

**PULLING BACK THE TARP: OVERSIGHT OF THE
FINANCIAL RESCUE PROGRAM**

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED ELEVENTH CONGRESS
FIRST SESSION

ON

CONTINUING THE OVERSIGHT OF THE TROUBLED ASSET RELIEF
PROGRAM AND EXPLORING HOW THE PROGRAM CAN BE MADE MORE
EFFECTIVE IN ADDRESSING THE FINANCIAL CRISIS IN OUR NATION

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FEBRUARY 5, 2009
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PULLING BACK THE TARP: OVERSIGHT OF THE FINANCIAL RESCUE PROGRAM

THURSDAY, FEBRUARY 5, 2009

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:05 a.m., in room SD-538, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. The Committee will come to order.

Let me begin by thanking our witnesses and the audience who have gathered here today for this very important hearing, "Pulling Back the TARP: Oversight of the Financial Rescue Program." And I want to begin by thanking our witnesses not only for their presence here today but the tremendous work that they are doing.

Mr. Dodaro, of course, is now becoming a permanent party in this room here, having spent a good part of yesterday with us as well. And we thank you for being here today.

What I will do this morning, I have some opening comments to make. I will turn to Senator Shelby for any opening comments he will have, and then because of the nature of this subject matter, I am going to invite my colleagues for any brief opening comments they would like to make as well. Then we will get to our witnesses. Obviously, all statements and supporting documents and materials that our witnesses and colleagues feel are necessary for the record will be included by unanimous consent. And without objection, that will be the case. So, with that in mind, let me proceed, if I may, and then we will move along with the other Members and our witnesses.

Today the Banking Committee meets to continue our oversight of the Troubled Asset Relief Program and explore how the program can be made more effective as we work to address the financial crisis in our country, and around the world, for that matter.

In creating the TARP program as part of the Emergency Economic Stabilization Act of last October, the U.S. Congress granted the Treasury extraordinary powers and a staggering sum of money to address the economic crisis—\$700 billion of taxpayer money.

The TARP program's goals are certainly as relevant today as they were then. As prescribed by EESA, the Treasury Department is supposed to use the authority for four reasons which we outlined at the time of the legislation: one, to protect people's home values, college funds, retirement accounts, and life savings; two, to pre-

serve homeownership and promote jobs and economic growth; three, to maximize the returns to the taxpayers for their investment; and, four, to provide some measure of public accountability for the exercise of the authority as they spend this tremendous amount of money.

Unfortunately, the previous administration failed to uphold the intent of the law in many respects, in my view. Recipients of TARP funds were effectively given in too many instances a free pass, not helping homeowners and small businesses but, rather, choosing to hoard taxpayer funds, acquire other companies, and in some instances pay lavish bonuses to executives and handsome dividends to shareholders.

The public is outraged by this behavior, with good cause. As the Congressional Oversight Panel, chaired by one of our witnesses today, concluded in its report, there were, and I quote, "what appear to be significant gaps in Treasury's monitoring of the use of taxpayer money."

I want to commend the Panel not only for its commitment to ensuring the TARP program achieves the objectives that the Congress wrote into the law, but also for its aggressive oversight, highlighting areas of weaknesses and the improvements Treasury can make.

But this hearing is not just about the problems of the past. With some \$350 billion of taxpayer money on the line as our economic crisis deepens, it is very much about the future. Let me state unequivocally I believe that the TARP program remains a critical tool our Government will need to address the economic crisis. That is why I supported the release of the last batch of the funding a few days ago.

But for the sake of our economy and the public's confidence in our ability to address this crisis, we must see a sharp change in the direction of this program under new management. If there were ever a program in need of a sign in front of it that read "Under New Management," it is this one. Allow me to outline the changes that I believe should be made.

First, Secretary Geithner and the rest of the administration's economic team must develop and clearly communicate a long-term, comprehensive plan for using TARP funds to support the financial system. In short, they must provide a framework. Why do we need TARP? And what do we hope to achieve with this program? The previous administration's piecemeal, lurching interventions in the financial system contributed to the confusion, I believe, and the volatility that have dragged down consumer and investor confidence. Outlining a clear direction and plan as to how the Government will use taxpayer money going forward will provide Americans with the clarity and assurance they need, in my view, to help restore the confidence and optimism absolutely essential to long-term economic stability.

Second, there needs to be greater transparency and taxpayer protections to safeguard the use of taxpayer money, including stricter limits on executive compensation and bonuses. The American people have been subjected to almost weekly news accounts, now daily news accounts, about TARP recipients spending lavishly, undermining the integrity of the program and the institutions it is sup-

posed to rescue. Just last week, we heard that Wells Fargo, which received \$25 billion in TARP funding, planned a series of corporate junkets this month to the most extravagant Las Vegas casinos. Fortunately, the bank got the message loud and clear that this kind of behavior is an insult to every American taxpayer footing the bill, and they canceled their plans. And I applaud the Obama Administration for moving to impose new and tougher restrictions on executive compensation for companies that receive TARP funds.

In fact, I would say as an aside I intend to offer an amendment to our economic recovery package, either later today or over the weekend, that would build on these restrictions and prohibit bonuses to the 25 most highly paid employees of companies that received TARP funding, authorize the Treasury Secretary to limit certain other performance-based bonuses, as well as require say on pay votes on executive compensation, and exact other safeguards. If a company accepts taxpayer assistance, it should not be offering bonuses to top executives or rewarding shareholders with cash dividends. One of the largest banks in America paid one-half of its TARP funds to stockholders in dividends. That is unacceptable. The President told the world 2 weeks ago that a new era of responsibility has begun. Apparently, our Treasury Secretary will have to deliver that message more forcefully to some financial institutions.

Fourth, Treasury should establish clear guidelines to increasing lending. Too many TARP recipients used these funds for everything but lending to small businesses or helping move families into long-term affordable mortgages. As reported in the *New York Times*, soon after Treasury launched the TARP, an executive at JPMorgan Chase seemed to boast of plans to use TARP funds to make acquisitions or as a cushion against a worsening economy just after receiving \$25 billion in Federal funding. And according to the *Washington Post* earlier this week, some of the institutions that have received the most Federal assistance have cut their lending sharpest. Treasury must require recipients of assistance to provide quarterly reports, specifying amounts of consumer and commercial loans made, details about acquisitions, and the number and type of loan modifications made to prevent homeowners from going into foreclosure. If financial institutions refuse to abide by any of these conditions, they should not be given public funds, period.

Finally, we must apply the same sharp and urgent focus to help the homeowners whose plight is at the root cause of this crisis. Two years ago almost to the day, on February 7, 2007, this Committee met for the first time to discuss the foreclosure crisis. We held our first hearing on foreclosures on February 7, 2007, and predatory lending.

At that time, I said, and I quote, "It is time for Congress, the administration, and the lending industry to face up to the fact that predatory and irresponsible lending practices are creating a major crisis for millions of American homeowners at a time when general economic trends are not good."

I recall my colleague from New Jersey, I think, on that very day talking about a tsunami of foreclosures that would come. I believe that was on February 7, 2 years ago. Stopping foreclosures must be our top priority. Failing to do so will have devastating consequences for our economy.

There are several ways that TARP funds could be used to address the foreclosure crisis: by making changes to the Hope for Homeowners Program, to the approach advocated by the FDIC Chairman, to restructure delinquent mortgages using a streamlined process.

TARP funds need not be the only means of preventing foreclosures, but with no silver bullet on the horizon to stop the rising tide of foreclosures, TARP funds can and must be used to encourage participation in these various programs. These improvements to TARP will go a long way, in my view, to not only making the program more effective and stabilizing our economy, but also bolstering public confidence in the very program which we all recognize is critical to our ultimate success.

The Obama Administration has already committed to making many, if not all, of these changes, and I look forward to continuing the Committee's close and detailed oversight of the implementation of this program. Next week, we will hear directly from Secretary Geithner about the administration's plans for major changes to this program, and I look forward to his testimony.

With today's hearing, I hope that we can better distinguish questions about past management of TARP from questions about the law itself. What is not in question is the need for our President to have the tools at his disposal to restore stability to our economy. Ensuring that the TARP is the most effective, dynamic instrument it can be remains our goal today. I eagerly await hearing from our witnesses as to how we can make that possible.

With that, I turn to Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Chairman Dodd.

We are here this morning to examine how the Treasury's Troubled Asset Relief Program, or TARP, is working. TARP was sold to Congress and the American people with great urgency as the sure cure for our ailing financial system.

Last September, you will recall, when Secretary Paulson and Chairman Bernanke came to us to ask for TARP authority, they urged us to act with all deliberate speed. We were warned that if we did not give Treasury \$700 billion immediately, the financial system would collapse.

There was no time for thoughtful deliberation, no time to examine the origin of the crisis, no time to discuss whether TARP actually would solve the problems. We had no time to examine. Secretary Paulson and Chairman Bernanke assured us that the TARP was the answer to those problems. I had my doubts.

As described, TARP would remove illiquid assets at that time from bank balance sheets, restart the flow of private capital into the hands of consumers and businesses, and inspire confidence in investors. We were promised a methodical and transparent approach. I was not convinced then, and I opposed the bill. I voted against the TARP because Treasury's warnings and promises seemed calculated to induce panic rather than to ensure proper stewardship of taxpayer dollars. I recognize—all of us do—that we face tremendous challenges. Solutions, however, crafted in haste,

rarely are effective and, even worse, can be counterproductive, as TARP.

Four months have passed since the TARP legislation was enacted. Americans have a right to know, I believe, where their money went and whether it is working, which many are doubtful. Illiquid assets remain on the bank balance sheets, private capital is sitting on the sidelines, and institutions of all sorts are looking at the Federal Government as the lender of first resort. Investor confidence remains dismal. Deep economic problems persist even though Treasury has handed out \$350 billion of taxpayer money and is working its way through the second \$350 billion installment.

These outcomes are not exactly consistent with the promises that we heard last fall. Not only have the promised results eluded us, but TARP money has been used, as Senator Dodd mentioned, in a haphazard, opaque, and unanticipated manner. Treasury, when it came to Congress last fall, talked about purchasing troubled assets through reverse auctions. That plan, which had never been fleshed out with practical details, was abandoned within 2 weeks of the legislation's passage. Instead, Treasury, as you know, injected capital into purportedly healthy banks under the Capital Purchase Program. Less than a month later, additional assistance was announced for one of the same banks under a new TARP program—the Targeted Investment Program—an *ad hoc* approach.

AIG got help through yet another TARP program called the Systematically Significant Failing Institutions Program. Think about that. After Congress decided not to give taxpayer money to the auto companies, Treasury set up a program especially for the auto sector under TARP and the last administration headed by President Bush. Each program has eligibility criteria, but Treasury seems willing to create a new program for entities that fail to meet those criteria. In a troubled market that craves predictability, this *ad hoc* approach is particularly harmful, I believe.

In addition, this disorderly approach makes it much more difficult for our witnesses, this Committee, and others to hold Treasury accountable for the choices it has made under the TARP. Shifting criteria for the receipt of TARP money makes it easier for Treasury and the bank regulators to pick winners and loser without ever having to explain their choices.

Why is it, for example, that Citigroup, one of the nine so-called healthy banks—nobody believed they were healthy, though—selected to be the first participant in the Capital Purchase Program, needed a second installment of TARP funds 1 month later? Obviously, the Fed and Treasury did not know what they were doing. Oddly, Treasury announced the outlines of the program under which the second \$20 billion investment was made in January after Treasury had already invested the money.

Similarly, as you know, Bank of America, another recipient of aid under the so-called healthy bank program in October, was back for another \$20 billion last month.

Perhaps the decisions by Treasury working with the Federal Reserve to classify Citibank and Bank of America as healthy institutions in October ought to be reviewed. They need to be reviewed. Treasury has not yet taken the time, in the GAO's words, "to clearly articulate and communicate a vision for TARP." But then why

should Treasury set forth a strategic plan if Congress, our Congress, us, if we are willing to hand over hundreds of billions of dollars without regard to whether the first installment has had the desired effect?

All of the witnesses here today have expressed similar concerns about the undisciplined and opaque manner in which TARP has been administered. The GAO has commented on TARP's unclear strategic vision. Mr. Barofsky has noted that the manner in which the TARP money has been used remains almost entirely opaque. The Congressional Oversight Panel has also commented on the confusion over the purpose and effects of the TARP.

I look forward to hearing all of these witnesses and concerns here this morning, but the taxpayer deserves better than what we are getting.

Chairman DODD. Thank you, Senator Shelby, very much.

I want to recognize the arrival of our colleague, David Vitter. David, thank you for joining the Committee. We appreciate it very, very much. And Kay Bailey Hutchison was here a minute ago. I am sure she is coming back. And we welcome her to the Committee as well. We are delighted you have joined us to be a part of this Congress in this session.

With that, let me turn to Senator Johnson.

Senator JOHNSON. Mr. Chairman, I will submit my statement for the record.

Chairman DODD. Good. Senator Vitter.

STATEMENT OF SENATOR DAVID VITTER

Senator VITTER. Thank you, Mr. Chairman. Thank you for holding this hearing, which is very, very important. It is important in at least two categories.

The first really gets more debate and focus in the public square, and it is important in terms of how firms that get this money use it, whether they use it properly, whether they abuse it in any way, executive pay, bonuses, compensation, meetings held in exotic locations—all of those sort of big-headline issues. And I do not want trivialize that. It is important that we put some parameters to build public confidence in the program around that and prohibit certain activity, and also ensure that if money is given to institutions to increase lending, we have a reasonable expectation that that is going to happen. And so that is an important topic of this sort of oversight discussion.

But I think the second category of our discussion is even more important, and that is the fact that the program itself within Government, within Treasury and elsewhere, really has no clear rationale or clearly defined mission. As Senator Shelby said, to say it is evolving is to use polite language. It is completely *ad hoc*. It changes day to day. To the casual observer, it really seems like decisions are made on the fly about giving particular companies particular amounts of money, and then after the fact there is a new program with a very high-sounding title created to justify that very individual *ad hoc* decision. And Senator Shelby named a number of those examples.

To me, that is the most worrisome. There is no overarching strategy or model that we are using with this huge amount of taxpayer funds. I would point to two things as the easiest proof of that.

Number one, we are still using the term “TARP: Troubled Asset Relief Program.” And yet hundreds of billions of dollars into it, we have not bought the first troubled asset.

Number two, the legislation in terms of its specific language focused on financial institutions. And yet some of the most significant recipients are auto manufacturers.

Now, look, I know we can construe terms broadly, but those are not financial institutions, pure and simple. And so to me, the most worrisome aspect of this discussion is that TARP has really become just a slush fund to use as any administration, first the Bush Administration, now the Obama Administration, sees fit on a purely *ad hoc* basis, and then the high-sounding titles and programs are announced the next day to justify the very specific decision regarding naming firms and picking winners and losers.

So that is what I in particular want to focus on and certainly be a positive part of changing as we move into the future. Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator, very much. Senator Reed.

STATEMENT OF SENATOR JACK REED

Senator REED. Well, thank you, Mr. Chairman. This is a vitally important topic, and I thank the witnesses for being here, and I would like to just mention three brief points.

First, when we authorized the TARP program, we were clear to try to obtain an interest by the taxpayers by creating warrants; that if we are going to bear the risk of these investments, then taxpayers should have the benefits in the future. I am concerned that the pricing of these warrants has not been comparable to what commercial entities and private investors are getting, and we have to be, I think, conscious of that. If we are going to bear risk, taxpayers are going to bear risk, they should be compensated going forward.

The second point—and it is with respect to compensation, which I think President Obama’s statement yesterday was right on point. But as we go forward, I believe that the Treasury Department and these institutions should consider very seriously making the bonus pools consist of the troubled assets that they were going to ask us to purchase. I have talked to individuals and companies who claim that these assets are essentially sound, it is just an illiquid market. Well, if they are, they could be suitable for bonus purposes, too, and I think that is—at least one company has done that, but I think many more companies should do that.

And then a final point as we go forward, particularly with respect to troubled assets. The valuation of these assets is going to be absolutely critical, so I would like your advice going forward as to what mechanism we can put in place to ensure the valuations are accurate and appropriate and sound because, otherwise, there will be, I think, a great pressure to not give accurate evaluations which will benefit the industry and disadvantage the taxpayers.

Again, I look forward to your testimony. Thank you, Mr. Chairman.

Chairman DODD. Senator Corker.

Senator CORKER. Mr. Chairman, out of respect for the witnesses, I would like to listen to them, and then I will ask questions. Thank you.

Chairman DODD. Thank you very much.
Senator Menendez.

STATEMENT OF SENATOR ROBERT MENENDEZ

Senator MENENDEZ. Thank you, Mr. Chairman. I respect the witnesses as well, but I also want my constituents to know what I am doing here, so I am going to just take a minute or two.

Let me just say, when Secretary Paulson came before the Congress and requested the \$700 billion last October, I was skeptical, as were so many. But it was very clear to me at the time that had we not acted, we would have seen a series of banks collapse. And some ideologically believe that that maybe is the right way to go in a free market system that, in fact, is what is necessary to be able to have the system work out its own set of circumstances. I think that would have been even more catastrophic than we are today with all the difficulties in this program. So I just want to frame it in the context of choices at the time.

Now, my primary concern then, as it is now, was: How does this money get to ultimately liquefy the credit crunch? How does it get to working families? How does it get to small businesses that need the loans to make sure they can continue to operate and employ people? How do students afford a college education? How do families stay in their homes?

Now, when Secretary Paulson and the Bush Administration assured us repeatedly the rescue money would be used exactly for these purposes, many of us, knowing the set of circumstances at the time and with those guarantees, agreed to move forward. They assured us the money would not be going to bonuses and golden parachutes or dividends and private jets but, rather, to boost the consumer lending that was so desperately needed to restore the economy and to create jobs.

Unfortunately, many of the results have shown that what was represented by the previous administration could not be farther from the truth.

Many institutions have decided to use TARP funding to acquire healthy banks, continue dividends to shareholders, pay exorbitant bonuses and golden parachutes to their senior executives. As the New York State Comptroller reported recently, over \$18 billion—billion—in bonuses were handed out to employees at financial firms in 2008, the sixth highest payout—the sixth highest payout in Wall Street history. And I understand about keeping talent, but let me tell you, when there is no job, you have got a lot of talent. You have got a lot of talent flowing all there Washington looking for employment and back home in New Jersey where there is a lot of talent. And you cannot tell me that it takes \$18 billion to keep that talent.

That staggering figure stands in stark contrast to the industry's record losses last year which required taxpayer funding assistance to forestall and unprecedented meltdown. With so many Americans losing their homes, their jobs, and their health care, that kind of abuse of taxpayer money is offensive and unconscionable.

Not only have banks refused to increase lending, many have actually reduced the amount of loans they offer. According to the Federal Reserve, banks decreased lending during the last quarter even while the Treasury infused them with hundreds of billions of dollars. Even more troubling, banks that received taxpayer funds decreased lending by twice as much as those who did not receive any funds. And based on this information, it seems that one of the following things must be true: either Secretary Paulson misled the Congress when he said that the purpose of the TARP was to promote banks to lend, or implementation of the TARP as we were told it was going to take place has been a failure. Either way, the American people are not just skeptical about this; they are angry, and they have every right to be.

Finally, I saw the Treasury Department's responses, particularly under the previous administration, or lack thereof, reveal a level of contempt for transparency and accountability. Professor Warren, the Oversight Panel you chair is tasked with that critical mission, and it is unacceptable for the Treasury Department to be anything less than fully cooperative with your investigation. By my count, the Treasury failed to adequately respond to 32 questions, including 25 which they left in blank—in blank, Mr. Chairman.

Now, I might not be a college professor, but where I come from, in my days when I was in school, that student would get an F. Bottom line, that is simply unacceptable.

Now, I applaud the Obama Administration for the reforms they are considering and will soon announce. I look forward to listening to these witnesses. The banking system is still greatly challenged. Credit markets are still largely frozen. If we do this right, then we can meet some of the challenges we have. But we need transparency and openness in this process. Otherwise, there can be no faith, there can be no credibility, and at the end of the day, we will not achieve the goals that we have.

Thank you, Mr. Chairman.

Chairman DODD. Senator, thank you very, very much.

Senator HUTCHISON, I welcomed you to the Committee a few moments ago when you stepped out of the room for a second, so I will say so again in your presence. We are delighted you have joined the Committee. Thank you for joining us, and if you have any opening comments, we would be happy to receive them.

STATEMENT OF SENATOR KAY BAILEY HUTCHISON

Senator HUTCHISON. I would love to say a few things. I do want to hear the witnesses and I thank you. I am so glad to be on this Committee. I have wanted to be on it for a long time, but when I came to the Senate, Senator Gramm was on the Committee, though banking really is my background, so I am really pleased to be on it.

Let me just say a couple of things. Like so many others, I was so taken about the first TARP, taken with the arguments that were made by the Secretary of the Treasury, the Federal Reserve Board Chairman, that we had a crisis and we had to deal with it. The original proposal was that we would basically take warrants in the banks for taxpayer upside, which I agree that we should do, take

the bad assets off, and try to work those out so that as many people as possible can work out loans and stay solvent.

That changed in 2 weeks, and then there was another change. The impression out in America is, no one is getting credit and nobody knows what they are doing because there is no focus. So now is the time that we can learn from you what might work, what has worked. We already know what hasn't worked. You can help us craft the parameters around the next TARP or the one after that.

Let me just say, from my standpoint, having lived through the crisis of the 1980s and the Resolution Trust Corporation, anything we do with bad assets and the reform of the TARP or going forward, we should have a policy against calling performing loans. Nothing is more demoralizing to a person than to see all of the property around it being sold at fire sale prices, as Resolution Trust Corporation did, and then good loans be called because the collateral value has gone down. But the performing loans were being called. I will filibuster to the end of the earth if we don't have something that protects people who are making their payments from not being called.

Thank you, Mr. Chairman, and I appreciate and look forward to working with all of you toward a productive future for our country.

Chairman DODD. Thank you very much, Senator.

Senator Tester.

STATEMENT OF SENATOR JON TESTER

Senator TESTER. Thank you, Mr. Chairman. I, too, want to echo what many of our Committee Members have said about appreciation for holding this Committee meeting, and thank you, Ranking Member Shelby, for being a part of that.

I want to thank the Members for being here. Oversight of this TARP program is critically important, and I listened to my Members' opening statements and it continues to frustrate me, as it does my constituents, about what has transpired with this program, who has gotten the money and where this massive amount of dollars have gone.

I am going to cut right to the chase here. There are four or five questions that I really need to get answered. Number one, what the large systemic commercial banks and bank holding companies are doing with the money.

Two, what the rural community banks are doing if they get access, and if they are not getting access, what is the impediment.

Did the banks have a detailed plan when they initially applied for the money?

And how much of that plan was centered around increasing lending, getting the housing crisis problem solved versus bank consolidation and shoring up their balance sheets?

I hope you have had the opportunity to look thoroughly. I heard Senator Menendez talk about the fact that the Treasury Department had not been opening their books to you with total transparency and honesty. I can tell you that from my perspective, heads should roll if that policy continues, and I would like to know if that is the case in the Obama Administration.

I think things need to be totally transparent in this. People have enough heartburn about these dollars from the get-go that we,

quite frankly—well, there is just no room for secrets at this point in time. These are taxpayer dollars. These are dollars that I think that the folks who supported this had intended to go free up the credit market, and it may have done some positive things in that vein, but it certainly isn't getting to Main Street like was advertised.

I want to thank you for being here once again. I appreciate it and I look forward to your testimony, and hopefully I will be here for some questions. Thank you.

Chairman DODD. Thank you, Senator, very much.
Senator Bunning, any opening comments?

STATEMENT OF SENATOR JIM BUNNING

Senator BUNNING. Yes, just a short one. Thank you, Mr. Chairman. As we all know by now and has been previously stated, the previous Treasury Secretary and the Fed Chairman pulled a bait-and-switch on us with the original TARP program. Not only did they come to Congress and ask for a plan to buy toxic assets, but they also rejected in public and in private the idea of capital injections into banks. But just after Congress approved the plan, Treasury and the Fed changed course, undermining what little faith the American people had in the plan to begin with.

Not only is the money being used in ways Congress did not intend, but we do not have the transparency that was promised. We do not know what caused Treasury and the Fed to change course. We do not know how or why they decided to inject funds in the original nine banks. We do not know why some banks were later given funds but others were rejected. What we do know are the outrageous stories about private jets, luxury offices, trips to resorts, and multi-million-dollar bonuses for management.

Because of all these and more problems, it is important for the witnesses before this Committee to carry out their assignments and look into the actions of the Treasury and the Fed. I look forward to hearing from them on their findings and about what other tools they may need to carry out their investigation, and I would like to close by stating, last night, by UC, the Senate passed additional powers to you to use so that you can get into those Treasury and Fed and the transparency that is not here right now. I don't know if everybody realized by last night, by UC, we granted this Inspector General new powers to do whatever he needs to do, and I am proud of the fact that it went through.

Thank you.

Chairman DODD. Thank you very much.
Senator Bennet.

STATEMENT OF SENATOR MICHAEL F. BENNET

Senator BENNET. Thank you, Mr. Chairman. I appreciate it. I just have a very short statement. Thank you for holding this hearing and thank you to the Ranking Member. Thank you, witnesses, for being here today.

I was a private citizen watching this happen and I can tell you what everybody here knows, is that there isn't a family in any of our States that doesn't at the end of the month know where every single penny has been spent and isn't figuring out what they have

to cut back on for the coming month. It seems to me that that is the least that, when they are going through times like that, that is the least they can expect of their government and the banks and other institutions that have received their funds. I think the work that you are doing is so important because it will lead to that accounting, something that is long overdue.

I am grateful for the administration's commitment, Mr. Chairman, to this path of transparency and accountability, which is job number one, I think, for the American people, and then getting the credit markets moving again is the other big piece of it.

Finally, I think we need to make sure we are always reminding people that we have to see both the recovery plan that we are working on this week and the TARP as part of a piece that is an approach that, taken together, will give us the chance to get this economy out of the ditch and moving again. These are not and can't be considered to be separate activities and I think, Mr. Chairman, your amendment is a reminder of that, about the use of some of the next TARP money to deal with our housing crisis.

So thank you for being here today and I look forward to your testimony.

Chairman DODD. Senator, thank you very, very much.

I guess I will go to Senator Warner. Mark.

STATEMENT OF SENATOR MARK R. WARNER

Senator WARNER. Thank you, Mr. Chairman and Ranking Member. I want to hear the testimony, as well, and get to the questions. I am just going to give you a heads up. I am going to come back to you on issues around transparency. I am glad to see in the Inspector General's report, the first time I have ever seen, at least for a few of the institutions, the terms and conditions of the investments that were made. I think most folks would be amazed to realize that on some of those dividend payments, we actually may see some of those dividend payments this month coming back. You have got some of the institutions here, but we invested in over 300 institutions. I still don't know why we don't have a greater transparency of everywhere we have invested.

And I know I share my colleagues' concerns about the failure of these institutions that we have invested in in terms of opening up the credit flows again, although clearly so many of these institutions got so over-leveraged and they are all going through this deleverage process right now. I am just curious whether in your investigations you have been able to find that there was at least some informal understanding that when these institutions got their leverage rates down, that their flow of credit would go up. So I will come back to that in more specificity in my questions.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Senator Bayh.

STATEMENT OF SENATOR EVAN BAYH

Senator BAYH. Thank you, Mr. Chairman. This is a very timely hearing, and the reason for that, ladies and gentlemen, is that there are, as I think you are aware, reports circulating that the original TARP program might not be enough and that perhaps

there will be proposals coming before this Congress for additional hundreds of billions of dollars.

Let me be clear. There will be no additional funding for this program without airtight assurances that it will be better managed. That is the bottom line.

I am one of those who voted for the original program because of the economic crisis that we faced at that time. I think that was the right decision. I am also one of those who voted against releasing the second tranche because of the way the program had been mismanaged. We cannot allow that to happen.

The bitter irony, Mr. Chairman, is we may have succeeded in stabilizing the financial markets some, but it has been at the cost of losing the public's confidence, and without regaining that confidence, there simply will be no additional monies provided for this program. The popular perception is that the way this has been implemented is it has essentially enabled incompetence, malfeasance, the affluent and the well-connected, and we have to correct that, and I would suggest doing that by essentially three things: Accountability, accountability, and accountability.

Therein lies the purpose for this hearing and the challenge going forward, to improve the implementation if we are going to regain the public's confidence, and in so doing justify any additional public investment. So I think the hearing is absolutely timely and critically important.

Chairman DODD. Thank you very much, Senator.
Senator Akaka.

STATEMENT OF SENATOR DANIEL K. AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I want to commend you and the Ranking Member for holding this hearing to examine TARP. Because of that, this is a very, very important hearing for all of us and for our country.

I want to echo what has been going on and to add my piece in this. Typical of the Bush Administration, Congressional inquiries, as has been mentioned already, as well, went unanswered and implementation of the program proceeded in a chaotic, unorganized, and an *ad hoc* manner. I am afraid the Bush Administration overpaid for assets, failed to set specific strategic goals and objectives for the program, inconsistently administered or withheld assistance, and did not specify conditions for use of Federal support, and that is now history.

The Obama Administration has inherited a difficult set of circumstances. Our economic situation has worsened. I look forward to working with the witnesses and Members of this Committee and the administration to improve the implementation of TARP and ensure adequate oversight of the program. There is no question we need to help our country and this may be an answer if we can do it right, and we want to try to do it with examining it at the present time.

I appreciate the witnesses appearing today and look forward to hearing you, and again, thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Let me express our appreciation to our witnesses for your patience in listening to our colleagues this morning, but as Senator

Menendez said, I think, earlier, it is important we hear from you, obviously, but our constituents also want to know what we believe about this, and so it is also important that we have an opportunity to express our concerns. You have heard virtual unanimity about the concerns, not total unanimity about the idea initially for the program, although I think many of us agree it was essential to step forward, but how it is being run, as Senator Bayh said, will have an awful lot to do as to whether or not we can go forward at all with other ideas that are going to be proposed, I am sure, by the Obama Administration to continue the efforts to stabilize our economic condition.

So with that, let me begin with Gene Dodaro, who was here yesterday for several hours testifying about the reforms of our regulatory structure, and we thank you immensely for that testimony yesterday. Here today, he is the Acting Comptroller General of the U.S. Government Accountability Office.

Neil Barofsky is the Special Inspector General of the TARP program, and we thank you for your service to the country, both of you.

Professor Elizabeth Warren, truth in advertising, is a friend of mine. I admire her immensely. She is a professor at Harvard Law School and has spoken and written eloquently over the years about consumer issues, has been a real advocate on behalf of consumers, and Chairs the Congressional Oversight Panel for the Troubled Asset Relief Program. We thank you immensely, Professor Warren, for being with us, as well.

So we will begin with you, Gene, and again, we ask you to try and keep your remarks to 5 to 8 minutes or so, if you can, and then we will get to the questions.

**STATEMENT OF GENE L. DODARO, ACTING COMPTROLLER
GENERAL, GOVERNMENT ACCOUNTABILITY OFFICE**

Mr. DODARO. Thank you very much, Mr. Chairman. Good morning to you, Senator Shelby, Members of the Committee I am very pleased to be here today to discuss GAO's role in helping monitor oversight of the TARP program.

Under the legislation, we are to have ongoing monitoring efforts of Treasury's management of the program and report every 60 days to the Congress. On December 2, we issued our first 60-day report, and in that report we outlined nine recommendations to improve the accountability and transparency for the program. We issued our second 60-day report last Friday, following up to see how Treasury had implemented our previous recommendations, and we made some additional recommendations there, as well.

Now, our recommendations to improve the transparency and accountability of the program have fallen into three general categories. One is monitoring and reporting on the use of the Capital Purchase Program money that has been distributed. That has been the lion's share of the money that has been allocated so far.

Second was the need for a better communication strategy and an articulated approach to what the vision was for the TARP program.

And third is the management infrastructure that Treasury has in place to ensure that the program has integrity and that they have got the right type of people, procedures, and controls in place

to manage the vast amount of money that is used here. I will touch on each one a little bit more.

The monitoring and reporting under the Capital Purchase Program has been a big concern to us from the beginning. There was no set process at the outset to monitor, track, and report on the use of that money. We made a recommendation in December that Treasury put in place a system, working with the regulators, to systematically collect information to ensure the use of the Capital Purchase Program allocations were consistent with the objectives of the legislation and that the requirements for executive compensation and dividend controls were effectively implemented.

Since our recommendation in December, Treasury has instituted a monthly survey now that they have originally sent out to kind of catch up on the 20 largest institutions that have received money and are planning to track the rest of the institutions with quarterly call report data.

Now, we think this is a good step in the right direction, but we don't think it is enough. We think that more timely information needs to be collected on all institutions that are receiving the money to make sure that there is a better tracking of the lending practices of all these institutions and Treasury has more timely information to provide more transparency and to analyze the effects of the program in achieving its objectives. So we think it is very important and we are going to stay on that issue.

Now, communication has been a problem plaguing the program from the outset. As many of you mentioned in your opening statements, the shift from the original plan to purchase troubled assets to the Capital Purchase Program wasn't explained very well, the rationale for that. We had recommended in our December report that Treasury institute a more effective communications strategy. They have put more information out since then. However, it doesn't fully explain the integrated nature of the programs that they have established to date, nor does it effectively address the issue of what the additional 350 billion dollars will be used for.

So we made a recommendation in our report on Friday that they needed to have a clearly articulated vision of the program to ensure a more cohesive understanding of what they were trying to achieve, how they were going to achieve that, and how they were going to report progress.

Now, in the management infrastructure area, we have touched on the hiring needs to make sure Treasury has the adequate personnel necessary to manage this. They needed to expedite their hiring process. They have made some progress, but there is a long way to go there to get the right people and skills in place, and a large part of this will be determining what the objectives are for the program overall and what their strategy is to be able to determine what people that they need and with the right skills to manage it effectively.

Overseeing the contractors that they have hired has been another area we have made recommendations to make sure that they have trained the people that are going to be overseeing, providing oversight over the contractors, and that they move more to fixed-price contracts, which better protects the government's interest going forward.

And also, we want to make sure that they have a proper internal control structure in place to make sure that the government adequately accounts for the dividend payments back and the money that has been distributed already so that there is a good accountability scheme in place and to mitigate risk going forward.

So we think all these recommendations are very important.

In closing, I would say we are going to continue our efforts, and we will be continuing to report every 60 days. We are going to be following up with the Treasury Department to make sure that they fully implement our recommendations. Most of our recommendations that we made in the December report, while progress has been made, have yet to be fully implemented. We are going to also continue to work with Mr. Barofsky and Ms. Warren to coordinate our efforts to look more specifically at aspects of this program in more detail, including the plans that are going to be submitted by the automakers here soon. I was before this Committee back in December talking about the need to have proper controls over that aspect, as well.

We appreciate the opportunity to be with you today to help improve the management of this program and I look forward to answering questions at the appropriate point in time.

Chairman DODD. Thank you very, very much, again, for your testimony. Again, I am always impressed that you do that without reading notes. You put a lot of this in your own memory, which is very impressive, as well.

Mr. Barofsky, that is not a challenge to you, by the way.

[Laughter.]

Mr. BAROFSKY. The gauntlet is thrown down, Mr. Chairman.

Chairman DODD. No, no. I shouldn't have done that, because none of us are doing that up here, either.

**STATEMENT OF NEIL M. BAROFSKY, SPECIAL INSPECTOR
GENERAL, TROUBLED ASSET RELIEF PROGRAM**

Mr. BAROFSKY. Mr. Chairman, Ranking Member Shelby, Members of the Committee, it is an honor to appear before you today and deliver to this Committee my initial report to Congress.

The Troubled Asset Relief Program represents a massive investment of taxpayer money. The long-term success of this program is not assured. Success or failure will depend on whether Treasury has spent the taxpayers' money wisely and efficiently.

Our mission, as stated on the cover of my report, is to advance financial stability through transparency, coordinated oversight, and robust enforcement.

As I promised you when I was last before you during my confirmation hearing, I have hit the ground running, focusing in the past 52 days on the three areas that I just mentioned, transparency, coordinated oversight, and enforcement, trying to have a maximum impact while still having minimal resources.

First, transparency. Within days of coming on board, I recommended that Treasury post all of its agreements on its Internet site. Treasury first agreed to provide many of these reports online and I was encouraged last week when Secretary Geithner adopted my recommendation in full and will provide this basic level of transparency to the American people.

I have also just initiated a project designed to shed light into what has been one of the darkest areas of the TARP, what banks have done with the hundreds of billions of taxpayer money that they have received. Starting today, we will be sending out letters to each TARP recipient asking them to report on how they have used the taxpayer money to date and how they plan to use money that they have not yet spent. We will also ask them to provide in detail how they plan to comply with the executive compensation restrictions in their agreements and whether they have changed the way they pay senior executives to get around those rules.

As to coordinated oversight, it is my honor to sit here today with my co-panelist. It has been a true pleasure coordinating oversight of this historic program with them, as it has been with the members of the TARP-IG Council, a council that I have founded and now chair that includes GAO as well as the other Inspectors General who are working with providing oversight and working with the regulators who are involved in the administration of this program.

Our oversight efforts have also included leveraging our position within the executive branch to make recommendations to Treasury before the money goes out the door. To that end, we asked for and obtained important oversight language in Treasury's agreements with Citigroup, Bank of America, and the auto industry deal that put real teeth into the conditions of those agreements.

I also note that for Bank of America and Citigroup, we also made the recommendation that they be required to report on their use of funds, which was adopted, and the only two financial institutions that currently have that requirement. I think that the impact of transparency is shown in Citigroup's first report under that agreement, which came out this week, which indicated in a transparent way that more than \$34 billion of TARP funds they are saying is going to be committed to increased lending, and I think that is a demonstrable impact of what transparency can do.

I am further pleased to inform you that my office this week is announcing two additional audits designed to shed light on TARP activities. First, we are going to do a case study on the process under which Bank of America received \$45 billion of TARP funds and received guarantees of toxic assets and how it came to participate in three separate TARP programs.

Second, we are starting an audit designed to address potential outside influences, such as lobbying, on the TARP application process.

Finally, with respect to criminal law enforcement, my office is focused on laying the groundwork for one of our most important tasks, the task that we serve alone, serving as the cop on the beat for TARP programs. Our hotline and Web site are up and running. We have joined the President's Corporate Fraud Task Force and started up alliances with the FBI, Department of Justice, and several U.S. Attorney's offices. We have already opened several criminal matters, and we have teamed up with the FTC, providing assistance to them in shutting down a securities fraud scam in Tennessee that had reaped millions of dollars.

In the report that we have provided to you today, we have also included our recommendations based on our initial observations of

the TARP. For example, we recommend that Treasury develop a strategy for valuing and managing the assets that it has purchased so that we can obtain a better understanding of the true value of the taxpayers' investment.

We also continue to recommend that Treasury enter into agreements with strong oversight provisions, both to deter noncompliance and to enable us to do our jobs. We have also made a series of recommendations with respect to the TALF, a program that is still under construction, about ways the program can be designed to avoid waste, fraud, and abuse.

Our report also attempts to provide a detailed description of TARP programs in Main Street terms so that more of the American taxpayers who are so heavily invested in these programs can better understand what is being done with their money.

I look forward to my next report, which will update you on Treasury's response to my recommendations, as well as to update on the activities of my audit and investigative divisions.

Mr. Chairman, Ranking Member Shelby, Members of the Committee, I want to thank you again for this opportunity to appear before you and I look forward to answering any questions you may have.

Chairman DODD. Well, I thank you very much.

Let me, before turning to Professor Warren, let me just mention, as well, I know we are scheduling hearings obviously on this over the coming weeks and months, but I am going to recommend that we try to set up some more frequent, even with our staffs necessarily, so there is a more ongoing relationship, so we don't just wait for public hearings to hear things that are happening. I think all of us would like to have a more consistent source of information about how this is progressing, obviously, almost from day to day or week to week. We don't want to overload you. Obviously, you have a job to do. We need to figure out how to do that. But I know we are demanding certain accountability standards in public, but we need to know this information with some regularity. So we will try and figure that out, but I want to put you on notice that we are going to set up some sort of a system to allow us to do that.

Mr. BAROFSKY. I look forward to that.

Chairman DODD. Thank you.

Professor Warren.

STATEMENT OF ELIZABETH WARREN, CHAIR, CONGRESSIONAL OVERSIGHT PANEL FOR THE TROUBLED ASSET RELIEF PROGRAM

Ms. WARREN. Thank you, Chairman Dodd and Ranking Member Shelby, and Members of the Committee. It is a pleasure to be here. I am the Chair of the Congressional Oversight Panel, established under the Emergency Economic Stabilization Act. Because I am going to speak only from notes and not tightly scripted, I should emphasize these are my views and have not been preapproved by everyone on my Panel.

I also want to say that while I am here to describe what has happened so far, what we have discussed in our reports, and tell you where our next reports are headed, I am also here to listen. We are, after all, your Panel, and so your advice, your thoughts, your

criticisms and concerns are important to us, so we want to be able to hear that while we are here.

What we are doing: We also hit the ground running. We were established the day before Thanksgiving and in early December issued our first report. Our report focused on questions, what we thought were the appropriate questions that should be put to Treasury about what they were doing with the first \$350 billion that had been granted to them.

Our first report had ten areas of questions. We asked first of all: What is Treasury's strategy? Is there a framework here, or are we engaging in simply *ad hoc* plans stuck together?

Is this strategy working to stabilize markets? Is there any evidence that shows that?

Is Treasury doing anything with the money to help reduce foreclosures? This is something that was specifically mentioned in the statute.

What have financial institutions done with the taxpayers' money that they have received so far?

Fifth, is the public receiving a fair deal? This is the stocks and warrants question in part. As we put in money, we are supposed to be getting something back out that at least is of roughly equivalent value. Is that happening?

What is Treasury doing to help the American family? After all, that is where this starts and ends.

Is Treasury imposing reforms on financial institutions that are taking taxpayer money?

How is Treasury deciding which institutions will receive the money? What procedures are being used?

What is the scope of Treasury's statutory authority?

And, finally, the question that we hope we get to someday: Is Treasury looking ahead, creating contingency plans and alternatives?

Our first report went out. Lots of questions. We tried to talk about this. We talked about it with Congress. We talked about it with the American people. Remember, we are on a 30-day reporting requirement, so we turned to our second report, which came out at the beginning of January. The second report examined Treasury's responses to our questions and their non-answers. I will just stop at this point by saying we continue to ask, and we will ask until we get answers.

As to our current focus, we have a third report that will be due out tomorrow. For this report, we focused more tightly on question number five: Is the public receiving a fair deal? For this report, we engaged in a much deeper valuation analysis of the first transactions that have taken place under the TARP program. I will mention just the results to you, and that is that at the time of the transaction, for the first set of transactions, Treasury substantially overpaid. According to the data we have investigated, Treasury put in about \$254 billion for which it received about \$176 billion in value from the financial institutions. That is a shortfall of about \$78 billion when measured as of the date of the transaction, not in terms of what has happened to the market since then.

We want to emphasize there may be good policy reasons for overpaying, but without a clearly delineated reason, we cannot know

that. We returned to a theme that we have spoken about repeatedly, and that is the need for clear goals, for a clear framework, for methods for how we are getting there, and measurements to see if that is happening.

And, fourth, we identified that in March we intend to focus much more deeply on the issue of foreclosures. We are deeply concerned about the lack of action and the lack of progress to date on stemming foreclosures, particularly preventable foreclosures. Again, this is an issue addressed directly in the statute, and so we think it is particularly important to go back to it.

We are going to emphasize in that report the importance of developing reliable data. Our reports proceed from the underlying believe that if you do not know what is going on, it is very hard to diagnose the problem and develop a good strategy to fix it. So there is going to be a lot of emphasis on the importance of developing better data about what is happening, and then developing meaningful metrics in order to measure progress. We are very much of the view that it is not enough simply to throw a program out there with a great name. We really must have a way to measure whether it is doing any good. Americans have had enough false promises in this area.

I want to just summarize what we have done by saying we are deeply committed to the notion that flexibility is good, that Congress is sensible in doing work through agencies that have some flexibility. But with flexibility goes great responsibility. Treasury must articulate clear objectives, develop a precise strategy for reaching those goals, utilize specific methods to measure progress, and spell these out before they spend more money.

I want to say that it is a particular pleasure to be working with the Inspector General and with the GAO. Cooperation could not be higher. This has been a wonderful opportunity with people and institutions that have different strengths and different resources to bring to bear on this problem, and it is quite an honor to work with this group, and we are glad to do that.

I also want to say the Panel looks forward to working with Congress. We are here at your pleasure, and we will do what we can in your name to enhance the accountability and ultimately the credibility of this program.

I am happy to answer any questions if I can.

Chairman DODD. Well, thank you very, very much.

I see my colleague from Ohio, Senator Brown. I know you were here earlier. Would you like to make a quick comment at all before we—

Senator BROWN. I am fine. I just want to ask some questions.

Chairman DODD. OK. I will put the clock on for 8 minutes, and I will not hold everyone rigidly to that. We do not have a full complement of Members here, so we can kind of be a little looser about the time constraints.

First of all, thank you, and I thank all three of you. You know, one question I want to just get up front—and I do not expect you to have the answer to this, but I would like to get the answer soon. I would like to know who the personnel are that are running this program and whether or not the people who were running it in the previous administration are hanging around in this administration.

So I would like to know who they are, what their backgrounds are, what their expertise is in dealing with these kinds of questions that are very complicated and difficult. But do they bring the kind of background and experience that would raise our confidence level that they know how to manage these kinds of issues.

So I suspect you may not have that today. I do not know if you have had a lot of chance to examine that. Have you had a chance to look at the personnel?

Ms. WARREN. Well, we know that Mr. Kashkari, who was in charge of the TARP program in the previous administration, remains in charge of the TARP program. I believe that is true still at this point. I think the change in personnel may be taking place, but that it is doing so slowly.

Chairman DODD. Kashkari I know about, although I do not know if he is staying or not. But even going down into the ranks of who are the actual people doing the crunching of the numbers and so forth, I would like to have a level of confidence that people here bring some background and experience in this area that are going to be critical as we go forward. I do not have to dwell on that point.

Let me jump to the issue, obviously, you have raised, Professor Warren, about the report coming out tomorrow. Your testimony this morning here says that Treasury may have pursued policy objectives in overpaying for assets, but if so, they did not clearly articulate those objectives. And I respect that. And I realize the report is coming out tomorrow. I do not want to jump ahead of your report, but obviously, you have mentioned, I think, the disparity of \$78 billion in terms of what we paid and what those assets may have been worth. And, obviously, I would suspect most of my colleagues here—I think my eyebrows went up. I suspect theirs did as well.

As you look at this, is it at all possible that Treasury could have used a different but sound methodology to produce a different result? Could you just share with us the methodology you used? And is there a possibility there may be a different interpretation that would arrive at different numbers?

Ms. WARREN. Senator, I have great confidence in our numbers. We used specialists who value companies. This is what they do. We engaged a publicly traded company, Duff & Phelps, to help us in this process, and this was only after talking with other companies as well that do this.

In addition, we had the benefits of two finance professors who were enormously helpful to us—one from Yale and one from Northwestern University. Their process was to go through the valuation using publicly available data—I want to be clear; we were using only publicly available data—but to use multiple ways to value the assets.

As some of you may know, there are some disputes at the margin about when Black-Scholes should be used and when it should not be. This is why you have academics in the room.

So the group valued it three different ways. They took the primary ways that are thought by anyone to be appropriate ways to value assets, this kind of asset, and they valued it three different ways, and the three different ways converge, which gives us a very high confidence that the valuation we are using is on target.

Now, when you read the whole report, all 700 pages of the valuation report, you will see that there is some plus or minus. But the plus or minus is very modest, and I stand by these numbers. These are good numbers.

Chairman DODD. Well, we will want to pursue that. I am sure my colleagues may have questions this morning for you, but also once the report is out, to pursue that, questioning how that could possibly have occurred. One would understand some gap. No one is expecting perfection here between the price you pay and what you think you are getting. But that is a pretty large disparity for the amount of money we are talking about.

Let me ask the panel member, any one of you, to respond to this, but Treasury designed the Capital Purchase Program to provide, as you have all pointed out, capital infusions to banks that are viable without regard to these infusions. In at least two instances, a couple of the largest institutions that received TARP funds under the Capital Purchase Program subsequently received additional assistance under the Targeted Investment Program. The selection process has been completely shielded from public scrutiny.

Do you believe that Treasury and the Federal agencies who selected the banks for these infusions have consistently applied the Capital Purchase Program criteria, *i.e.*, funding only viable, healthy banks? And what are your plans to review this selection process? And how do you go from that one to immediately institutions that looked like they were in deep trouble? Do you want to begin?

Mr. DODARO. We plan to work—and we have had discussions with Mr. Barofsky's office about this—a coordinated effort to look at the decisionmaking process that is in place for the Capital Purchase Program going forward. Neil has been very effective in coordinating this with the respective Inspectors General in the regulatory agencies as well, because the process starts with the regulators providing recommendations to the Treasury Department, and then Treasury ultimately making the decision on the Capital Purchase Program.

So we are going to be digging deeper into that program to ensure the integrity of the process, or at least evaluate the integrity of the process and the consistency of the process going forward.

With regard to the Capital Purchase Program versus some of these other programs, we point out in our report that some of the criteria are similar, and it is not well understood what the full range of the differences are between the programs.

Chairman DODD. Mr. Barofsky, do you want to comment on this?

Mr. BAROFSKY. Mr. Chairman, I am launching an audit today that precisely addresses your question. We are going to do a case study of Bank of America, and the reason why we are doing that is precisely for the reasons that you just stated, because they participated in three separate programs. And we are going to take a good look at the selection process, the decisionmaking process from beginning to end on Bank of America for each of those three programs.

So I look forward in our next report or when this audit is completed to give you a very detailed and clear explanation of the answer to your question.

Chairman DODD. Professor Warren, any comment?

Ms. WARREN. Senator, I think it was Senator Shelby who said when Citibank is declared a healthy bank and then within a matter of weeks is declared at risk of bringing down the whole system, we have to have some skepticism about the identification of these banks as healthy banks. I think the numbers that come out in this valuation report at least raise the possibility that the Secretary of Treasury's description of this program was not entirely candid, and that we may want to consider that there were multiple objectives, only some of which, or perhaps none of which, could be described as infusing money into healthy banks.

Chairman DODD. Well, it is a major point for us because, again, as my colleagues have pointed out, on the one hand we are told this is going to healthy banks, and a week later you find out they are not a healthy institution. You wonder what—give us the plan, if it is one or the other. We all understand things can change, too. We do not expect things to be consistent from day to day. But there has to be—this is infuriating to watch these decisions be completely conflictive of what we are looking at.

I noticed in going over the reports that there were some very common points you all took. It could almost be one report in a sense rather than three. And let me just share with you the common points that jumped out at us—jumped out at me, anyway—and I think you have addressed some of this in your opening comments.

Number one, Treasury has yet to articulate a vision for the TARP as a whole, this framework idea. One thing I hear about over and over again is: Why are we here? What is the plan? And what is your vision of how we go from what we are doing here that will get us to the desired results of economic stability and back to economic growth and freeing up capital markets and the sense that there is not that framework or vision?

Number two, Treasury's selection process to decide which institutions—the subject matter of this last question of mine.

And, three, there has been no accountability with respect to the use by the TARP recipients of the funds they have received, no process in place to track whether the funds are being used properly.

All three of you draw those same conclusions.

You have talked about your coordination, and I appreciate that very much, how well you are working together in all of this. But whether or not individually or collectively, have these concerns been raised specifically to the Treasury at this point? And do you have confidence that they will be addressing any of these with this new crowd, the new administration?

Ms. WARREN. Well, yes, Senator. We sent a letter with our very first report. Our December report was sent directly to Treasury—it was a letter from me; I signed it—asking the Secretary of Treasury to respond to the questions we had raised, and it was precisely that set of questions, I will say plus more.

We received a response on December 30. We have posted that response on our Web site. And, quite frankly, Senator, it answered only some of the questions, and even of those that were answered,

some answers were not directly responsive. So we do not yet have answers.

Now, we have sent the letter again. I am nothing if not persistent. The letter has gone to the new Secretary of Treasury. We recognize it is a time of transition. And so we have asked for a response later in February. And we will stay after answers to those questions.

Chairman DODD. Are you all of a similar mind on this point?

Mr. BAROFSKY. Yes, Mr. Chairman. In fact, I think on the use of funds question, it is a good example of what we have done. We made our recommendation to Treasury. They adopted it with respect to some of the financial institutions. And now we essentially have taken matters into our own hands in launching the survey to bring transparency in the use of funds.

Chairman DODD. Let me just say at this point, by the way, I think all of us here—I certainly as the Chairman of this Committee, I want to know immediately. I do not need to get letters. Just tell me when you are not getting answers. We will join you in this effort, I promise you, in a strong bipartisan fashion to get these answers. This is unacceptable, to put it mildly.

So, again, we can wait for these letters and reports to come out, but we want this ongoing, virtually daily communication with the work that is being done so we can respond much more rapidly than waiting for reports to come out or letters to be responded or not responded to.

Mr. Dodaro.

Mr. DODARO. Mr. Chairman, having a continual coordination effort like that on a regular basis really makes a lot of sense, because there are a lot of developments, and we can raise it to your attention if we are having difficulties.

Now, I might point out that soon after his confirmation, Secretary Geithner did ask to meet with all the oversight groups, and we had a discussion with him, and we conveyed to him our concerns. And he listened carefully. I am an auditor by background so I will wait to see what steps are taken going forward. But at least he sought our views, which I found encouraging. And as we have reported in our report, the Treasury has taken some steps, but more steps need to be taken in all these areas.

Also, on your point about the personnel that are in place, initially they brought in a lot of career people as detailees from other regulatory agencies, some of which I have known in the past. So I think they had some credible people in there initially. They are replacing them with permanent people now going forward, and they are going through that process. But they need to make sure it gets completed. And then once the overall plan is in place, and the vision, then they have to look to see whether they have the full complement of people.

So that point remains an open issue.

Chairman DODD. Well, good. I just want to make sure that people have the background and experience to deal with this and are not just being plucked out; that they may be a lawyer or may be an accountant but, frankly, have never worked in areas like this or familiar with these circumstances.

The last question I have for you—and Senator Vitter made a point earlier, and I want to associate myself with his words. None of us wants to trivialize this situation, and so the issue of executive compensation is not to trivialize it all, but I think all of us appreciate that for many of our constituents, they have a hard time getting beyond this issue in order to understand the deeper questions that are involved in these programs. And they just hear that part of the responses, and they just react to that. You do not get any further than that. It is literally infuriating.

Again, there are examples of it. I noticed on February 3, Citibank published a TARP progress report describing what it is doing with TARP funds, and the report states that Citi's chairman, chief executive, chief financial officer asked not to be paid bonuses. But another 51 members of the senior leadership at Citi received "substantially reduced bonuses."

Does the IG have the authority to look at such payments, for example, for the purposes of determining whether they are consistent with the TARP's recipients' obligations as we crafted it originally? And there are other efforts being made by the administration in the last 24 hours. As I mentioned earlier, I will be proposing something later today as part of the stimulus package in the same regard. But I want to know whether or not you have the authority to reach in and get that information? Or are you just relying on these kinds of public statements that are being made?

Mr. BAROFSKY. No, Mr. Chairman. We absolutely have that authority, and we are launching initiatives in four different areas on executive compensation. We have already submitted a request, and that response is included in our report to Treasury on how they are going to be enforcing compliance with those conditions.

Second, the letter I mentioned is part of an audit effort where we are going to be surveying the firms on how they are complying, what their plans are for the executive compensation rules.

Third, we are leveraging outside resources. We have teamed up with the New York State Attorney General's office in their inquiry in looking at bonuses on Wall Street. And we are closely coordinating with them, so not just our resources but using those outside resources in addressing exactly the type of concern that you just addressed, by looking behind these reports and getting the information through joint requests and joint review of certain data. And at times we will do it on our own as well.

And, finally—and this is sort of also an answer to your previous question about where we see it going with the new administration. I had a very productive conversation last night with the new Chief of Staff for Secretary Geithner about the new conditions that have been announced, and we are going to sit down and try to assist them in making sure that these conditions have teeth. And I had a very good and positive dialog, and I do look forward to working with the new administration, and I do think that they will be responsive to our recommendations.

Chairman DODD. Well, I thank you for that. And, again, I will turn the questioning over to Senator Shelby, but—and, again, I do not want to trivialize compensation issues. I realize there is a danger in that. But, again, for millions and millions of people in this country, they have a hard time getting beyond that question in

terms of having confidence that this program is working right when they see a failure to appreciate their money being used to stabilize the situation and then directly or indirectly being used to compensate. So that is the reason I raise it.

Senator Shelby.

Senator SHELBY. Thank you, Chairman Dodd. Thank you for your questions, too, for the panel.

Just an observation, Mr. Barofsky, about you and your role. Just a few weeks ago, you came before this Committee. You were sworn by Chairman Dodd as to your testimony, and you told us that you were going to do everything you could, and this is a very important job that you occupy, Special Inspector General of this TARP program. A lifetime opportunity of public service that very few people ever have to do right. And you might be unemployable after you do this.

[Laughter.]

Senator SHELBY. But you know and I know that these people have got to fear you and your office. If they do not fear you, they are going to play with you. They are going to deny you this, and they are going to deny you that. Senator Dodd wanted to know—wants you to tell this Committee what you need at all times. If somebody is stifling you, we want to know, because we are the oversight Committee of the banking industry, and there is a lot of distrust in this everywhere.

Having said that, the TARP hiring practices are of concern to me. I understand that the Treasury Department has hired several former employees of the very banks to which it is providing capital. Think about it. While there is clearly a need for financial expertise in the TARP program, a lot of it is not in Wall Street anymore. They failed us. I am concerned, especially given the limited life of the TARP program, that employees of TARP may be facing significant, Mr. Inspector General, conflicts of interest.

It seems to be an incestuous financial relationship situation here, moving from firms to Treasury, you know, to TARP, to this and that. And that is very troubling not only to a lot of people on this Committee, but to the American people.

We used to look at Wall Street and say they were the smartest people in the world. Now, that has been doubted today in a lot of ways.

So a lot of these people helped bring about this financial debacle. It looks to me like people could go elsewhere by expertise, you know? I understand that, and I know this is something you will look into, and I hope you will.

Do you like that? Does that bother you at all? I mean, you are the people's man now. You are the watchdog, and you have got a great opportunity if you do not blink. I pray you will not blink.

Mr. BAROFSKY. I assure you I will not blink, and obviously conflicts of interest is an important area that we are reviewing, that we are reviewing with GAO, who has done an excellent job in reviewing the policy—

Senator SHELBY. GAO has done a good job. I hope they will not blink. They never have up to now. I hope they will not.

Mr. BAROFSKY. I do not think they will.

Mr. DODARO. Now is not the time to start, Senator.

Senator SHELBY. Absolutely not.

Mr. DODARO. And we will not.

Senator SHELBY. One of the stated purposes that we have all talked about here of the TARP is to maximize overall returns to the taxpayers. Some have even claimed that the TARP will make money. I doubt that. Yet the CBO, the Congressional Budget Office, recently estimated that the current value of TARP activities so far—and this is new—has been a negative \$64 billion at a subsidy rate of 26 percent. In some cases, such as the auto bailout, the Congressional Budget Office estimates a subsidy rate of 63 percent, meaning that for every \$3 the taxpayer has put in the car companies, we are expected to get back only one dollar. I doubt we will get back anything, but, you know—what is your comment on that, Gene?

Mr. DODARO. Well, I think the CBO, under the TARP legislation, Economic Stabilization Act, is required to use the credit reform principles in doing these evaluations, which means that they calculate the subsidies in a similar manner to loan guarantee programs and other things that the Federal Government subsidizes. So we are looking at those numbers. We have had discussions with CBO and OMB now, both from a budgeting standpoint but we are also—another role that we have is we are the financial auditors for the Office of Financial Stability. And so we will be looking at how these things are tracked and handled in terms of the valuation of the programs on the financial statements as well.

So this is a complicated issue, but we are looking into it very carefully.

Senator SHELBY. Professor Warren, do you have a comment?

Ms. WARREN. Well, the numbers that our specialists have used in evaluating this suggests—

Senator SHELBY. And who are your specialists? We would like to know all this stuff.

Ms. WARREN. Sure. You bet. We hired Duff & Phelps. It is a publicly traded company that is in the business of valuing companies, and we did it after a competitive bid, and probably—I do not know if I am allowed to say. We got them to do it at half-price.

Senator SHELBY. Are they in the rating business?

Ms. WARREN. No, they are not in the ratings business.

Senator SHELBY. Thank God.

Ms. WARREN. They are in a different kind of business here.

Senator SHELBY. OK.

Ms. WARREN. They were also aided by Professor William Goetzmann and Professor Deborah Lucas. I want to be sure that I give them credit.

Senator SHELBY. Absolutely.

Ms. WARREN. Because they put in many hours. They are finance professors who helped us out. We did a legal analysis at the same time. As appalling as this may sound, there were people who actually sat down and read all the terms of the transactions and read the terms of comparable transactions that were going on in the marketplace so that we could really understand how valuable or not valuable the different elements of the deals.

Senator SHELBY. OK.

Ms. WARREN. We wanted to understand all aspects, not just a headline. As I said, we used three different valuation methods. They all hammered until they were all confident that we had a good number. What it suggests to us is that the CBO numbers are understated.

Senator SHELBY. I believe that.

Ms. WARREN. Yes.

Senator SHELBY. Healthy failing institutions, all of us brought some of this up. In an October 14 press release—just a few weeks ago—the Treasury Department announced the Capital Purchase Program designed to provide capital to so-called healthy institutions. The release suggested that nine healthy institutions were already participating in the program. Of these nine, one no longer exists—Merrill Lynch—and two others—Bank of America and Citigroup—are on the brink of collapse and may still be and had to be rescued under the TARP program. A 33-percent failure rate does not to me exactly provide confidence to the market that either Treasury or any of the Federal regulators, including the Fed understood the term “healthy” or used that term loosely to get the money in there.

Does that concern you, Gene?

Mr. DODARO. I think that has been part of the communication problem all along there—

Senator SHELBY. More than communication—

Mr. DODARO. Well, in—

Senator SHELBY. —substance dealt on that, didn't it?

Mr. DODARO. Right. Well, they made the initial decision to go with the large banks, and then started the Capital Purchase Program with a process using the regulators going forward. So I agree that it is not consistent entirely in terms of how they have explained the program going forward, and so it is something that we are looking at and making sure that we can understand the differences between these various programs that they have eventually evolved to.

Senator SHELBY. Market mechanisms—in making purchases under the TARP program, as I understand it, the Treasury Secretary was required by statute to use market mechanisms in determining the appropriate price of assets for purchase. To what extent were market mechanisms used or talked about in determining the pricing and terms of purchases under the Capital Purchase Program and the auto bailout? In cases where Treasury has not used market mechanisms to determine prices, what justifications has Treasury offered for ignoring those requirements? Professor Warren.

Ms. WARREN. Well, Senator Shelby, I think it is clear that Treasury did not use market mechanisms, and I think, frankly, if we just read their public announcements, we can tell that.

Senator SHELBY. I think you are absolutely right.

Ms. WARREN. They paid a uniform price. That is they said, we are going to pay the same amount—we will give you the same number of dollars and the same return regardless of whether or not you are a very risky financial institution or you are a healthier financial institution. As soon as you decide to do that, you have moved away from risk-based pricing.

Senator SHELBY. Isn't that a terrible way to look after the taxpayers' money and to make purchases anywhere?

Ms. WARREN. Well, if the goal—

Senator SHELBY. Is it or not?

Ms. WARREN. Senator, Treasury simply did not do what it said it was doing.

Senator SHELBY. No, like everybody said here.

Ms. WARREN. I can't say that more clearly.

Senator SHELBY. In other words, they misled the Congress, did they not?

Ms. WARREN. Well, they did not do what they said they would do.

Senator SHELBY. The Bush Administration, Secretary Paulson, Chairman Bernanke, misled the people, the Congress and the people of the United States.

Ms. WARREN. They announced one program—

Senator SHELBY. Absolutely.

Ms. WARREN. —and implemented another.

Senator SHELBY. They said one thing and 2 weeks later did another, is that correct?

Ms. WARREN. Senator, it is more than that.

Senator SHELBY. No—OK—

Ms. WARREN. Yes, Senator, they did, but it is more than that. It is even in the program that they moved to, in the second program, they described that program one way and they priced it a different way. They did not price for risk. That is what markets do. And when they didn't price for risk, they create differences in how great a deal it is to receive this government money.

The best way I can explain it would be as if we had ten paintings in front of us and I announced that I was going to pay \$1 million for each painting, and one was a Picasso and one was a Rembrandt and the other seven were not.

Senator SHELBY. Sure. Mr. Barofsky, political influence. This is very important here. The American people, as you well know right now—you can see it in polls, you can just go home, any of us can—they don't trust the TARP program. They don't trust what has been going on. They see our banking system in shambles, in a sense, not everywhere, but a lot of places.

Now that the Treasury Department, Mr. Barofsky, has a significant financial interest in more than 200 financial institutions, we need to be vigilant, I believe, that banks are not pressured to lend to politically favored borrowers, either side. What steps do you plan to take as the Inspector General to ensure that bank lending is insulated from political favoritism, because this would just compound the TARP program, more so.

Mr. BAROFSKY. Two areas. First is one of the audits that we are announcing today is designed to detect the impact of outside influences—of all outside influences on the application process within Treasury.

As to the second part of your question on what we are going to do with external sources, as I mentioned in my opening statement, we have set up our hotline and our Web site, *www.sig tarp.gov*, if I can plug that, and we want to encourage anyone that is hearing

about or knowing about any type of TARP-related misactivity to let us know. With that information, we can then respond.

Senator SHELBY. Senator Dodd, I would just like to ask the Inspector General one last question. You have been generous with your time here. Do you believe that the TARP money has been wisely expended thus far, from what you have seen?

Mr. BAROFSKY. Are you asking me?

Senator SHELBY. Yes, sir, I am addressing you.

Mr. BAROFSKY. I don't know.

Senator SHELBY. You don't know? You don't know that, and you are the Inspector General?

Mr. BAROFSKY. I think it is too early to tell whether it has been wisely spent.

Senator SHELBY. Do you believe that where a lot of these banks have benefited, loaned no money, paid huge bonuses and so forth, like Merrill Lynch and others, do you believe that is the right message and the right thing for the American people at this time of great challenges?

Mr. BAROFSKY. Senator Shelby, I think your question asks a number of questions. Obviously, I think that any institution—

Senator SHELBY. You are not evading the question, are you?

Mr. BAROFSKY. No, no. I think any institution that has violated the terms of its agreement, obviously that is very much a wrong thing. Banks that misuse the funds, that is a wrong thing. And I think that is why we are pushing for this accountability, not only within the TARP but outside the TARP through our survey, and I look forward to being able to report back to you and give you an answer to your question after I have acquired the necessary data to answer it.

Senator SHELBY. Thank you.

Chairman DODD. Senator Reed.

Senator REED. Thank you very much, Mr. Chairman.

Following up on the conversation between Senator Shelby and Professor Warren about risk pricing, isn't the mechanism of risk pricing on the warrants that are taken or the equities taken, is that correct?

Ms. WARREN. Actually, it is both, Senator. The entire Healthy Banks Purchase Program was to use exactly the same approach and exactly the same pricing straight across for all purchases made under it.

Senator REED. But essentially the mechanism is the warrant that the government takes—

Ms. WARREN. The warrant is the central mechanism, yes, sir.

Senator REED. Right, and that goes to a question I want to address to Mr. Barofsky. That is, do you concur that these warrants were imprecisely priced or inaccurately priced? Are you prepared to look at these warrants not only that exist but in the future to ensure that they are appropriately priced for risk or appropriately priced for return to the taxpayers?

Mr. BAROFSKY. As we indicated in our report, I think the warrants were uniformly priced by the same methodology, which was a 20-day trailing price until the date of approval by the TARP for advancement of funds. What we have done in our report is we actually have a chart where we set out for every financial institution,

every warrant, what the strike price is of the warrant, what that stock was trading at as of January 23, the cutoff date of our report, and how far in or out of the money each stock is. I think that gives a good snapshot of where the taxpayer investment is.

And finally, to address your question, one of our recommendations directly addresses this—and I think it also shows how coordinated oversight works, with Professor Warren, as she is addressing the issue, as GAO is addressing the issue, and our recommendation is that we get a real-time and that Treasury needs to do evaluation as of today and an ongoing basis evaluating these warrants and the other preferred shares so we can have a snapshot of how the investment is doing today and so the Treasury can make better investment decisions.

Senator REED. Thank you. Professor Warren, this issue of compensation keeps coming up and up and up, and I think the Chairman was right. It has captured so much of the attention of the public that it has to be dealt with. One institution has started giving bonuses out in some of these troubled assets.

I recognize that there is a need to maintain and keep talent in these institutions and that for one company to do this might lead to a loss of valuable personnel. So that suggests to me that across the board, in the context of TARP, we might consider doing something that requires at least a portion of the bonus to be made up of these troubled assets and also maybe mitigate that by allowing people to borrow against their rate so that they can pay for household expenses and things that are necessary, particularly not the highest compensated, but those that depend on bonuses in expensive places just to get by. Your thoughts?

Ms. WARREN. Well, I think it is a very creative idea, the notion that your own money is on the line and your own future rather than just that of the taxpayers. So I think it is certainly something worth exploring. Thank you, Senator.

Senator REED. I just want to get an idea in terms of your focus. You are coordinating your efforts, but could you just tell me, starting with Mr. Dodaro, what is the chief point of your responsibility and how does it relate to your colleagues, and just go right down the line.

Mr. DODARO. Yes. First, right after the legislation passed, we were the only organization that was really able to get in right away until Mr. Barofsky was confirmed and the Congressional Oversight Panel was in place. So we took a broad view of trying to monitor Treasury's stand-up of the program, their initial decisionmaking, how they staffed up and got organized and got started in the beginning.

But we also uniquely have the responsibility to do the financial audit of the TARP program and the Office of Financial Stability. Now, that involves looking at internal controls, how the custodians are going to collect the dividend payments, how the money flows in and out. So we have—a primary focus of ours is that financial auditing and integrity of the program. We are starting to have conversations about where we will decide to focus our efforts and provide more in-depth views. The legislation really contemplates a lot more detailed oversight by the Inspector General's Office and the Congressional Oversight Panel role is more from a policy stand-

point. So we are trying to figure out where we can fill gaps and focus on some of these issues.

Like, for example, in the automobile area, we were early on providing some advice to this Committee. We will probably take point on that. And we have regular meetings to work out those issues. But that is a rough outline of how we are going forward.

Senator REED. Mr. Barofsky, sort of how you fit in.

Mr. BAROFSKY. We focus on where, I think where we can add the most value, and the key from our audit perspective is coordination because GAO is the gold standard on audit. I hired as my chief auditor an alumni of GAO. So we will work closely with them in figuring out where we fit and where they fit.

But our focus is, outside of audit, is sort of where we stand alone, as I said in my opening statement, is in investigations and criminal investigations and that is going to be a large focus of my office because that is the area that we occupy alone. We also want to leverage our position as being the oversight body that is within the executive branch, and as I mentioned earlier, taking the opportunity to try to influence from an oversight perspective, making sure the right mechanisms are in place before the money goes out the door. Obviously, a lot of what happened occurred before I was confirmed and before I took the job, but we think that is an area for our focus, as well.

Senator REED. And when you came before the Committee, I asked you about your whistleblower program. Can you just very briefly, because time is short, where are you on that?

Mr. BAROFSKY. It is posted on our Web site along with our hotline and we are committed to protecting whistleblowers.

Senator REED. Professor Warren, your role.

Ms. WARREN. I see our role as much more of looking at things like the structure overall, whether or not we have a framework that is going to work or is it just *ad hoc*, how things are put together.

Also, when we talk about transparency, we are really asking questions about transparency in a very grand sense. That is, it is not just transaction-by-transaction. It is when you describe a program as Healthy Banks, is it really about healthy banks or is it really about something else?

We also have the capacity to work with outsiders, with experts, academics, people in the business world, to get more input, more perspectives on what is going on here. For example, with the foreclosure initiative, this is really an opportunity for us to come in and talk about the kinds of data we need so that we can really diagnose what the problem is and the kind of metrics that should be used for ascertaining whether or not it is doing any good. So we see ourselves as able to maybe take a step back from the more detailed work and see if we can be helpful in both monitoring, describing, and hectoring about larger pieces and how they are moving together.

Senator REED. In that context of stepping back, this is a much maligned program and with cause, but where do you think the credit markets would be today if this program had not been passed?

Ms. WARREN. I think this is a really hard question. I am not confident, A—that we wouldn't have done something else. It is not as if there was only one option, and if we didn't do that option, we would all sit around on our hands. We might have taken another path. It is possible that the biggest cost of the TARP program will turn out to be the road not taken—what may turn out to be \$700 billion and the 3 months not spent of getting a clearer focus on what we are trying to accomplish and some clear strategic plan for how to put it in place.

Senator REED. Let me—I just have 30 seconds.

Ms. WARREN. Please.

Senator REED. Mr. Dodaro, do you have a comment?

Mr. DODARO. Yes. One of the other roles that we are trying to do is to develop a set of indicators that can kind of track this over a period of time, Senator. What we have noted is the interbank lending rate, in particular, has come down during this period of time, although the spreads remain high between the corporate bond markets and mortgage markets, and obviously the mortgage rates have gone down. The difficulty there is isolating TARP's impact compared to the Federal Reserve's impact. That is one of our continuing roles, is to try to see if we can develop a more sophisticated set of indicators to shed as much light as possible, recognizing the difficulties inherent in trying to pinpoint TARP specifically.

Senator REED. Thank you very much. Thank you.

Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator.

Our next Senator is Senator Corker, I believe.

Senator CORKER. Mr. Chairman and Ranking Member, thank you for having a very timely hearing. I appreciate it. I think many of my colleagues have expressed the frustration that people all across my State feel and that I feel and I want to thank each of you for the job that you are doing. It is an amazing thing to really watch some of the lack of public relations efforts that are taking place. And certainly I appreciate the focus that you have on making sure that bad things are not occurring.

And so I agree with all of those things and I certainly agree with what Kay Bailey Hutchison said about the fact that we have lots of people out here that have great credit that are having loans called, and there are lots of reasons for that, and we have met with regulators and others and so I want to express all those emotions, if you will, that are similar to many people on the Committee.

But then I want to go down a little bit different path. I wonder if anybody—I know you all are working, and sometimes we in government, we want to make sure we are doing a really good job going down this path, but sometimes we really don't look at the path we are going down, OK. That is sort of the worst of government sometimes.

I guess I would ask this question. I mean, banks in their own self-interest loan money to make money. I mean, that is how banks make money. There is a spread involved and that is how they have dividends for shareholders. Have any of all stopped to just ask sort of the big question, why banks are not lending money? And would you answer that? I think much of what we are doing in some ways

is petty compared to focusing on the essential issue of why banks are not loaning money, and Professor, it sounds like you might want to answer that.

Ms. WARREN. Yes, Senator, because this was actually a point we raised back in our December report and that we have raised in our meetings with Treasury. The Treasury at least publicly announced that it will lend money to healthy banks, and so the presumption is exactly as you said. OK, if the banks are going to have to pay us interest on this money and they are really healthy, then if they have the extra money, the banks will go ahead and lend it out. They have got to lend it out. They can't afford to sit on this money. So it was sort of a derivative notion, right, this is how the theory will work.

When it doesn't happen, and the data seem to suggest that it doesn't happen, although there is some dispute about that, but when it doesn't happen, we think it is really important that you back up and say, maybe the problem is different. They kept using the analogy—

Senator CORKER. I like all of that, but I have only got 8 minutes—

Ms. WARREN. I am sorry.

Senator CORKER. —so why are they not lending? I understand all those other things.

Ms. WARREN. Senator, we can't tell. One possibility, they could say they are not lending because there aren't good lending opportunities. That is certainly an argument that some banks have used. Others, because there were no restrictions put on the money, can simply say, we are not lending because we can figure out a better way to make money with this money. We can buy other banks. We can buy different assets. We are not lending because we have a better way to use the money you have given us, and quite frankly, Senator, if you are underwater, it makes no sense to lend when you get this money in. You hang onto the money and hope that it is going to see you through the rough times.

Senator CORKER. OK. So you sort of hit in your third point, and I think there are obviously slightly less lending opportunities in an economic recession. I mean, that is just sort of $A + B = C$, right?

Ms. WARREN. Right.

Senator CORKER. And I do think that in some cases, there are some acquisition opportunities that maybe make more sense. But I think the big, the 90 percent issue is that many of these banks know because of GAAP accounting on their accrual loans they haven't taken losses that they know are coming and they are holding on to this liquidity because they know the losses are coming. And second, banks are having great difficulty leveraging. They are having difficulty selling commercial paper, and so with the money they have, they are having difficulty making loans.

So it seems to me that the major issue we ought to be talking about in these hearings with the information that you have is how do we solve that problem, OK, and it seems to me with the next 350 that is coming down the pike, there is a debate that is going on at the administration. I think I know the views of the two people that are mostly at the table, but it seems to me that this hear-

ing would actually be constructive—not that it isn't on some of these other issues—but it seems like the 90 percent issue would be what is the issue, and if it is the fact that these banks really in many cases know they are insolvent, OK, we would make better use of our time figuring out and helping in this hearing direct what is getting ready to happen. Would that be a fair assessment?

Ms. WARREN. Yes, Senator.

Senator CORKER. So since you guys have been up under the hood, OK, my fear is actually—I just want to digress for 1 second. You talk about the funds being used properly. Unless we are marking the bills as they go over, and I know they are not, I know the money is—the money is fungible. We don't know what is TARP money and what is not TARP money. So to say our TARP funds are being used wisely or unwisely is kind of silly. I mean, the bank has money and ours is a portion of that, and to say that some of it that is going to be used for signs on stadiums is not TARP money, all that is kind of a silly and useless conversation.

I am actually far more concerned about—I don't think we ought to have outside influences. I agree with that and I thank you for making sure that doesn't happen. I am a whole lot more concerned about inside influences, just to be candid, where forced acquisitions take place if we get money. I mean, those things actually, big picture-wise, concern me almost more.

But let us get back to this issue. I think people are not loaning money because they know they are getting ready to be insolvent or they are having tremendous difficulty raising leverage money, which they do through commercial paper and other ways, to lend money. Do you agree or disagree with me?

Ms. WARREN. Yes, Senator, I think that is important.

Senator CORKER. If that is the case, what do we, in your opinion, what do we do about that? I mean, that is a pretty major issue, and it seems to me that—and I question these valuations because you are only valuing the warrants, right?

Ms. WARREN. No, no. We value the whole package.

Senator CORKER. The preferred stock, you have got all marked to par.

Ms. WARREN. Yes.

Senator CORKER. So if it is all at par, then the investment is—

Ms. WARREN. It is not, Senator.

Senator CORKER. OK. Well, I guess I would go back to, again, what do we do? I mean, these banks know they are worth a whole lot less, OK, internally. They know they are going to have losses. What is it we do at this time? Do we make them all insolvent and recapitalize again? Do we seize them? What is it we do to solve this problem versus working on the little bitty issues around that are very important to all of us and drive a lot of emotion, but really don't get us where we need to go with the money that is being expended? What do we do now?

Ms. WARREN. Well, Senator, I think we start by telling the truth, and that means if we have financial institutions who have liabilities up here and the value of their assets is down here, that until the day comes that we find a way to bring those things together, whether we have to write off—

Senator CORKER. OK. So GAAP accounting doesn't allow that to take place, it is really kind of strange, on accrual loans. So do we make a change so that we devalue them immediately and say we lose our top 50 banks immediately? I mean, really——

Ms. WARREN. Senator, the point is we have got to acknowledge if there is a gap, we have to acknowledge what that gap is and then we are just going to have to make some decisions about how much American taxpayer money is going to go into that to try to fill that in so that the value that is held in these banks, whether it comes from outside-held assets or whether it comes from the American taxpayer, makes it up to the point that it matches their liabilities. That is the question in front of you.

Senator CORKER. And so in public with some of the folks at the White House that are debating this listening, what you would say is the notion, then, of just putting money in and letting the banks sort of meter out their losses over time and in essence be dead men walking is not a good solution——

Ms. WARREN. Well——

Senator CORKER. ——is that what you are saying?

Ms. WARREN. I think there are enormous risks and enormous costs to doing this slowly over time because I do believe markets are smart. They see it coming.

Senator CORKER. And that is why the common shares of these banks are so low, is it not? I mean, people who are investing in these banks understand that these losses are coming, is that correct?

Ms. WARREN. I think that is right, Senator.

Senator CORKER. OK. Listen, I know my time is up. Mr. Chairman, this is a great hearing and all of the emotions that the American people are feeling about what they are saying, I think are very well founded.

I do think that we can get in trouble sometimes by trying to make a program that we are working on better instead of just facing the facts—and by the way, I say this with no criticism to anybody, OK. I candidly have not heard anyone yet come up with a solution that all of us think is workable, because if we follow the Professor's path, which I, by the way, happen to agree with, I also understand we are talking about trillions of dollars—trillions—and that is what concerns me so much about this stimulus package right now.

I don't mean to be political. If we are going to borrow a trillion dollars, then I know and you know and they know and the banks know and everybody that is involved in this knows that there is still another trillion minimum coming, and probably a whole lot more than that in losses. And so I hope that at some point we will have the ability to affect what is getting ready to happen in TARP. I hope this discussion that we are all having will help with that. I think this hearing is helpful, but I hope that we also will pursue this central course, and I don't know that I fully have the answer yet.

Chairman DODD. I thank you, Senator, for it. You have been obviously a valued Member of the Committee. In fact, I agree with your assessment, by the way, on why banks are not lending. I think that is absolutely the case. There may be other reasons, but

the major reason is they know what is coming. Look in the commercial real estate area alone. You have got a bill due in 1 year of \$400 billion, the second year maybe \$800 billion, just in commercial real estate coming down the pike. And so you are just hedging against these obligations which are emerging, and so a little unwilling to step up at this point and lend when you know you may have obligations coming along you are going to have to meet. So I think your point on that is very well taken.

I think the value we are getting at here with these individuals, who all have wonderful ideas and thoughts on where to go from here, but the value of the Inspector General, the GAO, and the Congressional Oversight Board is to make sure, in my view, that the program is accountable and working well. I am interested in your ideas of how we—we are willing to listen to anybody who has got an idea on how best to get us out of this. So I think Senator Corker's questions here are very appropriate.

But it is also the substance of what I am trying to make sure we do here is that we have a program that is running well, that what has been missing is not your responsibility, and that is to frame this program in a way that people can understand. And as Senator Bennet said earlier and others have said along the way, these are integrated efforts. We have a tendency to deal with these like stovepipes. You deal with the TARP program and then the stimulus program and then something else as if somehow they were unrelated activities all designed to move us in a direction.

And so I appreciate my colleague's point. He is absolutely correct, by the way. If the estimates are correct, we are looking at a gap of some \$2 trillion over the next several years. Does an \$800 billion stimulus package get us close to filling that gap that is emerging? Obviously, it is quite short of that. What are the tolerance levels, the tipping points, because we all have to make decisions up here and produce necessary votes to get us to the point that we will hopefully have a package in place that will assist us to get to that stabilization.

Senator SHELBY. Mr. Chairman, could I say one thing?

Chairman DODD. Yes, just let me finish and then I will turn to my colleague. And that is the notion, as well, and the danger of overselling a lot of these ideas. I think the President has it right in that what we are trying to do here, we would like to make it better tomorrow, but if we can stop making it worse tomorrow, that is a major achievement at this point. The further deterioration is what is at stake immediately, in my view, and that our hope is obviously by doing that that we begin to turn this around and move in the right direction.

But I am worried that we are overselling this whole program as a way that somehow miraculously with the adoption of a stimulus package and the adoption of a TARP program, that all of a sudden, things are going to turn around. They are not. They are not. We have got a long way to go. And the one thing we hope to be able to do is to begin to stop the further deterioration, and that is the best maybe we can hope for with a lot of this at this juncture, and then start talking, as well, about what we need to be doing, exactly to Senator Corker's point, what do we need to do to get this moving in the right direction. And my intention and hope is here, obvi-

ously, we will do as many formal, informal discussions, hearings, and others to listen to people who can help us sort that out and make ideas and thoughts and recommendations to the administration.

But I think there is a danger here that we are debating the September debate. People want to go back and debate whether or not we did the right thing or the wrong thing by supporting the TARP program. I don't know, maybe history will tell us the answer to that question. There were those of us here who made the decision. In the absence of anything else, we thought this was the right thing to do. When the Chairman of the Federal Reserve Bank, the Secretary of the Treasury, and economists across the spectrum say, you have got a matter of days to react to a meltdown of the financial system in this country that will have global implications, some of us decided to step up and give it a chance, 40 days before a national election with all of the implications that made that decision what it was, and I happen to believe it was the right thing to do.

I am deeply furious about how it has been managed, but I think it was the right thing to do. My friend, and he is a wonderful friend of mine, sitting next to me here, had a different point of view on that. I respect that. But at some point here, we have got to go forward. We can't go back and redebate September all the time. We have got to decide where we go from here and how we make this work well, and that is what we hope to get to.

I didn't mean to digress, and obviously Senator Menendez and Senator Warner have questions. Senator Shelby, quickly.

Senator SHELBY. A few observations. First of all, I have a lot of respect for Senator Dodd. I chaired this Committee and worked with him. I can tell you I think that the TARP program was induced by panic. I do not believe that the Fed knew then and Treasury knew then, do not know now, what they were doing. Look at the mistakes they have made. And I believe that this Committee, Mr. Chairman, has to go back and see what went wrong. If we do not go back to see what went wrong—sure, we have got to go forward. We are wasting our time holding these hearings. We have got to break down what went wrong, because we will repeat it again and we are about to repeat it on this stimulus bill, and we will repeat it again on another financial deal if we do not put it all together. And I was going to pick up on what Professor Warren said. I think sometimes we are in denial, even banks that are insolvent. Are they too big to fail? As Dr. Volcker said yesterday, some of them might be too big to exist. Who knows?

But the American people can stand the truth. They can stand the truth. It is brutal and challenging, but we should not deny that to the American people. And we should not keep banks, the Fed should not keep banks operating that are insolvent and will not make, or car companies that are insolvent and will not make it.

Thank you, Mr. Chairman.

Chairman DODD. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. You know, just listening to this line of questioning and discussion, I also think that even if all of the status that we have talked about of where the banks are at is the case for argument's sake, at the end of the day that will not put—we will not get anybody to work, even if we

were to make a governmental decision to infuse money, or if we were to allow them to fold. And at the end of the day, we are only going to get people to work in this economy if we create the jobs and the opportunities for them to go to work.

So I think that we could study that *ad infinitum*, and I am for studying it, for sure. But right now, when you are losing 2.4 million jobs last year, when you are losing—you know, you are poised to lose millions more, to sit back, if you happen to be like us who happen to be employed, maybe you do not feel the pain. But the reality is that there are millions of people in this country and millions more poised to lose their jobs. And to suggest that we largely sit back and do nothing is not a course. I think we need solutions that call for bold action, that give us a chance to succeed. And we are in unprecedented times, and so, therefore, some of those challenges along the way are by devising—putting all the best minds together, the best ability of what we move forward on. And that is what I think the debate is that presently is before the Senate.

But let me just say, I was troubled to see how your report revealed that the Treasury Department under Secretary Paulson overpaid for the equity it received in the banks by \$78 billion. And my question is: Do you believe that Treasury's methodology was geared more toward, you know, productive implementation of the TARP or propping up the banks at that moment in time? Or what do you think their methodology was? You know, \$78 billion is not a small figure to have a difference on.

Ms. WARREN. When Treasury decided that it was going to use the same terms for all banks and not engage in risk-based pricing—which is what the market would do; it would say for some banks the terms have to be different because there is more risk associated with those banks—then that built into the system that there would be larger subsidizations and no subsidizations for some of the banks. And so it was structural from the beginning.

Treasury may have had other reasons for wanting to do that—the ease of implementation, speed—but that is the effect. I cannot speak to their psychology, but I can certainly speak to the plans that they implemented and what the direct consequences of those plans were. I have to assume Treasury understood that at the moment that they structured the program.

Senator MENENDEZ. Now, when we talk about lending, if, in fact, you have largely the absence of conditionality, if one of your goals is to liquefy the credit crunch and lending is one of your goals, in the absence of conditionality you are not necessarily going to get lending.

Ms. WARREN. No.

Senator MENENDEZ. And I think that is one of our big challenges here.

Now, there are payments that are coming in, aren't there, Mr. Barofsky? I think you put in your report \$271 million, and February is a big month of payments on interest or dividends, are they not?

Mr. BAROFSKY. That is correct. February 15.

Senator MENENDEZ. Do we have a projection of what that number will be?

Mr. BAROFSKY. We do not include it in our report. I am sure we can get you that information.

Senator MENENDEZ. Mr. Dodaro, do you have any sense of what that number will be?

Mr. DODARO. Not yet. The dividend payments are 5 percent, and a lot of the payments under the initial Capital Purchase Program are still being made, so that the money, the original \$250 billion under the Capital Purchase Program has not all been spent yet with the banks. That started going out at the end of October, and the next set of payments were made in the early December time-frame, and they continue to be made now.

Senator MENENDEZ. Well, I would like to get a sense of what is being paid back.

Mr. DODARO. Sure.

Senator MENENDEZ. Because as we talk about what is going out, I also want to get a sense of what is coming back in payments as well.

Let me ask you, yesterday Treasury announced new restrictions on executive compensation. Former Secretary Paulson voiced concern that such restrictions are counterproductive because they will deter institutions from seeking the assistance they need and potentially drive them to choose failure over intervention.

Do we really believe that that is a realistic concern, that the need for these bonuses are such that an institution would choose to fail versus not be able to pay out the bonus?

Ms. WARREN. Senator, I work in the bankruptcy world much of the time in my academic work, and it is pretty much the case, the data show, that the CEOs lose their jobs when companies fail.

Senator BENNET. Say that again, ma'am?

Ms. WARREN. CEOs lose their jobs when companies fail. And worse yet, they do not get jobs in other companies. They do not get to lead them. The data just show that. That is a cost. And that is a cost of driving your business into failure.

So the notion always was that that had a nice disciplining effect on making you take care of your company and trying to keep it out of failure. I understand there are market forces that are larger sometimes than any individual CEO. But I want to make two points.

There are still some very healthy banks out there. There are some banks who did not get involved in these practices. Every time the banks that engaged in very risky practices are bailed out, every time their CEOs are rewarded, it works against all those people who took smaller rewards in order to engage in safer practices and keep their institutions safe.

I am a strong believer in supporting those who took the prudent steps, and I think we best support them by saying that the others have to pay the price.

Senator MENENDEZ. Thank you.

Mr. Barofsky, let me ask you, we had a hearing here about Madoff's massive scheme and about the SEC's process for handling tips, or lack thereof, even though there were early warning signs. A couple of things.

One, what mechanism do you have to make sure that credible and actionable tips are followed through swiftly and thoroughly? That is my first question.

Second, is part of your charge going to look at the type of lending that takes place? Because in pursuit of those of us who supported this and thought that lending would be used also to liquefy the credit market and get to, you know, small and mid-sized businesses as well that ultimately employed people in this country. You know, if you just lend from bank to bank, at the end of the day we do not get a sense of what lending takes place in terms of what is the essence of the lending that will take place. There is that part of it.

Then, third, you list on page 8 fraud vulnerabilities as one of your early recommendations. And I am wondering what has been the response from the Federal Reserve on that \$20 billion of TARP funds that is being used with them.

Then, finally—these are all questions to you. Finally, your mission, as you define it on page 13, is to advance economic stability through transparency, coordinated oversight, and robust enforcement; therefore, being a voice for and protecting the interests of those who funded the TARP program, *i.e.*, the American taxpayers.

You go on to say how you are going to do that, and you say, “But one of those elements is by robust criminal and civil enforcement against those either inside or outside of the Government who waste, steal, or abuse TARP funds.”

I hope that that section that you would herald that very loudly so people are forewarned of decisions that they might make in the marketplace. One of our problems has been that regulators have been asleep at the switch. And so if you do not act as the cop on the beat and you do not take actions that send a very clear message to the marketplace, then people unfortunately, left to their human devices, will have excesses. And those excesses often can fall in those categories that you listed in your report.

I hope you are going to take a very strong message that is clearly going to be part of what you will consider actionable items under your turf. So can you respond to those elements?

Mr. BAROFSKY. Certainly, and I think that enforcement drives some of the things that we have done early on, and insisting and recommending that Treasury include certification reporting requirements on conditions. One of the reasons why we insist so strongly on that is that it sends a message that the senior executive who has to sign that certification upon criminal penalty has to make sure that the information on that certification is correct. And we will certainly be monitoring that, and those that lie to Treasury, whether it is to try to trick Treasury into making investments that otherwise it would not or lying on their certifications to avoid conforming with their contractual requirements, we are going to be on top of that.

And one of the ways we are going to be on top of that, getting back to your first point, is through our hotline and our whistleblower process. And we are still in the process of developing our policies and procedures, but it is going to be what we are already talking about, it will address just those concerns that you raise. We are going to have every whistleblower, every hotline tip is going to

be—we have actually hired someone already, one of the few people we have on board, whose job is going to be to monitor the hotline. And I do not mean just be answering the phones, but someone at a senior level who is going to be reviewing all of the complaints, all of the tips that we receive.

That person is then going to put these together, and we are going to have senior staff meetings where we are going to review these complaints as they come in and determine which ones we need to follow up on. So we plan on taking that very seriously, and we certainly do not want to avoid—we certainly do want to avoid missing a good, and credible tip.

Senator MENENDEZ. And on the fraud question I asked you that is in your report, has the Federal Reserve responded to you in terms of your recommendation?

Mr. BAROFSKY. Yes. When we first addressed this issue in early January—and what we did is worked off the term sheet in an initial briefing—we thought that the mechanisms that they had in place were insufficient. It was basically relying on rating agencies and investor due diligence. And we pointed out to both the Federal Reserve and to Treasury that we thought that that was not a good model based on history—how historically those institutions, those private players had failed. And the response has been positive. Before our report came out, obviously, we shared our recommendations with both the Federal Reserve and with Treasury. And we had a very productive meeting at the Federal Reserve, and they have indicated to us that they are considering additional fraud prevention measures that are in the process of being formed.

This is a program that has not yet been completed, and we were very encouraged that they are on the right path. They are considering our recommendations, both as we advanced them in early January and that are here today in our report. And we will continue to work with them to give our advice on how they can best tailor this program to limit the possibilities of waste, fraud, and abuse. You cannot eliminate it, but we do hope to continue to work with them to find the right way to limit it.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Senator Bunning.

Senator BUNNING. Thank you very much, Mr. Chairman.

I just want to step back for a second. The current Secretary of the Treasury had a seat at the table when all of this original TARP was designed, and now next week—at least that is what I hear. Next week he is going to come back with a detailed plan on how we are going to spend the next \$350 billion. And his Chief of Staff that he hired—and he had to get a waiver from the ethics rules of the Obama Administration to hire him because he was the chief lobbyist for Goldman Sachs. Now, in the total TARP monies, there was \$10 billion that went to Goldman Sachs.

My question to you is: The American people are screaming because they think that the TARP money was designed for one reason—to relieve the credit crunch—and it was being used completely to take care of friends and others on Wall Street.

How do we dispel that notion with the American people when, in fact, the bait and switch took place? How? Please, Mr. Inspector

General, tell me how we dispel that conception of the American people. I can tell you, my phones in my office rang off the hook, 25,000 calls. I have not gotten 25,000 calls since I have been in the Senate, but they questioned me and my sanity if I voted for that. Two hundred calls were the other way. They said it is essential, we need it—25,000 to 200.

Now, explain to me how I am going to have to believe what is being said next week by the new Secretary of the Treasury in his expenditure of the additional \$350 billion.

Mr. BAROFSKY. Senator, first of all, just in response to your opening statement, I want to thank you and the Chairman and the Ranking Member for cosponsoring the bill that you referenced in your opening statement. I am very encouraged to hear that it was passed last night. I look forward to it being passed in the House as well, so I want to thank you for your support on that.

Senator BUNNING. We tried to get it passed, you know, a month ago.

Mr. BAROFSKY. I remember, and I appreciate those efforts.

In response to your question, as an Inspector General, it is not my job to believe what I am told. It is to test what we are told. And to answer your question, what we are doing, what GAO is doing, what other Inspectors General are doing, and which we are coordinating through our Inspector General TARP-IG Counsel, are audits. We are going to be testing the questions of the application process. The FDIC-IG has initiated the first audit on what is going on in that regulator. The Federal Reserve is doing an audit to test that regulator's application process. GAO is sampling. Treasury IG is doing a case study. We are going to be doing a case study—all with one common theme of all these different audits, which we are going to coordinate and hopefully do a capping report—

Senator BUNNING. I do not want to interrupt, but I have to interrupt to say to you that you have the ability to inspect those IGs. You have the ability to inspect the Fed's IGs and make sure that you are getting to the right heart of the point. You know, they may not be exactly—since they were part of the problem and the switch, they may not be giving you all the information that you should be getting. So your job is even more important than all of those other IGs' because you have got to make sure that the money that the American people are giving to be spent, \$700 billion, is being used in a fashion that is believable—believable for the American people and accurate.

Mr. BAROFSKY. And, Senator, I want to stress the respect I have for those Inspectors General. They have been incredibly helpful in staffing up my office. And with that said—one of the things that we are going to be doing—what we anticipate doing is a capping report where we do look at the different methodologies, we do look at these issues. And as I said, we are also going to be doing our own audits. So I think that part of it is coordinating and leveraging the resources of the other audit agencies, all going to the basic fundamental question which I think is—and I do not want to characterize it, but I think it is your question, which is: Were similar banks all treated the same? Was this process fair?

Senator BUNNING. I can read from your page 3, you are pleased to inform my office—"I am pleased to inform you that my office is

announcing the first four audits”—one was on the Bank of America that received \$45 billion in TARP funds and guarantees relating to more than \$100 billion in troubled assets. That is certainly not a healthy financial institution.

And so I am worried about your audits. If they are going to be as accurate as you say they are, how in the world that you did not go to the Bank of America and say, “By the way, you guys are short. You are not only short, but it is in black and white you are short. You are short \$65 billion in the red.”

Mr. BAROFSKY. Senator, obviously—

Senator BUNNING. What about the other three audits that are mentioned in the—who were the other three that you audited?

Mr. BAROFSKY. Well, Senator, just to address that question, you know, we are just commencing this audit. We have not done an audit of Bank of America or a review of the Bank of America transaction. That is the responsibility of Treasury as they determine which investments to make.

Our role does not kick in in that area. It is not the role of an Inspector General. We are—

Senator BUNNING. Well, if they got TARP money, it does.

Mr. BAROFSKY. Yes, and that is where we come in, and that is why we are initiating this audit, is to take a look at this precise issue.

Senator BUNNING. Well, you also mentioned three other audits that you have initiated. Would you share that with the Committee?

Mr. BAROFSKY. Certainly, Senator. As I mentioned in my opening statement, one is on the use of funds, and that is the survey letter we put out so we can report back on how financial institutions are using the TARP funds.

Second is on executive compensation where we are reviewing both the institutions’ chairman as well as internally at the TARP management, how they are setting up their processes and procedures to ensure compliance.

Third, as you mentioned, was the Bank of America audit, the case study on what happened there, addressing the questions that you rightfully raise and correctly raise.

And then the fourth audit is on outside influences to see and determine and test whether outside influences had a role in the application process. I think that also addresses your question, Senator.

Senator BUNNING. I urge you, I urge you as strongly as I can as a member sitting on this Committee to not be bashful, because the American people do not want you to be bashful. They want you to get to the bottom of why we are not loosening the credit reins in this country after spending \$700 billion of their dollars. And they are not interested in return on capital. They are interested in why my son or my daughter or my grandkids cannot go to a bank and get a 30-year mortgage by putting 25 percent down.

Mr. BAROFSKY. I assure you I will not, Senator, and I do not think there are too many people at 1500 Pennsylvania Avenue right now who would describe me as “bashful.” And I look forward—

Senator BUNNING. Well, I urge you to use all your power and the additional ability now, as soon as the House passes that bill.

Mr. BAROFSKY. I absolutely will, Senator.

Senator BUNNING. Thank you very much, Mr. Chairman.

Mr. BAROFSKY. Thank you.

Chairman DODD. Thank you very much, Senator.

Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman. This has been a very informative hearing, and most of the ground has already been covered. Let me take your comment that we need to be looking forward and Senator Shelby's comment that we need to understand what has gone on and kind of put them together and ask a question that our witnesses may not be able to respond to, but that we need to pay attention to.

Like Chairman Dodd, I supported the TARP initially, very strongly. And we helped frame the agreement that gave the Secretary of the Treasury virtually full authority to do whatever he wanted to do.

Now, we did put in that agreement the creation of an IG and a trigger point where the Secretary of the Treasury had to come back to the Congress. Neither one of those things was in the original proposal from Treasury. They just wanted \$700 billion, no questions asked, no oversight, all the rest of it. And we created the kinds of institutions that your presence here today represent.

Now, I approved the idea that the Secretary of the Treasury should have complete authority to do whatever it was he felt he had to do, that the Congress should not micromanage. But there was no question in anybody's mind that we were told it would be used to acquire toxic assets. And as I did my own back-of-the-envelope calculation, there were \$14 trillion, roughly, face value of mortgages in the country; \$700 billion represents 5 percent of \$14 trillion. And I thought, OK, if we can take off the market 5 percent of the \$14 trillion—we cannot be exactly sure that we are doing it, but it follows that you would take off the most toxic, the top 5 percent that were absolutely worthless, and that would give you a degree of confidence in the 95 percent that remained. And that is where we started, and that is not where the first \$350 billion went. The decision was made in Treasury, no, we are going to go to capital investment, warrants, direct infusions, and so on.

We gave the Secretary full authority to do that because we recognized that he and the people working for him were the ones on the ground, and we would not micromanage or second-guess it. Now, we are beginning to second-guess it and say, no, it was a mistake, and the full \$350 billion that he had before he had to come back to the Congress should have gone toward acquiring toxic assets or not. And as I hear what you are saying here today, you cannot make that judgment as to whether that was a right call or a wrong call. And I am not asking you to.

But all of you are examining Treasury, examining the process by which this whole thing has rolled forward, and now moving from the history to the looking forward, can you give us an outsider's view of the tidiness, if you will, of the decisionmaking process, of the structure that was put in place that would examine the alternatives and say we should not go ahead with the toxic asset acquisition, we should move ahead.

In your opinion, was this a tidy kind of decisionmaking process, carefully structured, or was there such an *ad hoc* nature about it

that we need to be concerned looking forward as to how the present Treasury might move?

Now, I know that is not something that yields itself to an audit. It is not something that yields itself to numbers. But you have been wallowing in this for long enough now that I think you may have a sense, and if you do, I would appreciate it if you would share it with us.

Ms. WARREN. Senator, I want to say in terms of the design of the TARP program at a time of emergency, the concept of flexibility and giving a lot of flexibility to the Secretary of Treasury was a very reasonable and thoughtful approach. I understand. When there is an emergency, the last thing you want to do is be standing there telling the firefighter, "I think you ought to be moving over here instead of over there."

But what has happened is flexibility without responsibility, without responsibility for transparency, without requirements that one might have assumed the Treasury would engage in, has given us a circumstance where I have been working with this now for 3 months and I cannot begin to answer you. It is an opaque process at best.

You saw what happened. We asked very specific questions. We asked more general questions, and we got no answers to many of the questions we asked. I cannot even say systemically we did not get them in one area or another. We just got no answers.

The question now is whether or not we have a Treasury that is going to be more transparent, more responsive, is going to bring to Congress and to the American people a statement of its diagnosis of the problem, its plan for a structure for how to go forward, and its metrics by which it can be measured and be found either succeeding or failing. But that is just the moment where we find ourselves now.

I certainly did not mean to suggest earlier that Congress had made a mistake earlier. It is that you made the assumption that Treasury was going to behave differently from the way they have behaved.

Senator BENNETT. That raises the obvious question. Can we believe what we get told next time? Of course, one of the answers will be, yes, this is a different Treasury, this is a different administration, and I buy that.

But at the same time, I would like to have, and I think the people whose money is involved need to have, some kind of clear understanding as to what is happening to the toxic assets, because if we were going to reduce them by 5 percent with \$700 billion, we have only spent \$350 billion, so that takes you down to 2.5 percent. And of the \$350 billion, probably the majority did not go to acquiring the toxic assets. That means instead of looking at a recession where 5 percent of the toxic assets or mortgages have been removed from the system, we are going—we are in a recession, we are not going—we are in a recession where less than 1 percent of the toxic assets have been removed from the system.

Ms. WARREN. Senator, I would say it this way. I think we are way past "Trust me." I am an empiricist. Show me what you have done and I will tell you whether or not I think it addresses the problem. I don't think we are going to be called on to trust anyone.

I think we are either going to get a structure or we are not going to get a structure. We are either going to get some serious plans that explain to us how this is going to work and how this is going to help the economy, what it is going to do particularly about foreclosures, or we won't.

I can only say I share your deep concern that this is where the problem started, and if the solution doesn't start there, then in my view, it is not a solution. It will be transparent and we will have the right mechanisms in place to monitor that or we won't.

Frankly, Senator, I just don't think we are at trust anymore. I want to see the mechanisms. I want to see what they are putting in place. I want to see the structure.

Senator BENNETT. My time is up, but assuming you are the Acting Chairman——

Senator SHELBY [presiding]. Well, I am not the Chairman. We are Republicans over here.

[Laughter.]

Senator BENNETT. All right. I will just make——

Senator SHELBY. I will assume the——

Senator BENNETT. Yes. I will just make this observation. If, in fact, we do not have the kind of transparency that you are talking about, our constituents will not permit us to put up the money. It won't just be the 25,000 calls to Senator Bunning that hit the Congress. It will be 25,000 calls to Chairman Dodd, *et cetera, et cetera, et cetera*, and the political support for putting up the money will not be there. Those of us who decided we were going to take the political risk of voting for this the first time will be faced with a constituency that will say, you fooled me once, OK, but don't fool me twice, and I hope the administration understands that.

I listened to the first presentation on TARP. I took it on face value. I supported it and expected that when the \$700 billion was expended, the level of toxic assets in the system would have been reduced by 5 percent. It is now very clear that will not happen and I have a very hard time explaining to my constituents why that hasn't happened when I had every assurance that it would.

Thank you, Mr. Chairman.

Chairman DODD [presiding]. Thank you, Senator, very much.

Senator Shelby.

Senator SHELBY. I will just take a minute. I have a few observations I want to reiterate. One, I want people to know again that I opposed the TARP program. I knew it was flawed then. We all know it now. I don't believe it was administered well. I think the Secretary of the Treasury, Paulson there, who we put more power in than any Treasury Secretary since Alexander Hamilton, but he didn't, in my judgment and the judgment of the American people, acquit himself in the manner of Alexander Hamilton by a long way.

Did he not know? Did the people not know around him? Was the structure different? He put the structure together with his friends. Was it a lack of judgment? Diligence on buying insolvent banks and so forth? I don't know.

But I agree with Professor Warren here. She has touched on something. I think it is very important, trust. Trust in the banking system, especially Wall Street banks right now, it doesn't exist. Now, we have a lot, as she said, we have a lot of healthy, well-run,

well-managed banks in this country. Should we punish them? No. She is absolutely right.

But to try to justify, I think, and this is my own opinion, speaking for myself, that the TARP program is a great program, was a great conceptualized program, that is nonsense. I don't believe that the Congress should try to fool the American people. Trust is important. People don't have that trust today, and they shouldn't.

Mr. Barofsky, you can help, and gosh, I pray you will. I pray you are going to have a spine and it is going to grow and that you will not let somebody say no to you. As I said earlier, you have got a great opportunity to serve this country. As I said earlier, you will probably be unemployable later, but that is OK.

Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator Shelby.

Let me say, obviously there was a division and a debate that went on, and 75 of our colleagues—no one enjoyed, I can tell you flat out, no one welcomed the debate in September. It was a tragic time in our Nation's history, that it had come to that. Had the administration 2 years ago taken on the issue of the residential mortgage market more seriously, and they obviously didn't, we wouldn't have been in that situation in September, in my view. This was not a natural disaster that occurred. It was one created through malfeasance, misfeasance, neglect, and a failure to recognize the problems in front of us.

But unlike my friend from Alabama, not that we enjoyed the moment—there was no celebration with that vote at all—but the issue was, did we step up and try and do something in the face of people across the spectrum recommending this action to try and get our credit markets moving?

There is a legitimate debate about how well the program has been managed, and history will determine whether or not the decision we made in September and October was the right one to help us get moving in that direction. There are those of us who voted for it, reluctantly, with great regret. We tried, what, in 13 days what we could do to manage a program that went from a three-and-a-half-page bill at 1:30 in the morning of September 19 or 20 to an 82-page bill that laid out the ideas that I incorporated in my opening statements, and then to try to pull something together that would give flexibility and authority to deal with the problem, simultaneously demanding accountability and other measures, including warrants and the like to taxpayers.

We also included, of course, the provision that you had to come back for the second half of that money, and I am glad we did or we might be looking at a situation today where all 700 might have been mismanaged, in my view.

The question is now, can we manage this tranche well? We have got a new crowd in town making commitments to do so. The debate will go on for years to come as to whether or not people thought the vote in September or October was right or wrong, but I happen to believe that it was the right course of action to follow at that point. My only hope is here that this will be better managed, it will get our capital markets moving, that with this good, well-crafted stimulus program here to put people back to work, along with other steps, we can stop the erosion that is occurring in our economy and

understand that we need to do some other things to get us moving in the right direction.

A very important part of that is framing this program, letting the American people know what is going on, how it is working, minimize the kind of mistakes that were made and infuriate people, as we have talked about, and I am confident that can happen. We are going to have Secretary Geithner before this Committee next week to talk about exactly what they intend to be doing. We will have you back here, either formally or informally, in the weeks ahead to determine how well that is working to go forward.

But it is important that we also do what we can to inject some confidence and optimism in our constituents. We are not to be Pollyannas and to give false hopes where hopes don't exist, but we also don't need to spend all of our time talking about everything that is wrong, either. We need to be talking about what we can do right to get this right. We are an optimistic people and a confident people, but obviously that confidence and optimism has been damaged badly. There will be no economic recovery without confidence and optimism coming back. I don't know how to calibrate that. I don't know what mathematical formula gives you that. But I promise you can design all the plans and all the formulas you want, but if national leadership does not engender some confidence and optimism that we are heading in the right direction, trying to get this right, then all of those plans will amount to nothing.

And so it is important both as Members, as a Committee, as a Congress, as a people that we try and take steps necessary to move us in that direction. They are not going to be perfect. There will be mistakes made along the way. If we exaggerate the mistakes at the expense of the things we are doing right, the predictable confidence will be eroded. I am not suggesting we deny them, but we need to keep them in perspective if we are going to succeed as a people and a generation.

This will be a time written about for decades and decades to come, decisions we are making every single day here to get this country back on its feet again. It is our generation. It is our moment. It is our watch as a people, both public and private citizens, to try and get this correct. So we bear a responsibility on this Committee and charged with the jurisdiction over many of these issues and we are going to do our very best to get it right, to listen to people like yourselves and others to help us make those decisions. But I am determined, as well, to see to it that we engender that confidence and optimism. It is absolutely critical that we need to have as a country.

And so I thank all three of you and the staffs that work with you for the jobs that you are doing, but I am also confident that we are going to come out of this. Other generations have faced far more serious problems in many ways than the ones we are confronting, as serious as this is. But if we remind ourselves what other generations have done during moments of crisis, I think we will succeed. I am confident of that. I thank you for being here this morning.

The Committee stands adjourned.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

[Prepared statements and response to written questions supplied for the record follow:]

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Thank you Chairman Dodd for holding this hearing. There is no doubt in my mind the necessity of continued oversight of the implementation of the Treasury Financial Rescue Program and the use of billions of dollars of taxpayer funds.

I voted against the \$700 billion Wall Street bailout, in part because I felt there weren't enough taxpayer protections in place. To date we have seen little transparency, accountability or responsibility from companies receiving funds. This entire situation is deeply frustrating especially as we now find ourselves with no good options and facing the prospect that our economy could get worse before it gets better.

I can only hope that the promised improvements in the TARP program by the new Administration will help to stabilize the situation. The Treasury needs to refocus on those Americans that are in the process of losing their homes or could in the future, and create an environment where financial institutions receiving assistance can resume appropriate lending to small businesses, farmers, and others. This will be key to our Nation's recovery effort.

PREPARED STATEMENT OF SENATOR SHERROD BROWN

Thank You Mr. Chairman.

First, I want to thank Mr. Dodaro, Mr. Barofsky, and Professor Warren for their willingness to take on the enormous task we have asked of them and for testifying today. When Congress passed the Emergency Economic Stabilization Act we were facing a global financial crisis that was hitting every community in our country. Despite these efforts, the economic crisis has gotten worse, not better. And businesses continue to struggle to get the credit they need to expand, or in many cases simply to stay afloat.

In Ohio, 90 percent of charitable foundations report that their assets have declined, and 60 percent expect to give less money than they did last year. Goodyear's new world headquarters project in east Akron has stalled due to the recent credit freeze. A steel mill in Scioto County was scuttled because investors were hit with the economic downturn coupled with the drying up of available credit. This week in Bowerston, L.J. Smith, Inc.—a stairs manufacturer—announced 27 Ohio workers would be laid off. The C.O.O. of the company told the local television news that he looked forward to “a time when the housing industry returns to more normal conditions and we will have a demand to hire more employees.” Lancaster let go five firefighters because of the city's financial problems. More than 100 employees of the city of Columbus learned last week that they were among the first round of layoffs.

Sadly, I could go on and on. Greed is the self-serving desire for the pursuit of money. Some may think that in business greed is good.

Government, however is charged with improving the lives and welfare of the people. Government creates the system by which businesses can succeed. And it assists businesses in times of need. But addiction to greed has created a culture which does not reflect reality. Addictions are behaviors engaged in despite harmful consequences to the individual's health.

Wall Street greed has reached unhealthy levels. Midas' food became gold and he nearly starved to death as a result. Wall Street has forgotten Main Street.

As the economy falters and jobs are disappearing, we are hearing story after story about billions of dollars spent on bonuses and million dollar restrooms. If banks are going to turn to taxpayers for their survival, then they had better expect to answer to the taxpayers. And the taxpayers will not stand for super-sized bonuses for outsized failures. We must be accountable to them. We must spend their money wisely. We must partner with them to restart our economy.

We have to get our credit markets in order. We have to put America back to work. And we are about to put more money into the relief effort.

Almost 3 months ago, National City Bank, one of the largest banks in the country, was forced by the administration into a fire sale to PNC Bank. For more than 160 years, National City had been an important asset to Ohio. By the end of last year, it became an asset of PNC. That sale is being financed by the taxpayers, but the taxpayers are being stiffed when it comes to getting answers. I don't fault PNC, but I do fault the previous administration. While it is important that banks receive the funds they need to survive, this program will not be administered without the watchful eye of Congress.

Ohio families deserve to know where every one of their tax dollars is spent, and that it is spent wisely. Oversight of the stabilization funds is critical to the effective and efficient use of the taxpayers' dollar. I'm hopeful that we will learn from these

reports so we can ensure that the tough decisions we've made to try to fix the credit markets will be carried out in an efficient and effective manner.

I'm concerned that one of the findings of the recent GAO report is that Treasury has yet to articulate a vision for the stabilization effort as a whole and that all the programs must work together. I'd like to reiterate that these funds should not and cannot be a tool for banks to buy up healthy banks. We must ensure that every available dollar goes to shoring up our banking system so we can get our economy moving again. I understand it is not an easy task.

Congress created a multi-billion dollar program and charged Treasury with the implementation; during a time of transition from one administration to the next. But we have to do better.

I am concerned that the Congressional Oversight Panel is still unclear what banks are doing with taxpayer money.

Transparency is important. Establishing formal guidelines is important. Setting controls on contracting is important. Oversight is important.

But first we need the Treasury to have a clear vision and we need to know exactly what banks are doing with taxpayer dollars. We must always return to why we created the stabilization fund in the first place; to purchase assets and equity from financial institutions in order to strengthen the financial sector. We did this so working families could get or keep their jobs, to get and keep their homes, to get or keep their hope for the future.

We did this so Goodyear and that steel mill in Scioto County could get the financing they need and that the housing market would stabilize so Bowerston could keep making stairs for new homes.

I look forward to hearing today's testimony.

Thank you Mr. Chairman.

PREPARED STATEMENT OF GENE L. DODAROACTING COMPTROLLER GENERAL,
GOVERNMENT ACCOUNTABILITY OFFICE

FEBRUARY 5, 2009

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our work on the Troubled Asset Relief Program (TARP), under which the Department of the Treasury (Treasury) has the authority to purchase and insure up to \$700 billion in troubled assets held by financial institutions through the Office of Financial Stability (OFS).¹ As you know, Treasury was granted this authority in response to the financial crisis that has threatened the stability of the U.S. banking system and the solvency of numerous financial institutions. The Emergency Economic Stabilization Act (the act) that authorized TARP on October 3, 2008, requires GAO to report at least every 60 days on findings resulting from our oversight of the status of actions taken under the program.² My statement today is based on our January 30, 2009, report, which is the second under the act's mandate, covers the actions taken as part of TARP through January 23, 2009, and follows up on the nine recommendations we made in our December 2008 report.³ Our oversight work under the act is ongoing, and our next report will be issued by March 31, 2009.

Like the report, this statement focuses on (1) the nature and purpose of activities that have been initiated under TARP as of January 23, 2009; (2) the status of the transition to the new administration at OFS and its hiring efforts, use of contractors, and development of a system of internal control; and (3) preliminary indicators of TARP's performance.

To do this work, we reviewed documents related to TARP, including contracts, agreements, guidance, and rules. We also met with OFS, contractors, federal agencies, and officials from all 8 of the first large

¹GAO, *Troubled Asset Relief Program: Status of Efforts to Address Transparency and Accountability Issues*, GAO-09-296 (Washington D.C.: Jan. 30, 2009) and *Troubled Asset Relief Program: Additional Actions Needed to Better Ensure Integrity, Accountability, and Transparency*, GAO-09-161 (Washington, D.C.: Dec. 2, 2008).

²The Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, 122 Stat. 3765 (2008). The act requires the U.S. Comptroller General to report at least every 60 days, as appropriate, on findings resulting from oversight of TARP's performance in meeting the act's purposes; the financial condition and internal controls of TARP, its representatives, and agents; the characteristics of asset purchases and the disposition of acquired assets, including any related commitments entered into; TARP's efficiency in using the funds appropriated for its operations; its compliance with applicable laws and regulations; and its efforts to prevent, identify, and minimize conflicts of interest among those involved in its operations.

³All information is as of January 23, 2009, unless otherwise noted in the statement.

institutions that had received disbursements. We plan to continue to monitor the issues highlighted in the report, as well as future and ongoing capital purchases, other more recent transactions undertaken as part of TARP (for example, guarantees on assets of Citigroup and Bank of America), and the status of other aspects of TARP. We conducted this performance audit in December 2008 and January 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Treasury has announced a number of new programs to try to stabilize financial markets but most of its activity during this period has continued to be through its Capital Purchase Program (CPP). As of January 23, Treasury had disbursed about \$294 billion in TARP funds, about \$194 billion of which was for CPP. It also announced a new Targeted Investment Program and an Automotive Industry Financing Program. Treasury also has taken important steps since our last report to implement all nine of our recommendations. However, due in part to the short time frame since our last report, we continued to identify a number of areas that warrant Treasury's ongoing attention concerning TARP. Therefore, we recommended that Treasury continue to take action to further improve the transparency and accountability of the program and more clearly articulate and communicate a strategic vision. Specifically, we recommended that Treasury:

Expand the scope of planned monthly CPP surveys to include collecting at least some information from all institutions participating in the program.

Ensure that future CPP agreements include a mechanism that will better enable Treasury to track the use of the capital infusions and seek to obtain similar information from existing CPP participants.

Establish a process to ensure compliance with all CPP requirements, including those associated with limitations on dividends and stock repurchase restrictions.

Communicate a clearly articulated vision for TARP and how all individual programs are intended to work in concert to achieve that vision. This vision should incorporate actions to preserve homeownership. Once this vision is clearly articulated, document skills and competencies needed within Treasury.

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- Continue to expeditiously hire personnel needed to carry out and oversee TARP.
 - Expedite efforts to ensure that sufficient personnel are assigned and properly trained to oversee the performance of all contractors, especially for contracts priced on a time-and-materials basis, and move toward fixed-price arrangements whenever possible as program requirements are better defined over time.
 - Develop a comprehensive system of internal control over TARP, including policies, procedures, and guidance for program activities that are robust enough to ensure that the program's objectives and requirements are met.
 - Develop and implement a well-defined and disciplined risk-assessment process, as such a process is essential to monitoring program status and identifying any risks of potential inadequate funding of announced programs.
 - Review and renegotiate existing conflict of interest mitigation plans, as necessary, to enhance specificity and conformity with the new interim conflicts of interest regulation, and take continued steps to manage and monitor conflicts of interest and enforce mitigation plans.

Treasury has taken steps to address our recommendations, but still faces several challenges. First, our previous report emphasized the lack of monitoring and reporting for CPP investments and recommended stronger measures for ensuring that participating institutions use the funds to meet the program's purpose and comply with CPP requirements on, for example, executive compensation and dividend payments. In response to our recommendation, Treasury began monthly surveys of the largest 20 institutions to monitor lending and other activities and analyze quarterly monitoring data (call reports) for all institutions.⁴ While the monthly survey is a step toward greater transparency and accountability for the largest institutions, we continue to believe that additional action is needed to better ensure that all participating institutions are accountable for their use of program funds. Second, Treasury has continued to develop a system to ensure compliance with CPP requirements, including executive compensation, dividend payments, and repurchase of stocks, but it has not finalized its plans for detecting noncompliance and taking enforcement actions. Third, Treasury has made limited progress in articulating and communicating an overall strategic vision for TARP, while continuing to respond to institution- and industry-specific needs. It has yet to develop a

⁴Call reports are quarterly reports that collect basic financial data of commercial banks in the form of a balance sheet and income statement (formally known as *Report of Condition and Income*).

strategic approach to explain how its various programs work together to fulfill TARP's purposes or how it will use the remaining funds. This lack of clarity has complicated Treasury's ability to effectively communicate to Congress, the financial markets, and the public.

Treasury has taken proactive steps to help ensure a smooth transition by keeping positions filled and using an expedited hiring process. However, it continues to face difficulty providing competitive salaries to attract skilled employees. Also, given the program's evolving nature and the likelihood of changes under the new administration, Treasury will need to identify OFS's long-term organizational needs. Additionally, consistent with our recommendation about contracting oversight, Treasury has enhanced such oversight by tracking costs, schedules, and performance and addressing the training requirements of personnel who oversee the contracts. However, as we previously recommended, Treasury needs to continue to identify and mitigate conflicts of interest in contracting. Similarly, OFS has adopted a framework for organizing the development and implementation of its system of internal control for TARP activities, which is consistent with our recommendation. However, it has yet to implement a disciplined risk-assessment process.

Finally, given the fact that program actions have only recently occurred and that there are time lags in the reporting of available data, GAO continues to believe that it is too early in the program's implementation to see measurable results in many areas. Even with more time and better data, it will remain difficult to separate the impact of TARP activities from the effects of other economic forces. Credit market indicators we have identified demonstrate that since our last report, the cost of credit has declined in interbank, mortgage, and corporate debt markets. Conversely, while perceptions of risk (as measured by premiums over Treasury bonds) have declined in interbank markets, they appear to have changed little in the corporate bond and mortgage markets. Attributing any of these changes directly to TARP continues to be problematic because of the range of actions that have been and are being taken to address the current crisis. While these indicators may be suggestive of TARP's ongoing impact, no single indicator or set of indicators can provide a definitive determination of the program's impact.

Treasury has continued to focus on CPP, but a variety of other programs have been created or are in progress, as shown in table 1. As of January 23, 2009, Treasury had disbursed more than 75 percent of the \$250 billion it had allocated for CPP to purchase more than \$194 billion in preferred shares of 317 qualified financial institutions. About \$42.7 billion in preferred stock shares of 265 financial institutions has been purchased since our December report.

Table 1: Status of TARP Funds as of January 23, 2009 (dollars in billions)

| Program | Disbursed |
|---|------------------|
| Capital Purchase Program | \$194.2 |
| Systemically Significant Failing Institutions | 40.0 |
| Targeted Investment Program | 40.0 |
| Term Asset-backed Securities Loan Facility | 0.0 |
| Automotive Industry Financing Program | 19.5 |
| Citigroup Asset Guarantee | 0.0 |
| Bank of America Asset Guarantee | 0.0 |
| Totals | 293.7 |

Source: Treasury OFS, unaudited.

Initially, Treasury approved \$125 billion in capital purchases for nine of the largest public financial institutions that federal banking regulators and Treasury considered to be systemically significant to the operation of the financial system.⁵ At the time, these nine institutions held about 55 percent of U.S. banking assets. Subsequent purchases were made in qualified institutions of various sizes (in terms of total assets) and types. As of January 23, 2009, the types of institutions that received CPP capital included 226 publicly held institutions, 83 privately held institutions, and 8 community development financial institutions (CDFI).⁶

⁵While Treasury approved \$125 billion to the nine largest institutions, as table 2 shows, it initially disbursed funds to eight of the nine institutions. The \$10 billion to Merrill Lynch was not disbursed until January 9, 2009, after its merger with Bank of America was completed.

⁶A CDFI is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. CDFIs provide a range of financial products and services such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers; flexible underwriting and risk capital for needed community facilities; and technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas.

Treasury has taken a number of important steps toward better reporting on and monitoring of CPP, in accordance with our prior recommendations that it bolster its ability to determine whether institutions were using the proceeds consistent with the purposes of the act and that it establish mechanisms to monitor compliance with program requirements. However, more needs to be done. First, while Treasury has begun monthly survey of the largest institutions to monitor their lending and other activities, Treasury plans to rely on quarterly call report data from the other participating institutions. While the monthly survey is a step toward greater transparency and accountability for the largest institutions, we continue to believe that additional actions are needed to better ensure that all participating institutions are accountable for their use of the funds. Without more frequent information on all participants, Treasury will have little timely information about the changing condition of the institutions, which may limit the ability of its newly created team of analysts to understand how the institutions used the funds and the effectiveness of the program. In addition, without ensuring that future CPP agreements include a mechanism that will enable Treasury to track the use of capital infusions and by not seeking to obtain similar information from existing CPP participants, Treasury may have difficulty determining that an institution had not used the funds in a manner consistent with the intent of the program. Therefore, we recommended that Treasury expand the scope of planned monthly CPP surveys to include collecting at least some information from all participating institutions. We also recommended that it ensure that future CPP agreements include a mechanism that will enable Treasury to track the use of capital infusions and seek to obtain similar information from existing CPP participants. We will continue to monitor Treasury's oversight efforts as well as the consistency of the approval process in future work.

Second, Treasury has continued to take steps to increase its planned oversight of compliance with terms of agreements such as limitations on executive compensation, dividends, and stock repurchases. These steps include plans to implement new interim final rules that amend and clarify the past interim rules on executive compensation and naming an Interim Chief Compliance Officer. However, Treasury has not finalized its plans for detecting noncompliance with these requirements and taking enforcement actions. Without a more structured mechanism in place to ensure compliance with all CPP requirements—and as more institutions continue to participate in the program—ensuring compliance with these aspects of the program will become increasingly important and challenging. We will also continue to monitor the system that Treasury develops to ensure compliance with their agreements.

Treasury has made less progress in improving the transparency of the program and has not yet articulated a clear strategic vision for TARP. In our December 2008 report, we raised questions about the effectiveness of Treasury's communication strategy for TARP with Congress, the financial markets, and the public. These questions were further heightened in the Congressional Oversight Panel's (COP) January report, which raised similar questions about Treasury's strategy for TARP. In response to our recommendation about its communication strategy, Treasury noted numerous publicly available reports, testimonies, and speeches. However, even after reviewing these items collectively, we found that Treasury's strategic vision for TARP remains unclear. For example, early on Treasury outlined a strategy and approach to purchase whole loans and mortgage-backed securities from financial institutions, but changed direction to make capital investments in qualifying financial institutions as the global community opted to move in this direction. However, once Treasury determined that capital infusions were preferable to purchasing whole mortgages and mortgage-backed securities, Treasury did not clearly articulate how the various programs—such as CPP, the Systemically Significant Failing Institutions Program (SSFI), and the Targeted Investment Program (TIP)—would work collectively to help stabilize financial markets. For instance, Treasury has used similar approaches—capital infusions—to stabilize healthy institutions under CPP as well as SSFI and TIP, albeit with more stringent requirements. Moreover, with the exception of institutions selected for TIP being viewed as able to raise private capital, both SSFI and TIP share similar selection criteria. Treasury also created the Auto Industry Financing Program in December 2008 to prevent a disruption of the domestic automotive industry that would pose systemic risk to the nation's economy and provided loans to two auto companies and two financing companies that, among other business lines, provide consumer automotive loans. Finally, the same institution may be eligible for multiple programs—at least two institutions (Citigroup and Bank of America) currently participate in more than one program—and this has added to confusion about Treasury's strategy and vision for the implementation of TARP.

Other actions have raised additional questions about Treasury's strategy. First, Treasury announced the first institution under TIP weeks before the program was established. Similarly, the Asset Guarantee Program was established only after Treasury announced that it would guarantee assets under such a program, and many of the details of the program have yet to be worked out. Second, Treasury's efforts to mitigate residential foreclosures, which have contributed to increased volatility in financial markets, remain in the design phase with no clearly articulated strategy.

Finally, while Treasury has continued to publicly report on individual issues, testify, and make speeches about the program, it continues to struggle to convey a clearly articulated and overarching message about its efforts, potentially hampering TARP's effectiveness and underscoring ongoing questions about its communication strategy. Without a clearly articulated strategic vision, Treasury's effectiveness in stabilizing markets may be hampered. We recommended that Treasury communicate a clearly articulated vision for TARP and explain how the individual programs are intended to work in concert to achieve that vision. This is another area that we will continue to monitor.

Treasury has made progress in establishing its management infrastructure, which included hiring, contracting oversight, and internal controls. However, hiring for the Office of Financial Stability is still ongoing and Treasury is still developing an oversight structure for contractors and its development of a system of internal control is still evolving.

In the hiring area, Treasury took steps to help maintain continuity of leadership within OFS during and after the transition to the new administration, one of the areas we highlighted in our first report. Specifically, Treasury ensured that interim chief positions would be filled to ensure a smooth transition and used direct-hire and various other appointments to bring a number of career staff on board quickly. OFS has increased its overall staff since our December 2008 report from 48 to 90 employees as of January 26, which includes an increase of permanent staff from 5 to 38. While progress has been made since our last report, the number of temporary and contract staff who will be needed to serve long-term organizational needs remains unknown. Because TARP has added many new programs since it was first established in October and program activities may expand or change under the new administration, we recognize that Treasury may find it difficult to determine OFS's long-term organizational needs at this time. However, such considerations will be vital to retaining institutional knowledge in the organization.

Treasury's use of existing contract flexibilities has enabled it to enter into agreements and award contracts quickly in support of TARP. However, Treasury's use of time-and-materials contracts, although authorized when flexibility is needed, can increase the risk of wasted government dollars without adequate oversight of contractor performance. Although Treasury has improved its oversight of contractors, the department itself has identified certification of its Contracting Officer Technical Representatives and the use of time-and-materials pricing to be high-risk issues that still need attention. In addition, while Treasury has taken the important step of

recently issuing an interim regulation outlining the process for reviewing and addressing conflicts of interest among new contractors and financial agents, it is still reviewing contracts or agreements that existed prior to issuance to ensure conformity with the new regulation. We believe this is a necessary component of a comprehensive and complete system to ensure that all conflicts are fully identified and appropriately addressed.

- In the area of internal controls, OFS has adopted a framework for organizing the development and implementation of its system of internal control for TARP activities. OFS plans to use this framework to develop specific policies, drive communications on expectations, and measure compliance with internal control standards and policies. However, it has yet to develop comprehensive written policies and procedures governing TARP activities or implement a disciplined risk assessment process.

In each of these areas, we made additional recommendations. Specifically, we recommended that Treasury continue to expeditiously hire personnel needed to carry out and oversee TARP. For contracting oversight, we recommended that Treasury expedite efforts to ensure that sufficient personnel are assigned and properly trained to oversee the performance of all contractors, especially for contracts priced on a time-and-materials basis, and move toward fixed-price arrangements whenever possible as program requirements are better defined over time. We also recommended that Treasury review and renegotiate existing conflict-of-interest mitigation plans, as necessary, to enhance specificity and conformity with the new interim conflicts of interest regulation, and take continued steps to manage and monitor conflicts of interest and enforce mitigation plans. Finally, we recommended that Treasury, in addition to developing a comprehensive system of internal control, develop and implement a well-defined and disciplined risk assessment process, as such a process is essential to monitoring program status and identifying any risks of potential inadequate funding of announced programs. We will continue to monitor OFS's hiring and contracting practices as well as its implementation of the internal control framework, which is vital to the effectiveness of the program.

Given the fact that program actions have only recently occurred and that there are time lags in the reporting of available data, GAO continues to believe that it is too early in the program's implementation to see measurable results in many areas. Even with more time and better data, it will remain difficult to separate the impact of TARP activities from the effects of other economic forces. Some indicators suggest that the cost of credit has declined in interbank, mortgage, and corporate debt markets since the December report. However, while perceptions of risk (as measured by premiums over Treasury securities) have declined in interbank markets, they have changed very little in corporate bond and mortgage markets. Finally, as GAO also noted in December, these indicators may be suggestive of TARP's ongoing impact, but no single indicator or set of indicators can provide a definitive determination of the program's effects because of the range of actions that have been and are being taken to address the current crisis. These include coordinated efforts by U.S. regulators—namely, the Federal Deposit Insurance Corporation, the Federal Reserve, and the Federal Housing Finance Agency—as well as actions by financial institutions to mitigate foreclosures. For example, a large drop in mortgage rates occurred shortly after the Federal Reserve announced it would purchase up to \$500 billion in mortgage-backed securities, highlighting that policies outside of TARP may have important effects on credit markets. We will continue to refine and monitor the indicators.

Mr. Chairman and Members of the Committee, I appreciate the opportunity to discuss this critically important issue and would be happy to answer any questions that you may have. Thank you.

Troubled Asset Relief Program - Capital Purchase Program
Preference Share Dividend Payment Projection Report
-Summary by Month for Rolling 12 Months

Start Date: January 10, 2009
 End Date: December 31, 2009



| Payment Date | Preferred Stock Total Amount | Cumulative Dividend Amount | Non-cumulative Dividend Amount | Total Expected Dividend Amount |
|--|------------------------------|----------------------------|--------------------------------|--------------------------------|
| 1/15/2009 | \$10,000,000,000 | \$106,944,444 | \$0 | \$106,944,444 |
| Jan-2009 Total | | \$106,944,444 | \$0 | \$106,944,444 |
| 2/17/2009 | \$129,318,887,000 | \$1,683,439,279 | \$2,830,694 | \$1,686,269,973 |
| Feb-2009 Total | | \$1,683,439,279 | \$2,830,694 | \$1,686,269,973 |
| 3/2/2009 | \$25,000,000,000 | \$312,500,000 | \$0 | \$312,500,000 |
| 3/16/2009 | \$10,258,000,000 | \$117,651,667 | \$0 | \$117,651,667 |
| 3/20/2009 | \$3,000,000,000 | \$37,500,000 | \$0 | \$37,500,000 |
| Mar-2009 Total | | \$467,651,667 | \$0 | \$467,651,667 |
| 4/15/2009 | \$10,000,000,000 | \$125,000,000 | \$0 | \$125,000,000 |
| April-2009 Total | | \$125,000,000 | \$0 | \$125,000,000 |
| 5/15/2009 | \$129,318,887,000 | \$1,612,580,133 | \$4,279,825 | \$1,616,859,958 |
| May-2009 Total | | \$1,612,580,133 | \$4,279,825 | \$1,616,859,958 |
| 6/1/2009 | \$25,000,000,000 | \$312,500,000 | \$0 | \$312,500,000 |
| 6/15/2009 | \$10,258,000,000 | \$128,225,000 | \$0 | \$128,225,000 |
| 6/22/2009 | \$3,000,000,000 | \$37,500,000 | \$0 | \$37,500,000 |
| June-2009 Total | | \$478,225,000 | \$0 | \$478,225,000 |
| 7/15/2009 | \$10,000,000,000 | \$125,000,000 | \$0 | \$125,000,000 |
| July-2009 Total | | \$125,000,000 | \$0 | \$125,000,000 |
| 8/17/2009 | \$129,318,887,000 | \$1,612,580,133 | \$4,279,825 | \$1,616,859,958 |
| Aug-2009 Total | | \$1,612,580,133 | \$4,279,825 | \$1,616,859,958 |
| 9/1/2009 | \$25,000,000,000 | \$312,500,000 | \$0 | \$312,500,000 |
| 9/15/2009 | \$10,258,000,000 | \$128,225,000 | \$0 | \$128,225,000 |
| 9/21/2009 | \$3,000,000,000 | \$37,500,000 | \$0 | \$37,500,000 |
| Sept-2009 Total | | \$478,225,000 | \$0 | \$478,225,000 |
| 10/15/2009 | \$10,000,000,000 | \$125,000,000 | \$0 | \$125,000,000 |
| Oct-2009 Total | | \$125,000,000 | \$0 | \$125,000,000 |
| 11/16/2009 | \$129,318,887,000 | \$1,612,580,133 | \$4,279,825 | \$1,616,859,958 |
| Nov-2009 Total | | \$1,612,580,133 | \$4,279,825 | \$1,616,859,958 |
| 12/1/2009 | \$25,000,000,000 | \$312,500,000 | \$0 | \$312,500,000 |
| 12/15/2009 | \$10,258,000,000 | \$128,225,000 | \$0 | \$128,225,000 |
| 12/21/2009 | \$3,000,000,000 | \$37,500,000 | \$0 | \$37,500,000 |
| Dec-2009 Total | | \$478,225,000 | \$0 | \$478,225,000 |
| Total Dividend Expected from Jan-10-2009 To Dec-31-2009 | | \$8,905,450,788 | \$15,670,169 | \$8,921,120,957 |

PREPARED STATEMENT OF NEIL M. BAROFSKYSPECIAL INSPECTOR GENERAL,
TROUBLED ASSET RELIEF PROGRAM

FEBRUARY 5, 2009

Chairman Dodd, Ranking Member Shelby, and Members of the Committee, it is an honor to appear before you today and to deliver to this Committee my Initial Report to Congress.

The Troubled Asset Relief Program represents a massive and unprecedented investment of taxpayer money designed to stabilize the financial industry and promote economic recovery. The long-term success of the program is not assured; success—or failure—will depend on whether the Department of the Treasury has spent, and will spend in the future, that massive investment wisely and efficiently to attain the program's goals. I believe it is my Office's mission to report on the activities of the program and make recommendations that can facilitate, through effective oversight, the success of the program. Indeed, our mission statement, which is printed on the cover of our Report, is: "Advancing financial stability through transparency, coordinated oversight, and robust enforcement." (See, *Executive Summary of the Special Inspector General's Report on TARP* retained in Committee files.)

During my confirmation hearing back in November, I promised the Committee that my Office would hit the ground running and provide oversight of TARP from day one. In the 52 days since I took my oath of office, we have focused on areas referenced in our mission statement and where we could have a maximum impact, even during the period that we have minimal staff: areas such as facilitating transparency in the operation of TARP and ensuring that appropriate oversight provisions are built into TARP agreements and programs.

In order to promote better transparency, for example, within a few days of coming on board, we formally recommended that Treasury post all TARP agreements, whether with recipients of TARP funds or with its vendors, on the Treasury Web site. Treasury first agreed to post some of the agreements on the web, and we were pleased to see that last week Secretary Geithner adopted our recommendation in full.

We also asked for and obtained oversight language in the large TARP transactions that were recently closed. Among other things, the auto industry agreements and the Citigroup agreements contain not only explicit acknowledgment of my Office's oversight over the contracts, but also require that, for many of the significant conditions imposed by the agreements, the recipient be required to establish an internal control to comply with that condition, that they be required to report on their compliance, and that they certify, under penalty, that the reporting was accurate. Indeed, the Citigroup and Bank of America agreements contain a provision, at my Office's request, that the banks account for their use of the TARP funds. Collectively, these agreements—representing transactions of more than \$70 billion of TARP investments—are a significant step forward from an oversight perspective as compared to earlier agreements.

My Office has also begun to look at what has been, to date, the most significant failing from a transparency standpoint—understanding the process and criteria Treasury used to decide who would receive TARP funds and what the recipients have done with the hundreds of billions of dollars that have been invested. This week, we received approval from OMB to send letter requests to each of the TARP recipients asking them to report on how they have used TARP funds and how they plan to use the funds that they have received but not yet spent. We will also ask TARP fund recipients to provide details on their plans to comply with applicable executive compensation restrictions and whether they have altered their compensation structure in response to these rules. We believe that this important project will shed light on the darkest areas of TARP.

As to coordinated oversight, it is my honor to sit here today with my co-panelists, Acting Comptroller General Gene Dodaro and Professor Elizabeth Warren, Chair of the Congressional Oversight Panel. It has been a pleasure coordinating oversight efforts with them and others to provide maximum oversight coverage while avoiding unnecessary or duplicative burdens on those charged with managing TARP. I have also founded and chair the TARP-IG Council, which has, as its members, Mr. Dodaro and the Inspectors General of the other agencies involved in aspects of the administration of TARP programs. Through these coordinating efforts, we are establishing protocols and sharing ideas for comprehensive audits.

I am pleased to inform you that my office this week is announcing its first four audit initiatives. In addition to the two audits I just mentioned, we are beginning an audit of the process under which Bank of America received \$45 billion of TARP

funds and guarantees relating to more than a \$100 billion in troubled assets and another audit designed to address potential outside influences, such as lobbyists, on the TARP application process.

Finally, with respect to robust enforcement, my Office has been actively building relationships and laying the groundwork for one of our most important tasks—the task that we serve alone—being the cop on the beat for TARP programs. Our Hotline, (877) SIG-2009, and Web site, *www.SIGTARP.gov*, are up and running. We have joined the President's Corporate Fraud Task Force, and have initiated coordinated planning efforts with the FBI, the Criminal Division of the Department of Justice, and several U.S. Attorney's offices to best utilize our collective investigative resources. We have already opened several criminal investigations, and we have teamed up with the SEC, providing assistance to them in shutting down a securities fraud scam in Tennessee that had reaped millions in ill gotten gains by illegally trading on the TARP name. We have also coordinated our executive compensation oversight efforts with the New York State Attorney General.

As I mentioned earlier, today we deliver our first report, which contains recommendations based on our initial observations of TARP. For example, we recommend that Treasury initiate a process and strategy for valuing and managing the assets that it has purchased, so that we can obtain a better understanding of the true value of the portfolio of assets in which the American people have already invested almost \$300 billion. We also continue to recommend that Treasury enter into agreements with strong oversight provisions, both to deter non-compliance and to enable us to do our jobs. We have made a series of recommendations with respect to the Term Asset-Backed Securities Loan Facility (TALF), a program that is still in its planning stages, about ways that the program can be designed to avoid waste, fraud and abuse. Our report also attempts, in the interests of greater transparency, to provide a detailed description of the TARP programs in Main Street terms, so that more of the American taxpayers who are so heavily invested in these programs can better understand what is being done with their money. I look forward in my next Report to updating you on Treasury's response to my recommendations and the status of our Audit and Investigation Divisions' activities.

I am proud of the start we have had and truly look forward to fulfilling the mission that Congress has set out for us. Mr. Chairman, Ranking Member Shelby, and Members of the Committee, I want to thank you again for this opportunity to appear before you, and I would be pleased to respond to any questions that you may have.

PREPARED STATEMENT OF ELIZABETH WARREN

CHAIR, CONGRESSIONAL OVERSIGHT PANEL FOR THE
TROUBLED ASSET RELIEF PROGRAM

FEBRUARY 5, 2009

Thank you Chairman Dodd, Ranking Member Shelby, and Members of the Committee for inviting me here today to testify on Oversight of the Financial Rescue Program.

My name is Elizabeth Warren, and I am chair of the Congressional Oversight Panel. The Congressional Oversight Panel was created as part of the Emergency Economic Stabilization Act of 2008 and is charged with reviewing the state of the financial markets and regulatory system and submitting regular reports to Congress. Our reports are to include oversight of the Treasury Secretary's use of contracting authority and program administration; the impact of TARP purchases on financial markets and financial institutions; transparency; and the effectiveness of foreclosure mitigation efforts and whether the program has minimized long-term costs and maximized benefits to taxpayers.

Although I am chair of the Panel, I would like to note that my testimony today reflects my own views and not necessarily those of the entire panel.

I appreciate the opportunity to testify regarding the Panel's findings as well as my recommendations to improve administration of TARP. I am also here to listen to your comments and oversight suggestions. As the head of a congressional entity charged with oversight of the TARP program, your thoughts are especially important to me.

Since its inception, the TARP program has raised questions regarding its goals, methods, and program operations. It is not just Congress and the oversight bodies asking the questions, but also the public. The American people want to know what's going on and they deserve answers.

The Congressional Oversight Panel is determined to find answers to these and many other questions. Our first report, issued on December 10, 2008, identified a series of ten primary questions regarding Treasury's goals and methods. These questions must be answered in order for TARP to be successful:

1. What is Treasury's strategy?
2. Is the strategy working to stabilize markets?
3. Is the strategy helping to reduce foreclosures?
4. What have financial institutions done with the taxpayer's money received so far?
5. Is the public receiving a fair deal?
6. What is Treasury doing to help the American family?
7. Is Treasury imposing reforms on financial institutions that are taking taxpayer money?
8. How is Treasury deciding which institutions receive the money?
9. What is the scope of Treasury's statutory authority?
10. Is Treasury looking ahead?

As a follow up, I sent a letter to then-Treasury Secretary Paulson requesting responses to these questions, along with specific subsidiary questions. I ask to have that letter entered into the Record. An analysis of Treasury's response provided the basis for the Panel's second report, issued on January 9, 2009. Unfortunately, many of Treasury's answers were non-responsive or incomplete. The report found that Treasury particularly needs to provide more information on bank accountability as well as transparency and asset valuation. They also need to provide additional information on foreclosures and articulate a clear strategy, otherwise they are spending billions of dollars on an *ad hoc* basis.

Congress provided substantial flexibility in the use of funds so Treasury could react to the fluid and changing nature of the financial markets; yet, with these powers goes a deeper responsibility to explain the reasons for the uses made of them. Both Congress and the American people need to understand Treasury's conception of the problems in the economy and its comprehensive strategy to address those problems. Our money-and our economy-are on the line, and we all have a stake in the outcome.

The Panel remains committed to our ongoing oversight role. While we recognize that Treasury is in the midst of a transition of personnel and policies, we believe that our initial questions and areas of concern continue to be important.

On January 28, 2009, I sent a letter to newly sworn-in Treasury Secretary Timothy Geithner requesting more complete answers to the questions on TARP strategy and implementation that we had sent to his predecessor. I have not yet received a response, but I am encouraged by many recently announced initiatives, including efforts to improve transparency, clarify strategy, protect taxpayers, and address executive compensation. We will, of course, share his responses with you and with the public as we continue to monitor the details and implementation of the new initiatives.

As part of our continuing mission to get answers about TARP, the Congressional Oversight Panel examined whether Treasury's injections of cash into financial institutions have resulted in a fair deal for taxpayers. The findings are in our February report, which will formally be submitted to Congress tomorrow. Despite the assurances of then-Secretary Paulson, who said that the transactions were at par—that is, for every \$100 injected into the banks the taxpayer received stocks and warrants from the banks worth about \$100—the valuation study concludes that Treasury paid substantially more for the assets it purchased under the TARP than their then-current market value. Extrapolating the results of the ten transactions analyzed to all purchases made in 2008 under TARP, Treasury paid \$254 billion, for which it received assets worth approximately \$176 billion, a shortfall of \$78 billion.

At various points Treasury has articulated policy objectives which could result in a program involved in paying substantially more for investments than they appear to have been worth at the time of the transaction. Because Treasury has failed to delineate a clear reason for such an overpayment, however, the panel is unable to determine whether these objectives have been met or whether they justified the large subsidy that was created. Once again, Treasury needs clear goals, methods, and measurements.

I am deeply concerned with the lack of progress by Treasury on foreclosure mitigation. The Emergency Economic Stabilization Act of 2008 aimed to stabilize the economy both through direct support of financial institutions and through encouraging foreclosure mitigation efforts. These two endeavors are intertwined. The credit

crisis was triggered by a mortgage foreclosure crisis. While stabilizing the housing market will not solve the economic crisis, the economic crisis cannot be solved without first stabilizing the housing market.

The Panel intends to focus on foreclosure mitigation in our next report. Through an examination of existing foreclosure mitigation efforts, our report will consider key areas including: the need for more detailed and comprehensive information about mortgage loan performance and loss mitigation; the primary drivers in loan default, including affordability, negative equity, and fraud; impediments to successful foreclosure mitigation; and existing foreclosure programs and alternative approaches. Dealing with the foreclosure crisis will help stabilize families and the economy.

As I have noted throughout my testimony with regard to TARP, you can't manage what you can't measure—a philosophy that applies equally well to foreclosure mitigation. A notable dearth of comprehensive or even adequate information on loan performance and loss mitigation makes progress on this point challenging. Developing sound metrics will be a key component for progress in addressing the foreclosure crisis.

I am aware that the Chairman and many Committee Members have voiced similar concerns with foreclosure prevention and loss mitigation, and I look forward to working closely with you as we issue our upcoming report.

What have we learned thus far? In the rush to do something, it isn't always justified or wise simply to do anything. Especially with a program of this magnitude and importance, it is critical for Treasury to articulate clear objectives, develop a precise strategy for reaching those goals, and utilize specific methods to measure progress. Despite the rush to expand both the size and scope of TARP, Treasury must delineate these fundamental points which should have been spelled out at the very beginning of the program. Treasury must also expand its current focus to incorporate its foreclosure mandate.

Thank you for the opportunity to testify today. I appreciate the chance to discuss the Congressional Oversight Panel's findings thus far, as well as my recommendations to improve the administration of TARP. I am especially pleased to be able to testify along with Special Inspector General Barofsky and Acting Comptroller General Dodaro. They have been excellent allies in the effort to provide comprehensive oversight of a large, complex program, and I believe it is noteworthy that our organizations have identified similar major concerns. I look forward to our continued cooperation, as well as working with this Committee to bring accountability to the TARP program.

That concludes my testimony. I will be pleased to answer your questions.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR JOHNSON
FROM GENE L. DODARO**

Q.1. In your opinion, what has been the most successful aspect of the current TARP program? What has been the least successful aspect of the program? Are there certain areas or institutions you believe the Treasury should direct the second half of the TARP money?

A.1. In our oversight work, we have reported the difficulty of measuring the effect of TARP's activities and whether various aspects of TARP have been successful. For example, developments in the credit markets have generally been mixed since our January 2009 report. Some indicators revealed that the cost of credit has increased in interbank and corporate bond markets and decreased in mortgage markets, while perceptions of risk (as measured by premiums over Treasury securities) have declined in interbank and mortgage markets and risen in corporate debt markets. In addition, although Federal Reserve survey data suggest that lending standards remained tight, the largest Capital Purchase Program recipients extended almost \$245 billion in new loans to consumers and businesses in both December 2008 and January 2009, according to the Treasury's new loan survey. However, attributing any of these changes directly to TARP continues to be problematic because of the range of actions that have been and are being taken to address the Current crisis.

The least successful aspect of the program has been Treasury's reluctance to impose appropriate conditions on TARP recipients or to at least explain why it chose the limited conditions that it did impose. In our December 2008 and January 2009 reports we made specific recommendations addressing Treasury's reluctance to require that institutions receiving Capital Purchase Program funds also provide information on how those funds are being used and have affected their lending. Fortunately, we have seen some progress in addressing our recommendations; Treasury has implemented a survey to collect such data. For example, it recently expanded monthly surveys of the largest institutions' lending activity to cover all Capital Purchase Program participants, as GAO recommended. These surveys should provide additional important information about how the capital investments are impacting participants' lending activities and capital levels; Actions such as these should help address at least some of the concerns expressed by the public and Congress regarding how taxpayer funds are being used.

GAO is not in a position to make policy decisions such as how Treasury should use the second half of the TARP funds. However, as Treasury makes those policy decisions, we believe it would be prudent that Treasury also consider how to make sure those decisions are adequately communicated and transparent. Furthermore, similar to the recommendation we made related to the Capital Purchase Program and use of funds, Treasury could also consider methods to show how the use of the remaining funds will contribute to bringing stability to financial markets.

Q.2. The purpose of TARP was to restore the confidence and integrity of financial institutions. Four months later, there is still little confidence in financial institutions. What went wrong? What

should be done with the last \$350 billion to restore the confidence and integrity of these institutions?

A.2. The level of confidence in U.S. financial institutions stems from many issues—not all of which can be attributed to TARP. However, we have repeatedly reported Treasury's failure to adequately communicate to the public and Congress the rationale for Treasury's choices on how to use TARP funds, which we believe has contributed to the sense of frustration with the federal government's actions as well as the lack of confidence in financial institutions.

In February 2009, Treasury announced its broad strategy for using the remaining TARP funds and provided the details for its major components in the following weeks. Specifically, Treasury announced the Financial Stability Plan, which outlined a comprehensive set of measures to help address the financial crisis and restore confidence in our financial markets, and a Homeowner Affordability and Stability Plan to mitigate foreclosures and preserve homeownership. While articulating its plan was an important first step, Treasury continues to struggle with developing an effective overall communication strategy that is integrated into TARP operations. Without such a strategy, Treasury may face challenges, should it need additional funding for the program. Therefore, in our March 2009 report, we have recommended that Treasury develop a communication strategy that includes building an understanding of and support for the various components of the program. Specific actions could include hiring a communications officer, integrating communications into TARP operations, scheduling regular and ongoing contact with congressional committees and members, holding town hall meetings with the public across the country, establishing a counsel of advisors, and leveraging available technology.

Q.3. Is there anything that needs immediate congressional action to improve the transparency and accountability of the TARP program?

A.3. On May 20, 2009, the President signed Public Law 111-22, the Helping Families Save Their Homes Act of 2009. We appreciate the Banking Committee's efforts in helping to enact this important legislation which enhances GAO's ability to bring accountability and transparency to the TARP program. We will keep the Committee up to date in connection with our continuing oversight of the TARP program.

Q.4. The President and the Secretary of the Treasury announced new executive compensation rules yesterday. Do they go far enough? Is there more we should do to address the executive compensation issue?

A.4. Recent actions are a step in the right direction. The American Recovery and Reinvestment Act of 2009, or ARRA, was signed into law on February 17, 2009, and includes several restrictions on executive compensation and corporate governance that apply to recipients of funds under the Troubled Asset Relief Program, some of which are consistent with Treasury's guidelines. The executive compensation standards include restrictions on payment of golden parachutes; limitations on payment or accrual of bonuses, retention

awards or incentive compensation; and limitations on tax deductions for compensation paid to certain executive officers. The new law also requires that the compensation of certain employees be limited to exclude incentives to take unnecessary and excessive risks that threaten the value of the institution. ARRA also requires recovery of any bonus, retention award or incentive compensation paid to certain employees if the compensation is based on materially inaccurate criteria. Certain corporate governance measures must be put into place, including a company-wide policy on excessive or luxury expenditures, and TARP recipients must also establish a Board Compensation Committee. In addition, TARP recipients must provide for a non-binding shareholder vote on executive compensation. The Securities and Exchange Commission has issued guidance on this new requirement. Finally, the chief executive officer and the chief compliance officer of each recipient must provide a written certification that the institution has complied with all the executive compensation requirements in ARRA. Treasury is directed to issue regulations to implement the new executive compensation provisions.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR JOHNSON
FROM NEIL M. BAROFSKY**

Q.1. In your opinion what has been the most successful aspect of the current TARP program? What has been the least successful aspect of the program? Are there certain areas or institutions you believe the Treasury should direct the second half of the TARP money?

A.1. With respect to successful or unsuccessful aspects of TARP, TARP funds are being used, or have been announced to be used, in connection with 12 separate programs, most of which have not yet been implemented or have just begun. In light of how new most of those programs are, it is probably premature to project which will be the most or least successful of them. Moreover, determining success or failure depends in large part on how one measures success and might be very different if the focus is on whether avoiding bank failures is a key goal (an area that has seen some success at least thus far) or whether increased lending is the aim (where the jury is still out) or whether avoiding mortgage foreclosures or dealing with “toxic” assets should be the focus (which are just starting to be addressed by Treasury).

One way in which SIGTARP is examining these issues is to find out what TARP recipients are actually doing with the TARP funds. SIGTARP has surveyed 364 TARP recipients that had received TARP funds through January 31, 2009, and has asked them to describe their use or planned use of TARP funds. The results are being analyzed now and a preliminary report should be available later this spring.

With respect to the second half of the funds, Treasury has announced, as of March 31, 2009, the parameters of how \$590.4 billion of the \$700 billion of TARP funds will be spent. This includes, among other things, a commitment of TARP funds to a mortgage modification program and public-private partnerships to address the “toxic” assets. SIGTARP has already provided Treasury with

significant recommendations concerning these programs and will be following their progress closely.

Q.2. The purpose of TARP was to restore the confidence and integrity of financial institutions. Four months later, there is still little confidence in financial institutions. What went wrong? What should be done with the last \$350 Billion to restore the confidence and integrity of these institutions?

A.2. A lack of confidence can result from a lack of accountability and transparency; here, if the public does not know how TARP recipients are using taxpayer funds, it is not terribly surprising that the public could lose confidence in the program itself. Within two weeks of coming on board, I recommended to Treasury that all subsequent TARP programs require TARP recipients to account for their use of TARP funds. With the exception of the Citigroup and Bank of America transactions, Treasury has steadfastly refused to adopt this recommendation.

It is this failing that caused SIGTARP to engage in its own use of funds survey, described above. While SIGTARP is in the very early stages of assessing the results of a survey it recently made of the first 364 TARP recipients concerning the use of TARP funds, our initial reading of the responses suggests the importance of those funds toward helping some banks strengthen their capital base by providing a foundation for lending activities; retiring debt, purchasing mortgage backed securities, increasing credit lines, making loans, *etc.* Some indicated that without the funds they would not have been able to fund as many loans as they had recently made or that future lending could have been curtailed. While we need to fully evaluate all of the responses before giving a detailed analysis of the results, early indications are that the funds had a significant impact on TARP recipients. Perhaps these results will serve to begin to restore the lost confidence.

Q.3. Is there anything that needs immediate congressional action to improve the transparency and accountability of the TARP program?

A.3. Treasury itself, of course, has certain disclosure requirements as set forth in the Emergency Economic Stabilization Act of 2008. SIGTARP, for its part, is committed to promoting transparency and accountability in the TARP program, both by recommending that Treasury be as transparent as possible and by undertaking audits and disclosing data itself as necessary and appropriate. At this point, I believe that SIGTARP has all of the tools and authorities it needs to fulfill this important task.

Q.4. The President and the Secretary of the Treasury announced new executive compensation rules yesterday. Do they go far enough? Is there more we should do to address the executive compensation issue?

A.4. Subsequent to the announcement referenced in the question, the Congress significantly amended the statutory framework on this issue with the passage of the American Recovery and Reinvestment Act ("ARRA"), which replaced EESA's executive compensation provision. We have been told by Treasury that a regulation effecting ARRA's provisions will be forthcoming shortly. SIGTARP will

examine that regulation once it is available and make recommendations as appropriate.

**RESPONSE TO WRITTEN QUESTIONS OF SENATOR JOHNSON
FROM ELIZABETH WARREN**

Q.1. In your opinion, what has been the most successful aspect of the current TARP program? What has been the least successful aspect of the program? Are there certain areas or institutions you believe the Treasury should direct the second half of the TARP money?

A.1. In a crisis, transparency, accountability, and a coherent plan with clearly delineated goals are essential to maintain the confidence of the public and the public and capital markets. Sophisticated metrics to measure the success and failure of program initiatives are critical. In the Panel's first report, we asked: "What specific metrics can Treasury cite to show the effects of the \$250 billion spent thus far on financial markets, on credit availability, or, most importantly, on the economy?" Five months after that first report, the question of metrics remains paramount: how can we know if Treasury's strategy is having a tangible effect? What metrics exist to allow such a determination to be made? Treasury has taken steps to increase its reporting, but much more needs to be done in order to judge decisions made to date and to guide future actions.

In the Panel's February report, "Valuing Treasury's Acquisitions," we asked the question: Is the Public Receiving a Fair Deal? After reviewing the top ten TARP transactions, the report found every time Treasury spent \$100, it took back assets that were worth, on average, \$66.

Treasury has already committed \$590 billion of the \$700 billion under TARP for current and existing programs. Treasury has actually spent a little over \$300 billion. Our May report will focus on the question of small business and consumer lending. Has TARP helped increase lending to consumers and small businesses? Answering this question is essential to figuring out how Treasury should direct the flow of TARP funds going forward. Once our study is complete, I will be more than happy to provide you with the results.

Q.2. The purpose of TARP was to restore the confidence and integrity of financial institutions. Four months later, there is still little confidence in financial institutions. What went wrong? What should be done with the last \$350 billion to restore confidence and integrity of those institutions?

A.2. In assessing what went wrong and what should be done under TARP, Treasury must do a better job of implementing four critical elements: transparency, assertiveness, accountability, and clarity. This is a must in restoring confidence and integrity. With respect to transparency, Treasury must take swift action to ensure the integrity of bank accounting, particularly with respect to the ability of regulators and investors to ascertain the value of bank assets and hence assess bank solvency. With respect to assertiveness, Treasury must take aggressive action to address failing financial

institutions by (1) taking early aggressive action to improve capital ratios of banks that can be rescued, and (2) shutting down those banks that are irreparably insolvent. With respect to accountability, Treasury must hold management accountable by replacing—and, in cases of criminal conduct, prosecuting—failed managers. Finally, with respect to clarity, Treasury must be forthright with measurement and reporting of all forms of assistance being provided and clearly explained criteria that explains how public funds are being used.

Q.3. Is there anything that needs immediate congressional action to improve the transparency and accountability of the TARP program?

A.3. At the moment, we are not asking for any additional authority.

Q.4. The President and the Secretary of the Treasury announced new executive compensation rules yesterday. Do they go far enough? Is there more we should do to address the executive compensation issue?

A.4. Treasury's guidelines were a good start, but more can be done. Transparency, accountability, and a clear articulation of what the goals are is crucial. On the issue of holding management accountable has not been clear. While action was taken with respect to the management of some of the auto companies that have received TARP funds, Treasury has been resistant to take similar action with respect to the management of banks that have received TARP funds. Treasury must articulate its strategy and it must be clear. To date, this has not been the case.

Q.5. There is pressure to move quickly and reform our financial regulatory structure. What areas should we address in the near future and which areas should we set aside until we realize the full cost of the economic fallout we are currently experiencing?

A.5. The Panel issued its report on regulatory reform in January. The sooner all of these issues are addressed, the better. Ultimately, the Congress will determine a course of action and the timing of such action. In providing an assessment, the Panel's January report specifically points to three areas of regulation that could have prevented the current economic crisis: basic consumer protection rules, supervision of credit rating agencies, and regulation of companies that are "too big to fail." Our report outlines eight areas how "we can do better" in order to prevent future crises.

1. Better regulation of the way loans are made to consumers;
2. Serious regulation of credit rating agencies;
3. Better management in dealing with "too-big-to-fail" companies;
4. Identifying and regulating financial institutions that pose systemic risk;
5. Increasing supervision of derivatives and off-balance sheet entities that have created a shadow financial system;
6. Changing executive pay structures to discourage excessive risk-taking;

7. Working with other countries to establish basic rules that will apply to companies doing business around the globe;
8. Planning now for the next crisis.

Q.6. In the Congressional Oversight Panel's regulatory reform report you outline the need for a systemic risk regulator and other regulatory reforms. Much of the interest in the possibility of establishing a systemic risk regulator is in response to the collapse of AIG, an insurance company. Why were no recommendations made regarding the need to modernize the regulation of insurance?

A.6. The Panel's regulatory report provides a balanced discussion regarding insurance regulation and cites the numerous studies that have examined the issue. The Panel could not agree upon a consensus recommendation, so one was not included.