SEN. CHRISTOPHER J. DODD HOLDS A HEARING ON THE EMERGENCY ECONOMIC STABILIZATION ACT

September 24, 2009 Thursday

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COMMITTEE: SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

SPEAKER: SEN. CHRISTOPHER J. DODD, CHAIRMAN

WITNESSES:
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WITNESSES: HERBERT M. ALLISON JR., ASSISTANT SECRETARY FOR FINANCIAL STABILITY, DEPARTMENT OF THE TREASURY
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TEXT:

DODD: The committee will come to order. Let me welcome all of our colleagues here this morning and our witnesses. Let me also welcome my very good and dear friend of many, many years, Judd Gregg.

Judd, we welcome you to the committee.

And Judd and I served on committees together. We serve on the Health, Education and Labor Committee and together we went through the marathon markup earlier this summer.

I guess you're going through it again (inaudible). Are you in...

GREGG: (OFF-MIKE)

DODD: No, you don't have to go through that again (inaudible). But delighted you're a part of us. We're -- we're getting a lot of governors on this committee here I (inaudible) pointed out by...

(UNKNOWN): They like...

(CROSSTALK)

DODD: ... Senator Shelby (inaudible) governors. Look at them smile here, the governors smiling around the table here at the -- the possibility of being involved in this.

But, Judd, we're glad you're with us, and thanks for joining us.

We'll miss Mel Martinez. Mel did a great job on the committee. He was invaluable to us as a former secretary of HUD and brought some wonderful perspectives to housing issues and others as a member of the committee, and so we wish him well.

But again, Judd, we're delighted to have you with us in this -- in this process.

I want to make a couple of opening comments. I'll turn to Senator Shelby, our former chairman of the committee, and then we'll turn to our witnesses, following the Corker rule that unless members insist upon being heard before we hear from our witnesses, we'll recognize them at their appropriate time and the process will go forward to make...

(CROSSTALK)

SHELBY: Mr. Chairman, that's an unwritten rule, though.

DODD: It's the unwritten...

(CROSSTALK)

DODD: ... unwritten Corker rule, I call it here (inaudible), and he -- look at him smile. He smiles every time I mention that, I think.

(LAUGHTER)

There's the Byrd rule and the Corker rule. We just have different rules along the way.

Well, good morning, everyone. A little over a year ago, Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke and SEC Chairman Chris Cox came to Congress with an urgent message. The American economy was on the brink of total collapse and they needed $700 billion of taxpayer money to stop it.

Already, our nation, of course, as all of us know here, was in the midst of an economic crisis that threatened small businesses' ability to make payroll, cost us more than half a million jobs in our nation, and turned the American dream of home ownership into a nightmare for many, kept students from getting college loans, and wiped out hundreds of billions of dollars in savings that Americans were counting on for their retirement.

With financial giants toppling what seemed like every day, and with businesses large and small suddenly unable to access the credit they needed to operate, we clearly needed to act.

But when the Bush administration's proposal emerged, it was clearly unacceptable. I know particularly Judd, myself and Bob Corker and others were involved in those days, and it was a wild two weeks that we went through back a year ago. It was one matter after another.

My colleagues may recall that the original proposal asked Congress pretty much for a blank check, with no protections for taxpayers on those -- whose account it was being drawn. The proposal included no congressional oversight, even wanted to prohibit judicial or administrative review of the secretary's decisions.

In short, the Bush administration asked Congress to put up an unprecedented amount of taxpayer money and executive power under the unchecked control of one unelected individual with no guidelines to ensure that it would be used properly, without even so much as an offer -- office, rather, with a dedicated staff to keep track of where it was going.

Doing nothing, obviously, was not an option. But neither was the proposal that we were submitted at least initially. The crisis demanded that we bring together members of the House, the Senate, Republicans and Democrats, and hammer out a better solution, and that's what happened over the ensuing several weeks.

We fought hard to include taxpayer protections, meaningful oversight. We fought to ensure that if ordinary Americans who had done nothing wrong were going to pay for the stabilization effort, they would get to share in the benefits if companies became more profitable, an initiative drive by Senator Jack Reed, in fact, of our committee.

We required Treasury to put hospitals and the financial security of American families at the top of the agenda. And we established three oversight bodies that are before us today to keep an eye on what was happening in the ensuing weeks and months.

And we made certain that we put first and foremost the principle that with this assistance to the financial sector would come real change so that a crisis like this wouldn't happen again.

I'm glad that we had -- are we -- are any of us glad that we had to spend this money? Absolutely not. It was a tragic time in our country to go through that period of time.

And do I share a lot of the anger and frustration that many of our colleagues and our fellow citizens felt at the time and still do in many quarters that Wall Street greed and regulatory neglect left taxpayers on the hook? All of us, I think, share in those emotions.

But I'm also, I think, proud of the work that we did a year ago. It wasn't easy in the time constraints we were given. People stepped up. We did the best we could under the circumstances. Certainly, it was far from perfect. We all know that today, looking back.

But in the time we were given, the circumstances we were confronted with, I think we did the right thing, and I think history will prove that to be the case.

DODD: I am relieved that we have managed to bring our economy back from that brink. We're not talking about a depression any longer or a complete meltdown of the financial services sector.

And I'm more committed today than ever to taking action so that the American taxpayer (sic) who funded the effort aren't asked to clean up another mess they didn't make for the future and related matters.

We need to take action to restore America's confidence, sense of optimism, in their financial security by reforming a regulatory system that still continues -- contains far too many gaps, loopholes and redundancies.

The 20th century regulatory structure has been outpaced by the 21st century innovations in the financial services industry, and if we don't fix it, we could be right back where we were a year ago, facing another dreadful choice between a massive outlay of taxpayer dollars or an unimaginable economic disaster for our nation and others around the globe.

I look forward, obviously, to working with my colleagues. Senator Shelby and I are good friends. We've worked hard together on numerous issues. I've mentioned already several members of this committee.

And again, I welcome you, Judd, to this effort because of your knowledge and background experience as we try to navigate these waters in the coming weeks and months to try and respond to the challenge before us.

So with that, I thank my colleagues. In a minute, after hearing from Senator Shelby, we'll hear from our first witness, Herb Allison.

Senator Shelby?

SHELBY: Thank you, Mr. Chairman.

We meet today to continue our oversight of the Troubled Asset Relief Program, or something we call TARP.

Last year during a critical phase of the financial crisis, as we all know, Treasury Secretary Paulson and Federal Reserve Chairman Bernanke came to Congress warning of an imminent economic disaster that could only be avoided by the immediate expenditure of massive amounts of taxpayer dollars.

They argued that hundreds of billions of dollars were needed to purchase troubled assets from weakened financial institutions. At the time, I expressed serious reservations about this plan because I did not believe that a massive and crude bailout bill was the most prudent course of action.

Instead, at that time I argued that we should first clearly and thoughtfully determine what had gone wrong. Only then could we hope to develop an effective plan of action. That could have been accomplished in a relatively short period of time.

It seemed apparent that this crisis would require a wide range of programs and actions to stabilize the financial markets. Had we recognized this at the outset and addressed each problem by order of priority and in a coordinated fashion, I believe our response would have been more effective and made better use of taxpayer source -- resources.

Unfortunate -- unfortunately, this was not the course we chose to follow. Weeks after the deadline for so-called emergency action had passed, we gave the administration the massive check it requested, added some oversight provisions and moved on.

Almost immediately, our hasty actions produced a likely outcome. The administration changed course entirely, abandoned the asset purchase concept and adopted a plan to make direct capital injections into financial institutions.

When the Capital Purchase Program was not enough for some institutions, the Targeted Investment Program was created. When some institutions required even more assistance, the so-called Systematically Significant Failing Institutions Program was put in place.

Finally, the TARP became the bailout fund for the auto industry finance program through which G.M., Chrysler and a large number of auto suppliers received assistance from the federal government.

We certainly have traveled a long way from the troubled asset purchase plan to where we are today. In addition, as I argued would be the case, TARP money did not address many of the core problems of our financial markets.

The banking regulators had to contort banking law to create a program to allow the FDIC to guarantee billions of dollars of bank debt.

The Treasury also had to initiate a money market mutual fund rescue program that was followed by a separate Federal Reserve Bank of New York program designed to achieve much the same thing.

In addition, deposit insurance coverage amounts were significantly increased, and the SEC banned short selling of the stocks of certain financial terms -- firms.

The Federal Reserve also began a series of efforts, as you'll recall, to address problems in the commercial paper markets and has stated its intention to buy more than $1 trillion in mortgage securities.

The Federal Reserve cut interest rates. In fact, the Fed has committed over $2 trillion from its balance sheet to address market instability.

Again, I believe a more deliberate process would have yielded a better understanding of the crisis and the need for particular actions. It would also have given the Congress the opportunity to participate more fully in the decision-making process. We are, after all, spending the American people's money.

Going forward, I believe we must continue to ensure that the program which the CBO is already estimating will cost taxpayers more than $200 billion, is managed as well as possible. A great deal of work remains.

The oversight entities should work diligently with Treasury and Mr. Allison to increase transparency and limit taxpayer losses.

And as we approach the expiration of the TARP program, which is December the 31st, 2009, we must remain mindful of the original intent, market stability. The administration should not, I believe, pursue policy objectives through the TARP that are unrelated to that goal. In other words, the TARP should not be extended.

Thank you, Mr. Chairman.

DODD: Thank you very much. Thank you very much, Senator.

In -- in the absence of any other members wanting to be heard at this juncture, we're going to introduce our first witness as we thank him for being with us.

Herb Allison, Jr. is the assistant secretary for financial stability in the Department of Treasury. Prior to this position, he served as the president and chief executive officer of Fannie Mae when that company was taken under conservatorship in September of 2008.

He's also served as the chairman, president and chief executive officer of TIAA-CREF, a leading retirement services company. He had a long career at Merrill Lynch that began in 1971 and culminated in him being elected president and chief operating officer in 1997.

And we thank you very much for your service to our country in this latest capacity, and anxious to hear your thoughts this morning.

Mr. Allison?

ALLISON: Chairman Dodd, thank you very much.

Ranking Member Shelby and members of the committee, thank you for the opportunity to testify before you today. As we approach the one- year anniversary of the Troubled Asset Relief Program, or TARP, I welcome this chance to update you about the progress we've made in restoring our financial stability.

Let me start briefly with the challenges that we faced a year ago. We were in the midst of the one of the worst periods in our financial history. Major institutions were in distress, credit markets froze, and we faced a run on money market mutual funds.

In response, Congress took the difficult but needed step of creating TARP through the Emergency Economic Stabilization Act of 2008, or EESA, which gave the Treasury Department unprecedented authority to stabilize the U.S. economy.

The consequent actions taken last fall achieved the vital but narrow objective of preventing a meltdown of the financial system.

But by the time President Obama took office in January, the nation faced a full-blown economic crisis as monthly job loss reached 60-year highs and home foreclosures accelerated rapidly. There was concern that we were headed toward a second Great Depression.

One year later, thankfully, that is no longer the case. Treasury has made the necessary investments to restore confidence in our banks, restart credit markets that are critical to American households and businesses, and support homeowners.

We still have a long way to go before true economic recovery takes hold, but there's little doubt that we have moved back from the financial brink and toward economic recovery.

TARP has been central to those achievements over the past year. Of the $700 billion authorized for TARP by Congress, Treasury has announced programs totaling $644 billion under which $444 billion has been committed to date.

Throughout this process, our goal has always been to recapitalize our financial system with as much private capital and as little taxpayer funding as possible.

Since the release of the bank stress tests in early May, banks of all sizes have raised $80 billion in common equity and $40 billion in non-guaranteed debt. That enabled more than 30 banks to repay their TARP funds, returning over $70 billion to the general treasury.

There are promising signs from other TARP programs, too. For instance, the Term Asset-Backed Securities Loan Facility, or TALF, operated by the Federal Reserve Bank of New York, has helped narrow spreads and improve liquidity in the markets that facilitate lending to consumers, students and small businesses.

The Making Home Affordable Program, designed to prevent affordable -- avoidable foreclosures, is on track to reach its goal of 500,000 trial mortgage modifications by November 1st, and perhaps even earlier.

We do recognize, however, that there is still much more to be done to help homeowners. The weighty responsibility of the TARP mandate to steady our financial system and vigilantly protect taxpayers' money is one of my -- is one that my colleagues and I take very seriously.

We have instituted strict controls over TARP investments and operations. The programs also benefit from regular and open communication with our four oversight bodies, and we have implemented fully or in large part the vast majority of their recommendations.

The question now is what lies ahead. TARP was created as an emergency response to a major financial crisis. The use of these programs, by design, will decline as the financial system recovers. But we must remember that our economic recovery has just begun, and significant parts of the system remain impaired.

Foreclosure and unemployment rates remain unacceptably high across the country. Small businesses are still grappling with unusually tight credit. And continued decline in real estate prices both in the residential and the commercial markets could put additional pressure on bank balance sheets and capital positions.

But ending the financial crisis is not primarily about helping banks. It's about restoring the mechanisms that provide opportunity to everyday Americans to purchase or keep a home, to finance an education or to expand a business.

It is with these goals in mind that we've created the programs in TARP and President Obama's financial stability plan. Every day we strive to meet these challenges to remain prudent investors on behalf of the American people.

Thank you again for the opportunity to testify, and I look forward to your questions.

DODD: Thank you very much. Thank you very much, Mr. Secretary, and again, we appreciate your presence here today.

And I'm going to ask the clerk to -- why don't you put on, say, six or seven minutes, and try and keep an eye on that so we get around to everybody here? We have pretty good participation this morning. I want to make sure we get to hear everyone.

Let -- let me start off, if I can, Mr. Allison, about the loan modification programs. I -- I suspect what I'm about to say could be repeated by almost everyone on this side of the panel -- the table here, and that is we get calls every day in our office from people who just feel terribly frustrated about their ability to come out with some modification of their mortgages, to try and stay in their homes if they can.

And -- and I know the administration's plan is starting to ramp up -- but literally on a daily basis. And we're told, maybe for different reasons now, given the unemployment rates -- while they're not what they were in January, are still very high, obviously, and that a lot of the foreclosure threats come more from that than, say, the subprime problems that existed a while ago.

And -- and the question is what's being done about it. What can we do? I just find frustrations. I'm hearing from some people that -- that just mail notices or calls are not -- not the contacts with the actual people who are not yet delinquent but are in the verge of being so.

Catching it early could actually maybe work something out so you can keep people in their homes. Some cases maybe you can't at all, and I -- I, for one, realize that's also a conclusion you ought to be able to reach. And if so, then you move on and get the property moving, get it turned over. So there's some flexibility with all of this.

So I gather it's a lack of personnel in some cases, getting people trained, asking people in institutions and banks who have never really been in the volume -- confronted with the volume that we're facing today to deal with these matters.

But -- but I want to know if there's any -- what -- what thoughts are you giving to this as the administration? Are you thinking about a moratorium, for instance? Some people have talked about three months of a moratorium on foreclosures in order to give time for the ramping up of the individuals and so forth.

I -- I get uneasy about moratoriums, because I think it just forestalls the inevitable and -- and you can have a negative impact of unintended consequences in the marketplace if you do that.

Does it need more personnel? Do we need to demand that there's the kind of personal contacts? If you're paying fees, you're getting fees as a servicer. Are those fees being used to actually reach out to people to find out early enough on where they are in their ability to meet their obligations on their mortgages or not?

But what presently is going on is just not working, so I'm very anxious to hear what plans, if any, the administration has to address this problem, which appears to be going larger again, given some of the indications we've heard about a -- a new wave of foreclosures coming to the country?

ALLISON: (OFF-MIKE)

DODD: You have to turn the mike on, please.

ALLISON: Thank you, Chairman Dodd. We certainly do share your concerns. We have seen the volume of trial modifications increase rapidly. As I mentioned in my testimony, we may actually exceed the target number of 500,000 trial modifications by November 1st.

Nonetheless, we are receiving complaints as well from homeowners who are anxious who aren't receiving responses from their banks as fast as they would like. We are publishing now statistics by bank on their efforts and their success in modifying mortgages.

ALLISON: But we also are going to be soon publishing reports on the service quality by each bank, and we hope that that daylight being shown on their service quality is going to provide additional emphasis -- impetus for them to improve their service quality.

We also, in order to make sure that more people can get into this program and succeed in the program, we have to streamline the process of providing documentation from homeowners to their servicers. We're trying to make that a simpler process. And we're going to have significant progress, I think, in that over the next weeks and months. I think that's very important.

We also have to reach out more across the country to make sure people are aware of the program, and of its features. And they have an opportunity to -- to take part.

So far, the servicers have contacted, sent inquiries to over 2 million people. And we have offers out to over 500,000 people. And trial modifications are now approaching 400,000. So, we have made material progress over the last few months. But we're not, by any means, satisfied.

We had a meeting with all the servicers in late July. We're going to have another meeting in early October, bring them to Washington and spend a day discussing with them the various issues that you have so correctly pointed out.

DODD: Let me -- you know, a lot of this may be anecdotal. So, I want to be careful. I haven't done any big surveys here. But I've heard, for instance -- I've heard that Freddie Mac does a pretty good job of getting the personal contact with people who could be falling into a foreclosure situation. Whereas I've heard FHA is doing a dreadful job at this. Again, that may be anecdotal. I don't know that. But it seems to me there seems to be an uneven application of the ability to -- the willingness to actually reach out to people.

Sending people an notice in the mail or making a phone call is not being proven terribly successful. But where there are personal contacts with people and making an evaluation of where people's abilities are to -- to meet those obligations seems to be producing better results as the intention to do a lot more insisting upon personal contacts with these people or not. What is it -- what is is -- where are we headed with that?

ALLISON: Yes, Chairman Dodd. That is the intention. There have been events held throughout the country in major cities and rural areas with bank servicers. We participated in a number of those as observers. Freddie Mac and -- and -- and Fannie Mae are out there as well.

This -- modifying mortgages is a homeowner-by-homeowner operation. It's intensive. It requires personal counseling in many cases. And we need to reach out and contact as many people personally as possible. And some...

DODD: But I'd appreciate hearing -- hearing back on this, if you could. I'd like to know specifically what's being done about that, because the complaints are mounting. I appreciate what you're doing.

ALLISON: Right.

DODD: But I'd like to get a far more frequent analysis of how that's working.

ALLISON: We'll be happy to provide you information about that, Chairman.

DODD: Let me jump quickly, if I can to -- to the regional banks and the growing problem with commercial real estate; because we're hearing all of this again. There's a wave coming in commercial real estate that poses some real additional threats to our economic recovery.

Many regional banks are reportedly in trouble, in part because of commercial real estate. One study by Canadian observers predicts that over 1,000 U.S. banks could fail. The FDIC's list of troubled banks reportedly exceeds 400. One, I guess, is could the failure of 400 or 1,000 (ph) regional banks cause a renewed financial instability at the level we've been talking about? If so, what are we doing -- or are we doing all that we can to help these viable regional and community banks as we have done to the nation's largest banks?

They're sitting out there. They didn't cause any of this problem in many ways here. And yet, they're going to face a tremendous wave of -- of difficulty. And how do we intend to use TARP monies here to reduce this potential for instability, if, in fact, you agree that it would create a significant amount of instability in our economy; if, in fact, these numbers that people are talking about turn out to be accurate numbers.

What plans do we have, if any, to assist our regional banks and community banks that we provided the same level for these large money- centered institutions?

ALLISON: Chairman Dodd, we have -- first of all, last May, we reopened the capital purchase program for smaller banks, banks with under $500 million of assets. And we need them to be active in the commercial as well as the residential real estate markets.

Furthermore, the TALF program is aimed directly at the problem of restarting the securitization markets, which is so important to providing commercial and residential mortgage-backed securities to individuals and businesses. And that program has been quite successful.

We also expect to be launching the fist of the public-private investment partnerships. The end of this month, we'll have our first closing. And that is also intended to re-ignite trading in the -- in the mortgage-backed securities markets, both the residential and the commercial.

It's also very important that banks continue to replenish capital going forward. I know that the regulators are very much involved with the banks in dealing with the -- with the question of the impact, potential impact, of continued downturn in the commercial real estate market.

DODD: Well, thank you. And again, we -- this is a -- one we've got to maintain some close contact with the administration on this as this evolves. In fact, I have some additional questions, if we get around to them, to the -- to the public-private investment program.

But let me turn to Senator Shelby.

SHELBY: Thank you, Chairman Dodd.

Mr. Allison, the Treasury Department, thus far, according to my understanding, has sunk close to $50 billion into General Motors. The Congressional Oversight Panel recently reported that, in order for the taxpayers' bailout to be repaid in full when treasury sells its G.M. stock, G.M. would need to have a total market capitalization of $67.7 billion.

As of yesterday, the market cap of G.M. was a mere $455 million, less than 1 percent of the target that would fully repay the taxpayers. For taxpayers to be fully repaid, General Motors' market cap would need to increase by about 14,000 percent -- 14,000 percent.

Given the G.M. is facing a challenging environment since its current market share of U.S. light vehicle sales has fallen to less than 20 percent compared to a market share of more than 28 percent in 2000, what's the likelihood, Mr. Allison, of the -- that treasury will take a huge loss on its investments in G.M.?

ALLISON: Ranking Member Shelby, thank you for your question. I know that's very much on the minds of the American public as well. A number of actions, as you know, were taken to save hundreds of thousands of jobs by rescuing General Motors and Chrysler and, at the same time, requiring them to restructure fundamentally, so that they could compete more successfully going forward.

The success of that -- of those companies will depend on their management and their strategies. We are obviously very much -- very closely observing the progress of both of those companies. We are not, however, an active shareholder in those companies. We own shares in General Motors. But our intention is to divest those shares as rapidly as that is possible and to -- not to get involved in the day- to-day operations of those...

(CROSSTALK)

SHELBY: You're not an active shareholder. Yet, you're a shareholder, right?

ALLISON: We are a shareholder.

SHELBY: Well, why aren't you an active shareholder if the American taxpayers' money is involved, and you're -- it's part of your job to protect that money.

ALLISON: Yes. What we did, Senator, is to take very strong actions before the bankruptcy to ensure that they would come out as fundamentally different companies with much better prospects than they had before.

SHELBY: Sure.

ALLISON: And we are also observing very closely their progress. And we believe that there are possibilities for those companies to regain market share and to increase value for the taxpayers.

SHELBY: I want to shift to AIG.

ALLISON: Yes.

SHELBY: The General Accounting Office this week issued a report on AIG in which it stated, among other things, that it remains uncertain as to whether AIG will ever be able to fully repay the $180 billion in federal assistance that has been extended to the company. In addition, the Congressional Budget Office has estimated that the treasury will lose a sizable portion of the TARP funds it's invested in AIG.

From your perspective, how much do you expect the government to lose on its bailout of AIG? And how long do you believe it will take for treasury to divest its interest in AIG? I know they're tough questions.

ALLISON: Well, sir, I think first of all that the -- the rescue of AIG was absolutely essential at the time to protect the financial system of the United States. I think the consequences of a sudden, unorganized failure of AIG would have been extremely damaging.

We, again, are monitoring our investment very closely. The -- the company has a new board of directors. It has a new chief executive officer. They are working very hard to stabilize the insurance companies and reduce the risk in that company. And I think they've made substantial progress so far.

But they still have a long way to go. And I think the eventual outcome is still unclear. But they've made notable progress. And we expect further progress going forward.

SHELBY: I want to shift to Citigroup -- easier. Not really. Citigroup has received more than $300 billion in financial support from the federal government, including $50 billion from TARP. This -- this is exception financial assistance. Because the Treasury Department received significant equity stakes in Citigroup, 36 percent, I believe...

ALLISON: Yes.

SHELBY: ... in exchange for this assistance. The federal government now has a major say in how Citigroup will operate. You're the largest stockholder. What steps is treasury taking to restructure Citigroup to ensure that it does not present systemic risk or require additional taxpayer funds? It's still a sick bank.

ALLISON: Senator, first of all, again, we are not actively involved in the day-to-day management of Citigroup. We are, as you correctly say...

SHELBY: Excuse me a minute. Let me -- let me -- let me interrupt you a minute.

ALLISON: Yes, sir.

SHELBY: I don't mean to be -- you're a 36 percent stockholder, the largest stockholder in Citigroup, that is the taxpayer. You're -- part of your job is to oversee how this company is run. So -- and you just said, as I understood you, that you're not actively engaged in -- in the running or work (ph) of Citigroup.

ALLISON: Right.

SHELBY: And if you're not, why aren't you?

ALLISON: Well, sir, we -- we, first of all, believe that the federal government's role should be limited to voting on certain matters as a shareholder, such as the election of directors and major corporate events. We believe that it's not the job of the federal government to be micromanaging companies. And, in fact, it's in the taxpayers' interest for the companies to have strong boards of directors and strong management.

If the government were to interfere too much, we actually might reduce the potential value of those companies.

SHELBY: But looking at the history of Citigroup in the last 20 years, are you satisfied that Citigroup is considering -- is going to grow -- grow strong and grow out of all of this and pay all this money back? Or you do not have those concerns.

ALLISON: Well again, Citigroup has made progress since the crisis in reducing risk in that company, in strengthening its management and especially its board of directors. So, we have seen progress in -- in -- in Citigroup. And we expect further progress in the months ahead.

SHELBY: Well, my last question -- I know my time's running. At a recent congressional oversight panel hearing, Secretary Geithner observed that certain capital purchase program investments are earning taxpayers a double-digit return. The Congressional Budget Office, CBO, however, estimates that the CPP alone will lose in excess of $20 billion. We will lose more than half of our investment in the car companies and AIG, they predict. And for the entire TARP program, we will lose more than a third, at least, on the $700 billion.

Do you believe that CBO's congressional budget numbers are accurate? And if not, how do you differ with them?

ALLISON: Well, first of all, Senator, let me mention again that we have received over $70 billion of repayments and -- and close to $80 billion of total payments of dividends and interest and so forth.

SHELBY: That's over 10 percent, a little over.

ALLISON: Well actually, in terms of the capital purchase program, the total amount that was committed was $204 billion. We've received $70 billion of that money back. And the return of the banks that have completely repaid, including repurchasing their warrants, has been close to 18 percent.

On November 16, we will be publishing the evaluations of all of the assets in the TARP program. And...

SHELBY: This would be a complete picture.

ALLISON: Yes, sir.

SHELBY: OK.

ALLISON: That will be a complete picture. So, at that time, you'll be able to see what the returns have been so far.

SHELBY: Thank you, Mr. Chairman.

DODD: Thank you very much, Senator.

Senator Tester.

TESTER: Thank you, Mr. Chairman.

And I want to welcome Mr. Allison to the committee. It's good to have you back.

ALLISON: Thank you very much, Senator.

TESTER: I very much appreciate the opportunity to ask you a few questions.

During the debate last fall on -- on the TARP, I was concerned that there weren't enough limitations on the TARP money, that it might end up in foreign banks.

And then later on, we ended up dealing with -- with the auto dealers -- with the auto manufacturers, particularly G.M. and Chrysler, and -- and there was some concern by me that the money that would be given to them wouldn't be spent domestically.

And since it was taxpayer dollars, I thought it was important -- in fact, I think at one point in time in the questioning of G.M. and Chrysler and Ford's execs, I asked the question, you know, "Where's the money going to be spent? What's it going to be spent on? What country is it going to be spent in?" Because, quite frankly, these were taxpayer dollars and -- and the economy here was tanking in a big, big way, and I thought the right thing to do was to spend it here.

In response to that, a few months after they received the $50 billion, G.M. went to the bankruptcy court and got a contact negated between Stillwater Mining, which supplies G.M. with palladium, got it thrown out so they didn't have to live up to it, the only palladium mine in the United States.

And instead, they wanted to use palladium and are using palladium from South Africa and Russia, and their reasoning for doing this was -- is that they could pay back the TARP money quicker, even though a few months earlier they said they needed the money to keep their suppliers whole, of which the Stillwater Mine was one of those suppliers -- 1,300 jobs, one of the largest employers in Montana, and these are jobs that have good health care benefits and good paying wages.

I guess the question I have is do you think it was appropriate for G.M. as one of their actions -- well, actually, one of their first actions -- out of the chute to negate a contract with a U.S. company so that they could -- U.S. -- U.S. mine, I should say, so they could do business with a -- with a foreign mine?

ALLISON: Senator Tester, first of all, we share your concern about maintaining jobs, not only in Montana but across the country, and that's one reason why the Obama administration has launched the largest economic plan in the history of our country, as long -- as well as the financial stability program.

Again, with regard to General Motors, we are not taking an active role in the day-to-day management of that company. And we believe it's in the taxpayers' interest that we not do so. And as I've said, we've strengthened the management and the board at -- at General Motors, and we do see progress.

We, though, cannot get directly involved in decisions like the one that you talked about.

TESTER: But in the spirit of the -- the TARP -- the TARP dollars, who gets involved? I mean, because the fact is -- is this is a half-a-million-dollar-hit a month to this mine. It's going to result, potentially, in some job loss. I can't imagine it not.

And it's absolutely shipping money outside the country. And they -- G.M. will turn around and say, "Yeah, but we're recycling with a Pennsylvania firm" that also does all their recycling outside this country that could be done inside this country.

And part of the whole idea from my perspective with the TARP money was maintaining our manufacturing base. And part of that manufacturing base is industries in this country that supply them. So who does get involved? How do we hold G.M.'s feet to the fire?

I think we're about -- and correct me if I'm wrong, Mr. Chairman -- about a 60 percent owner in that company, if I'm not mistaken.

ALLISON: Yes. I think, Senator, we have to look at the totality of the Obama administration's economic recovery programs, where there's a great deal of effort and funds being directed toward job training, toward maintaining jobs, toward unemployment insurance and so forth.

We have to get this economy growing again so that we can create more jobs. And we also have to assure that General Motors is in a position to grow and to employ more people down the road.

TESTER: I -- I couldn't -- I couldn't agree with you more, and I guess the question is -- is I have a level of frustration in that -- in that G.M., with taxpayer dollars, has chosen to do business with a mining operation that has very, very little environmental restrictions and very, very poor wages, and basically sold our workers down the tube -- my opinion.

And I guess -- how do we hold G.M.'s feet to the fire? Can it be done? Or we just let them do their thing? I, quite frankly, have asked for their contracts to find out what they're paying for that palladium in South Africa and Russia.

And we await that response, because I don't think they're private contracts anymore, because this company's owned a fair amount by us, the U.S.

ALLISON: Yeah.

TESTER: So the question is -- is who -- who can hold their feet to the fire? Or am I -- am I shouting into the wind, blowing in the wrong direction?

ALLISON: Well, sir, I think you're holding their feet to the fire right now by -- by -- by raising this issue as effectively as you are. I will take your concerns back with me...

TESTER: I appreciate....

ALLISON: ... discuss it with my colleagues.

TESTER: I -- I do very much appreciate that, and it's just -- it's just one of those things.

The -- the purpose of -- of -- of the TARP funds -- and you know -- to provide authority and facility to the secretary so he can restore liquidity and stability to the financial system, protect home values, college funds, retirement accounts -- the list goes on. You -- you know what they are.

Keeping the original purpose of the act in mind, do you believe this should be extended? Do you believe this act should be extended out?

ALLISON: That's a determination that the secretary of the treasury will make later on this year. I know he'll be...

TESTER: What's your recommendation to him going to be?

ALLISON: This will be a decision that the secretary will make. He'll have a variety of inputs, and I know he's going to look at many different measures of the economy and the prospects of the economy and the financial system as he makes that decision.

TESTER: Well, I -- I also appreciate that. OK. OK. Keeping in mind all that. That's good enough for now.

Thank you, Mr. Chairman.

DODD: Thank you very much, Senator.

Senator Corker?

CORKER: Mr. Chairman, thank you.

And, Mr. Allison, thank you for your service. I -- I want to not dwell in the past much, but I do want to say if, you know, the three components of TARP were to focus on our financial system -- that was the purpose of it, because of the liquidity crisis that existed.

We were supposed to buy things of value and the money that was returned was supposed to be used to reduce the deficit, and I would say that had we stuck with that, we would have gotten the kind of yields that I think all taxpayers would want on their money.

And it's a shame that it eroded over time and moved into industrial policy and, you know, TARP really wasn't set up for mortgage modifications, I'll say. That's not really what it was set up to do.

But with that, I -- I just want to say it -- these kind of things do erode trust. I know you had nothing to do with that. But again, if we had stuck to the three major premises of the act itself, I think we'd be in a very, very different situation.

And I know that's all subject to interpretation, but let me move on to the future. There's a -- there is a brewing commercial real estate issue, and I think everybody knows that. And it's my sense that there's a little bit of a moral hazard being created right now.

I was in New York on Monday and I know numbers of people there think that the federal government is going to get involved in commercial real estate. And for that reason, they're pausing. And we talked about the regional banks and others.

The fact is that banks today can issue stock that they might not be able to issue in six months if they don't. And so there's a greed factor that's taking place right now. They don't want to dilute their shareholders by raising capital that they're going to need because there will be losses on commercial real estate.

And the reason they're not doing that is they're thinking that there may be some additional bailout, if you will, from the federal government as it relates to commercial real estate. And I just wonder if you might address that.

And would we not be better off to say, "We're not doing anything as it relates to commercial real estate, TARP is ending at this year end," and would -- would the financial system then not do the things that it needs to do to deal with this issue and do it themselves?

ALLISON: Thank you for your question, Senator. And this certainly is an issue that we are monitoring very closely. We are seeing deterioration in commercial real estate prices across the country. And that's one reason why we reopened the -- the Capital Purchase Program, especially for smaller banks, which are directly exposed to commercial real estate.

It's also important to -- to re-energize the securitization markets, which play a very and have played a very important role in providing funding for commercial real estate over time. And that's why we are launching the Public-Private Investment Partnership. That's why the TALF is -- is still active and is quite...

CORKER: And I'm aware of all those things.

ALLISON: Yeah.

CORKER: And -- and I know they're just at the fringes, but...

ALLISON: Right.

CORKER: ... back to the core issue, would we not be better off from the standpoint of -- of creating an additional moral hazard here, or causing the system to be dependent, to -- just to go ahead and say that you're on your own, we have these other things, they're going to nibble at the edges, they may prime some -- some securitization, which would be good.

But while they wait -- and I know while they think that you guys may be coming up with something, they're basically missing the opportunity that they have right now. With bank stocks being up and their ability to issue stock, aren't they missing an opportunity to solve their own problem?

ALLISON: Well, Senator, we have seen banks restoring capital, both through capital raising as well as improving profits and better risk-taking. And these are issues that the secretary will have to be deliberating as he considers whether to extend TARP.

But let me point out again that the securitization markets have not yet returned to normal. The housing markets, for instance, depend heavily on federal activity today.

And so I think he'll be considering both the improvement in the economy, which is substantial, as well as the improvement in the markets, which are substantial, but also looking at the areas that still remain troubled today in the -- in the financial markets.

CORKER: So I respect your service. That's not much of an answer. I -- I do hope that very soon -- because I'm -- I'm afraid we're going to miss a window. I'm afraid the private sector is going to miss a window.

As they think that there are discussions taking place, they are not issuing stock because of dilution issues, and I'm afraid they're going to be up here in greater numbers because there is this uncertainty.

So I -- I do hope at some point very soon you all will either say you're going to do something, which I hope is not the case, or you're not going to do something. But I think this -- again, this -- this mystery around it is -- is problematic.

Let me move on to resolution authority. Sheila Bair and others have been in, and certainly Senator Warner and I have worked on this issue together -- the -- the whole issue of resolution. You -- you came from the private sector.

One of the huge problems that we had, and one of the reasons TARP was created -- there was no resolution mechanism to deal with highly complex bank holding companies. And because there was no mechanism, we were stuck with putting taxpayer monies in these entities to keep them...

ALLISON: Right.

CORKER: ... alive because there wasn't any way for them to actually be out of business.

Do we not need into the future to have something that is clear, that where management, shareholders, even debt holders, know that in these bank holding companies, the highly complex large entities that operate around the world -- that if they fail, they actually fail, versus what the administration has put forth in reg reform that says that -- that, in essence, Treasury is going to hold unto itself, into the future, permanently, the ability to do what has been done with TARP?

ALLISON: Well, first of all, we think that the -- the administration's regulatory reform actions are very much needed in order to assure that the larger institutions are adequately capitalized...

(CROSSTALK)

CORKER: Well, I'm just talking about resolution. I'm not talking about the entire 13 title bill. Let's talk about resolution.

ALLISON: Well, there have to be mechanisms for resolving the situations of very large institutions that get themselves in trouble.

First of all, we have to try our best to prevent that from happening by reforming regulation over the financial industry and assuring responsibility by boards and managements regarding taking risk and in the way that they compensate or incent their employees.

And as to the resolution, we're -- we are seeing that if the -- we believe that if the reforms are enacted that there will be mechanisms to resolve these institutions in ways that don't jeopardize the entire financial system and the economy.

CORKER: I respect very much someone like you coming into public service. I will say that this hearing so far has been not very useful. And I -- those are pretty unclear responses. But I understand that maybe that's just the -- just the way it is.

But I look forward to the next panel.

DODD: Well, thank you, Senator, very much. Your questions are valuable, though, in this hearing. Appreciate it.

CORKER: The answers would be even more valuable, I would add.

DODD: All right. We're working at it here.

Senator Warner?

WARNER: Thank you, Mr. Chairman.

And thank you, Mr. Allison, for being here. I have a lot to cover. I want to come to one point. I was at a function recently with Senator Corker, and everybody was going around the room, and we were -- they were describing what everybody did, and a lot of folks were in private equity.

And it came to my turn to introduce myself, and I said, you know, I'm a United States senator, I guess I'm in the private equity business as well at this point. And something that I hope will only be a short description and -- and not something that will go long into the future.

I mean, another area -- I share Senator Corker's concerns about the resolution authority, and we may get a chance to come back to that.

But one of the other areas that Senator Corker and I have worked together is, you know, with the very legitimate questions that have been asked by Senator Shelby, for example, about these equity holdings we have, you know, wouldn't it be better for all concerned, recognizing that -- that anything the government does, administration does, or doesn't do is going to be constantly second-guessed with these equity holdings?

WARNER: To take the idea that Senator Corker and I advanced, and that I know we've discussed before, of taking these equity shares and actually putting them out and letting them be managed by somebody who actually is in the -- the equity business, in the equity management business?

We have a proposal out that would put any American interests that we have, more than 10 percent of any major company, and have these managed by an independent group of trustees that would be appointed by the president, and with the goal of trying to dispose of these assets in a way that maximizes value to the taxpayers by the end of 2010.

Why not take these -- this management into these -- of -- of these holdings and get them out of your shop and get them into someplace where they can actually be managed professionally with a -- with a goal of shareholder value -- shareholder maximization in terms of the American taxpayer?

ALLISON: Well, under the EESA law, Senator, we can set up trusts or limited liability companies which could own the shares.

But under the law, the ultimate supervision over those companies remains with the secretary of the treasury. So under the law, he retains oversight responsibility for those holdings.

WARNER: Well, some of us believe that the approach that's currently being taken is not the right one and -- and are looking at ways that...

ALLISON: Yeah.

WARNER: ... we might be able to change the law to insist that that -- that independent management takes place. I think it would do a great deal for the administration.

ALLISON: Yeah.

WARNER: I think it would do a great deal for the confidence of the American taxpayer that these equity interests are being managed to maximize our value.

ALLISON: Yeah. Senator, we are certainly working to maximize the value for taxpayers. I think the issue about the -- the trusts or having a limited liability company manage those independently is what would be the goals, to whom would they be accountable, and so forth.

I think all of us want to maximize value for the taxpayer. The question is...

WARNER: I think we would be...

ALLISON: ... how to go about it, and what would...

WARNER: ... very anxious to...

ALLISON: ... be the most cost-effective...

WARNER: I think we'd be very anxious to work with you to accomplish...

(CROSSTALK)

ALLISON: We'll be happy to work with you on that, Senator.

WARNER: Let me come -- and I know my time is -- I've only got a couple more minutes and a lot of areas. The PPIP program...

ALLISON: Yes.

WARNER: ... I mean, again, back to Senator Shelby's initial comments. The original intent of the TARP was to try to get the so- called toxic assets...

ALLISON: Right.

WARNER: ... off the balance sheers, and I think we've all been glad to see a bit of recovery in the financial sector.

But as recently as earlier appearances you've made and other officials from Treasury have made who have held out a lot of hope that the PPIP program was going to be the area where we could leverage private capital to get these assets out of the banks.

I'm concerned that the -- that we've not seen any action in that program. I know you've said there's going to be a first closing coming up. Do you have any sense of how successful this program will be over the coming months?

Will the banks be willing to dispose of some of these assets, or are they going to continue to -- to hold them and just hope for better times? And if -- if it's not going to be successful, should we shut that program down?

ALLISON: Well, it's interesting that since the program was announced last spring, the spreads...

WARNER: Right.

ALLISON: .. on those securities tightened dramatically, just the announcement. The fact that the government could be active in that market did a great deal to improve both liquidity and pricing in the market, and we're very gratified about that.

Nonetheless, we still see a need to further expand the securitization markets, and that's why we're launching the PPIP now, and we're going to monitor and see how well that -- that performs and what impact that has on the markets as well.

But there has been encouraging progress, so I'd say that the PPIP program already, even before the first closing, has been extremely helpful in those markets.

WARNER: But you're not going to be willing -- you're not willing to give us a -- kind of a sizing of what you expect the -- the total amount of assets purchased in the PPIP program will amount to, say, over the next six months?

ALLISON: Well, we're -- we will know soon enough how the first program works. We are committing...

WARNER: The first closing -- the first closing will be how large?

ALLISON: First closing will be announced at the end of this month. We have set aside $30 billion of funding both in equity investment as well as debt for that program. And so the size of the program could be as large as $40 billion.

But we'll see with the final closings how large it actually is. But it seems to be progressing well.

WARNER: Mr. Chairman, I hope when we get the regular updates on the loan modification program we can also get the regular updates on this program, because, again, the original intent was to try to get some of these -- the so-called toxic assets off of balance sheets.

And my fear is, again, that -- that banks are -- are not being willing to bite the bullet. And -- and -- and we're happy to see some of the financial recovery starting to take place, but I still think there remains a lot of assets on these balance sheets that are going to have to be dealt with, and the PPIP program is one initiative. If that doesn't work, we ought to see what else works.

One -- one last area I'd like to get your comment on. One of the casualties, I think, of this -- this economic crisis has been small business lending. And I recognize that a lot of small business lending was taking place actually in the non-bank financial sector, and we've seen the demise of entities like CIT and others.

I'm very concerned that as we see large cap companies return, as we see some of the spreads shrink, that the one area that still is in desperate need of assistance is the small business financing.

And particularly companies that have had perhaps a good track record, have been solid customers, you know, are now in this valley, and we will come out of this valley, but how do we get them from here to when we have recovery?

And I'm sure I speak for a number of my colleagues. We hear from our folks in our respective states all the time about the lack of small business financing, and again, this is a challenge. We don't want to micro-manage the banks, I understand.

But have you given any additional thought on what we can do to jump-start small business financing?

ALLISON: Yes. First of all, we have to make sure that the small banks are adequately capitalized, because they provide an outsize portion of small business financing.

We've seen that overall lending, while it has declined, has not declined as much as it has in prior recessions because of the financial stability programs that have been instituted, as well as the overall economic recovery programs.

We are actively looking at other measures that we can take to assist small business. We share your concern that that -- that that very important segment of our economy be healthy. And so we've been talking with representatives of small business and working on various alternatives to provide additional assistance.

WARNER: I know my time has expired, but I just -- does that mean you will come back with some specific suggestions by some date certain?

ALLISON: We are working and close to -- to possibly taking a particular program and making it live.

WARNER: Is that weeks away?

ALLISON: It should happen very soon. I wouldn't want to put a pin in an actual date, Senator, but it is -- it is close.

WARNER: At least some consistency on some answers.

Thank you, Mr. Chairman.

DODD: Senator Vitter?

VITTER: Thank you, Mr. Chairman.

Thank you, Mr. Allison, very much. I know when I was gone, Senator Tester asked if Treasury planned to extend the TARP beyond the term. Supposed to wrap up the end of this year. And you said that you didn't know, no decision has been made, you'd look at a number of factors.

If we were in December right now and current economic conditions were conditions in December, what would your analysis be of extending the TARP or not?

ALLISON: Senator, again, I want to -- I don't take your question lightly, but the secretary takes it very seriously, and he's considering carefully what should be done, should it be extended or not. And so I don't want to pre -- pre-judge his decision, which he's not yet made. It's an important question.

And again, I want to say that while there's been much improvement in the financial markets and in the economy, there are still troubled areas, and I think he has to weigh both, you know, the -- the progress that's been made and the need going forward as he makes that decision.

VITTER: Well, certainly, the TARP was sold as an extraordinary program in light of an extraordinary threat. And it was clearly sold over and over in light of a threat of absolute collapse of the financial sector.

I hope you agree with me that that threat is passed, that -- that the sort of threat of a collapse of the financial sector is minuscule to non-existent right now. So what would be the rationale for extending TARP in light of that clear argument under which it was sold?

ALLISON: Well, first, let me say that we are seeing that some programs are already being wound down, and others have definite termination dates, and many of them have terms that become uneconomic as the markets recover.

So a lot of this is going to wind down by itself and already has started doing so, and we see that we've been repaid substantial amounts of TARP money already as the banks recapitalize. Nonetheless, there are still areas that are troubled.

And therefore -- and again, I -- I -- I wouldn't want to -- I wouldn't want to speculate on what the secretary might do if conditions don't change. That's his decision. He's going to weigh it very carefully, looking at a lot of factors, and so I don't want to in any way pre-judge what he might do.

VITTER: Well, I'd just make the comment there are going to be areas that are troubled in virtually any economy. You know, it -- it sounds like a very different mindset than the one we were presented with when TARP was originally sold as a absolutely extraordinary response to an absolutely extraordinary threat.

And -- and I share the concern of a lot of Americans that this is creeping into status quo and a much higher permanent level of government involvement in the marketplace.

ALLISON: Senator, I think this government does not have any interest in maintaining long-term shareholdings or long-term investments in banks and corporations.

We'd like to see this wound down as soon as -- as possible, given the need to return to financial stability. And so that's the question that the -- the treasury secretary has to weigh.

VITTER: Another concern I've had for a while deals with FHA, because I have thought for a while that that's a bit of a ticking time bomb that's going to be perhaps the next big bailout.

Washington Post reported on Friday that an independent audit of them will reveal that they'll dip below their 2 percent capital ratio. Now, their commissioner maintains everything's just hunky-dory, they're not going to need any help.

Can you assure the committee that the Treasury will not use TARP funds to bail out, to assist, to shore up FHA?

ALLISON: The -- the TARP law provides that a -- an eligible entity must be an institution, must be operating under the laws of the U.S., and so forth. So I think that's a question you would need to ask the FHA.

We have no current plans to -- to provide any support ourselves to the FHA, but I don't want to in any way speak for the secretary on that matter.

VITTER: So you clearly won't take that off the table.

ALLISON: I -- I -- again, I think that's -- that is not part of TARP as currently contemplated.

VITTER: Well, neither was G.M., but how does the Treasury plan to deal with -- is there a concrete, aggressive plan for the repayment of TARP funds from the -- the biggest institutions, Citigroup, Bank of America, AIG? What are the plans as of now?

ALLISON: Yeah. Their regulators will work with those banks to make that determination as to when they're eligible and able to make those repayments to us. We don't make those decisions for the banks.

VITTER: There's been a lot of concern recently, for obvious reasons, in terms of the media reports, Mr. Allison, about ACORN. Many of these big institutions that have billions in taxpayer funds contract with ACORN.

Has there been any effort within the TARP program to ensure that taxpayer funds aren't used in that way?

ALLISON: We provided no funding to ACORN, Senator. And they did participate in some counseling sessions. They provided some counseling in the past. We have no ties to ACORN at this point.

VITTER: I don't think you understood my question. We give billions of dollars to these mega-institutions. Many of them contract with ACORN. Has there been any effort to within the TARP program to ensure that those taxpayer dollars that are going to those institutions do not flow to ACORN?

ALLISON: We -- we will -- we will go back and -- and consider your -- your suggestion. I don't know what these companies have been doing with ACORN.

VITTER: OK. So as we speak now, there is no effort in the TARP program to look into that or regulate that, is that fair to say?

ALLISON: Well, again, we -- we don't get involved in the day-to- day management of TARP companies. And I think that that is not something that it would really be appropriate for the -- for the U.S. Treasury to get involved in their day-to-day management.

VITTER: OK, so a minute ago you said you'd look into it, but are you saying that it would not be appropriate for you all to have any policy with regard to that?

ALLISON: I'll go back and consult with my colleagues about your question and we'll get back to you.

VITTER: OK. If -- if you could get back to me...

ALLISON: Certainly will.

VITTER: ... and the committee in writing...

ALLISON: Certainly will.

VITTER: ... that's obviously a broad concern.

ALLISON: Yes, sir.

VITTER: OK. Thank you.

DODD: Thank you, Senator, very much.

Senator Merkley?

MERKLEY: Thank you, Mr. Chair.

I was a strong critic of the TARP program. And in January, I was asked what I thought should be done to improve it. And I said, we need to spend an enormous amount of effort assisting homeowners in this nation.

And the administration sent over a letter saying that the administration would commit substantial resources, $50 billion to $100 billion to a sweeping effort to address the foreclosure crisis and then enumerated that funds would be spent on preventable foreclosures. They would reform our bankruptcy laws. And they would revive initiatives like Hope for Homeowners.

Right now, the GAO reports that very little money has been spent to assist homeowners. Are you familiar with how much TARP funds have -- have been spent?

ALLISON: Well, we have planned to devote $50 billion to the Making Home Affordable program.

MERKLEY: I'm not asking about the future. How much has been...

ALLISON: Yes.

MERKLEY: ... spent to pay...

ALLISON: And so far, we have committed over $22 billion.

MERKLEY: Not committed, but spent to date.

ALLISON: And, to date, we have spent very little of those funds, because we are just beginning the mortgage modification program. So, the -- then, the amount we're spending will -- will ramp up rapidly over time. But right now, it's envisioned that, for the servicers now in the program, and the eligible homeowners...

MERKLEY: It's very little. Do you have an estimate on -- on that?

ALLISON: As to the -- the amount today? We -- again, as I said, because the program is new, it's -- it's very small.

MERKLEY: OK.

ALLISON: I...

MERKLEY: It is very small. It's -- it's zero. It's zero dollars according to the GAO report. They note, in a footnote, that $275,000 have been spent as incentives to participating servicers. But apparently, not a dollar has gone out the door yet in terms of interest reduction, equity reduction or any other form that (inaudible) homeowner.

ALLISON: Actually, Senator, as the trial modifications -- and there are almost 400,000 of those already on the books -- as those take place, the -- the payments by the participants go down. And what is unique about this program is we're actually reducing...

MERKLEY: Oh, I'm very aware of how the -- you're welcome to answer someone else's question about the future.

ALLISON: Right.

MERKLEY: I was trying to establish, and I think you're agreeing with me, that, to date, now that we are eight months into the future from the January 15 letter assuring a sweeping program, we've yet to spend a dime that actually helped a homeowner yet. You're saying -- I agree with you -- a big program's in place. And I want to turn to that.

In your shop, there is a -- a post called the chief ownership preservation officer.

ALLISON: Right.

MERKLEY: And is that person in -- in place yet?

ALLISON: That person will be in place very soon.

MERKLEY: Why has it taken such -- with -- with homeownership so many millions of -- of -- of our nation's families struggling, why has it taken so long to fill such a critical...

(CROSSTALK)

ALLISON: But we have had a head of the homeownership preservation office since its inception. And they've been doing a very good job. We are now bringing in someone who will be the -- the permanent person in that role. But that has not slowed us down from making great progress.

And if I can get back to your question, I just want to emphasize your earlier question, that people are receiving relief immediately as they enter the trial modification program. We have currently -- I think the latest statistic is we have about 1,800 people who are now in the -- in the actual modified loans, in the permanent modified loans. But they lag three to five months, the actual trial modifications.

And so, there are -- there's a period where they are -- where we're not yet paying the servicers. We only pay them for performance. But those payments are now commencing and will rise rapidly.

MERKLEY: And if 80 percent of the people who are in the trial modifications now succeed in making it through, the -- on the -- based on the numbers of about $20K per family, we'd be talking about expenditure of about $6 billion. If indeed we reach a significantly larger number of an additional 120,000 families coming into trial modification per month, 80 percent of those succeeding do it over the next two and a half years, we'll be spending something closer to $50 billion.

That does leave another $25 billion still on the table in this program. Are you looking at aggressive ways that we could do more, more quickly, to assist homeowners?

ALLISON: The other $25 billion is under the HERA program. That's to be spent by the GSEs, the the government-sponsored entities. Our program is $50 billion. And we believe that that will be adequate to cover the mortgage modification incentives for all of the eligible people and the -- and the -- and the servicers who are now in the program.

MERKLEY: Actually, there was another $25 billion pledged. And that's in your own testimony, for the making -- no, it's not. I'm sorry. It's in the inspector general's testimony, for the Making Home Affordable program.

But I come back to the core point that we are facing, reported yesterday, an anticipated 7 million additional homes going onto the market through foreclosures.

ALLISON: Right.

MERKLEY: And that's folks who are -- either the foreclosure's already happened. It's about to go on. Or it's a -- it's about to happen. That's not including the massive number of foreclosures that will happen under the triple option wave anticipated next year. So, we have a significant factor in assisting America's families, a significant factor in reviving and restoring the economy.

And it -- and it seems like, I mean, to date, the score is something like this. We have -- we have spent, out the door, $288 billion to the banks, $76 billion to the auto industry, and less than $1 million, $270,000 according to GAO, for our homeowners.

It's disproportional. And I'm -- there are so many different things that could be done to accelerate this program that have come out of the focus groups across the country: electronic submission, single point of contact, increased transparency, closer work with HUD counselors, not doing punitive credit ratings when people are in the modification programs.

We're seeing little action on these common-sense approaches to really pay attention to the plight of the American family. And -- and I'm -- and so, I'm -- I'm pushing to say we could do more. And, as a leader in the TARP program that has made this $50 billion commitment, I'm asking you to do more.

ALLISON: Thank you very much, Senator. We are looking at all those. And we are working with the servicers to try to implement, as fast as we can, streamlined procedures for people to get into this program.

I want to point out that this crisis has gone on for two years. When the Obama administration got into place, they put in effect this program, which is by far the largest mortgage modification program ever attempted. It's already the most successful, even though it's not nearly close to the numbers that we want to see.

It's ramping up very rapidly. We are seeing that the servicers who needed time to reprogram the systems and train their people are starting to gain momentum. We're staying on them every day. We're meeting with them periodically as a group and in contact with them almost every day and working very closely with Fannie Mae, the agent for this program, and Freddie Mac, who's auditing.

We're going to be as transparent as we can possibly be about the results of the program, about the quality of service provided by the servicers and the overall cost and effectiveness of this program.

The results, in terms of the actual payments out the door -- remember, we're paying only for performance. We're paying for mods completed. And so, as -- as these are completed and made permanent, we start these -- these -- these payments. And we've already, though, provided financial relief for about 400,000 people. And that number is going to be growing very rapidly.

So, we're taking this extremely seriously. If we can make improvements, we are wide open to any advice from any quarter about how to make this program better.

MERKLEY: Well, I'm -- I'm glad you're wide open, because many members here in the Senate have been hearing from their constituents. I think probably all -- all of us have been having great difficulty accessing the modification programs.

And, in forums across the nation, the same feedback has been occurring. We've been forwarding the same set of -- of -- of pieces of advice on -- on how it could be much simpler, so you're not routed to 10 different people in 10 different phone calls. That's the single point of contact.

So, you can submit your paperwork in an electronic form, so that the papers are not continuously lost, which is a huge complaint; so that HUD counselors have a sense of the model, so that they can give better advice to people as to whether they can approach the system; and so that citizens not receive punitive credit ratings while they're applying to the program.

Those have been raised time and time again. And each time I raise them, I hear: interesting ideas. We're looking at them. We're looking...

ALLISON: Actually...

MERKLEY: ... for more serious consideration of ways...

ALLISON: Yes, yes.

MERKLEY: ... we can make this program work better.

ALLISON: Let me mention on the credit ratings of people being affected by modifications, that there already is, and was announced, a change that's going to be made by the agencies who -- who provide the FICA scores, so that they're not going to affect people's ratings materially for at least a year, while they gauge the success of these modifications. That -- that's a big step forward.

MERKLEY: I'm pleased to hear that.

ALLISON: And on the others, we also share your frustration. We're having to, in effect, revamp the mortgage servicing industry in order to provide the kinds of services that people need right now. We know people don't want to wait months and months to get their modification. It's frustrating to us. And that's why we're working very intently with these servicers to try to get them up to speed as rapidly as possible.

The service quality isn't what we'd like either. And that's why I mentioned earlier that we intend to be publishing service quality metrics on every servicer in this program, which ought to shine the light of day -- day on this and provide additional impetus for them to improve...

(CROSSTALK)

MERKLEY: Thank you for your comments. I apologize to my colleagues. I -- I wasn't paying attention and ran significantly over time.

DODD: No, no. Thank you, Senator.

And -- and against the point that I raise my first question. And again, this is a very, very important area to all of us. And we're looking for a system that works here, making some decisions.

ALLISON: Right.

DODD: As I said earlier, I -- we'd like to keep people in their homes if we can. But there are cases where that might not be the case, in which case, you have to move on. And -- and -- instead of dangling things out there forever. I think they're putting unintended consequences in the marketplace as well. So, we really do need to have an expedited system that cuts through a lot of the bureaucracy and time out there, so we can draw those conclusions.

ALLISON: Right. We agree.

DODD: I appreciate that.

Let me jump, Senator Gregg, Senator Johanns will be coming back. But you're next.

GREGG (OFF-MIKE): Oh, I thought (inaudible).

DODD: We follow different rules in this committee here. You're -- you showed up early, so you're recognized for your early arrival here.

GREGG: Well, I appreciate that, Mr. Chairman. And I appreciate the opportunity to be on this committee with you and Senator Shelby. You've done great work in the area of financial services. And it was -- was an interesting time last fall when we negotiated...

(CROSSTALK)

DODD: Was -- was it ever.

GREGG: And I guess some of my questions go to -- first off, I think you ought to take credit for -- it worked.

You know? I mean, the -- I recognize that, at the margins, some of it is still an issue. But the purpose at the time was to step back from a -- a catastrophe of unpredictable proportions. But we knew it was going to be horrific.

And the action was taken. And it was done in a bipartisan way. The negotiations were both parties sitting down and making sure that we put in place the best ideas we had at the time in a time frame where we only had, literally, days to take action. And, as a result, the -- of the action taken, and it may not have been the action specifically anticipated, the system has stabilized.

And, actually, the return to the taxpayers, at least on the capital investment, is going to be pretty good, I suspect, before we're finished. I -- I don't believe CBO's going to be right. I think we're going to find we're going to make a little money here for taxpayers.

Overall, in fact, if you look at the stock prices today of some of the companies that we've invested in, we've already made a paper gain that's very significant. And, in addition, we're getting preferred dividends here of 8 percent, 10 percent, which is a pretty good way to arbitrage money. We're borrowing at zero, we're getting 8 percent, 10 percent back. That's -- that's not bad for the taxpayer.

But I guess I -- I -- I do think there is, at least from my viewpoint, a legitimate question as to whether it has done its purpose and should be wrapped up. That -- that is, I think, a legitimate concern. This discussion which you just had with Senator Merkley, that -- that appears to me to be a permanent federal program for mortgage relief, almost an adjunct of Fannie Mae and Freddie Mac, not a -- not the original purpose of TARP, which was obviously to do something in the area of mortgages, but not to create a permanent program.

So, I guess my question to you is define the systemic risk that you see today. Chairman Bernanke has told us that the recession is technically over. Obviously, a lot of people still in pain, and a lot of people unemployed and, clearly, a lot of people going through trauma. But he has told us that the recession is technically over. And, therefore, I think we can assume that things are going to get better.

So, define for me the systemic risk that exists going forward, that is going to require the type of capital which you presently have available to you under tap, and where you're going to put that capital to address that risk.

ALLISON: Thank you for the question, Senator.

GREGG: In specifics, if you could. I mean, your testimony has been a little amorphous so far.

ALLISON: First of all, let me just mention, on the mortgage program, it is not a permanent program. The ability to add to the -- to the commitment on that program will expire at the end of the -- of the EESA, either whether that's at the end of this year or, at the latest, at the end of October next year.

And we will provide the required subsidies for some years, no more than five years after the mortgage has been started. So it is not a permanent program.

As to what are the systemic issues that might cause this program to be extended -- and again, it can't be extended beyond October of next year. Again, we've seen, as you pointed out -- thank you for your comments.

We've seen great progress in restoring parts of the financial system that -- many that are back to normal. There are others that are not.

The securitization market is one that still has a great deal of -- of support from the government behind it. That's been a very important provider of credit in this country, as much as 40 or 50 percent.

We need to make sure that we have a -- a return to stability and...

GREGG: Well, the securitization market...

(CROSSTALK)

ALLISON: ... mortgage market.

GREGG: ... is a self-righting mechanism that, if you are moving out of a recession, will self-right itself. And so I don't take that as systemic risk. It's clearly a risk, and there's going to be some bank failures as a result of -- of the situation, but it's not a systemic risk at this point that justifies $700 billion.

So give me a specific proposal, a specific reason, why we still need $700 billion on the table.

ALLISON: Well, again, I don't want to preempt the secretary of the treasury. He's going to be considering all those questions that you're asking and -- and a number of others, and also looking at various measures of financial stability as he makes his decision.

So again, I understand the -- the great interest in whether this is going to be extended, but I don't feel I can speak for the secretary.

GREGG: I -- I -- I associate myself with -- with Senator Corker's thoughts on that answer.

Let me ask another question. Why in the bailout of the automobile companies -- which clearly, in my humble opinion, was not within the context of TARP but was pursued by both administrations, therefore was legitimized -- did the -- in -- under the Chrysler bailout, the stock that -- the taxpayers put up about $4 billion and we got 8 percent of the stock.

The unions put up about $6 billion by waiving liability and got 55 percent of the stock. When we wrote the TARP, which we spent a lot of late nights doing, as I recall, the language said the purpose of the TARP money when invested shall be to enhance the value of the taxpayers' position.

I didn't note any language which said the purpose of the TARP money was to be -- to enhance the position of the union's investment. And yet the taxpayers seem to have gotten the short end of the stick in relationship to the unions in the -- in the Chrysler bailout.

Can you specifically answer why that happened?

ALLISON: Well, the -- the bailout was done on what you might call close to commercial terms, where various parties who are necessary to the ongoing success of the entity in some cases have to play a role.

And that's -- that's...

GREGG: Well, the taxpayers were essential to...

ALLISON: Yes.

GREGG: ... the success of the party, and yet the taxpayers for $4 billion got only 8 percent. The unions for $6 billion got 55 percent. Why the -- what -- what was the value that was brought to the table that the taxpayers got so little for their money versus what the unions got for their money?

ALLISON: I think that at the time the -- the breakdown and the financing was determined at what you call commercial terms. This is not a very unusual outcome.

And each of these entities, whether it's the -- whether it's the banks, or the -- the government, or the -- the employees, have a stake in the survival of that company.

And it was felt by great professionals who worked on that that this was the best outcome to secure the future of the companies and that was in the interest of the taxpayers.

GREGG: Well, I don't see how it's in the interest of the taxpayers to only get 8 percent of the company for $4 billion when another entity gets 55 percent for $6 billion. What -- why -- how do you define that as being in the interest of the taxpayers?

ALLISON: Well, I -- I -- I'd have to consult with my colleagues who actually worked on that program, all right? So...

(CROSSTALK)

ALLISON: ... I'll be happy to get back to you with a fuller explanation.

GREGG: Thank you.

DODD: Thank you very much, Senator.

Let me just -- before I turn to Senator Johnson, just -- I mentioned earlier my question to you that there's a -- there are predictions of anywhere from 400 to 1,000 bank failures.

Now, I'm not -- I don't know if you want to acknowledge that number as something that is a number that the Department of the Treasury is -- is accepting as a realistic number or not, but -- but if you were talking on the magnitude of that, and the question being raised here about a continuation of the TARP program beyond its projected expiration date, does that number pose to you the issue of whether or not we'd be looking at a return not to the point where we were a year ago, necessarily, in September -- and -- and I understand Senator Corker's point as well.

There's a way of addressing this issue and whether or not you're going to have the banks issue more stock or not. But posing the issue of having 400 to 1,000 banks (inaudible) facing collapse, does that -- does that pose the kind of stability question in terms of our recovery that would warrant, in your mind, at least a consideration of the...

ALLISON: Yeah.

DODD: ... continuation of the program?

ALLISON: Again, this is one of many factors that the secretary will have to consider as he makes his determination. We're seriously concerned about bank failures, and we're -- we want to make sure that the banks have adequate capital.

The regulators are consulting with these banks frequently, and that is obviously one factor that would be taken into account by the secretary.

DODD: Yeah. And -- and lastly, again, I just want to make the point, and I -- and Senator Shelby and I were talking privately a minute ago. When I took over the -- the gavel of this committee in January of 2007, we held an extended set of hearings in February, in March, in April, the stakeholders in this room, those on the committee, all about the mortgage crisis.

And we had witnesses who were predicting a million foreclosures, and they were ridiculed for doing so. It was at the heart of the problem. I respect the fact the chairman of the Federal Reserve Board has acknowledged that they didn't act quickly enough.

Had they acted in 2007 on this issue more aggressively, I can't predict we would have avoided what we saw last September that Judd Gregg has just, I think, accurately described, but I think we would have mitigated it substantially.

So at the heart of this crisis was the issue of the -- of the -- of the mortgage crisis, the mortgage failures...

ALLISON: Right.

DODD: ... in the country. And I just think it's important to note that in our discussion here. And while I don't disagree with you, this cannot be a permanent program -- and Judd is absolutely correct. This can't be seen as somehow a permanent program we have in place.

That's why I say we've got to make decisions about this. If -- if someone can't get out of this, then the property ought to be put up and auctioned off or foreclosed, or whatever you do. So I'm not enthusiastic about moratoriums. I think it just delays the inevitable in some cases.

But to the extent someone can be kept in their home, we ought to try and resolve that if you can. And if not, move on, you know?

GREGG: Mr. Chairman, if I could just point out...

DODD: Yeah.

GREGG: ... that during the negotiations of the TARP...

DODD: Yeah.

GREGG: ... you were absolutely insistent that mortgages and the foreclosure issue be part of the exercise, so it's clearly within the TARP, almost purely as a result of your single-minded focus on this as being one of the essences of the concern.

So it is legitimate. I just don't want to see us create a program that goes on forever.

DODD: And I agree with you totally on that. You're absolutely correct on that, and so -- but I appreciate you remembering that night of September 18th when we sat in that room together with this guy here, sitting next to each other that night.

So I apologize to Tim Johnson. I jumped in here on those. But those two points -- I find the notion -- I believe it was 400 or 1,000 banks. That, to me, is pretty -- pretty intimidating, you know, to put it mildly.

And I don't know what the answer to it -- maybe Bob Corker's right on this thing, and I do get worried about the too big to fail notion. This is maybe just too many to fail, or something in that category. So I think his point is a good one.

And we do need to get some answers out of this, and I expect -- listen, I have great respect for you, Mr. Allison. You're a dedicated person. You've had a distinguished career in the private side. You came over to the public side to bring that wealth of experience, and I -- let me speak for all of us here.

We admire you immensely and we thank you for what you're doing.

ALLISON: Thank you.

DODD: But we need to get some answers on this stuff. We're not going to have hearings on this every day. And so while you may not be able to -- and I appreciate the fact you're -- you're not the secretary of the treasury.

ALLISON: Exactly.

DODD: But we do need to get some answers back on these questions that have been raised so that we can -- we've got us some big decisions to make here in the coming weeks, and having your best judgment and the judgment of the secretary on these matters is going to be critical to our consideration as we go forward, particularly in the area of -- of reform or modernization, whatever we want to call it, of the regulatory structure.

So again, I appreciate the fact you're not in a position to answer all of these questions, and there'll be others who'll be involved in them. But to the extent you can get back to us on these things, we would appreciate very much.

ALLISON: Thank you.

DODD: Senator Johnson?

JOHNSON: Thank you, Mr. Allison, for your service. There is legislation pending which would compel repaid TARP monies to be used to repay the deficit. Is that a good idea or not?

ALLISON: Well, as we do receive the monies, it is put into the general account of the Treasury, which reduces the -- the need for federal fundraising. So it is already helping in that regard, as we receive money back.

JOHNSON: The SIGTARP has recommended that the Treasury begin reporting on the (inaudible) of its TARP portfolio so that taxpayers can get regular updates on the financial performance of the TARP investments. Has Treasury started to do this?

ALLISON: Senator, thank you for the question. We have very high regard for the work that the SIGTARP has been doing. I meet with the SIGTARP every week. We -- we discuss all the issues around TARP and also making information available about TARP programs.

We have provided extensive information at the end of every month about, for instance, the lending activity of banks. We provide a -- a report on all of our TARP activities. We've made that much simpler to understand, and we have a new report. I think it's much more accessible by the American public.

The SIGTARP has recommended that we include more information about the use of funds. And we are going to be, in our October quarterly report, providing information about all the categories of use of funds that the SIGTARP has recommended.

We've adopted about three-quarters either totally or -- or almost totally of SIGTARP's recommendations. And he's been very helpful to us in making these programs even better and -- and better controlled.

So what we're doing, though, is to provide actual data on bank lending and, beginning in October, a number of other bank activities that is provided by the regulators. It's the most accurate information that we have about how capital is being used by banks.

What is most important, I think, to the American public is how are banks using the capital and -- in order to promote lending and financial recovery. And that information is on our Web site today. And we're working with the SIGTARP to see how we can enhance the information going forward.

JOHNSON: The SIGTARP has also recommended that the Treasury require more disclosure of how individual institutions are using TARP funds from the Capital Purchase Program. Why has Treasury not responded more fully to these recommendations?

ALLISON: Again, we are making available information about how banks are using their capital. The purpose of the Capital Purchase Program was to strengthen the capital base of the banks so that they could make more loans than they would otherwise and also conduct other activities connected with -- with their role in the financial system.

It is -- we are -- it's very difficult to identify exactly how the capital -- our capital is used, as distinguished from all the capital of a bank. And so we've had many discussions about -- SIGTARP about how we could best report this.

We're going to be expanding, as I said, our reporting in order to show how all the banks' capital is being utilized, with actual data. And I think it's -- it'll be an extremely useful source of information for the American public and for the Congress as to how banks are using capital.

JOHNSON: Now that the large banks are largely stabilized, what do you plan to do for the nation's community banks? Is there any way to modify the definition of viability to help the smaller banks that might just need a small infusion of capital?

ALLISON: As I mentioned, Senator, we did reopen the Capital Purchase Program for small banks, banks with less than $500 million, last May. We're receiving applications every week and providing capital for smaller banks every week.

JOHNSON: Do you think the TARP money has been distributed fairly amongst banks in need, especially small -- smaller banks?

ALLISON: Well, the great majority of the banks that have been assisted by the Capital Purchase Program are mid-sized and smaller banks, and so they're playing a very important role in the economy, which we well recognize.

And we've been -- and that's why we've been giving special attention to the -- to the smaller banks by reopening the Capital Purchase Program several months ago.

JOHNSON: Senator Johanns?

JOHANNS: Thank you, Mr. Chairman.

Mr. Secretary, good to see you again.

ALLISON: Senator.

JOHANNS: As you know, and I've probably mentioned to you -- this to you before, in another life I used to sit where you sit while the senators went around and interrogated me on what was happening in my mission area of the federal government.

When I was -- when I was a cabinet member, I would work with an inspector general on an ongoing basis. It was just part of the oversight of doing the job. And so in my brief time today to offer some questions, I'd like to focus on the inspector general's most recent report relative to Treasury and the TARP program.

And I have to tell you, and I'll be very blunt with you, it's -- it's very damning. I'm referring to the introduction, and there are four major findings that are identified in that introduction.

The first one is that it's extremely unlikely that the taxpayers are going to get a full return on their TARP investment.

Secondly, Treasury's original stated goal of increasing lending has not yet occurred.

Number three, the goal of preserving home ownership, promoting jobs and economic growth have not -- have not been met.

And then the very program for which I think TARP was created, which was to get toxic assets off balance sheets -- I think that's really what this program was focused on initially. About that, this is said, "In the meantime, the risk of foreclosure continues to affect too many Americans. Unemployment continues to rise at levels Treasury finds unacceptable. And the so-called toxic assets that helped cause this crisis for the most part remain right where they were last fall, on the banks' balance sheets."

Now, I understand your job. I understand your need to present a very rosy picture. I heard your testimony that Treasury action has restarted credit markets, et cetera. But then I go to a report from an enterprise that I grew to respect as a secretary, the inspector general -- and although their reports to me would often make me grind my teeth, I did come to respect their impartial analysis, and I paid attention to them.

Let's just level today, Mr. Secretary. That's a very damning report toward TARP and the Treasury's operation of TARP, isn't it?

ALLISON: Well, Senator, let me take each one of those points, if I may. It's unlikely, the first point is, I believe you said, that we're going to receive a -- a return on -- on TARP funds. We've already received $70 billion of -- of funds back from banks.

We -- and the banks that have fully repaid us, including repurchasing warrants -- we have close to an 18 percent annualized return to the taxpayers.

JOHANNS: Mr. Secretary, let's just focus here, because you can cite those numbers. Quite honestly, to me, they're not very impressive. We have billions more on the line.

Now, if -- if you were my investment adviser, and you worked in this area for many, many years in the private sector, I'm just going to guess you never would have called me the Friday before the president bought General Motors and said, "You know, Mike, I've been thinking about it. I want to put you into General Motors," right?

I mean, you've -- you would not have given me that advice.

ALLISON: Senator, we have to look at, first of all, the expected returns on the TARP investments on behalf of taxpayers. It's too early to say how this is going to turn out. Some areas will probably see a better performance than others.

But we also have to look at the overall impact of the financial stability program on the American economy, on the banking system and on the American public in general. And I -- I would shudder to think what the situation would be if the Congress and the administrations hadn't taken strong action to deal with this crisis by, for example, creating the TARP program.

So I think we have to look at returns beyond simply the returns of this program. I can assure you we're working extremely hard and aggressively on behalf of the American taxpayer to...

JOHANNS: I -- I'm not questioning...

ALLISON: ... to protect...

(CROSSTALK)

JOHANNS: ... how hard you're working.

ALLISON: And we'll also have a report on November 16th that will allow you to see -- and the public -- exactly what are the valuations of these assets according to the methods that are prescribed by the GAO, and there'll be audited financials.

JOHANNS: You're -- but...

ALLISON: And from that, I think you can make informed judgments about the progress so far. We still have a long way to go, and much of the outcome is going to depend on the success of stability programs going forward.

We've already seen asset prices have risen dramatically in the financial markets. It's been pointed out that the shares of many banks are up. This is helping in terms of the returns.

But we are not yet declaring victory either in fully restoring stability in the financial system or in achieving the returns on the TARP program. It still has a way to go.

JOHANNS: You're not seriously arguing that we're going to get our money back on the General Motors investment, are you? I mean, that -- you didn't come here today to convince this committee that's going to happen, did you?

ALLISON: I was talking about the overall program. Again, some areas will perform better than others. I don't know yet what the outcome will be. The head of the auto program has testified, and his -- his forecast or his analysis is on the record already.

And if I may, I'd like to refer to the other elements of the SIGTARP report that you mentioned. Have we been successful in increasing lending? I think we have to look at, first of all, the absolute facts. Lending is down. that's normal during a recession.

The question is has TARP prevented an even worse reduction in lending, and I'm very confident it has, because the banks -- by restoring capital in the banking system, they're able to sustain their lending activities, and there's no doubt in my mind that there's more lending going on than would have been the case without the TARP program.

On the toxic assets...

JOHANNS: Before you go on...

ALLISON: Yes, sir.

JOHANNS: ... to the next one...

ALLISON: Yes, sir.

JOHANNS: ... do you have anything -- any study, any analysis -- that you could provide to me that would prove that last statement?

ALLISON: Well, the Federal Reserve just released information saying that in their view, actually, the -- the reduction in lending has been less in this recession than it was in the '90-'91 recession, which would indicate -- it's an association, but it would indicate that the TARP program and other elements of the economic recovery program have helped to sustain lending at a greater level than it would have been without those programs. And I don't think there's much doubt about that.

JOHANNS: Yeah, there is.

ALLISON: Right?

JOHANNS: That's a leap of faith. You know, I hear these tremendous promises, but then there's just nothing to support it. I mean, it -- you know, if you could point to something that -- that leads me to that conclusion, I'd be willing to go there with you.

But you know, even the report here -- the people who are to provide you insight say increased lending has just simply not occurred.

ALLISON: I...

JOHANNS: The toxic assets remain on the books. I mean, the very things that TARP was designed to deal with, quite honestly, it appears to me this has been a failed program.

The very promises made to the taxpayer of what was going to happen with this money, in my judgment, have not been kept. And I just think that's very concerning. Somebody watching this hearing must be so frustrated. We can get billions out. We can buy General Motors overnight, but we can't help a homeowner.

And that just doesn't make any sense, you see? It just -- I think it's a failing. And I -- I really think Treasury should come to grips with what the inspector general is saying here and try to deal with those issues or close down the program.

ALLISON: Well, Senator, I think we're being very candid and fact-based on what is going on in our programs. Again, with the -- with the home ownership program, this is a program that really got under way in May in terms of actual activity. And it is now September.

We already have 500,000 people -- or no, I'm sorry, we have about 400,000 people in the trial mods and we'll have 500,000 by November 1st, if not sooner. The pace of the -- of the increase is on line with our objectives today.

We still have a long way to go. I'm not declaring victory at all. We have to do many more modifications than have been done so far. But this is a program that was announced by the administration in February, shortly after they took office. There's been great urgency to get it going.

We have to work through a number of banks around the country. We now have close to 50 banks and they account for 85 percent of eligible mortgages in this country, and we're working very actively with them to ramp up and to serve as many people as we possibly can.

So I think that the progress has actually been good. But in an absolute sense, have we arrived where we want to be? No. We all have to do a great deal of work to get there. We're being as open as we possibly can. We're not declaring victory by any means.

JOHANNS: That's -- I'll wrap up. I'm -- I'm way over my time, and I appreciate the chairman's indulgence. I'll just wrap up and tell you -- tell you that when I got an inspector general's report that was this critical, we tried to act on it, and I hope you will, because, quite honestly, it is very damning.

Thank you, Mr. Chairman.

JOHNSON: Senator Brown?

BROWN: Thank you very much, Mr. Chairman.

Welcome, Mr. Secretary. Thank you for joining us. I want to shift gears, talk about -- talk about credit. I -- I hear consistently, as we all do, from particularly small- and medium-sized businesses about the difficulty of getting credit, that the feds are putting -- put hundreds of billions of dollars in TARP money, the administration released $5 billion from TARP for tier one suppliers, as you know, for the auto industry.

And I -- I -- I think it's particularly acute -- the problem's particularly acute for manufacturers. I hear -- I bet you I get a dozen -- dozen calls or letters every single week from manufacturers in my state, especially manufacturers in the auto supply chain, but beyond that.

The SBA has been actively making adjustments, increasing its loan guarantees to 90 percent, yet banks still aren't lending to companies -- to -- to manufacturing companies, and these are -- these are companies that have customers. They're companies that can make sales, that have the capacity, that have skilled employees ready to go.

And I mean, how can we -- how can we -- we always -- we -- all the economists will say that historically what pulls us out of recession is housing and auto. Perhaps they say auto and housing, in that order.

And the president was in Lordstown, Ohio, a week ago, 1,000 people coming back to work at -- at Lordstown are being called back to work. There is -- there are signs that that industry, partly because of cash-for-clunkers, partly because perhaps Chairman Bernanke is correct about the country beginning to come out of -- or at least the recession ending.

Yet if the suppliers, if the component manufacturers, particularly tier two and tier three auto suppliers, and coupled with -- a lot of those auto companies are beginning to look at -- at transition into other manufacturing -- glass makers in Toledo who made glass for trucks can make them for solar panels.

You know, a -- component manufacturers that made gears for cars can make gear boxes for wind turbines. And we're seeing that transition. My state is one -- and Toledo has more solar energy jobs than any city in America.

And we're seeing that around my state, in a state that -- people are surprised when they hear that. What gives here? What -- what -- what do we need to do? What do you need to do? What tools can -- can we give -- what -- and I -- I know Elizabeth Warren's going to talk about this in the second panel, about the lack of credit in manufacturing and other businesses.

But -- but give me your thoughts on what -- what we can do to help the feds put more -- some -- somehow get the banks to begin to give credit to especially manufacturing.

ALLISON: Senator, again, we're encouraged by the progress that is being made, and I know that the president himself was out there and -- and -- urging that more progress be made.

We have to transition this economy to new industries in order for it to grow and to have greater stability over time. Important in my role is to assure that we are making capital available to the banking system so that they can, in turn, provide credit, as you're pointing out, to small business and large.

And again, we've seen, I think, encouraging signs that the lending activity has been helped by the TARP program. It's not as robust as we would like, but that's normal during a recession. But it's not been as -- as bad a downturn in lending as it might have been and certainly would have been without the TARP program.

BROWN: Well, I -- I don't -- Secretary Allison, sorry to interrupt. I...

ALLISON: Yeah.

BROWN: ... I appreciate that, and I think -- I mean, I really do believe that if we hadn't done a lot of things we did, contrary to what some in my state and some in this -- in the Senate and the House think, that it would have been significantly worse.

I -- I agree with all that, but I still have -- I -- my subcommittee I chair of this committee, the Economic Policy Committee that Senator Merkley sits on with me -- we -- we've had hearings on this. We're still having manufacturers come to us.

I said I get at least a dozen calls and letters and visits a week from people that can't get financing that -- that will produce jobs. I mean, these are -- these are people that are...

ALLISON: Yeah.

BROWN: ... not particularly high-risk. What gives? What do we need to do to -- other than saying we are beginning to make progress, what -- what -- what freeze -- what unfreezes this so they get credit?

ALLISON: Well, again, a lot of credit has come from the securitization markets as well as the banks. It's very important for us to -- to increase activity in those markets. And that's why we are still following through with the PPIP program. That's why the TALF facility has been actually extended by the Fed into next year.

And it's -- it's -- we have to look at this as a -- a problem of total credit availability, and it's not only the banks, which play a vital role, but it's also the ability of banks to be able to take assets from their books and sell into the securitization markets, as was pointed out earlier.

In order to do that, we have to have an active marketplace, and that's why some of these programs are so essential to getting that activity going again. We've seen encouraging signs. The securitization markets have picked up in activity dramatically since last spring, thanks to these programs. More still has to be done.

But the signs are encouraging, and we're seeing glimmers of growth in the economy, in certain sectors, so all in all, the economic recovery program and the financial stability program seems to be having a favorable impact.

BROWN: OK.

Thank you, Mr. Chairman.

JOHNSON: Senator Hutchison?

HUTCHISON: Thank you, Mr. Chairman.

And thank you, Mr. Allison. I know you've been here a long time, and I appreciate that you're making great efforts.

I -- I just want to say a couple of things. First, in the -- Mr. Barofsky's report, the I.G., it goes through exactly what we were told last fall for TARP that it was primarily to take the toxic assets off, particularly in the area of mortgages, to try to stabilize that area.

It is my belief that had we stuck to that, maybe the stabilization of the housing market and the banks would have been enough, and certainly would have kept us from going through these huge spending binges that I think are scaring people more than anything else in this country.

And yet I -- I go through my state, and small business person after small business person after small business person says they cannot get loans. They cannot do the normal things that they have done throughout their small business experience.

And so I am very concerned that that -- that part of the new programming hasn't even gotten up and going. And we talked -- we've talked about the mortgage part of the new program.

I'm just going to ask the direct question. We don't feel it out in the marketplace that it's getting into the home mortgage area enough, that it's getting into the small business area enough.

And -- and yet we just continue to -- to say we're going to extend the program. There's $330 billion that's not spent, and we hear that Secretary Geithner is going to ask for an extension of the program.

Let me just ask you this question. Isn't this huge debt and the deficit as important as all of these other factors, and why wouldn't you consider not extending TARP, having the paybacks go directly into paying down debt, so that the American people can see that there is light at the end of the tunnel, that maybe this excessive spending that is causing debt that we see beyond our children and grandchildren's generations, that maybe if we stop TARP where we are now, about halfway through, and try to work on the paybacks going into debt, wouldn't that be a signal to the American people that we are going to look at this debt, it is a great concern, it is going to be as important to the success of coming out of this recession as anything else we could do? Why not?

ALLISON: Senator, first of all, thank you for your thoughtful question. The payments back into TARP do go to reduce the -- the funding of the debt.

HUTCHISON: Let me ask, on that point...

ALLISON: Yes.

HUTCHISON: ... because you did say that to Senator Johnson. But is it going back -- is the interest going back? Is the corpus going back? Because it's looking more like a revolving...

(CROSSTALK)

ALLISON: The -- yes, the interest and the corpus go directly into the general account of the U.S. Treasury to reduce the Treasury's funding needs.

HUTCHISON: So is that no longer -- the $70 billion then no longer part of the $700 billion?

ALLISON: Actually, the way the law works, Senator, is that the -- the amount appropriated remains at $700 billion. So as the money is paid back, that frees what we call head room in the program, if needed, to provide additional commitments, and...

HUTCHISON: I don't think that's what I certainly envisioned, nor is it the way I heard it described when we passed this, that it would continue to revolve, basically.

ALLISON: Yeah.

HUTCHISON: I think people thought there would be a finite amount and that would be used to jump-start the economy through mortgage- backed security purchases and buying the toxic assets.

So I don't think we considered it a revolving fund but wanted to get out of debt as soon as we could.

ALLISON: Yeah. Let me say, Senator, we follow the law explicitly, and the amount that we have actually committed is $444 billion. We have actually invested or spent about $360 billion out of the $700 billion authorization.

On the -- let me mention about home ownership. One has to look at the overall programs that the government has been carrying out. Mortgage rates are certainly lower than they would have been, which is extremely important to the American public, because of the activities of the Fed as well as the Treasury.

And the mortgage modification program -- as I said, it is relatively young. It's ramping up very rapidly. We're going to be reaching a lot more people. We share your concern about is this -- are these efforts reaching people in their communities around the country, and we monitor that very closely as well.

That's...

HUTCHISON: Do you agree that it isn't?

ALLISON: Oh, it is. It is. But a lot of people are still suffering in the American public. They're still concerned, many people, about losing their homes or -- or losing their jobs. We are not back to a normal, healthy economy.

There are improvements that are dramatic in many parts of the economy, but we still have a way to go. And those are some of the -- some of the factors that the secretary will be considering as he decides whether to extend.

But let me emphasize again a number of these programs are already winding down, and they'll wind down further. And this program ends either the end of this year or no later than next year in any case.

And so we are looking toward the -- the -- some of these programs beginning to wind down and making sure that we're implementing the programs that are under way as well as we possibly can to get assistance out to the public as well and as rapidly as possible.

HUTCHISON: Well, let me just finish by asking why wouldn't you show good faith with the American people and not ask for a full extension of $700 billion at the end of this year, and perhaps just lower the amount and put that amount into a -- a position in which we would not have that available to go further into debt when we're seeing such a -- a skittishness in -- in the American economy about the huge debt that's being created?

ALLISON: Yes. These are all considerations that the treasurer -- that the secretary of the treasury will take into account. These are important concerns that you're raising. We understand those concerns. Those have to be factored into this very complex decision that the secretary will have to make.

HUTCHISON: Well, I appreciate what you're saying. I -- I hope -- I don't see, as you do, that people feel like the money is flowing, that there is a credit availability for small business people.

Now, I hope you will monitor that very carefully and maybe talk to people on the ground about whether they feel like they're able to get their inventory loans, their payroll loans, as they have in the normal processes of their business.

ALLISON: Yes. May I say, Senator, we share your concern. We do talk to many people out across the country. We're listening to small business associations, small bank associations. We understand the frustration of many.

This is a very serious recession. We've taken dramatic efforts to deal with it. We look at -- at the -- at the situation with small business constantly and discuss ways where we might be even more helpful.

HUTCHISON: Thank you, Mr. Chairman.

JOHNSON: Senator Menendez?

MENENDEZ: Thank you, Mr. Chairman.

Mr. Secretary, thank you for your service. Let me -- a couple things. First of all, I held a field hearing of my subcommittee in New Jersey on the foreclosure crisis.

And one of the things I heard from witness after witness, including actual citizens as well as groups that are working with groups certified by HUD, is that the lenders have a -- many lenders have a strategy that some define as the three D's -- delay, deceive and deny.

And it actually reflects what many of the constituents coming to my office and letters that I have received beyond my state reflect. And in many cases, we have these institutions, these servicers, telling people what is clearly in violation of the law, is not the law, telling them that you have to be in foreclosure before you can get assistance. That is not..

ALLISON: Right.

MENENDEZ: ... the law.

ALLISON: Right.

MENENDEZ: Taking long periods of time when a -- a -- a mortgage mitigation and/or readjustment is being sought, and then piling on fees and penalties months after the application has been made.

Telling them that they need not only to be -- the -- in foreclosure but that they need to be delinquent in their mortgages to qualify for a modification, or steering them into non-HAMP mortgage modifications.

Now, if I can hear at a field hearing what I have heard in my office for months now, how is it that the Treasury Department, which has the authority to fine servicers for not complying with the loan modification agreements they signed with the federal government -- has not faced, as I understand it, one such violation?

ALLISON: Yes. Senator, we share your concern about this, and one of the roles of Freddie Mac in this entire program is to audit the program, to go in to each of the servicers and determine whether they are conforming with the rules and the law.

And we do have the power, as you said, to either withhold payments and even to claw back previous payments if we find that violations have been taking place. We are going to be looking at that.

First we want to be assembling information about the servicers and their service quality. We're going to be publishing information according to metrics of service quality on each one of these servicers so the American public can see for themselves who's following through with this program effectively and who isn't.

We're going to be meeting again with the servicers in early October. We're bringing them into Washington to have an all-day meeting to examine the state of the program and how well they're carrying out their responsibilities on behalf of the program and the public.

We -- we are sincerely concerned about this. We don't think the service quality across the board is at the level that it needs to be. And we're committed to trying to make this better. And one answer is...

MENENDEZ: Well, I -- I...

ALLISON: ... public disclosure.

MENENDEZ: ... I appreciate that, and I'm all for public disclosure. But public disclosure without consequence means nothing.

ALLISON: We understand. We understand.

MENENDEZ: The bottom line is that there are both -- there are incentives of all type proposed in the law.

ALLISON: Right.

MENENDEZ: There clearly were incentives on the positive side to induce and help the servicers to do what we would want them to do in loan modifications. There's also a different type of an incentive -- sometimes we call that a stick -- when you don't act correctly.

However, if the penalty is never used, if I can through the red light all of the time and never worry about being fined, then guess what? Very often, people will just take that red light when they're in a hurry.

There has to be some action upon servicers that consistently have this M.O. And if not, they will continue with impunity, to the detriment of -- of the homeowners.

ALLISON: Yes, sir. And we are -- we will use the stick when that's called for. I can assure you of that. So we are assembling the information, and we'll be sitting down with the servicers...

MENENDEZ: Because I've already looked at...

ALLISON: ... and speaking with them about it.

MENENDEZ: ... some of your metrics as to who of all of these institutions are performing. And you know, it's like this.

ALLISON: Exactly.

MENENDEZ: Now, I don't know what these people down here are doing and when they're going to get the -- the incentive to do better. But you know, my patience is -- is -- is quickly dissipating.

So I look forward to seeing what we're going to do...

(CROSSTALK)

ALLISON: Thank you.

MENENDEZ: Secondly, Professor Warren, in her testimony soon to come, says that in May they surveyed the state of lending for small businesses and families and examined the TALF program, and their report raises concerns about whether TALF is sufficiently well designed to help market participants meet the credit needs of households and small businesses.

It also raised serious doubts about whether the program would have a significant impact on access to credit. Now, I know that in response to some of my colleagues' previous questions -- you know, I'm concerned, first of all, under all of these programs that we have not seen lending be realized.

I know that your answer to that is but for TARP, for example, it would have been much worse. That is not consoling to the private sector that is seeking to have access to capital so that they can get this economy moving, and their own personal businesses moving again, and hiring people, and producing goods or services that our economy can move on.

So I listen to story after story of people who talk to me about the incredible percentages above LIBOR in order to get -- to get a loan.

And I then see this comment about TALF, particularly as it relates to small businesses, and I say to myself, "Why is it that we cannot structure the program in such a way that meets those challenges?"

And what are we going to require from the TARP recipients as sufficient enough activity as it relates to lending so that, in fact, this is, one, yes, about strengthening those financial institutions, but yes, about lending in the marketplace? When are we going to get that (inaudible)?

ALLISON: Yeah. Well, again, I think, as you pointed out, and as I've said, lending is stronger than it would have been otherwise. Are we satisfied? No. We are -- we need to make sure that working with the regulators that the banks retain adequate capital to conduct lending activities.

There is -- if you look at the normal runoff of bank loans over years, you'd see that actually there's a great deal of lending going on, but there's not enough. And in part, this is -- there -- there needs to be confidence on the part of business as well -- businesses who borrow as well as lenders.

And we're seeing that there are signs of greater confidence. We had in the month of June, for example, an increase in loan originations across the country. But it's still spotty.

And it's going to take some time to restore confidence both on the part of businesses and banks to get to the -- and the capital markets, so that we have a strong securitization market again, so we're not yet out of the woods completely. We've made progress.

We want to see progress as much as anyone, and we're working day and night to try to make sure that our programs are as effectively -- as effective as possible in stimulating lending.

MENENDEZ: Well, I'll -- I'll just close, as my time is finished, simply by saying plenty of people -- plenty of entities I know -- they have the confidence in their business and their business...

ALLISON: Yeah.

MENENDEZ: ... plan to borrow. The only thing is when you have rates that are almost usurious it's pretty difficult to borrow. And lastly, you know, it still doesn't answer the question on TALF and the small business community that's the backbone of the country that needs to have access to capital. That clearly is not taking place.

ALLISON: Well, TALF has been expanding, and it has provided material sources of liquidity in the -- especially the commercial mortgage-backed securities and the -- or residential mortgage-backed securities markets.

Also, the asset-backed securities activities have picked up as well, thanks to TALF. There are billions of dollars of financing that have been provided, for instance, for credit cards, auto loans, floor plans that would not have been the case without these programs.

I will share your view, however, that more needs to take place so that rates are appropriate for borrowers and there's ample liquidity in the system.

Again, I want to point out we're not yet where we'd like to be, but we're seeing a great deal of improvement in those markets. But we're...

JOHNSON: Senator Reed?

REED: Well, thank you very much, Mr. Chairman.

And thank you, Mr. Secretary. Let me just follow up on Senator Menendez' question with respect to TALF. I think the Treasury reserved about $80 billion to lend into that program, and only about $20 billion has, I think, been committed. So there's a significant gap.

And in light of what we're all hearing back home, where, you know, companies can't get credit, they're -- you know, they have a good business plan, et cetera, you know, I would think that this -- that the problem we'd have is these funds would be run out, not that they had -- you know, there's no call on them. Can you help me explain, or the...

ALLISON: Yeah. The -- well, the TALF program has been expanding, and it has provided substantial liquidity. We have set aside funds for the TALF and actually recently increased the amount of the commitment to the TALF program as it moves forward into next year.

It's still a very important part of securitization, but we have seen overall spreads come down, thanks to the TALF, so funding is -- is more affordable today than it was before, and it's more ample.

REED: No, I absolutely agree with you, but we continually hear, and you do also, that good businesses can't get loans. Small businesses can't get loans. No one can get loans. And it might be, you know, sort of urban folklore, but it is a very powerful one that -- that's contributing to the -- to the confidence or lack of confidence of the -- of the public.

And you know, I would -- I would -- I would think you would try to, having committed the money, expeditiously try to get it out...

ALLISON: Yeah.

REED: ... not foolishly, but with -- with purpose, and...

ALLISON: Yeah.

REED: ... I hope you will do that.

ALLISON: Well, we are -- we are doing that, sir, and we'll -- we'll try to keep that going with great momentum.

REED: Now, let me follow up another theme that my colleague from New Jersey -- that is the home foreclosure. And I -- I listened and you -- you know, I think you're aware of the problems. You're trying to deal with them.

But at some point, if these measures are not eliciting the proper behavior, particularly after you take some -- make some sanctions, or take some sanctions, the question is what more can we do. And you know, the clock is ticking.

If we don't really, I think, turn the mortgage market -- build on the -- the stability that you have helped...

ALLISON: Right.

REED: ... provide by next spring or next summer, people, I think, will continually feel that they -- you know, that the economy has improved, the market, we hope, is still up, but they've missed -- you know, they've missed out.

So my question is is there anything more we can do legislatively -- and I will sort of answer, in a way, my own question -- that if these results continue to be as Senator Menendez described, we will do more things legislatively, and hopefully they'll be helpful.

ALLISON: Yeah. Well, again, we're seeing that the -- the mortgage modification program is gaining steam, and we are continually in dialogue with the servicers to make sure that we ramp this up as rapidly as we possibly can.

We are most likely going to beat our target that we said for -- set for half a million mortgage -- trial mortgage modifications under way by November 1st. But we're not stopping there. We want to keep on ramping this up.

We're monitoring which banks are lagging, which banks seem to be doing a good job, what's the service quality and so forth. We feel the same sense of urgency, Senator, that you do and your constituents do.

We -- we have a long way to go, but we are hopeful that as we move toward the end of the year this program will be at pretty much full steam and will be moving forward into next year with a lot of momentum.

REED: Thank you very much, Mr. Secretary.

ALLISON: Thank you very much, Senator.

JOHNSON: With that, Mr. Allison, thank you very much for being here. You may be excused.

ALLISON: Thank you, Senator.

JOHNSON: Yeah.

Next comes panel number two, and it involves -- Neil M. Barofsky is a special prosecutor -- is a special inspector general for the TARP. Prior to assuming his current position, he was a prosecutors in the U.S. Attorney's Office for the Southern District of New York for more than eight years.

Gene L. Dodaro is the acting comptroller general of the GAO. He has worked for over 30 years in a number of key positions at GAO, including chief operating officer.

Elizabeth Warren is the chairman of the Congressional Oversight Panel. She is the Leo Gottlieb Professor of Law at Harvard University.

Welcome to all. And -- yeah. Mr. Barofsky, why don't you lead it off? Welcome.

BAROFSKY: Thank you, Mr. Chairman.

Members of the committee, it's an honor to appear before you today as the special inspector general, and it's also an honor to appear sitting next to my co-panelists and partners in providing oversight to this historic program, Mr. Dodaro and Professor Warren.

It's been about a year since TARP was enacted and the EESA created this program, and about nine months since I took office. And during that past year, the program has changed dramatically, as was detailed earlier in the testimony of Mr. Allison.

What started as a $700 billion effort to purchase and cleanse books -- toxic assets off the books of financial institutions has evolved over time to 12 different programs that involve, when combined with other federal programs, of up to approximately $3 trillion.

As the TARP has changed, so has our office. When I started on December 15th, it was just me and my deputy, Kevin Puvalowski. We've grown in that time to 86 strong, and our -- we conduct our oversight through our two operational divisions, audit and investigation.

Our audit division has been putting out audits recently advancing our goal of advancing transparency and accountability in the TARP program. We recently issued audits on use of funds, on outside influences on the TARP application process, and on executive compensation.

And we have a number of audits coming up in the next couple weeks, including on Bank of America, on the initial funding, and on the bonus payments to AIG.

In the coming months, we also have projects that we're doing with the Congressional Oversight Panel on warrants and on corporate governance with GAO.

I'd like to talk very briefly about one of our audits, which was our use of funds audit. That was the first audit that my audit division put forward. And this was from late December when we made our first recommendations to Treasury that they, in order to advance basic transparency, require TARP recipients to report on how they're using TARP funding.

The last administration refused this request, as did the present administration, so we took matters into our own hands. And what we did is we sent out letters to the 364 financial institutions which at that time had received TARP funding and asked them a simple question, "What did you do with the money?"

We got 364 responses, all of which are now posted on our Web site and summarized in an audit report we put out over the summer. And what we learned is that financial institutions did a number of thing with the money.

As to lending, some of them were able to use TARP funds to increase lending and others reported that they decreased lending less than they would have otherwise, or were able to maintain lending. But of course, that's not all they did with the money.

As our audit report indicates, they reported that some institutions used money to build up their capital cushion to withstand future losses. Others used the money to acquire other financial institutions. Still others used it to pay off debt that they had or acquire mortgage-backed securities.

BAROFSKY: The point is -- is that, as we proved, financial institutions can and should be required to provide this basic transparency of letting the taxpayers know what happened to their money. Treasury still refuses to adopt this recommendation.

And with all due respect to Mr. Allison, the -- the things that he's described and that they're doing falls far, far short of meeting this basic level of transparency.

Our investigations division has also been busy. Although I can't comment on a lot of the investigations because they're -- they involve confidential ongoing criminal investigations, several things have become public.

So for example, we helped bring some measure of justice to investor victims of Gordon Grigg down in Tennessee, who was selling a fictional asset called TARP-backed securities. He's now serving 10 years' imprisonment.

We've also worked with our civil partners, such as the FTC, helping to shut down several scams that were targeting struggling homeowners in the mortgage modification program.

We also have other ongoing investigations that have been made public, more complex investigations, like that into Colonial Bank, a bank that had received preliminary approval to receive $553 million of TARP funds.

Following that approval, my office took several law enforcement actions, including serving subpoenas and, over the summer, executing search warrants down in Florida, including on Colonial's offices.

That TARP money never went to Colonial. It's now defunct. And our criminal investigation with the Department of Justice is continuing.

Similarly, we've been supporting the numerous investigations into Bank of America, including the investigations by the New York State Attorney General, the SEC and the Department of Justice as we look into what happened with the merger of Merrill Lynch and the circumstances surrounding some of their disclosures, as well as the circumstances surrounding their receipt of additional TARP funds.

Mr. Chairman, members of the committee, as I said before, it is a -- an honor to be here before you. The support of this committee has been absolutely instrumental to us as we carry out our role providing oversight, and I thank you for that, and I look forward to answering any questions you may have. Thank you.

JOHNSON: Thank you, Mr. Barofsky.

Mr. Dodaro?

DODARO: Thank you very much, Mr. Chairman, Senator Johnson, Senator Corker, Senator Merkley. It's a pleasure to be here today to assist your deliberations to take stock one year after the Emergency Economic Stabilization Act was passed.

At this juncture, our overall assessment is that the TARP program -- in particular, the Capital Purchase Program -- made a very important contribution to improving the situation with the credit markets.

But when you look at the full portfolio of programs under the TARP umbrella, in many respects they're still a work in process with many uncertainties and challenges that lie ahead, and some of the ultimate return on the investment I think remain very unclear at this point in time.

Now, on a positive standpoint, while it's very difficult to isolate TARP's specific impact, given the wide range of other programs by the Federal Reserve and FDIC, overall indicators that we've been tracking on interbank lending rates, along with interest rate spreads, show dramatic improvement since October 2008 when the Capital Purchase Program was announced, along with other federal initiatives.

And as you've heard, there have been repayments made for the Capital Purchase Program by many institutions -- $700 billion -- there's been 200 -- two point nine in warrants that have been exercised and about $7 billion in dividend payments.

However, there are hundreds of other institutions that still have received TARP funds and are still receiving them under that program, and it needs active management to ensure that they're complying with all the requirements.

In other cases, there are investments that have been made, particularly in the case of AIG and the auto industry, where there's a clear need to have a very well defined exit strategy on the part of the government that balances returning those companies to private control while managing and making sure that they're minimizing the potential losses to the federal government.

We're looking very carefully at that and evaluating what those exit strategies are being contemplated by the Treasury Department and others.

And as you've heard today, the home modification program is in its very early stages and a long way from fulfilling the expectations that many people had for that program, and other programs are just in the process of getting off the ground.

So from a total standpoint and looking at TARP, it's had some positive impact on the credit markets, but a lot of the programs have very uncertain outcomes at this particular point in time.

Now, in order to foster greater accountability and transparency, GAO's issued about seven reports. We're required to report every 60 days. We've had over 36 recommendations in those reports to make sure that better controls were put in place, that there was a better oversight, greater transparency and accountability.

Treasury's agreed with the vast majority of those recommendations and has partially or fully implemented most of them. However, many remain outstanding, including putting in place a chief of the home ownership program, which we believe was very important, to help give additional emphasis to that program, and to have a better communication strategy.

They've made some strides in this area, but this will be really important going forward, particularly as it relates to communicating whether or not they're going to extend or propose to extend the TARP program for another year.

So those activities are really important. We are in the process of completing the first annual financial audit over the Office of Financial Stability's financial statements and we'll be reporting soon on that financial audit, which will include valuation of all the investments that they hold to date, so I think it'll provide pretty good illumination on those points.

We have efforts under way to look at the automobile industry in terms of steps that they've taken, G.M. and Chrysler, and also with our newest statutory authority to look at the Federal Reserve's oversight of AIG.

We're going to continue to look at that effort, along with the partnership efforts we have with Mr. Barofsky and his team to look at how the federal government is pursuing different corporate governance strategies and oversight mechanisms across a wide range of entities both within the TARP program as well as Fannie Mae and -- and Freddie Mac, for -- for example.

So that concludes my opening statement, Mr. Chairman. I'd be happy to answer questions at the appropriate time.

JOHNSON: Thank you, Mr. Dodaro.

Next is Elizabeth Warren.

WARREN: Thank you, Mr. Chairman, Senator Corker, Senator Merkley. Appreciate the opportunity to be here today to talk about the work of the Congressional Oversight Panel.

I always need to start with a disclaimer. I'm the chair of the Congressional Oversight Panel, but it is a five-person panel. And because I don't operate from a script, that means my words have not been pre-approved, so I speak on my own behalf and not on behalf of my other four co-panelists.

I want to start this, because you asked us to talk about one year later. Many people have talked about where we were a year ago, that we had major corporations that had failed either through bankruptcy, others on the brink of collapse. We had families that were concerned about the loss of savings. They watched their home equity disappear, chaos in the markets.

And TARP was offered as the centerpiece of the government response, a $700 billion program to stabilize the financial system. From the outset, it was obvious that a system so large would need very careful oversight. In the year since then, the mission of TARP, the work of TARP, has grown and oversight has had to grow along with it.

The Congressional Oversight Panel was your creation to help in part with that oversight. We are the ones who are responsible for issuing reports every 30 days to -- to Congress. Here's a stack of our reports.

We have done 10 regular reports and two special reports that were required by statute. I talk about this more in my written remarks, and I'm glad, obviously, to answer any questions about them.

In addition to our reports, we also hold hearings. And so we have so far had 11 hearings, including five field hearings that have taken us to some of the areas around the country that have been especially hard-hit by the economic crisis.

In fact, as I am here today, the rest of the panel is in Philadelphia in a hearing on the mortgage foreclosure mitigation system. We're hearing from Treasury there and from many people about various programs under way and how they're working on the ground.

Of all the questions, though, that we get and I get as -- as chair of the oversight panel about TARP, perhaps the most frequent one is just the question, "Is it working?" It's a simple question, but it actually is a very difficult one to answer.

And part of the reason starts with the design of TARP. We said in the statute that there were five specific goals -- to restore financial stability, protect home values and family savings, promote jobs and economic growth, maximize return to taxpayers, and provide for public accountability.

Now, any program under TARP that did all five of those things, I think we would all applaud and say that was a success. But how do we evaluate programs that do only some of those?

What becomes even more difficult is how do we evaluate programs that advance some of those goals at the cost of others of those goals. And this is not merely a question that's hypothetical.

In fact, in February the panel released a report evaluating Treasury's largest acquisitions of bank equity and warrants under the TARP program. Despite the assurances of Secretary Paulson that the initial purchases of stock and warrants of the banks were made at full value, our analysis showed that Treasury paid substantially more for these assets than they were worth.

In fact, for every $100 spent by Treasury, the taxpayer received assets that were valued at that time, on average, at only $66.

Now, these capital purchases very likely helped stabilize the markets. They achieved one of the key goals of TARP. But Treasury paid substantially more for these assets than their market value, thereby subsidizing the banks at a significant cost to the taxpayer.

So any discuss -- discussion of success has to hit this basic conundrum. The oversight panel can contribute to this discussion by investigating what's going on, assembling the data and making the recommendation.

We can press Treasury, as we have, for greater clarity, greater transparency and greater accountability. But ultimately, the American people will decide if the right balance between the banks and the taxpayers has been struck.

In the last year, the apprehension that pervaded this country has turned into something else, frustration and anger. Today's fragile stability has come at an enormous cost to the American people.

Taxpayers have a right to know whether anything fundamental has changed to prevent this crisis from happening again. This brings us back to a topic that the panel first addressed in our special report on regulatory reform last January. As we said then, we must change the rules of the financial system to make certain this crisis is not repeated.

Thank you again, and I look forward to whatever questions you may have.

JOHNSON: Thank you, Professor Warren.

The -- the clerk is asked to put five minutes on the clock.

For the entire panel, each of your organizations has offered recommendations to improve the TARP program. How would you characterize the TARP's receptivity and responsiveness to your recommendations?

And are there recommendations that have not yet been implemented which all of you agree on or feel should be implemented in the near future?

Mr. Barofsky?

BAROFSKY: A number of our recommendations have been implemented, particularly on the compliance side. But at its core, our biggest frustration and I think the most significant recommendations that have not been adopted have related to transparency.

And touching on something Professor Warren said, we believe that a lot of this frustration and cynicism and anger comes out of the lack of transparency in the TARP program.

Taxpayers really want to know, and should have a right to know, of what's going on with their investment. How are the funds used? What are they worth, on a more regular basis than the statutorily required annual review that GAO does?

With the different -- with the new -- some of the new programs they're rolling out, like the PPIP program, what is being purchased with their money? We believe these are fundamental aspects of transparency that will make this a better program, a better understood program and a better run program.

And Treasury's failure to adopt these recommendations, in my view, has been one of the -- the great failings of the past year.

JOHNSON: Mr. Dodaro?

DODARO: In general, we've received good receptivity to our recommendations. There are several outstanding ones. One is to name the new head of this homeowners mortgage mitigation office, which I think is very important, given all the comments that have been made and questions to Mr. Allison this morning.

But I -- I share some of the frustration that Mr. Barofsky mentioned. Early on in the very first report that we issued on the TARP program last year, there was a reluctance to adopt the recommendation to disclose the total lending activities of the recipients of the Capital Purchase Program.

I think that got the program off to a bad start. It created a lot of skepticism about what the banks were doing with the money. And there was -- it was difficult to come up with a baseline as to what the lending activities -- and whether or not -- how to measure whether TARP was achieving the objectives of the statute.

There's been significant progress since then due, I believe, to active oversight on the part of the Congress to require the prior administration to begin those reports. And now that we have those reports, they're providing better insight into the overall lending activities, not only for the large institutions, but for the small ones as well.

I'd be happy to submit a detailed summary for the record of all 36 of our recommendations and where things stand.

JOHNSON: Ms. Warren?

WARREN: Well, again, there's been some good news. We have pushed for a long time for more transparency, more accountability, more clarity on goals. And when I measure it against where we were last November, we are in a much better place than we were before.

However, we think there's still room to travel along the transparency road.

We made some recommendations on more mutual closure mitigation, that Treasury used and altered their plans somewhat. I like to think we made a -- we had an effect on the warrants repurchase program. They didn't specifically adopt our recommendations, but after we had identified that we were receiving what we thought was too little money, the -- the price jumped up, and that was good for the American taxpayer.

So there's been some good movement.

I want to say, though, we've had some very specific recommendations that at least thus far Treasury just has not shown a lot of interest in.

We have recommended, for example, in our most recent report on autos that the American -- the taxpayers' ownership, the shares that -- that Treasury now holds in Chrysler and General Motors should be put into a trust to be better managed on behalf of the taxpayers.

We have argued for repeating the stress tests and extending them past the 19 largest financial institutions. We have raised deep concerns and made many recommendations about getting the troubled assets off the books of the banks, where they remain.

And we have made recommendations about restarting small business lending, where we are very concerned that there has been inadequate work done.

We also are concerned that parts of the foreclosure mitigation process are just -- they're just ignoring big -- big pieces of the problem out there.

So we also have made about, I think -- it's hard to count these. We do long and complicated reports -- roughly about 20 big recommendations and probably about 20 more technical and smaller recommendations.

We'd be glad to offer those to you, Senator, in some detail and show you the extent of Treasury's response, if that would be helpful.

JOHNSON: Thank you, Ms. Warren.

Mr. Barofsky, are you prepared to delve into the lender operations, and check to make sure they are following the HAMP (ph) rules correctly -- treating the staff adequately and generally living up to the constructural arrangements?

BAROFSKY: We have an audit ongoing right now. A couple of my auditors just got back from -- from Texas. They were doing a site visit on one of the -- one of the mortgage servicers. And all of this is going to be encompassed within that audit, which we hope to get out late this year or early next year.

In addition, we have a hot line that's up and running. We've gotten probably about 7,000 -- oh, close to 7,000 inquiries on the hot line. It's available on our Web site, where we've gotten about 26 million hits.

And a lot of these are -- are homeowners who are complaining and letting us know their frustrations.

We put together a management report to Treasury, identifying a lot of the frustrations which I heard were exposed at Senator Menendez's hearing, as he described it, and brought those to the attention of Treasury, as well to try to get them to work with these servicers to make sure they're living up to their -- their end of the bargain.

JOHNSON: Senator Corker?

CORKER: Thank you, Mr. Chairman.

And thank each of you for your testimony, but also what you're doing on a daily basis. And I don't think there's any question that having folks do what you do certainly causes people to attempt to be far more transparent. And it's a very good check and balance.

I -- we had a witness earlier, I talked with in the hallway after the meeting, and, you know, there wasn't a lot of illumination for many, many reasons, I think, as to the program itself.

And I know that you all have issued reports and we're able to read those, and your testimony kind of tells us a little bit about where we are as far as the integrity of the program goes.

But I'd like to move more toward -- we have some decisions that -- or there will be decisions made, I guess, in the next several months. You all are out there on the ground. And, you know, in some ways, auditors, as you are in some ways, have a better sense of where things are in some cases than the folks who are away from that.

Should we not go ahead and sunset TARP at the end of the year? I mean, I really feel another moral hazard being created right now, especially as it relates to commercial real estate, where I think many institutions and investors are thinking that we are going to ride to the rescue.

And instead of getting their balance sheets where they need to be by issuing stock which dilutes ownership, which they're resistant to do as long as they think that the federal government's going to ride to the rescue, they're missing a window of opportunity to rectify what, no doubt, is going to be a problem down the road for them.

And, Professor Warren, I wonder if you might speak to that.

WARREN: Yes, Senator.

I want to start by saying something that's very unpopular, probably everywhere. I'm very concerned about the stability of our banks right now. Notwithstanding the good news and how share price is up on Wall Street for -- for some financial institutions, I just want to remind everyone, the toxic assets remain on the books of the banks. The commercial real estate mortgages are a coming crisis. Small banks are continuing to fail.

And we were talking a year ago about too-big-to-fail. We're now facing an industry that is more concentrated than it was a year ago, and too-big-to-fail is upon us now in a much larger sense.

Having said that, I also have deep concerns about the impact that TARP has on this market. I share your concerns about the effect of ongoing taxpayer subsidies and whether any market functions so long as it believes that there is a guarantor, that there is someone, the taxpayer, who will continue to subsidize the decisions that are being made and the operations, and standing as too-big-to-fail will take care of you, so if you get out there and gamble, you'll take all the profits if you win and we'll take all the losses if you lose.

I just want to say, I think it does have destroying effects on capital investment. I am very concerned about the absence of an exit strategy or how we're going to withdraw those subsidies and whether we will have confidence that we will continue to have a stable banking system afterwards.

CORKER: Because some of the funds have been allocated -- thank you for your response -- some of the funds have been allocated already for PPIP and other kinds of things. Those are not just going to go away, and they're -- they're primers.

And I know we had some discussion earlier, and I agree with Senator Gregg, that the securitization market will come back as soon as the people feel confident again in that market. There's nothing really, I don't think, that -- exceptional -- that we necessarily need to do in that regard.

So those programs aren't just going to go away. I mean, they're sort of going to wind down over time.

So back to the sunset issue, I think as long as this cloud is out there, or this rainbow for some is out there, I think we're going to continue to have people not doing the things they could do today to get their balance sheets in better order.

And I'm just wondering if you have a recommendation regarding whether -- I think it should be sunseted. And I know that we have numbers of banks that probably are on the troubled list. I think there are resolution mechanisms in place to deal with them.

But -- because they're typically not the largest institutions. But I'd just like to have your response.

WARREN: Yes, I -- I appreciate, Senator. And I'm struggling. I don't -- I don't want to be nonresponsive to you on this. But I think this one is a really tough question. I'm -- I'm less confident that we have adequately arranged for the death of businesses -- of financial institutions that need to fail.

And -- and so, the -- the absolute worst case scenario from my point of view is that we say, "OK, this is it; you're on your own." Whether we do this with TARP still alive or not, if we let these banks exit the system, and you say, "You're out there; you're on your own. You go out, you make some profits, you make some bad decisions."

And then, when they get into financial trouble, they race back to the taxpayer and say, "You're going to have to bail us out again."

So I am concerned that TARP is part of this larger fabric that's not only affecting investment, as you rightly identify, but it's also just a part of this larger decisionmaking and risk-taking and concern over whether or not the American government is now in a position to say with credibility, "If your business has failed; you fail. Your shareholders are wiped out. Your debtholders are going to take that hit. And it's on you. It's not on the taxpayer."

So I just think we have to be really clear in that place.

CORKER: May I ask one more question?

The -- and I -- and, Gene, I know you may want to respond to the last one, and you can do that in just a second.

There is not a resolution mechanism for the largest entities. And I know Senator Warner and I have drafted a mechanism that allows the FDIC to come in and do the same thing with large, complex bank holding companies that they do with most of the banks you're talking about now.

I assume that you would support having that type of mechanism in place, in lieu of what the administration has put forth as part of their financial regulation, which, in essence, codifies TARP and can give them the ability in perpetuity to use taxpayer monies for large entities.

WARREN: Senator, I emphasize I speak only for myself, because others might not agree with me, but I believe that a meaningful resolution authority is a central part of getting this economy back on its feet, good decisions being made, and a credible statement by the government that when you go out there and take risks, if you fail, you're on your own.

CORKER: Very good.

And, Gene, I don't know if you want to start.

DODARO: Relevant to your question about making a decision on TARP's extension, I'd make two points that I think are very important.

Number one, TARP should not be looked at in isolation of the other activities being carried out by the Federal Reserve, FDIC and others. As the program has unfolded, TARP has been very much intertwined, with joint activities, TALF being one example with the Federal Reserve activities being on point, TARP being the backup for that activity. The PPIP program activities there with FDIC, et cetera.

And FDIC now, with -- you know, we've had 94 banks fail so far this year. There's over 400 banks on the troubled list that they publish.

So I think it's -- so that would be my first point, number one, this ought to be looked at and presented to the Congress as an integrated strategy on the part of all actors that are relevant to dealing with this issue.

Secondly, there's plenty of time to have a good analytical basis for underpinning the decision. We're not in the same type of emergency situation we were before, where people are rushing up, you know, within two weeks, and asking for a lot of things.

There's plenty of time here. And there ought to be a good set of indicators in place, with clear expectations as to what will be achieved and how we will measure progress going forward under any extended program.

We're, you know, looking at that issue now, as part of our detailed anniversary report on TARP. We may have some recommendations on that going forward.

CORKER: What would be the date of that?

DODARO: That's going to be out early next month.

CORKER: Really?

(CROSSTALK)

CORKER: Thank you.

JOHNSON: Senator Merkley, please.

MERKLEY: Thank you very much, Mr. Chair.

And thank you for your testimony today.

I wanted to start by inquiring about the commercial and small business lending. Mr. Barofsky, in your comments, you note that it is becoming more and more clear the commercial real estate market might be the next proverbial shoe to drop, threatening to increase the pressure on banks and small business.

And, Professor Warren, you note that the report raised concerns about whether TALF was well-designed to help market participants meet the credit needs of households and small businesses. It raises serious doubts about whether this program would have a significant impact on access to credit.

I have many, many small businesses and real estate investors who are very, very concerned. On the real estate side, many have seven- year balloon mortgages. The goal is -- for them is to roll those over. Many of the folks who have those loans have paid consistently, but the value of their asset has -- has dropped from seven years ago.

And so, even when they have longstanding banking relationships, they're often being told, "We're sorry. Because your asset has dropped in value, we're not going to roll over this loan."

Well, obviously, if you have a seven-year balloon loan that you can't roll over, you're -- you're in deep, deep trouble.

And then, on the small business side, I just continuously have a stream of small businesses that are saying, whatever we're doing for the big Wall Street firms, it's not helping us as small businesses.

Well, are these as serious as it appears at the ground level? And how do we make progress?

WARREN: Senator, yes, the problem is as serious as it appears at the ground level. I -- I will start by saying I -- we need better data in this area. We would like to track it with more specificity, but the indicators we can find all say there is a problem with small businesses.

The coming problem with commercial real estate mortgages is exactly as you identify, not because the businesses aren't paying, but because when these re-sets come up, the value of the assets will be sharply diminished and, as I understand it, banks have also changed their lending standards. So what used to be a 95 percent loan-to- value ratio mortgage is now a 65 percent loan-to-value mortgage on an asset that's declined in value perhaps by a third. These are just numbers that are impossible for the operator of the -- of the business, who's holding -- trying to pay that commercial mortgage.

So let me -- let me identify where I think at least a part of the core of the problem is. It is disproportionately smaller banks, not the behemoths, the intermediate size to the smaller banks, that do the small business lending and the commercial real estate mortgages. That means that the health of this sector of our banking industry is critical to the -- to that portion, then, of the economy -- the commercial real estate and the -- and the small businesses.

But those small banks right now continue to have toxic loans on their books. They hold these commercial real estate mortgages that are -- that are quite problematic for them. They hold more whole loans, which means they're not in the securitization business nearly as much. They don't have the benefits of being too big to fail. In fact, we are watching them fail in large numbers.

And the programs that Treasury has designed have disproportionately gone to the largest financial institutions and not to the smaller institutions. So the -- the problem is more systemic, as we see it. We've -- we've actually done a couple of reports on this and gathered as much data as we have, but we have urged Treasury in our recommendations to reconsider its allocation of its resources to deal with toxic assets that remain on the books of the small banks, because as long as those toxic assets are there, when money comes in, they have a tendency to want to hold on to it to offset future losses.

So deal with those toxic assets and have programs that will help directly jump-start small business lending.

MERKLEY (?): A number of the community banks have called me to say the inspectors looking at their books are basically telling them to hold onto their funds because of the change in the value of these assets. So I wanted to note that because I don't think it's just simply their internal decisions, but also decisions being driven by the very inspectors that we're sending out to help restore solvency.

WARREN: Indeed, Senator, I didn't mean to imply that they were doing anything wrong. They're -- they're doing what they were told to do so long as have not resolved the toxic assets on their books. I -- I go back to where we were a year ago, since that's today's topic. We started this process saying -- Secretary Paulson came to this -- this very room and said, "We need to get those toxic assets off the books of the banks so that, in effect, we will have a stable banking system that means when money comes in, it's there to be lent out."

And we haven't done that.

MERKLEY (?): So I'm -- I'm basically out of time, but I want to finish this thought, if I can.

Does it make sense, then, as some businesses have proposed, that in a situation where there is a seven-year performing loan that they've made all their payments, that there be some facility that -- and if it's not TALF, how do we do it? -- some way that banks can re- lend to those customers who've been making good payments over seven years, even if their assets aren't quite up to par because of the drop of the real estate market, in order to not only directly assist those folks, but to avoid the systemic risk imposed by the potential collapse of commercial real estate?

WARREN: Senator, if you will permit me a slight dodge.

MERKLEY (?): Please.

WARREN: I'll say that there is no doubt in my mind, we are going to have to address the coming problems with commercial real estate mortgages and we are going to have to be far more creative than we have been up to now. And if you'll let me, I'll stop there because my panel has not gone further.

MERKLEY (?): Thank you.

WARREN: Thank you.

JOHNSON: Senator Bennett?

BENNETT: Thank you very much, Mr. Chairman.

And thank you all for what you do and for your being here.

I remember very clearly the discussion just a year ago where we created you, because the first proposal from Secretary Paulson did not include an inspector general and did not include a Congressional Oversight Committee. And I remember the comments of Senator Corker and Senator Gregg who were in the room, and of course Senator Dodd was presiding at that conversation. And there was no reporter, so we're dependent on our respective memories.

But I remember very clearly a senator making the comment, "I don't care who he is, I don't trust any secretary of the Treasury with $700 billion and no reporting relationship in the oversight." And it was out of that conversation that we created you, and we're delighted with the work you're doing.

Let me -- let me try to look into the future, and one of the advantages of being the last one is that I have seen all of my penetrating questions already asked and either answered or dodged, as the case may be.

But let's look at where we stand now, we were told by Secretary Paulson, "I have to have the $700 billion number. I won't have any credibility in the world if I can't stand up, and the headline says on the Financial Times and the Wall Street Journal, '$700 billion.'"

Now, I checked with an economist whose judgment I trust and they said, "You can't shovel $700 billion out the door in anything like the timeframe that we're talking about." And I said, "How -- what's the fastest we can do it?" And he said, "$50 billion a month."

So that's where the first $350 billion came from. I said, "Why don't we give them $250 billion for five months and see how it works?" And Secretary Paulson's response was, "I gotta have the $700 billion headline."

So we gave them the $700 billion headline, but the fine print was you get $250 billion and then you get $100 billion and then you come back to the Congress for the other $350 billion. So you've got the headline to tell everybody we're going to stabilize things, but we're going to watch you a the money goes out.

All right, now it's a year later, and as I understand it, the total amount that is disbursed or committed, less the principal repaid, and I'll bypass the issue that Senator Hutchison raised, because we expected as the stuff got repaid that it would not be recycled. Indeed, we thought we wrote that into the law, but the Treasury lawyers now say we didn't and tell us, "No, this is what the law says," and you know, well, we wrote the law. But all right, we'll leave that one.

$404 billion, either disbursed or committed, which leaves $295 billion, $296 billion available. Let's talk about what that's going to be used for. And do you have any sense of -- is it going to be the commercial real estate market that that's going to be used for? Where is Treasury thinking? They've got nearly $300 billion left out of the $700 billion that has not been committed or disbursed. And looking forward -- even though this hearing is supposed to be retrospective -- looking forward, for those of you who are monitoring this, where do you see that going?

And to your point, Professor Warren, you said,"We've been urging Treasury." Did they listen to you? Does anybody at Treasury respond, inspector general, when you say you've got to be more transparent about this, that and the other?

The GAO shows up and says you've -- you've botched all of this kind of accounting and analysis? Does anybody respond to what you're doing?

So those two questions, if you would.

BAROFSKY (?): Well, to the latter question, they do respond. And although I have some great frustrations on the issue off transparency, they have adopted a number of our recommendations. If you take a look at where we were when

I first took office on December 15 compared to where we are now, a lot of the aspects of this program, particularly from oversight enabling provisions and conditions in the contract -- remember, when we first started this, money was being pushed out with virtually no conditions and no oversight enabling provisions. And we made a series of recommendations, I think on my eighth day, but it's largely been adopted and the program is less susceptible to waste, fraud and abuse as a result of those recommendations.

So there is -- there has been some progress, and I don't mean to suggest that there hasn't. However, in certain areas, particularly in respect to transparency, I think they've got a long way to go.

With respect to the remaining funds, Treasury has preliminarily indicated where a lot of that money they anticipate it might go, in programs that have been announced, but the money hasn't formally been obligated or committed -- there's $15 billion to back up small business -- small business loan-backed securities money; still some headroom on the capital purchase program.

There's a lot of money that they've allocated towards the TALF and towards the PPIP program. Although Mr. Allison said that about $40 billion is going to be committed -- $30 billion of the Treasury money. They have indicated that that program may grow to larger amounts, so we have some guidance there.

And clearly, there's still some that they're holding back to see what happens, if it's necessary or not. And I think commercial real estate is something that we've all identified as a major potential area where there may be a need for more government involvement.

DODARO (?): In terms of the recommendations, they've agreed with the vast majority of recommendations we've had. And while it took some effort initially last year to get moving on some of the recording requirements for transparency, they've taken that and adopted it, and we're pleased with the progress that they're making in that regard. We do have a few open recommendations that they're still considering.

Now, with regard to the remaining funding, we've been pressing Treasury to try to obtain the same type of answers that have been tried to be sought after today, and we'll continue to do that. And as I mentioned in my response to Senator Corker, we're planning to include some information about what we think should be underpinning whatever decision is made.

So far, Treasury has mentioned they may focus on small banks and small businesses with the remaining portion of the program. The estimates that they have currently made about the potential use of the funds are outdated and need to be updated.

And I'd reiterate my point, Senator Bennett, about this decision needs to be made in the context of what also the FDIC and the Federal Reserve and the others who are having similarly related programs. As you know, in the American Recovery and Reinvestment Act, there was additional funding for small businesses included in there, and actions that the SBA was supposed to take.

So all these things I think need to be looked at on an integrated basis because the federal government, by and large, is making a huge commitment and there needs to be clear objectives if additional funding is going to be provided.

WARREN: Senator, we continue to remain very concerned about the toxic assets that remain on the books at the banks. And I don't understand where Treasury is going next to deal with that problem. We have indications that the housing market and the resulting mortgage foreclosures are going to continue to be a huge problem. Treasury speaks about meeting its goals, but they are modest relative to the size of the -- the number of foreclosures that are coming in. The commercial real estate mortgage market looks even more problematic going forward.

That means that the value of the assets on the books at the banks may be headed down, not up. And until we find a way or commit ourselves to a way to say one way or the other we're resolving these assets on the books of the banks, whether the banks have to be closed, whether their equity has to be wiped out, whether their debtholders have to take a hit, whether the American taxpayer is going to have to subsidize it.

Until we get down to dirt, to something that's solid that we can put our feet on, our financial institutions are standing in a secure place. We can't rebuild and know that we are safely past this crisis. So I wish I had an answer, Senator, but I am -- I'm at a loss. I -- I -- we are in a better position than we were a year ago in two meanings of that word. No one thinks we're going to wake up tomorrow morning and everything will have crashed about our ears. That's obviously a real advance.

We are also in a better position in dealing with Treasury and how they've dealt with the $700 billion in that it is more transparent than it was before. The programs are more explained than they were before.

But the big plan, the question about how we're going to get these toxic assets out of here at a time when the real estate mortgage market is still in trouble and the commercial real estate mortgage market may be getting into more and more trouble -- I'm not hearing the plan.

So I don't know what they're planning to do with this money or with any other money. And -- and as -- as Gene said, and I -- I really don't want to pass this by, we talk about TARP. You created us to be oversight for TARP, and we certainly do that.

But it's a larger financial context here. The Federal Reserve has committed substantial assets, as the American taxpayers, for guarantees and through loan programs. The FDIC is part of the overall program. These pieces all tie to each other.

And -- and at this moment, I can't say that I've heard the plan for getting things resolved and getting on out of this crisis.

(UNKNOWN): Thank you, Mr. Chairman.

JOHNSON: Thank you for this testimony to this panel, and you may be excused.

With that, this hearing is adjourned.

END

SUBJECT: CREDIT CRISIS (90%); BANKING & FINANCE (89%); TROUBLED ASSET RELIEF PROGRAM (89%); FORECLOSURE (79%); TREASURY DEPARTMENTS (79%); COMPANY PROFITS (59%); MARKET CAPITALIZATION (59%); TERM ASSET BACKED SECURITIES LOAN FACILITY (59%); LEGISLATIVE BODIES (59%); ECONOMIC RECOVERY (59%); BANKING & FINANCE REGULATION (59%); ECONOMIC CRISIS (59%); PUBLIC FINANCE AGENCIES & TREASURIES (59%); SHAREHOLDERS (59%); PUBLIC FINANCE (59%); BANK DEPOSIT INSURANCE (59%); HOMEOWNERS (59%); US PRESIDENTIAL CANDIDATES 2008 (59%); US FEDERAL GOVERNMENT (59%); AUTOMAKERS (59%); MUTUAL FUNDS (59%); BANK FAILURES (59%); CAPITAL PURCHASE PROGRAM (59%)

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