

## **INTERIM ASSISTANT SECRETARY FOR FINANCIAL STABILITY NEEL KASHKARI REMARKS AT BROOKINGS INSTITUTION**

**WASHINGTON** – Good afternoon. Thank you, Martin, for that kind introduction. I would also like to thank the Brookings Institution for hosting us today. I will provide a comprehensive update on the Treasury Department’s progress in implementing the Troubled Asset Relief Program (TARP), and then spend some time taking questions from the audience and having a discussion.

We are in an unprecedented period and market events are moving rapidly and unpredictably. We at Treasury have responded quickly to adapt to events on the ground. Throughout the crisis, we have always acted with the following critical objectives in mind: one, to stabilize financial markets and reduce systemic risk; two, to support the housing market by avoiding preventable foreclosures and supporting mortgage finance; and three, to protect taxpayers. The authorities and flexibility granted to us by Congress have been essential to developing the programs necessary to meet these objectives.

A program as large and complex as the TARP would normally take many months or years to establish. But, we did not have the luxury of first building the operation, then designing our programs and then executing them. Given the severity of the financial crisis, we had to build the Office of Financial Stability, design our programs, and execute them - all at the same time. We have made remarkable progress since the President signed the law only 97 days ago.

Today, I will brief you about five areas. First, I will give an update on execution of the programs Treasury has implemented under the TARP. Second, I will review the progress we’ve made in building the Office of Financial Stability. Third, I will provide an update on our efforts to meet the highest standards for compliance and oversight. Fourth, I will review the thorough reporting requirements we continue to meet. Finally, I will update you on some of the measurements we look at to judge if our programs are working.

### **Update on TARP Programs**

I will begin with the Capital Purchase Program (CPP). On October 14, Secretary Paulson announced that we would allocate \$250 billion of the financial rescue package for a voluntary capital purchase program for healthy, viable banks of all sizes. The CPP was designed to first stabilize the financial system by increasing the capital in our banks, and then to restore confidence so credit could flow to our consumers and businesses.

People often ask: why are we investing in healthy banks? Shouldn’t the TARP be used for failing banks? Healthy banks are in the best position to support their communities by extending credit. A dollar invested in a healthy bank is far more likely to be used to promote lending to creditworthy borrowers than a dollar invested in a failing bank, which would more likely use it to stay afloat.

It has been 86 days since Secretary Paulson announced the Capital Purchase Program. We started from scratch, recruited and built a world class team, designed the program details, hired

necessary outside vendors, and implemented a complex, but efficient processing model. In that time, we have invested \$178 billion in 214 institutions in 41 states across the country, as well as Puerto Rico.

There is a huge demand for the program: the number of applications under-review at the regulators is in the thousands, representing every state in the country, and hundreds more have already been pre-approved by Treasury. We are pleased with the large number of banks that have applied. The regulators are working diligently to get through their review and forward recommended applications to us as quickly as they can. We expect their review to continue over the next few months.

We continue to process applications quickly but carefully to ensure our program guidelines and goals are met. Our investment committee meets virtually every day to review applications as soon as they are sent to us by the regulators and we close transactions often within days of approval. In fact, we find that institutions need more time to complete their legal requirements than Treasury needs to execute the investments.

Our work will not let up until the last application has been reviewed and processed. Completing investments in more than 200 institutions across the nation in less than 90 days is a feat that I believe is unmatched in the public or private sectors. This progress is remarkable not only in its speed and quality, but also in its scope. We have reviewed applications from every state in the nation and touched almost every banking market with applications from small and large banks alike, including Community Development Financial Institutions. The largest investment under the CPP has been \$25 billion and the smallest less than \$2 million, with applications for upcoming investments of a few hundred thousand dollars.

### **Automotive Industry Financing Program**

Next, I will discuss Treasury's actions under TARP to support the auto sector. While the TARP was designed to stabilize the financial sector, the legislation provided sufficiently broad authority to act to stabilize the domestic automotive industry. Absent congressional action, no other authority existed within the federal government to stave off a disorderly bankruptcy of one or more auto companies. Treasury was forced to act to prevent a significant disruption of the automotive industry that would pose a systemic risk to financial markets and negatively affect the real economy.

Last week, Treasury began funding transactions under this program. We funded our full commitment of a \$4 billion loan to Chrysler, and we funded the first \$4 billion of a \$13.4 billion commitment to GM - the last \$4 billion of which depends on future congressional action. The terms of these loans require the companies to move quickly to develop plans demonstrating long-term viability, and they also include significant taxpayer protection provisions.

Because the finance companies serve as the lifeblood of the automakers, we knew that our program would need to address the short-term needs of the auto finance companies as well. Last week, we funded a \$5 billion investment in GMAC. We also committed to an additional \$1 billion loan to GM to be used to participate in a rights offering at GMAC as part of its recapitalization in becoming a bank holding company.

These financings were designed to use our limited remaining resources to address the participating companies' short-term needs while providing them enough time to begin the hard work with all stakeholders that will be necessary to achieve viability.

### **Term Asset-Backed Securities Lending Facility**

Support of the consumer finance sector is a high priority for Treasury because of its fundamental role in fueling economic growth. Like other forms of credit, affordable consumer credit depends on ready access to a liquid and affordable secondary market – in this case, the asset-backed credit market.

The Federal Reserve is setting-up a \$200 billion program to support consumer finance securitization markets, specifically credit cards, auto loans, student loans and small business loans. Under the TARP, Treasury will provide \$20 billion in this facility, which will enable a broad range of institutions to step up their lending and enable borrowers to have access to lower-cost consumer finance and small business loans. The facility may be expanded over time and eligible asset classes may be expanded later to include other assets, such as commercial mortgage-backed securities, non-agency residential mortgage-backed securities or other asset classes. Treasury and the Federal Reserve continue to make progress in establishing this facility, which we expect to become operational in February.

### **Asset Guarantee Program**

We established the Asset Guarantee Program under section 102 of the EESA. This program provides guarantees for assets held by systemically significant financial institutions that face a risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets. Treasury is exploring use of this program to address the \$5 billion guarantee provisions of our recent agreement with Citigroup.

### **Targeted Investment Program**

As part of our recent \$20 billion investment in Citigroup, Treasury also established the Targeted Investment Program, the objective of which is to foster financial market stability. In an environment of high volatility and severe financial market strains, the loss of confidence in a major financial institution could result in significant market disruptions that threaten the financial strength of similar institutions. This investment in Citigroup includes important restrictions on executive compensation and corporate expenses as well as provisions to protect the taxpayers.

### **Building the Office of Financial Stability**

Let me now turn to our work to establish the Office of Financial Stability. I mentioned that a program as large and complex as the TARP would normally take many months or years to establish. Given the severity of the financial crisis, we had to build the Office of Financial Stability, design our programs, and execute them - all at the same time.

Recruiting excellent people was the first and most important part of successfully establishing the office. We started by tapping the very best, seasoned, financial veterans from across the government and private sector to help launch the program. We were successful in quickly recruiting outstanding interim leaders for key positions in the office. In each case, the interim official was charged with: one, setting up the office; two, hiring permanent staff; three, operationalizing our programs; and, four, identifying their permanent successor. That process has worked extremely well.

Today we have almost 90 dedicated TARP staff, including full-time employees we have hired since the law was signed and experienced detailees we have recruited from across the government. In many cases, those detailees are choosing to become permanent members of the TARP team. This does not include the numerous main Treasury employees who are spending most of their time on TARP. We also have a robust pipeline of outstanding new people joining the team each week.

We have worked very hard to ensure the transition to the next Administration is smooth. The only political position within in the TARP is the Assistant Secretary position. Almost all of the remaining positions are being filled by people who are planning to remain with the program after the transition. The next Administration will inherit an Office of Financial Stability that is fully-staffed and executing extremely well. We have worked very hard to make sure there would be continuity so the program does not slow down. As I previously mentioned, we have many applications to process for the CPP over the next several months. We have made sure the team is in place to see that work through. We have also worked closely with the GSA to acquire dedicated space for the entire team. We moved in this past Monday and we expect the Special Inspector General will move to the same space in the next few weeks.

For a sense of the execution challenges this team has already successfully faced, consider that last week alone, our team closed \$48 billion of transactions. We signed and funded over \$15 billion in our Capital Purchase Program, a \$20 billion investment in Citigroup, and a total of \$13 billion to GMAC, GM and Chrysler.

### **Compliance and Oversight**

I will now turn to oversight. Congressional committees of jurisdiction are the traditional bodies of oversight and Treasury has participated in five Congressional hearings on the TARP since the EESA was passed. In addition, the Congress established four additional avenues of oversight: one, the Financial Stability Oversight Board; two, the Special Inspector General; three, the Government Accountability Office; and four, the Congressional Oversight Panel. I will briefly review Treasury's interaction with each body.

First, we moved immediately to establish the Financial Stability Oversight Board, which is chaired by Federal Reserve Chairman Bernanke. The law requires the Board to meet once a month, but it has met multiple times since the law was signed, with numerous staff calls between meetings. We have also posted the bylaws and minutes of the Board meetings on Treasury's website.

Second, the law also requires appointment of a Senate-confirmed Special Inspector General to oversee the program. We welcome the Senate's confirmation of Neil Barofsky as the Special Inspector General. I meet weekly with the Inspector General and our staffs meet regularly.

Third, the law calls for the Government Accountability Office to establish a physical presence at Treasury to monitor the program. Treasury provided workspace for our auditors within days of the President signing the law. I have participated in multiple briefings with the GAO and our respective staffs are meeting almost daily for program updates and to review contracts.

Finally, the law called for the establishment of a Congressional Oversight Panel to review the TARP. That Oversight Panel was recently formed and we had our first meeting on Friday, November 21 and our second meeting on Thursday, December 18. The Congressional Oversight Panel posed a number of questions to Treasury and we provided a detail response which we published on our website on December 31.

### **Reporting and Transparency**

Next, I will discuss reporting requirements and transparency. Reporting results to Congress and the American people is a critical responsibility of the TARP. People need to see what we are doing, understand why we are doing it, and know the effects of our actions. The law defined numerous reporting requirements for the TARP, which I will briefly review here. Treasury has met all of our reporting requirements on time, and will continue to do so. All of our reports are posted on the Treasury website.

- First, the law requires Treasury to publish a Transaction Report within two business days of completing each TARP transaction. We have published eleven transaction reports so far.
- Second, the law requires Treasury to publish a Tranche Report to Congress within seven days of each \$50 billion commitment that is made. To date, Treasury has published four Tranche Reports, including one this week.
- Finally, the law requires Treasury to provide a detailed report on the overall program within 60 days of the first exercise of the TARP purchase authority and then monthly thereafter. We have published two such reports so far, the most recent this week.

### **Measuring Results**

Finally, I will address the important issue of measuring the results of our programs. People often ask: how do we know our programs are working? The most important evidence that our strategy is working is that we have stemmed a series of financial institution failures. The financial system is fundamentally more stable than it was when Congress passed the legislation. While it is difficult to isolate one program's effects given policymakers' numerous actions, one indicator that points to reduced risk of default among financial institutions is the average credit default swap spread for the eight largest U.S. banks, which has declined by about 275 basis points since before Congress passed the EESA. Another key indicator of perceived risk is the spread between LIBOR and OIS: 1-month and 3-month LIBOR-OIS spreads have declined about 202 and 147

basis points, respectively, since the law was signed and about 312 and 242 basis points, respectively, from their peak levels before the CPP was announced.

People also ask: when will we see banks making new loans? It is important to note that almost \$75 of the \$250 billion CPP has yet to be received by the banks. Treasury is executing at a rapid speed, but it will take some time to review and fund all the remaining applications. This capital needs to get into the system before it can have the desired effect. In addition, we are still at a point of low confidence – both due to the financial crisis and the economic downturn. As long as confidence remains low, banks will remain cautious about extending credit, and consumers and businesses will remain cautious about taking on new loans. As confidence returns, Treasury expects to see more credit extended.

People have then asked: how will you track lending activity? Treasury has been working with the banking regulators to design a program to measure the lending activities of banks that have received TARP capital. We plan to use quarterly call report data to study changes in the balance sheets and intermediation activities of institutions we have invested in and compare their activities to a comparable set of institutions that have not received TARP capital investments. Because call report data is infrequent, we also plan to augment that analysis with a selection of data we plan to collect monthly from the largest banks we have invested in for a more frequent snapshot.

The increased lending that is vital to our economy will not materialize as fast as any of us would like, but it will happen much faster as a result of deploying resources from the TARP to stabilize the system and increase capital in our banks.

## **Conclusions**

While we have made significant progress, we recognize challenges lie ahead. As Secretary Paulson has said, there is no single action the federal government can take to end the financial market turmoil and the economic downturn, but the authorities Congress provided last fall dramatically expanded the tools available to address the needs of our system. We are confident that we are pursuing the right strategy to stabilize the financial system and support the flow of credit to our economy. We have worked around the clock to build the Office of Financial Stability, design our programs, and execute them and will hand the next Administration a program that is staffed and fully operational. Thank you and I would be happy to take your questions.