you for being here. You may proceed.

HILLMAN: Thank you, Mr. Chairman.

I'm pleased to be here today to discuss our work on the Troubled Assets Relief Program. My statement today is primarily based on second 60-day report, required under EESA that was issued on January 30, 2009.

Specifically, my statement focuses on the nature and purpose of activities that have been initiated under TARP and Treasury's efforts to establish a management structure for TARP.

Regarding our first objective, Treasury has announced a number of new programs to try to stabilize financial markets. But most of it's activities during our reporting period have continue to fall under it's Capital Purchase Program. As of March 5, 2009, Treasury had disbursed approximately 300 billion in TARP funds, about 200 billion of which was for the Capital Purchase Program.

Our previous report, emphasize the lack of monitoring and reporting for program investments and recommended stronger measures to ensure that participating institutions used the funds to meet the programs purpose and comply with program requirements, on for example, executive compensation and dividend payments.

In response to our recommendation, Treasury developed plans to survey the largest 20 institutions monthly to monitor lending and other activity and analyze quarterly call report data for all institutions. While the monthly survey is a step toward greater transparency and accountability for the largest institutions, we continue to believe that additional action is needed to better ensure that all participating institutions are accountable for their use of program funds.

Our latest report recommended that Treasury expand the scope of its monthly surveys to include collecting at least some information from all institutions participating in the program. Further, our most recent report found that Treasury has made limited progress in articulating and communicating an overall strategy for TARP. This lack of a clearly articulated vision has complicated Treasury's ability to effectively communicate with Congress, the financial market, and the public on the benefits of TARP, and has limited its ability to identify personnel needs.

While Treasury has continued to publicly report on individual issues, testify, and make speeches about the program, it continues to struggle to convey a clearly articulated and overarching message about its efforts, potentially hampering TARP effectiveness and underscoring ongoing questions about its communication strategy.

Without a clearly articulated strategic vision, Treasury's effectiveness in helping to stabilize markets may be hampered. Our most recently report recommended that Treasury clearly articulate its vision for TARP and to document needed skills and competencies to achieve that vision.

Regarding our second objective on TARP's efforts to establish a management structure for TARP, our first report included several recommendations for Treasury to improve hiring, contract oversight, and its system of internal controls.

Treasury has taken important steps to address our recommendation, but in its latest report, we found that it still faces several challenges. First, it took proactive steps to ensure a smooth transition to the new administration by keeping positions filled and using an expedited hiring process, including direct hire authority. Moreover, after losing some potential candidates, because of conflicts of interest, Treasury is now asking candidates to address potential conflicts earlier in the recruitment process to avoid unnecessary delays in finalizing employment offers. However, it continues to face difficulty providing competitive salaries to attract field employees.

Second, consistent with our earlier report, about contracting oversight, Treasury has enhanced such oversight by tracking costs, schedule and performance, and addressing its training requirement of personnel who oversee the contracts.

However, as we previously recommended, Treasury needs to continue to identify and mitigate conflicts of interest in contracting. Similarly, in an earlier recommendation, our latest report found that a framework for adopting and organizing the development and implementation of a system for internal controls for TARP activities is progressing.

The plan -- the program plans to use its framework to develop specific standards, policies, drive communications and expectations, and measure effectiveness of internal controls and their related policies and procedures.

However, to-date, much work continues to be needed to be accomplished in this area including implementing a disciplined risk assessment process. Our latest report called for the development of a comprehensive system of internal controls over TARP activities, including detailed policies and procedures and guidance that are robust enough to ensure that the programs objectives and requirements are being met.

In summary, Treasury is taking important steps to implement our previous recommendations, but we continue to identify a number of areas that warrant ongoing action by Treasury to improve the accountability and integrity of the program.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to discuss these critical important issues, and I'd be happy to address any questions you may have.

KUCINICH: Thank you very much, Mr. Hillman. I'd like to go to questions now and begin with Mr. Horne.

In your testimony, you made a pretty shocking statement that new lending, several of the largest TARP recipients have claimed they're doing, has been grossly overstated.

I'm going to ask staff to help us with some of these Bank of America slides. How could the representations be so far at odds with your own?

HORNE: Well, Mr. Chairman, I don't believe that the representations, per se, are at odds, what they are, are one side of the story. You have...

KUCINICH: Well, we're just looking at new credit but not offset by credit contracted.

HORNE: If you're going to publish a story that says that you're giving $115 billion or whatever, $150 billion in case of another institution, et cetera that talks about new lending activities, the balance sheet would actually say to you that you should also show the opposite side of those transactions. That has not been what we've observed, and again...

KUCINICH: So, we don't really have a clear view as to the net effect?

HORNE: Transparency would dictate that you would want both sides of the...

KUCINICH: So, you could have a condition where a lot of money is going out the door, but the credit contracts and you have a net loss.

HORNE: Well, again, as I've said, we are trying to represent information from a transparency point...

(CROSSTALK)

KUCINICH: I know, he is right (ph).

HORNE: So, our issue is from a transparency perspective, if you want to be transparent and we've been doing so far 100 years for the commercial marketplace, you have to show both sides of the picture.

KUCINICH: OK.

HORNE: And it's impossible for you to say that you're giving out lending without having an offsetting amount that shows what's your retracting.

KUCINICH: Thank you. And so I want to ask Professor Sanders. From the standpoint of impact on the economy, which is the more accurate description of bank lending activities; the method of representation employed by several TARP recipients, or the method that Mr. Horne has presented?

SANDERS: Well, I think the method Mr. Horne is presenting gives us a much better picture of how it's really impacting our economy, and how it's impacting borrowers.

Because again, the way the bank balance sheets are structured and the call reports, we just can't get a good picture.

What Mr. Horne is talking about is much more in real time and is much more translucent. We can actually see what's going on.

KUCINICH: So, let's go back to Mr. Horne. If the banks you've identified are creating so little new credit, now that they are doing some TARP funds, what are they using TARP funds for?

HORNE: Well, again, most of the activities that we are seeing from a transparencies perspective are reflected in the balance sheet.

So, if you looked along the time line of some of the examples of events, you can see some of the example of events.

The first transaction that took place in the case of the Bank of America event was 16.8 billion debt buy down on Countrywide being infused into Bank of America. Now, at that point in time, they only received $15 billion, so they used some of their internal funds.

They also, many of the institutions need money to make money. In other words, you can't go out and lend secured notes so to create senior debt without having balances or relatively large sums in reserves.

So, they want to keep this money on their books in some cases in order to be able to try to get other institutions to invest in them.

KUCINICH: Well, can I get a true picture? The Treasury -- bank lending by relying under monthly intermediation?

HORNE: No, you cannot. You need to have every individual event that occurs transactionally over time brought together into a single format and structure to answer that question.

KUCINICH: So, all the necessary information is available to regulators to create transparency of how TARP funds are being used?

HORNE: All the necessary information is available in 25 or some odd different places.

KUCINICH: Mr. Bolgiano, Treasury can track how banks are using these funds?

BOLGIANO: Yes.

KUCINICH: And the technical capability is there, is that right?

BOLGIANO: That's correct.

KUCINICH: So, it comes at a question whether there's a will to do it?

BOLGIANO: That's right.

KUCINICH: Some have argued that since TARP funds are fungible. Is it not possible to track the use of TARP funds?

I mean, Mr. Horne?

HORNE: It's absolutely possible. Professor Sanders mentioned volumetrics. Volumetrics is: If you think of two glasses of water, and if you would pour the water they will both half full, and you pour the water out of one glass while you don't spill any into another glass, you should have the same volume of water.

If you look at individual events and remember there is a Pareto principle. I don't know how many are familiar with the 80-20 Pareto law.

Well, in these cases of institutions that we're talking about here, it's more like 95-5, where 5 percent of the transactions make up 95 percent of the actual movement of funds.

So, there's not -- as a portion of number of transactions, a large number volumetrically of funds that have to be looked at more to understand the ebb and flows of the funds moving throughout the business, OK?

It is complex in terms of the interconnection. That's why it's so important to have a format such as XBRL which would leave the ability to take two different systems together that are speaking totally different languages and bring them together as one.

KUCINICH: Thank you, Mr. Horne. My time is concluded. It's now, Mr. Jordan, you may proceed.

JORDAN: Thank you, Mr. Chairman. Is it fair to say then, I'm trying to gather this together. It's almost too much information in too many different forms is actually leading to a lack of transparency. Is that the problem? And we'll go to Mr. Horne again.

HORNE: Yes, Ranking Member Jordan. In some cases that is true. But I feel that it's mostly a lack of the ability for individual members of various committees of regulatory agencies et cetera to read paper documents.

We live in Washington in a document based world. We don't live in a data world.

JORDAN: Has there been a reluctance on the part of various financial institutions and/or the Treasury to embrace Mr. Bolgiano's XBRL that he talked about, or the process that's going to allow to sort of synthesize this and get it in a readable form? Has there been a reluctance out there to go that direction?

HORNE: Well, I would defer that to Mr. Bolgiano relative...

JORDAN: OK.

BOLGIANO: Well, in our markets today, there's...

JORDAN: And if there's been a reluctance, give me your why.

BOLGIANO: I think there is certainly a reluctance, first of all, to change in general. But also information is a very valuable commodity. And the absence of the standard and the absence of transparency makes the processing and the publishing of that information a very profitable and...

JORDAN: Right, sure.

BOLGIANO: This is a commodity that flows through our economy just like any other. So, the absence of transparency does protect certain businesses.

JORDAN: Mr. -- I want to go to the inspector general, Mr. Barofsky, your thoughts on the same question?

BAROFSKY: We obviously -- we've initiated -- we've taken a different approach to this. We made a recommendation to Treasury that the require banks, who establish internal controls to account for these the funds and report on the use of funds. We recommended that they do that on up forward going basis. They haven't. So we have initiated our own use-of-fund survey and we've pulled all of the banks...

JORDAN: Wait, go back. You made a recommendation to Treasury to increase transparency and they didn't?

BAROFSKY: Yes. That's included in our February 6th report. We made a recommendation that for every agreement going forward -- taking a step back, we initially made the recommendation back in late December.

And, they did adopt it with respect to Bank of America and Citigroup. And, those extraordinary transactions, it did require those banks to establish internal controls and our recommendation, and to report quarterly on how they are using funds. They have not adopted that recommendation with respect to any other financial institutions.

JORDAN: And, give me your guess as to why?

BAROFSKY: I don't want to hazard to guess. I think that Mr. Kashkari has articulated something this morning that are probably consistent with that explanation. I don't want to speak for him, but concern about putting certain conditions...

JORDAN: That's -- obviously, that's an important question particularly in your written testimony, you talk about the potential exposure of hundreds of billions of dollars in taxpayer money potentially being lost to fraud and that's in your written testimony, so that's an important question.

BAROFSKY: It's absolutely an important question.

JORDAN: And talk about the relation, your thoughts on the XBRL, that concept, as well.

BAROFSKY: From our perspective, we are taking a look and we're doing the survey of all the financial institutions use of fund, and we are going to get their narrative. They are coming in. I think we have about 90 percent responded.

I think XBRL would help us turn around and test some of these responses. But we're talking a different approach really on starting with the financial institutions own reporting on how they are using the funds. Now, our reports also require certification subject to criminal penalty that, if they lie to us, they would be committing a crime and we would investigate that. So, we're hoping that provides a sufficient hammer to make sure we get accurate responses.

JORDAN: It seems to be a pretty good intent. Last question: XBRL, can this help us? And my guess is it can. Get to the questions I posed earlier to Mr. Kashkari that we still haven't got at -- the focus of this entire TARP program initially of the mortgage backed securities. Can you really help us in that regard as well?

BAROFSKY: Yes. Mr. Jordan, we've been working on the mortgage- backed securities dictionary for the last six months with this question in mind. It's not a substitute for policy obviously, and it's not a substitute for access to the information, or the government authority to request that information. But it does give a consistent vehicle for that information to be delivered and for the government to use it effectively.

JORDAN: Thank you, Chairman.

KUCINICH: I thank the gentlemen.

Mr. Cummings, five minutes.

CUMMINGS: Mr. Barofsky, you mentioned the -- I think you're talking about the task force and then you just talked a moment ago about, if folks lie to you, what kind of -- how do you deal with that, and what is the offense?

BAROFSKY: Well, any official senior executive officer, any person who lies to us, we're government -- we're part of the executive branch. That's a crime under 18 U.S.C 1001.

It's the statue that (inaudible) for example is prosecuted under -- an easy example, and we require each and every one about the recipients for our survey to sign a certification with senior executive officer stating that the information that's contained in this report are true. And if they lie, that is a federal crime.

CUMMINGS: Do you -- when we tried to get information from some of these folks, they seemed to duck and dodge. And we don't always to get the whole truth and nothing but the truth. And I'm just wondering, do you feel that you're getting the kind of information that you need?

BAROFSKY: My audit chief who has begun the review of these surveys. We're holding off doing our full review until they are all in, which is -- should be this week.

He has told me that the initial -- his initial review that they've been very good responses. We've gotten a lot of detailed responses about use the funds according to him. He's encouraged that we're going to be able to do a very complete audit report. We'll have to take a look at that and then obviously there's going to be follow- up. We're not just going to take the banks at their word. We're going to be doing follow up as part of the audit process.

CUMMINGS: Now, are you staffed up to sufficiently?

BAROFSKY: No. We are growing. We've been in existence little bit under three months now. We have about 25 people on staff. We are trying -- we are aggressively hiring. It's been very difficult. The S.383, which is now in House, will help us grow. It gives us some hiring flexibility that we desperately need.

We're striving to build towards about 100 to 125 initially, so hiring is the challenge. But I also don't want to leave the impression that it's only me and my staff of 25 standing between the taxpayers' $2.9 trillion, and those who try to take advantage of it. We're working with all the federal law enforcement as well as some state law enforcement to make sure that we have the right protections in place.

CUMMINGS: Actually we have a vote coming but I have one question and I got to get out. In your written testimony, you indicate and I quote that, "you have begun an audit into the process under which Bank of America received $45 billion in capital investment and is to receive a guarantee relating to approximately $100 billion of toxic assets in four separate TARP transactions under three different TARP programs." You further state and this is what I'm getting to -- "as to coordinated oversight, it has been and will continue."

Now, considering what you wrote in your testimony, I'm interested to know whether the Treasury knew about the $3.6 billion in bonuses awarded by Merrill Lynch in December just before it was taken over by Bank of America. Did you know about that?

BAROFSKY: Congressman, I really can't talk about any matters that are pending under review in our investigation.

CUMMINGS: OK.

BAROFSKY: We have -- it has been stated that we do have a pending investigation into Merrill Lynch...

CUMMINGS: I didn't know.

BAROFSKY: Vis-a-vis bonus situation.

CUMMINGS: I understand. Well, let me ask you in another way. And then -- and this may fall another way. Is this the kind of information, though, that would normally come through your office?

BAROFSKY: Yes, Congressman. We would ask those types of questions and we would expect to receive those type of answers.

CUMMINGS: And you would expect to have -- get truthful answers, is that right?

BAROFSKY: It would also be a crime to lie to our office if we ask that question and somebody gave an untruthful answer that would also be a crime. So, yes, we would expect...

CUMMINGS: Very well. I know that we've got a vote coming up, so I'll move on.

BAROFSKY: Thank you, Mr. Chairman.

KUCINICH: We'll go to Mr. Issa.

ISSA: Thank you, Mr. Chairman.

I'm going to try and focus a little bit of attention again on XBRL. And I apologize going between here and the Circuit City bankruptcy hearing next door. And actually they have a lot comments and it cost Circuit City $30 billion to get a $50 million DIP financing package. Needless to say their Chapter 11 was short. But without getting into whether TARP fund should be used for DIP financing or encourage the debtor-in-possession financing to stop corporations from going bankrupt completely.

Mr. Horne, Mr. Bolgiano, let me go towards you again.

I think I heard Mr. Jordan kind of get on this, but I want to be absolutely sure. If XBRL were to be implemented going forward. Well, let's go the other way. If, in fact, we were to use XBRL to try to drill down into where the TARP money has gone today, would you be able to do that?

HORNE: Yes, sir. With the proper authority of the government, we would be able to provide the tool to be wielded by the government for oversight.

ISSA: So you could provide tool, they would need to make sure they had access to the database?

HORNE: We would be able to provide the standard to be wielded as a tool, a dictionary. But it's not a system, it's not software.

ISSA: So, we realize that you allow other people to develop independently software that use your technology.

HORNE: It's similar. If you would ask me 1993, would it make easier to get information from people if we had the web, I would immediately answer you, yes. It would be a quantum leap in the efficiency time and expense to gather information.

ISSA: So I guess, Mr. Horne, would you have the equivalent of Google, now that we have established it like getting the Web, would you have the ability to drill down?

HORNE: Well, I would love to be using that analogy. I think that the key is that we would actually create something would be -- to a great extent, even more actionable relative to this subject matter, because we would be dealing with the numbers of events that are specifically related to the financial instances that would be involved.

So the answer to that, Mr. Congressman, is, yes, we would be in that kind of position.

ISSA: And then I think I'll shift -- obviously, if we implemented this technology going forward, it wouldn't just be -- the two of you would be asking, but in fact all our regulators would then have the tools to do this themselves?

HORNE: That is correct.

ISSA: And it would also be on the basis of the fact we're asking through Congressman Maloney and Congressman King, and also in the Senate to pass a bill that would allow access to the regulated data. So wouldn't just be the data that's publicly available, but also the data that would be available only to those people, who would have access to regulatory purposes.

(UNKNOWN): OK. Mr. Barofsky -- when we had Mr. Kashkari, Secretary Kashkari here a few minutes ago, he answered in very, very many ways that of course he would love to have the ability to have more transparency to know the value of these assets in order to value and so on. But today, are we in fact as I -- I'm going to lead a little bit here, are we in fact asking for repeatedly, and are you asking for repeatedly, production of documents, almost in the way that attorneys do in a court case, where you have to know what you want, you ask for it they turn it over to you. Often, you have to sit through it and say, but it's not in a format I can use. Can you re- manipulate it and send it back to us? Is that pretty much what's going on in the delivery of answers to your questions by the various TARP recipients?

BAROFSKY: No, Congressman. From what my audit chief tells me, we've gotten good narrative answers that we think are going to be very useful. We...

(UNKNOWN): But I was talking about production of data, not narrative answers. In fairness, Bank of America said they were solvent, so solvent that they could turn around and buy Merrill Lynch.

Today, we know that that's not true. But in fact, we'd have been much better off having Merrill Lynch live or die on its own, B of A live or die on its own and not have two organizations perhaps "too big to fail," be now two organizations made into one "too, too, too big to fail."

So back to the question -- you are receiving answers to your requests, narrative answers. Mr. Kashkari, of course, (inaudible) receiving them. But the real question, the question that was Mr. Horne was asked and answered was: Do you, or does anyone, in the federal government have the ability to basically ask the question, if they have the access, and get the answers from raw data -- diverse raw data? Or, do we in fact depend on often self-serving individuals at various large banks, who do not want to fail, to give us answers that causes to give them money only to later get answers that they need money.

KUCINICH: You can ask -- the gentleman's time has expired, but please answer the question.

BAROFSKY: We've not asked for that type of raw data, in part, because it would be simply way too expensive for us to analyze it.

ISSA: If I can conclude. So you don't ask for the information because you couldn't analyze it. People are here today talking about the tools to analyze it, both prospectively and retrospectively. And we are being told "No, we are going to rely on companies to deliver us information, that have proven to be unreliable."

KUCINICH: The gentlemen makes a point, if I may, and that is, Mr. Barofsky, how do you know if people are telling the truth, if you don't have a comprehensive database against which to analyze the bank's reports?

BAROFSKY: What we are doing in our survey, and how we are going to test these answers is there are several things that we've built into the survey. And it is a survey. Let's be very clear. We are initially -- at the initial part of this audit, and it is part one, relying on the banks responses, but not in a vacuum. For example, we've asked them to make reference to budget and plan. Our experience is that when a bank gets a huge influx of cash, they don't just say, "Have a party." They budget. They plan for it. These TARP programs are expensive for some of these banks.

KUCINICH: Well actually AIG did have a party, if I remember...

ISSA: They did.

BAROFSKY: They may have, but many of these financial institutions, they have a plan. They have budgets. They make reference to internal e-mails, internal planning, and we are going to test it against that.

And again, if they do lie, if they do tell us a story, and it doesn't match up with their internal documents with their public statement, with data that we can later obtain, they've committed a crime, and we are going to investigate that thoroughly.

KUCINICH: And this -- and if I may say that this investigative party will continue. We have dozens, literally dozens of questions to ask the witnesses, but we are out of time.

We are going to submit written questions as a follow-up to the witnesses. And I'll ask Mr. Issa and Mr. Jordon to join me in this, that will help to fulfill the purpose of this particular meeting.

We have had a very patient panel here in front of us, because this hearing has gone on over five hours. This -- the title of the hearing, "Peeling Back the TARP, Exposing Treasury's Failure to Monitor the Ways Financial Institutions are Using Taxpayer Funds Provided Under the Troubled Assets Relief Program."

We know that we could be looking at as much as $3 trillion -- funds that are coming from our government, from the taxpayers, to these various Wall Street interests. It is a mind-boggling amount of money. And we also know that if treasury does not have the capability to keep track of those funds, we are looking at a nightmare. And we are looking at severe challenge, the trust in the political system.

We can worry about banks collapsing, but we also better worry about the trust that the American people should have in their government collapsing, because that is the basis for our entire nation. It's all held together by trust. So, I want to thank each of the witnesses for what they have done to try to take a path towards trust and towards accountability, and towards reliability of the information which Congress has given.

I want to thank you on behalf of this committee and on behalf of the American people, this committee meeting stands adjourned.

But we will be back at this subject. I want everyone here, who is paying attention to this to know, this subcommittee will not relent in our efforts to make sure that the people of the United States know how their tax dollars are being spent.

BAROFSKY: Thank you, Mr. Chairman.

END

LOAD-DATE: May 21, 2009