TREASURY DEPARTMENT FISCAL YEAR 2011 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, FEBRUARY 24, 2010

Serial No. 111–22

Printed for the use of the Committee on the Budget

Available on the Internet:
http://www.gpoaccess.gov/congress/house/budget/index.html

U.S. GOVERNMENT PRINTING OFFICE

55–097 PDF WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON THE BUDGET

JOHN M. SPRATT, JR., South Carolina, *Chairman*

ALLYSON Y. SCHWARTZ, Pennsylvania
MARCY KAPTUR, Ohio
XAVIER BECERRA, California
LLOYD DOGGETT, Texas
EARL BLUMENAUER, Oregon
MARION BERRY, Arkansas
ALLEN BOYD, Florida
JAMES P. MCGOVERN, Massachusetts
NIKI TSONGAS, Massachusetts
BOB ETHERIDGE, North Carolina
BETTY MCCOLLUM, Minnesota
CHARLIE MELANCON, Louisiana
JOHN A. YARMUTH, Kentucky
ROBERT E. ANDREWS, New Jersey
ROSA L. DELAURO, Connecticut,
CHET EDWARDS, Texas
ROBERT C. "BOBBY" SCOTT, Virginia
JAMES R. LANGEVIN, Rhode Island
RICK LARSEN, Washington
TIMOTHY H. BISHOP, New York
GWEN MOORE, Wisconsin
GERALD E. CONNOLLY, Virginia
KURT SCHRADER, Oregon

PAUL RYAN, Wisconsin,
Ranking Minority Member
JEB HENSARLING, Texas
SCOTT GARRETT, New Jersey
MARIO DIAZ–BALART, Florida
MICHAEL K. SIMPSON, Idaho
PATRICK T. MCHENRY, North Carolina
CONNIE MACK, Florida
JOHN CAMPBELL, California
JIM JORDAN, Ohio
CYNTHIA M. LUMMIS, Wyoming
STEVE AUSTRIA, Ohio
ROBERT B. ADERHOLT, Alabama
DEVIN NUNES, California
GREGG HARPER, Mississippi
ROBERT E. LATTA, Ohio

PROFESSIONAL STAFF

THOMAS S. KAHN, *Staff Director and Chief Counsel*
AUSTIN SMYTHE, *Minority Staff Director*

CONTENTS

TREASURY DEPARTMENT FISCAL YEAR 2011 BUDGET

WEDNESDAY, FEBRUARY 24, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:05 a.m. in room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] presiding.

Present: Representatives Spratt, Kaptur, Becerra, Doggett, Berry, Tsongas, Etheridge, McCollum, Langevin, Larsen, Bishop, Moore, Connolly, Schrader, Hensarling, Garrett, Diaz-Balart, McHenry, Mack, Jordan, Lummis, Austria, Nunes and Latta.

Chairman SPRATT. We will call the committee to order. Today we pick up our review of the President's budget for 2011. We will hear from the Secretary of the Treasury, Tim Geithner, about the administration's outlook on the economy, jobs, budget deficits, and also about initiatives contained in the President's budget for 2011.

As we began the calendar year 2009, the economy was not growing; it was shrinking at rapid rates—a negative rate of 5.4 percent; shedding jobs at a rate of 779,000 jobs in January alone. In the last quarter of 2009, the economy grew—positive growth—by 5.7 percent. That is the highest growth rate in 6 years. Not bad. On January 20th of this year, job losses have averaged 35,000 over the past 3 months. That, too, is frightening. In the judgment of the Congressional Budget Office, neutral and nonpartisan, the Recovery Act contributed to this turnaround, raising real GDP by 1.5 to 3.5 percentage points in the fourth quarter of 2009, and increasing employment by between a million and 2 million jobs. Secretary Geithner, Secretary Paulsen, and Chairman Bernanke used some extraordinary measures, added billions to the debt and deficit in the process, but they brought the economy back from the brink.

Still, too many Americans are feeling more of the recession and less of the recovery. One reason is unemployment, which is persistent. And no one can be satisfied when unemployment averages 10 percent, and underemployment is nearly twice that size.

Secretary Geithner, we hope you will take the opportunity today to tell us more about job creation, job generation, and growth in the President's budget.

From my perusal of the budget, we find about $100 billion for a job-creation package, and on the tax side the administration is laying out proposals like a $5,000 job tax credit for new hires. In addition, it appears that the President's budget proposes significant tax

relief for families and small businesses, and this hearing gives us a chance to examine those proposals more closely.

From the start, the Obama administration has realized that it would be almost impossible in any circumstance, particularly in this great recession, almost impossible for us to move the deficit down without moving the economy forward. That is why the President's budget for 2011 has dual objectives. In the short run we want to restore the economy, for sure, and in the long run we want to restore the budget. While we build up jobs, we need to bear down on the deficit, doing both things at the same time.

This year's deficit is projected to be $1 trillion, 556 billion. That is enormous by anyone's yardstick. But let us remember that last January, CBO projected the deficit, before President Obama took office, extrapolating the Bush administration's budgets and fiscal policy, CBO projected deficits of $1.3 trillion, which is $300 billion less than it is today, but pretty close to the deficit we are working with as we put forward a budget for the forthcoming fiscal year.

Let us also note that the President proposes to cut the deficit by half, from $1 trillion, 556 billion in 2010, or 10.6 percent of GDP, to $727 billion, or 4.2 percent of GDP, in 2013. The President's budget keeps bringing the deficit down to 2014, when it reaches 3.9 percent of GDP.

Now, a $727 billion deficit is nothing to cheer. This cannot last. It cannot be the final stop on the path to a deficit reduction. Frankly, I would like to see more deficit reduction in this budget for 2011. We are on an unsustainable course, amassing a mountain of national debt. The longer we dodge the hard choices, the harder they become. But halving the deficit in 4 years is a worthy objective, and the budget clearly does obtain some other welcome issues on the President's part of bringing the deficit down.

We proved in the 1990s that it is possible, politically possible and economically possible, to reduce deficits responsibly, but it cannot happen without concerted effort. It is not going to simply descend upon us. It is hard to do without bipartisan cooperation and a growing economy. That is why the President's appointment of a fiscal commission is a welcome step, we think, in the right direction. Another step in that direction is reinstatement of statutory pay-as-you-go, modeled on rules adopted in the 1990s that helped us turn record deficits into record surpluses.

On both the budget and the economy, stark choices confront us, but the budget set out by the President marks a step forward in the effort to pick up the economy by bringing down the deficit.

Mr. Geithner, we look forward to your testimony today. But before I turn to you, I am going to turn to the Ranking Member designate today Mr. Hensarling and offer him the floor to make any statement he wishes to make of his own.

Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. First, as a Texan, let me thank you for your sensitivity and your leadership for visiting with the folks at the IRS in Austin, Texas. I have no doubt, Mr. Doggett—I believe the facility was in your district—will have more to say. But certainly on behalf of the Texans of this committee, we certainly admire and appreciate what you did.

Having said that, Mr. Secretary, since you and I are the veterans of many of these hearings, you probably know, and don't take it personally, I am going to be a little less complimentary of your leadership on the economy.

It was a year ago that the stimulus bill was signed into law by the President. We were told that unemployment would not exceed 8 percent. We were told that the legislation would create or save 3½ million jobs. A year later we know that has not proven to be true. A recent quote from the Associated Press: Ten months into President Barack Obama's first economic stimulus plan, a surge in spending on roads and bridges has had no effect on local unemployment and only barely helped the beleaguered construction industry.

We know that money has gone into projects like $49,000 of taxpayer money for rubber tennis courts in Bozeman, Montana; roughly half a million dollars for a skateboard park in Pawtucket, Rhode Island. And the list goes on. Unfortunately, as we all know, unemployment continues to hover around 10 percent, a generational high. We know that since the bill has been passed, that jobs have been lost every single month, with the exception of one. We know that since the President was sworn in, that 4 million of our fellow countrymen now find themselves out of work. And human suffering continues from coast to coast.

Last, but not least, if you add on the interest, we know that the American people are now $1.2 trillion deeper in debt, roughly $10,000 per household. And now we understand that the President and Congress are talking about yet another stimulus program. I understand that the vocabulary has changed; I am not sure the policies have.

My guess is the American people believe enough is enough. When they hear more stimulus, they think more debt. And certainly all we can see is debt in the budget that the President has presented to us. Already on top of signing into law an increase of 84 percent in nondefense discretionary spending, we are now presented with the largest budget in our Nation's history; the largest budget deficit in our Nation's history, $1.6 trillion; over 10 percent of our economy, the largest as a percentage of our economy since World War II; the largest debt in our Nation's history, $9.3 trillion, weighing in at roughly 63 percent of our economy, once again, the largest as a percentage of the economy since World War II. Under the President's budget, interest on the debt alone will quadruple by 2020, reaching $840 billion, roughly $6,000 to $7,000 per household just to pay the interest cost on the debt under the President's submitted budget.

It was a couple of weeks ago that OMB Director Dr. Orszag was before us, and he admitted that deficits above 3 percent of GDP are unsustainable. Yet as I look at the President's budget each and every year, we have a budget deficit exceeding 3 percent, which, according to the administration, is unsustainable.

This Nation was already on a precarious fiscal road prior to this administration. Today it is unequivocal that the Nation is on the road to bankruptcy if we do not change our ways. This budget has us on the road from taking government to costing 20 percent of our economy, its average postwar era average, to 40 percent when children who are born today enter the workforce. At that point millions

will never have their opportunity to own their own home. Millions will never have an opportunity to go to college. Millions will never have an opportunity to start a new business. Surely, surely we can do better.

I spent a lot of the break in February, particularly since we were snowed in, speaking to small businessmen in my district; a landscaper, a building materials small businessman. I talked to community bankers, I talked to Fortune 500 CEOs, I talked to investment managers who manage billions of dollars, and I heard a similar message from each and every one of them: great fear and uncertainty on how this Nation is going to deal with this level of debt and deficit; a fear to start or expand a new business, not knowing the outcome; fear of a potential multi-trillion-dollar takeover of the national health care system and what that could potentially do to labor costs; the threat of a potential $800 billion energy tax on our economy; continued bailouts, as we heard on Christmas Eve, that all of a sudden we now have unlimited taxpayer exposure to the bailout of Fannie and Freddie, a bailout Nation where the big get bigger, the small get smaller, and the taxpayer gets poorer.

The new bank tax, I am not sure—even though it may feel good to be punitive, I am not sure any American believes that somehow, somehow their interest rate is going to go down or a line of credit is going to be opened up if their banker gets a new tax.

Now, I have no doubt eventually this economy will rebound. By any historic standard we already ought to be out of this recession. But when I talk to those who create jobs and invest in jobs, growth, and opportunity in my section of Texas, the policies of this administration are hampering job growth, and they must change. And I hope in the future that the administration will look upon jobs as job number one and put forth a plan to deal with the debt and deficit that ultimately will bankrupt our country.

I yield back, Mr. Chairman.

Chairman SPRATT. Let me tend to one housekeeping detail. I ask unanimous consent that any Member who wishes to submit an opening statement may do so at this point in the record. Without objection, so ordered.

[The prepared statement of Mr. Connolly follows:]

PREPARED STATEMENT OF HON. GERALD E. CONNOLLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. Chairman, thank you for holding this hearing and asking Secretary Geithner to appear before the House Budget Committee to testify with respect to the Fiscal Year 2011 budget.

Last year, when Secretary Geithner testified before this committee, I stated that the public must see the concrete benefit of TARP—the Troubled Asset Relief Program—and our enormous investment in the financial industry. I was worried that TARP focused too heavily on Wall Street, while the concerns of homeowners and small businesses remained largely unaddressed.

In fact, just yesterday, the FDIC released data showing that bank lending declined 7.5 percent, or $585 billion in 2009. I'm sure my colleagues have heard from their homeowners and small businesses that they are having severe difficulties obtaining refinancing and small business loans. We know why—the banks are not lending.

The President is proposing to use $30 billion of TARP authority for a Small Business Lending Facility to continue to address the lack of small business capital. While this is a positive step, I hope that we use the majority of unspent and repaid TARP funds for significant deficit reduction.

I appreciate the President's plan to reduce the deficit from the inherited $1.3 trillion at the end of 2008 to $706 billion in Fiscal Year 2014, and, like the President, I believe we must do more. The improving financial sector returned almost $200 billion more of TARP loans to the taxpayers than originally projected. These funds represent the single largest deficit reduction in history, and I hope that the Administration will be judicious in its continued use of TARP funds, balancing the short-term need for assisting homeowners and small businesses, with the long-term goal of deficit reduction. As John Podesta testified before this Committee last month, long-term fiscal responsibility will enable the ability to preserve social safety net programs.

I remain cautiously optimistic about the President's proposal for a bipartisan fiscal committee to address our long-term budget deficits. It is clear that long-term deficits pose a significant threat to America's long-term stability. Therefore, I hope that all members of this proposed committee will bring a realistic focus on deficit reduction, honestly exploring all options, free from demagoguery. Returning to fiscal responsibility will take time and difficult choices, and I hope that all those who claim to support it demonstrate that supposed commitment in their actions, as well as their words.

I was pleased to see the President include pay parity for military and civilian federal employees in the Fiscal Year 2011 proposal. Last year we included language in the Budget Resolution to this end. All federal employees dedicate themselves in the service of their country, and pay parity recognizes their efforts. We must enshrine this principle moving forward to ensure our ability to recruit and retain a high quality workforce. I look forward to Secretary Geithner's testimony and working with him as we fashion a budget resolution in the weeks ahead.

[The prepared statement of Mr. Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, RANKING MINORITY MEMBER, COMMITTEE ON THE BUDGET

Thank you, Chairman Spratt and Welcome, Secretary Geithner.

Mr. Secretary, it seems that ever since you've been sworn in, your presence here on Capitol Hill has offered Democrats and Republicans a rare opportunity to unanimously agree on at least one thing—criticizing you.

I for one would like to strike a more constructive tone today. At this point, it serves little purpose to endlessly bicker about the past and how we got into our fiscal mess. No doubt, this Administration was dealt a tough hand. But for the purposes of this Committee, and this hearing in particular, I'd like to make today's discussion about the future.

You are here, after all, to present the President's budget, which should outline a viable way forward. Above all, it should make the tough choices and do the heavy lifting to get our federal finances back on a sustainable path. And yet, I'm just stunned that your budget fails on this most basic level.

This isn't just subjective criticism. Your budget fails to meet the test of sustainability as defined by your own Administration. Budget Director Orszag, for instance, has said that we need to get our deficits down to about 3 percent of the overall economy over the medium term so that our debt levels are no longer rising.

But under your budget, deficits never fall below 3.6 percent of GDP and debt as a share of the economy rises consistently throughout the ten year window. These numbers aren't consistent with a so-called "new era of responsibility." They are more in line with a glide-path toward bankruptcy.

Mr. Secretary, you know markets and you know the real economic risks of not taking concrete action to reign in our debt. For perhaps the first time in our nation's modern history, observers are beginning to seriously worry about a debt-induced economic malaise in the U.S. or even a full-blown crisis.

The world is looking for a signal that the country is actually charting a course back to fiscal sustainability, but your budget doesn't offer encouragement. Within days of the budget's release, Moody's announced that, absent a plan to stabilize and bring down our debt levels, the U.S. could eventually lose its triple-A credit rating.

We have seen over the past two years how quickly a plunging economy could lead to a fiscal mess. But, going forward, the causation will likely shift and we will find that an unsustainable fiscal path can lead to an economic mess.

Neither party wants this to happen. That is why, as we work towards getting our economy growing again and fostering sustainable job creation, we must also chart a realistic course to get our fiscal situation under control.

Chairman SPRATT. Mr. Secretary, the floor is yours. You can summarize your statement as you see fit. I think you know that

we have some absences today because we are in competition with three or four other committees, but we regard your testimony as extremely important to us, and you can take your time and proceed as you desire.

Thank you, again, for coming here today. We look forward to your testimony.

STATEMENT OF TIMOTHY F. GEITHNER, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary GEITHNER. Thank you, Mr. Chairman, Congressman Hensarling, members of the Budget Committee. It is a pleasure to be here today to talk about some of the major challenges we face as a country and the challenges we have to face together.

I wanted to thank Congressman Hensarling for beginning where he began by reminding us of the tragic attack that we saw in Austin, Texas, last week. I was there with Commissioner Shulman on Monday. It was just extraordinary to look in the eyes of those people and hear them tell the story of what they did working together to get out of that building as quickly as possible. They saved many, many lives. It was extraordinary to listen to them talk about the pride they have in serving their country as public servants at a time when we are all facing together a really difficult set of challenges. But thank you for what you said. I have tremendous pride and respect for the men and women of the IRS who are working hard every day to try to make sure that this government can do what it needs to do to protect our national security and make sure that we are providing health care basic services to millions of Americans. They do a necessary, important thing, and we all owe them our honor and our respect.

A year ago, when the President took office, the essential urgent task facing the country was to act forcefully to prevent a second Great Depression. A year later, in large part due to the actions we took under the Recovery Act and steps we took to put out the financial fire, our economy is now growing again. The economy is now healing. This process is going to take time, but it is important to acknowledge the progress we have seen to date in starting this process of healing and repair.

This is progress, but it is not enough. We need to do everything possible to reinforce strong economic growth led by the private sector that extends to communities across the country. We need to make sure also that Americans and investors around the world have confidence that once we have sustained growth in place, that we are going to bring down these unsustainable deficits.

Now, these are complementary; they are not competing objectives. If you care about future deficits, and you have to care about future deficits, you need to care about economic growth today, because if not, if we don't have growth, our future deficits will be higher. And if you care about economic growth, you have to care about these deficits, because without confidence that over time we are going to be able to work together to bring these deficits down, then future growth will be weaker.

Right now, Mr. Chairman, our top priority has to be to spur job creation and private investment. Last week I was in North Carolina, and I met with business owners in Durham, and I heard how,

because of a very careful, smart program to provide tax incentives that incent private investment, we saw people take a warehouse that had been vacant for a decade, in an area of unemployment three times the national average, renovate it, turn it into a business center that now employs hundreds of people and a range of different businesses.

That is a good example of smart policy that has a good bang for the buck, but we need to do a lot more. That is why we proposed a series of measures to provide support to small businesses to invest in infrastructure and clean energy to assist State and local governments so they can prevent future layoffs. These are immediate, important steps we can take together, but in order to lay the foundation for longer-term growth in the future, we have to invest in innovation and reform.

We need financial reform because families and businesses deserve a financial system that supports investment in future innovations, not just future real estate booms. We need to support innovation with incentives that encourage investment in research and development. We need to increase exports, because the more product our businesses make and sell to other countries, the more jobs we are going to see in the United States. We need to invest in education because businesses need an education system that does a better job today of creating the skilled workforce of tomorrow. And, of course, we need health care reform so we can help provide greater economic security for middle-class families and help businesses reduce future growth in health care costs.

These proposals for innovation and reform are built on a basic simple idea that the role of government is to create the conditions for private-sector businesses large and small to grow and to expand. And the President outlined today before the Business Roundtable a series of reform proposals to support that objective, and I think these are proposals that the businesses of America have a large stake in supporting. They all recognize the importance of better education outcomes, stronger infrastructure, clear incentives for how we use infrastructure, and they have a very substantial stake in trying to bring a strong program of financial reforms into law.

Now, Mr. Chairman, as you know and your colleagues know on this committee, as we try to lay a foundation for longer-term growth, we have to return to living within our means as a country. A year ago the Nation faced a deficit of $1.3 trillion and projected deficits before we passed a single bill that, according to CBO, would more than double the Nation's debt over the next decade.

The deficits we face are the legacy of past policies and the recession, but they are now our challenge to meet. In this budget, Mr. Chairman, we have outlined a path to bring down our future deficits by more than half, to below 4 percent of GDP. First, we propose a freeze in nonsecurity discretionary government funding. If this freeze is enacted—and I want to make this very clear—if this freeze is enacted, by 2012 nonsecurity discretionary spending would equal, when adjusted for inflation, about what we saw in 2008. By the middle of the decade, as a share of the economy, it would fall to its lowest level in more than 15 years.

Second, 2 weeks ago the President signed into law a law that said any new initiative should be paid for without adding to the

deficit. In the 1990s, this discipline, "pay as you go", helped move us from a deficit that was 4.5 percent of GDP in 1991 to a significant surplus in 2000. In fact, in January 2001, the CBO projected 10-year surpluses of $5.6 trillion. Over the ensuing 8 years, Washington did not pay for tax cuts for the wealthy or a huge expansion of Medicare, and by January 2009, these choices, together with the great recession, produced projected 10-year deficits of a staggering $8 trillion.

Third, Mr. Chairman, we need to make our tax system more fair. To do that we propose to allow certain tax cuts to expire as scheduled. These are tax cuts that affect only those Americans, 2 percent, that are the most fortunate in our country, and would only affect 2 to 3 percent of small businesses. We want to close the so-called carried interest loophole by taxing the income of hedge fund and private equity managers in the same way we tax the income of teachers and firefighters. At the same time we want to extend tax cuts for working Americans. We cut taxes for working families and small businesses in the Recovery Act. We cut taxes for first-time homebuyers and for parents trying to care for their children. We cut taxes for 8 million Americans paying for college. And in this budget we want to extend those tax cuts, and we want to enact new tax cuts for those who invest in small businesses, tax credits for small businesses that increase their payrolls, and tax breaks for Americans who retrofit their homes to save energy.

Now, we recognize we need to go further over time, and this is going to require some tough and at times politically unpopular choices, and that is why the President last week created a bipartisan deficit commission modeled on the successful Reagan-Greenspan Commission on Social Security and the Conrad-Gregg proposal. The Commission's job will be to step back from politics and recommend policies that bring down our future deficits.

Let me just close by underscoring something I think you all know, which is we face enormous challenges as a country, and what the government does today, over the next year, will impact our country for decades to come. What we do today to invest in lasting economic growth will impact the ability of a generation of Americans to save for college, to open a small business, to own a home, or plan for retirement. And right now, of course, many Americans and many watching us around the world have lost confidence in Washington's ability to come together and reach agreement to solve problems facing the country.

We can't change the past, Mr. Chairman, but we share an obligation to work together to shape our future. And if we invest responsibly together in reform and innovation, if we act on these fiscal imperatives we face over the longer term, then we are going to emerge stronger from this crisis with growth that will be more broadly shared across the country.

I want to just conclude, Mr. Chairman, by saying I think if you listen careful today, you can see the early signs of a broader consensus on how to deal with these fiscal challenges. I want to echo part of what your colleague Mr. Hensarling said, which is if you listen to people across the aisle today in this country, people today say, Deficits matter. Tax cuts aren't free. We have to pay for the

commitments we make. But our first priority now is to get this economy back on track and get Americans back to work.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Geithner.

[The prepared statement of Timothy F. Geithner follows:]

PREPARED STATEMENT OF HON. TIMOTHY F. GEITHNER, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Chairman Spratt, Ranking Member Ryan and members of the Committee, thank you for the opportunity to appear before you today to discuss the President's Fiscal Year 2011 Budget.

The U.S. economy is still in the midst of one of the most challenging periods in our nation's history. We have pulled back from the brink of financial collapse and a historic recession. The overall economy grew at an annual rate of 4 percent over the last six months of 2009, but millions of Americans remain out of work and the economic pain of the recession can still be felt throughout our nation. This crisis has caused enormous damage to the basic economic security of tens of millions of Americans.

This is why we have a lot of work to do together to make sure that as overall economic growth recovers, so does job growth. We must restore confidence in the economy's fundamental resilience, and we are taking the steps to ensure sustainable growth going forward that is more widely shared among the American people.

Our immediate priority is to work together to encourage the creation of more and, better-paying jobs. We can only achieve that objective if we are committed to laying a foundation for job creation in the private sector. In the short-term that means ensuring that the true engines of job creation, America's businesses, have the right incentives to expand and hire through new targeted measures in 2010 that will speed job creation.

But laying a new and stronger foundation for the private sector requires more: it requires an equally strong public commitment to invest in the innovation, modern infrastructure, and the education of our future and present workers. These investments will enable our businesses to compete, increase productivity, and most importantly, will help create good, well-paying jobs. In the long-term, this new foundation requires the creation of a strong investment climate by showing our commitment to return the deficit to sustainable levels and establishing the right rules to restore trust in the core functions of our financial system. When recovery is firmly in place and the economy is back on its feet, we need to begin the process of bringing down the deficits that Washington has been accumulating for almost a decade. These deficits are too high and left unchecked they will burden our children and grandchildren, and could drain investment from the private sector, drive up interest rates and threaten the very prosperity we are seeking to produce.

The commitment in this Budget to job creation, innovation, investment in the skills of our people and fiscal sustainability is essential to setting the stage for the kind of broad-based economic growth that will provide middle-class Americans with rising living standards and financial security.

Pursuing these goals requires a careful balance. It means not turning too quickly away from our immediate goals of jobs and recovery, while also not ignoring the long-term health, education and energy challenges that our nation cannot afford to further ignore. And it means laying out a clear path to fiscal sustainability, and demonstrating our commitment to walk that path by taking the first critical steps along it.

RECOVERY AND JOB CREATION

As the President said last week, jobs must be our most immediate focus. That means that even before we get to our FY 2011 Budget, we will work with Congress to enact legislation to accelerate the pace of job growth.

First and foremost, we will do this by providing businesses—especially small businesses that have been major job creators in recent years—with tax cuts and other incentives to put more Americans back to work quickly.

The Administration proposes to extend Recovery Act business tax relief, and to create a new, temporary tax credit for job creation. We will extend Recovery Act measures that allow small businesses to deduct the full cost of new investments in qualifying equipment. And we will allow all businesses to take bonus depreciation deductions this year for qualifying capital investments.

Under our new "Small Business Jobs and Wages Tax Cut," all businesses will be eligible for a $5,000 tax credit for every new employee they hire in 2010. An addi-

tional bonus amount will be available to firms that increase their payroll by adding hours or raising wages, with the total credit amount capped at $500,000 per firm. Because it will use a 2009 baseline, there are no games or accounting tricks any business could perform to get the job or wage tax cut without actually increasing jobs or wages.

In order to get money out to businesses quickly and thus provide a fast-acting incentive to hire, firms will be able to claim the credit on a quarterly, rather than annual, basis. We expect that over one million small businesses that are growing jobs or wages will receive the credit.

This combination of tax measures will boost the pace and quantity of business investment and, with it the number of new jobs that businesses create.

To cope with the difficulty that small businesses face in getting bank credit, the Administration is proposing legislation that will rescind $30 billion from TARP and create a new separate program designed to provide capital to small and community banks. Our proposal includes a carefully-designed incentive structure that improves the terms of the capital the more a small bank expands lending to small business. And we will explore additional ideas from Congress on other ways this facility could work to expand lending to credit-worthy small businesses.

We also call for extending through September of the effective Recovery Act measures that supported up to $15.4 billion in Small Business Administration loans through lower fees and higher guarantees during this difficult time. And we will support legislation to increase the loan size of the SBA's two most heavily-used guarantee programs.

Second, the President has proposed measures to spur immediate job growth by creating incentives to invest in our environment and energy security. In addition, the Budget includes an extra $5 billion to expand the number of firms eligible to receive a tax credit for investments in U.S. factories that produce clean energy products. This will boost jobs by helping to build a strong U.S. clean energy industry. And because it is an expansion of an existing program, there are already worthy businesses ready to receive the benefit so that the additional amount will go to work quickly creating new jobs.

The President is also proposing new incentives for consumers who retrofit their homes to make them more energy-efficient, and we are seeking to expand several Recovery Act initiatives that promote energy efficiency and clean energy and that have been particularly popular and effective at job creation.

Third, the President is proposing to boost infrastructure investment beyond what was included in the Recovery Act so that we can continue modernizing our transportation and communications networks. This increase will support needed public works, provide private sector companies with new work, and spur additional hiring.

As we take all of these steps to get Americans back to work, we need to extend Recovery Act relief for those most hurt by the nation's economic troubles. This will include emergency assistance to seniors, unemployment compensation and COBRA assistance for the unemployed, and relief to revenue-strapped states and localities to help prevent layoffs.

BUILDING A NEW FOUNDATION

While our first aim must be to restore job growth, the FY 2011 Budget looks beyond the immediate recovery to build a new and stronger foundation for growth in the years ahead. Our aim in doing so is to produce growth that once again raises the living standards of all Americans.

We cannot afford an economic expansion like that of the past decade when, as the President said last week, jobs grew more slowly than during any previous recovery; the incomes of average American households declined while the costs of health care and college reached new highs; and much of our growth was built on the sands of a real estate and financial boom.

In order for Americans to thrive, this nation must rely, as it always has, on a vibrant private sector. Our entrepreneurs, small and large businesses, workers, and nonprofit organizations must be the engines of productivity growth and the primary creators of new, high-quality jobs. Washington's role must be to create optimal conditions for small and large American businesses to grow, innovate and create jobs.

Government can play this important role by helping to ensure that families can save and that businesses have ready access to the credit needed to grow; by helping to expand the body of technical knowledge and the quality of public infrastructure to encourage new businesses and greater productivity; by expanding the market for American goods and services by increasing our exports to the rest of the world; and by helping Americans to better educate themselves in order to best employ the latest knowledge and compete in an increasingly globalized marketplace.

The President's Budget outlines policies to make important progress on all of these objectives.

A strong, healthy financial system is crucial for sustainable growth, job creation, and broad-based prosperity. Such a system helps families save for a house, a child's education and retirement. And it channels those savings into investments that let businesses grow, hire, and raise incomes.

Our financial system is far stronger today than it was a year ago. But it is operating under the same rules that led to its near-collapse and a dangerous recession. These rules must be changed to keep the system from taking unjustifiable risks and so that it can fuel growth.

We need a financial system that is safer; in which financial firms, especially large ones, have more capital to absorb their own losses and cannot take risks that threaten the whole economy. Consumers need to be given the information they require to make the decisions that are right for them and they need to be protected from unfair and fraudulent practices. The government needs to have the authority that it did not have in the recent crisis to break apart and unwind failing firms in ways that limit damage to the system as a whole.

The Administration has proposed reforms that would accomplish these goals, and the House has already passed legislation. We must finish the job of enacting comprehensive reform for the sake of people's financial safety and to ensure growth.

At the very core of the Administration's efforts to build a new foundation for growth are our efforts to encourage American innovation. We already made the largest investment in basic research funding in history last year, and we propose to build on that. Even with our tight fiscal constraints for discretionary spending, our Budget for the next fiscal year will increase civilian research and development (R&D) by 6.4 percent. Our aim is to help create the conditions for greater economic productivity and the emergence of new growth- and job-creating businesses. And with most of these new investments offset by reductions in military R&D, we will pursue this aim without increasing the size of government or government spending.

As the President has said, no area is riper for R&D-driven innovation than energy. Whether you are a consumer watching the cost of filling your gas tank go up or a scientist tracking how climate change is affecting our planet, it is clear that we can no longer afford our heavy reliance on fossil fuels to power our economy.

The transition from fossil fuels to clean energy will challenge both America's technical ingenuity and our political will. But the challenge holds out tremendous possibilities not just for improving our health and the environment, but for creating new, high paying "green" jobs and driving the recovery of America's manufacturing economy.

This Administration is committed to creating clean energy and green jobs. The Recovery Act is already investing $90 billion in clean energy technologies. And our FY 2011 Budget extends that commitment. As I have already mentioned, it expands by $5 billion our Advanced Energy Manufacturing Tax Credit, a 30 percent credit for qualified investments in new, expanded or re-equipped clean energy projects. It substantially expands support for construction of new nuclear power plants by increasing loan guarantee authority for such projects by $36 billion. It funds a $500 million credit subsidy to support $3 billion to $5 billion of loan guarantees for energy efficiency and renewable energy projects. It continues work begun under the Recovery Act to modernize our electrical grid so that it is smarter, stronger, more efficient, and helps foster the growth of wind and solar energy projects.

We will make parallel investments in infrastructure with the intention of taking full advantage of the knowledge generated by the new R&D we are funding. These investments are designed to be launched as quickly as possible in order to create jobs. They will include increasing a $7.2 billion program to expand access to broadband computer networks, and following through on our five-year, $5 billion commitment highlighted by the President last week in Florida to develop high-speed rail.

We are also proposing to expand and make permanent the very successful Build America Bond program, which was part of the Recovery Act. Build America Bonds have expanded the investor base for municipal bonds and lowered borrowing costs, helping to restore a badly damaged municipal finance market and support job creation through new infrastructure projects. States and localities have already issued over $64 billion in such bonds through the end of December. The President's Budget proposes making Build America Bonds permanent with a subsidy rate that makes extension revenue-neutral. The Budget also proposes expanding the eligible uses of these bonds, allowing them to support financing for nonprofits and a wider range of municipal borrowing.

A critical component for building a new foundation for stable, long-term growth, and a complement to our efforts to increase R&D and innovation, is opening up for-

eign markets to American goods and services. The President has set a goal of doubling our exports over the next five years and thereby supporting two million American jobs.

Our Budget will substantially increase funding to expand exports, especially those produced by U.S. small businesses. The Budget will provide a 20-percent increase in Commerce Department funding that promotes exports from small businesses, as well as funding for the Import-Export Bank to expand U.S. small business use of the Bank's financial export assistance.

History shows that, besides R&D, the investment that pays the greatest returns in improved productivity and greater prosperity is education. The Budget makes substantial new investments in this area, as well.

The Budget will provide new incentives for the rising generation of students to train as scientists and engineers. And because in order to succeed in a global economy higher education is a necessity and not a luxury, the Administration proposes to increase community college graduation by 5 million students by 2020.

The Budget increases maximum Pell Grants awards to $5,710, and further propose to make Pell Grants an entitlement program, to further the President's commitment that coming from a lower-income family should never be a barrier to any young person with high educational aspirations. In addition, it will extend the American Opportunity Tax Credit, which provides a tax incentive of up to $2,500-a-year toward college costs—or up to a total of $10,000 for a young person getting a four—year degree.

The Budget will support the Administration's efforts to make major reforms and improvements in the nation's elementary and secondary schools to help students graduate so that they are ready for postsecondary education or a career. It will expand the Recovery Act's successful Race to the Top competition for funds to include not only states, but individual school districts, and by investing in a new competitive fund to encourage states to develop innovative techniques for recruiting, retaining and rewarding effective teachers.

Finally, this budget is designed to give middle—class Americans a chance to get back on their feet and contribute to this economy. That commitment has been central to the Administration's policies from the outset. The middle class was the focus of the Recovery Act. And soon after taking office, the President created a Middle Class Task Force, led by Vice President Biden, aimed at raising the living standards of working families.

In this budget, we build on that commitment. We are proposing to extend the lower- and middle-class tax cuts that are scheduled to expire at the end of 2010. Among its effects, this extension will ensure that 97 percent of small businesses who file individual income tax returns will be spared an increase in their tax rates. The Budget will also extend the Recovery Act's Making Work pay tax credit. And through the initiative of Vice President Biden, we will expand the Child and Dependent Care Tax Credit to help those who are working or going to school and are also responsible for caring for others.

We will further assist tens of millions of middle—class families if we pass health care reform that protects every American from the worst practices of the insurance industry, gives small businesses and uninsured Americans a chance to choose an affordable health care plan in a competitive market, and requires every insurance plan to cover preventative care.

The Administration and Congress have worked hard over the past year on health care and we have no intention of letting the chance for real reform slip away. It is crucial to remember that beyond the difference reform would make to the quality, cost and coverage for tens of millions of Americans, reform would reduce the growth of health care costs. This would be of immense importance to the efficiency of our economy and to our ability to reduce deficits over the long-term.

THE FISCAL IMPERATIVE

American families are making tough choices in difficult times; Washington must do the same.

Every American knows that the path of our deficits is too high and that if they persist long after this recession ends, they will pose a corrosive threat to our economic future.

That is why we believe that even as we take emergency action to spur demand and job growth, it is not too early to begin the process of imposing policies that can start bringing the deficit down to sustainable levels once recovery and job growth have a firm footing. Failure to show our commitment to bring down medium-term and long-term deficits can weaken a recovery. Failure will mean higher rates for

families that want to buy a home or businesses seeking to start or expand. Failure will limit the government's ability to respond in future crises.

Of course, in tackling this problem, we must strike precisely the correct balance with the job- and growth-spurring measures required to assure recovery, and the investment in innovation and education to lay a new foundation for future growth. If we fail to do so, we risk driving the economy back into recession, causing immense additional harm to middle-class families and making it even harder to fix our fiscal problems.

This last point bears repeating. Advocating deep and immediate cuts would damage growth, exacerbating our fiscal challenges.

On the day that President Obama took office, the budget deficit for 2009 stood at $1.3 trillion—9.2 percent of GDP—and the projected 10-year deficits for the following 10 years were $8 trillion.

These huge deficits are the result of the prior Administration's decision to enact large tax cuts and a prescription drug bill without paying for them. Over the next ten years, those measures alone are projected to add $5.8 trillion to the deficit, including interest expense on the additional associated debt.

The impact of the policies on our nation's debt burden was magnified by the great recession the President inherited and its impact on revenues and automatic increases in spending on safety net programs. Together these automatic changes will increase deficits by about $2.4 trillion over the next ten years. Simply put, over $8 trillion of the projected deficits we faced as we put together this budget were due to the fiscal policies of the last eight years and the effects of the deep recession this President inherited. A much smaller amount—less than one tenth of the effect of the unpaid for policies and the recession—is attributable to the cost of the means by which we supported and pulled the economy out of crisis.

Deficit trends of this level are not sustainable. Beginning to correct them will require cutting deficits enough to stabilize the debt-to-GDP ratio at a manageable level so it is no longer rising. This requires cutting the deficit to 3 percent of GDP. This Administration is committed to achieving the goal of deficits that are roughly 3 percent of GDP by 2015. Doing so would mean that the on-going expenses of government will be completely covered by incoming revenues; the only thing adding to the deficit will be interest costs on the accumulated past deficits.

This is an ambitious goal. The deficit in the current fiscal year is expected to reach 10.6 percent of GDP. To reach our 3 percent fiscal target between now and 2015, we must lower deficits as a share of GDP by more than they have been reduced in any five-year period during the past six decades.

The President's Budget proposes a series of actions that would begin to put us back to a responsible, sustainable fiscal path. Let me highlight those changes:

The Budget will freeze all non-security discretionary funding for three years (2011-2013) at 2010 nominal levels, with funding after the three years increasing only at about the rate of inflation. The freeze will reduce deficits by $250 billion through the end of the decade. Among other things, it will require us to eliminate or consolidate funding for several education programs even as we make significant targeted investments to improve education. It will mean reducing spending on the National Park Service, terminating the Brownfield Economic Development Initiative for poor areas that the President advocated during the election campaign and still supports.

In addition, we need to restore the basic set of disciplines that helped make sure that if Congress proposes new policies or tax cuts, these are paid for with offsetting cuts or changes in policy. In the 1990s, Washington started to live by the budget rule and the basic common sense principle that if the President and Congress wanted to pass an expensive tax cut or entitlement increase—however worthy—they had to find offsetting measure to ensure it did not increase the deficit or debt. This common sense rule—called PAYGO—helped Washington move from large deficits to surpluses. If Washington had lived up to this principle during the last decade it would have served as a bulwark against the unpaid for tax cuts and entitlement increases that make up the heart of the current deficit and debt. Reinstating PAYGO will help return the government to fiscal sustainability.

The Budget will include proposals to close the "tax gap" by collecting more of the taxes that are owed, but are not paid. This is critically important. Tax evasion not only reduces tax revenue, thereby resulting in an implicit tax increase on those Americans who pay their taxes, it also reduces the faith Americans have in the tax system, starting a vicious cycle that can result in even more evasion. I appreciate this Committee's longstanding interest in, and leadership on, efforts to reduce the tax gap. I look forward to working with the Committee to address this important issue.

The Budget will provide nearly $250 million in new enforcement initiatives to improve compliance, which will build on the foundation established in the FY 2010 budget to hire nearly 2,000 new employees dedicated to addressing international tax evasion by businesses and affluent individuals, improving information reporting, and broadening collection activities.

Since President Obama took office, the United States has aggressively pursued international tax agreements to further cross-border tax information exchange. In the past year alone, the United States has signed agreements improving tax information exchange with Switzerland, Luxembourg, Liechtenstein, Gibraltar, Monaco, and Chile. The United States also is working multilaterally to make sure that countries meet international standards on tax transparency and information exchange. The Administration is committed to preventing the facilitation of offshore tax evasion. Finally, the Internal Revenue Service has vigorously pursued enforcement actions against those hiding money offshore. All these efforts are being undertaken to address a fundamental concern: Again, tax evasion, especially through the use of offshore entities and accounts, undermines confidence in our tax system and results in an implicit tax increase on those who pay the taxes they owe.

Our Budget will include a number of proposals to increase information reporting and withholding. The most significant proposal involves addressing the use of offshore entities and accounts to evade U.S. taxes. This initiative will result in billions more in revenue over the budget window and just as importantly send the message that if you hide income and assets offshore to evade tax, we will find you and you will pay. I applaud the leadership this Committee has shown on the issue.

We are also proposing substantive changes to our tax laws to address rules that yield unfair and economically inefficient results. For example, our proposals to reform our international tax rules, to address those aspects that disadvantage investment in the United States and encourage companies to ship jobs overseas. Of course, we recognize that this is an area where our tax law must strike a balance. We are concerned about the competitiveness of U.S. companies abroad and recognize that the growth of U.S. companies globally can benefit the United States. But we recognize that allowing a company that moves jobs or investments overseas to gain a competitive advantage through our tax code against a competitor that chooses to expand investment and job growth in the United States is unfair and is bad policy. This Budget seeks to strike that balance by limiting our proposal regarding the deferral of expenses only to interest. In addition, we drop a previous proposal to limit the ability of taxpayers to elect the tax status of business entities under the so-called "check-the-box" rules. We remain concerned about the misuse of those rules to inappropriately avoid U.S. taxes, and thus are proposing tighter rules regarding the use of foreign tax credits, as well as a new provision to backstop our transfer pricing rules that will subject to immediate U.S. tax excessive returns on intangibles transferred to low-tax foreign affiliates. Our goal in these proposals is to limit the role taxes play in business investment decisions by reducing implicit tax incentives to move investment and jobs overseas. We are, of course, open to discussing how best to achieve that goal.

Our proposals to allow some of the Bush Administration's individual tax cuts to expire as scheduled and to limit the value of certain tax benefits are restricted to those with the highest incomes. Moreover, we again propose that the income earned on a so-called "carried interest" be taxed as ordinary income and not at preferential capital gains rates, so that private equity and hedge fund managers pay tax on their compensation under the same rate structure as average Americans.

The new Budget will include the President's Financial Crisis Responsibility fee to be imposed on our largest financial firms. The fee will raise $90 billion over 10 years. And it will be extended beyond that period in the event that the cost to the taxpayers of saving the financial system turns out to be greater than that. This last point is another one that bears repeating; the fee can and will be extended until every penny of taxpayer assistance from TARP has been repaid and the cost of the rescue to taxpayers is zero.

The Administration's Budget will cut the deficit as a share of GDP by half as a share of the economy, from the 9.2 percent of GDP the President inherited in 2009 to 4.2 percent of GDP in 2013. The deficit will fall further in 2014, to 3.9 percent.

But this is not enough.

That is why the Administration supports the creation of a bipartisan Fiscal Commission. The Commission will be charged with identifying policies that could win the necessary political support to complete the job of achieving fiscal sustainability. Specifically, it would be asked to propose how to balance the budget exclusive of interest payments on the debt by 2015.

Both Democratic and Republican administrations have turned to similar bodies when the nation faced complex and contentious fiscal decisions. For example, in

1981, President Reagan established by Executive Order the so-called Greenspan Commission to cope with financing problems of Social Security. We could make progress tackling today's fiscal problems with similar bipartisan action.

While the new Fiscal Commission's first job will be to balance the operating budget of the government—the budget absent interest payments on the debt—by 2015, the panel also would be charged with proposing changes to address the unsustainable rate of growth in entitlement spending and the long-run gap between government revenues and expenditures. The nation will be challenged anew to maintain fiscal balance as the Baby Boom generation retires, especially if we fail to reform health care. This will make the Commission's latter charge as difficult, and important, to meet as its immediate one.

Finally, I want to highlight progress we achieved over the past year in rescuing our financial system and our economy at a lower cost to taxpayers than many anticipated.

Treasury has taken steps to dramatically bring down the cost of the Troubled Asset Relief Program (TARP), which helped stabilize the financial system, and to shift the focus of the program to small business and housing. As a result of careful stewardship and improved financial conditions, the projected cost of TARP has fallen from $341 billion last August to $117 billion in this Budget, and we have removed an additional $250 billion reserve in place in the event that additional financial stabilization efforts were necessary. If Congress joins with the President in enacting the financial fee, American taxpayers will not have to pay one cent for the financial rescue.

CONCLUSION

While our country is in a stronger position today than it was one year ago, we still face tremendous challenges. In meeting those challenges, the true engine of job growth and prosperity, the private sector, must lead the way. But the government must help create conditions that allow businesses to thrive.

We must work together to spur job growth, to invest in ways that make our economy stronger in the future, and to lay the foundation for long-term growth. And we must work together to ensure that our government goes back to living within its means.

These goals reinforce each other; they are not in conflict. Without growth, we cannot begin the process of restoring fiscal responsibility. Without confidence that we can bring down our long-term deficits, it will be harder to make sure we are getting Americans back to work and improving economic security.

We are a strong and resilient country. We have successfully confronted great economic challenges in the past, and we will do so again. This is a question of will, not ability. The American people want to see us do this together—to work to solve the problems that we all face and to get the economy back on track.

I look forward to working with you in a bipartisan manner on this endeavor.

Thank you.

Chairman SPRATT. Let me ask you a couple of rather technical questions about the budget for clarification. Freddie Mac, Fannie Mae are not consolidated with the rest of the Federal budget, so that your accounting difference, to some extent, to that extent at least, from the Congressional Budget Office, which fields the given investment we have made, the cash infusions we have committed ourselves to, stock we hold, the two should be consolidated. Would you like to explain Treasury's position against consolidation at this point in time?

Secretary GEITHNER. Thank you. This is really a question for accountants. Like on many issues, accountants will disagree on what the appropriate treatment is. We do not think it is necessary to consolidate the full obligations of Fannie and Freddie onto the Nation's budget, but we do think it is very important that we make it clear to investors around the world that we will make sure we will take the actions necessary to make sure that those two important government-sponsored enterprises can continue to play the role they need to play as we repair the damage caused to this housing market. That is going to take some time.

We are going to propose reforms to the Congress next year to try to make sure we bring about fundamental change in the housing market and get ourselves in a position where the government is playing a less risky, but more constructive role in supporting the housing market in the future. That is going to be a difficult set of reforms, but we do not believe it is necessary to consolidate the full obligations of those entities onto the balance sheet of the Federal Government at this stage.

Chairman SPRATT. What would be the impact on the deficit if you did consolidate the two?

Secretary GEITHNER. I think the CBO answer would be—again, this is a matter for accountants—is they would have no impact on the deficit to do it.

Chairman SPRATT. You have set a short-term goal of having a balanced operating budget by 2015, exclusive of net interest on the national debt. Now, obviously, net interest on the national debt is an extremely important, extremely important obligation under our budget. Indeed, it is the true entitlement in the sense that it is totally obligatory. It can't be changed or disavowed by law. Why have you chosen that target, and is this a target for the next 10 years or just a target for the next 5 years?

Secretary GEITHNER. It is a target that we have to achieve in 5 years and hold to. But you should view it as necessary, but not sufficient. For an economy like the United States, we need to make sure—and this should be the basic objective that guides our fiscal policy choices—we need to make sure we bring the deficits down to a level over the medium term that stabilizes our overall debt burden at a level that is acceptable. And for an economy structured like ours, that turns out to be roughly 3 percent, which is roughly the primary balance, meaning it means the economy would balance if you exclude interest costs. The budget would balance. If you achieve that target, then you achieve the necessary essential thing, which is the debt burden as a share of the economy is no longer growing, and it stabilizes at a level that we can live with. But you should view this as a necessary, but not sufficient objective. Obviously, we want to go beyond that over time.

What the President's budget does is propose a series of detailed policies that bring our deficits down to below 4 percent. They don't take us all the way there. We are very direct and very explicit about that. One of the tasks we are going to give the Commission is to recommend additional proposals that will take us from just below 4 to under 3 over the medium term.

Chairman SPRATT. Looking back a year, what we have accomplished is pretty significant, phenomenal some would say, from negative growth of minus 5.4 percent to positive growth of 5.7 percent; from losing 797,000 jobs to losing an average of 25,000 to 35,000 jobs. Very impressive. Not so significant we can say the game is over, by any means. But people aren't feeling it. The large reason for that is that unemployment is still lagging well behind and will lag significantly behind.

Would you tell us the major initiatives for job generation in the President's budget for next year?

Secretary GEITHNER. Mr. Chairman, I think you are right to highlight the fact that in a relatively quick period of time, we have

gone from an economy shrinking at an annual rate of 6 percent a year to an economy that is growing at roughly that same rate. That came more quickly, with more strength, more broad-based recovery and basic growth than many people expected, and that is a necessary essential achievement. Nothing would be possible without that essential achievement.

But this crisis caused incredible damage to basic confidence of Americans' businesses and families in the economy as a whole, and we are still living with the scars of that damage to confidence. And what you see today, even as the economy heals, and the caution you see in terms of how families spend and how businesses invest and hire is a reflection of that damage to confidence.

The most important thing we can do, whether you care about long-term deficits or the immediate challenges facing the country, are to make sure we are working together to put in place some additional targeted measures of support that will strengthen growth and increase job creation in the near term.

As I said in my opening remarks and you saw in the President's State of the Union Address, we think the most effective things we can do are some targeted tax incentives for small businesses; things to improve access to credit for small businesses; carefully designed tax credits to encourage new hiring; zero capital gains rate on investment in small businesses; targeted investments in infrastructure; continued help for State and local governments; and some carefully designed tax incentives to encourage families to put in place energy efficiency-improving changes in their homes. That package of measures are not expensive, but we think they can be very powerful in providing more spark to business investment and in providing stronger growth and job creation in the near term.

Chairman SPRATT. Looking back over the last year, what you had to do, often with great rapidity, to save the economy from entering some steep downward spiral, do you think that the actions taken by the Treasury and the Fed have had a palpable significant effect on the economy? And to what extent have they contributed to GDP growth?

Secretary GEITHNER. Mr. Chairman, the actions we took to stabilize the financial system were an essential part of what has brought the economy back from near depression to very substantial positive growth. The Recovery Act would not have been as effective as it was without those measures to stabilize the financial system, and they have been remarkably effective in bringing stability and confidence to the system, bringing down the cost of borrowing to municipal governments across the country, to homeowners, to small businesses, and large businesses. But as you emphasized, we have a lot of challenges ahead of us still. I think it is very important that people recognize that even though we are growing again as a country, this crisis is not over for most Americans, and we have to work very hard still to make sure we are reinforcing this process of healing and we are trying to restore and improve confidence in businesses and Americans that we are going to stick with this until we make it better.

Chairman SPRATT. One final question. You are proposing a bank tax, a tax on banks that have participated in the TARP program and others who might have participated, on the grounds that the

availabilities benefited everybody. As we look at regulatory reform, it strikes me as an old country banker that the single best means of safety and soundness is capital. What we are seeing is a situation where the regulators, the auditors, the examiners have been outpaced by the sophistication and cleverness of financial instruments. I think that phenomenon is going to continue as we go into this further and further in this world where money moves at the speed of light.

Why not take that $90 billion that we are taxing and require the banks instead to add it to their capital structure so that we can have better capital-based institutions as one step towards better safety and soundness?

Secretary GEITHNER. Mr. Chairman, you are absolutely right that the most important thing you can do to make sure that this financial system can support recovery in the future and that we reduce the risk of future crises is to make sure we have enough capital in this financial system. We did not have enough capital. There is substantially more capital today in the financial system than there was a year ago, 2 years ago, and this puts the system today in a much stronger position to make sure it can work to support this building recovery.

This bank fee, though, is a very important act. In the legislation to authorize the emergency measures to stabilize the financial system, Congress required the Secretary of the Treasury to propose ways to recoup any losses that the American taxpayer would have faced from the actions we took to put out the financial fire. Although we have reduced those expected losses by more than $400 billion, we still face some risk of loss from the actions we had to take to stabilize the financial system. And so what we did is propose—and I think this is a very simple, fair thing—what we proposed is to put a modest fee spread out over 10 years on the Nation's largest banks that benefited most from the actions we took to make sure that we can look the American people in the eye and say, You as American taxpayers will not have to bear a penny of costs for the actions we took to put out this financial mess. That is a simple, fair thing.

We are obligated to propose a way to do that in the law that authorized the TARP. We met that obligation by proposing a fee that would provide—not just meet this fiscal obligation, but provide a modest disincentive to future risk-taking and leverage. We think the way we designed it will have no risk of negatively impacting lending and will not materially erode or challenge the capital position of these firms.

These firms are in much stronger position today because of the actions we took. There is much more capital in the banking system today than there was a year ago. And as part of financial reform, we want to make sure that we are building a more stable system in the future. But it is a reasonable thing to ask that the institutions that benefited the most from this crisis protect the taxpayer from having to bear any losses from the actions we took.

Chairman SPRATT. Thank you, Mr. Secretary.

Mr. Hensarling.

Mr. HENSARLING. Mr. Secretary, in June, the administration released its white paper on your capital market reform legislation. In

that, I thought I read where in the fiscal year 2011 budget that you would explore options in dealing with the GSEs. And what I think I just heard in your testimony—well, let me back up. As I read your budget, I think I only found one sentence devoted to the GSEs that certainly was not any type of reform plan.

My question is: I think I just heard you say in your testimony that you will now be submitting a plan next year as opposed to this year. Did I understand you correctly?

Secretary GEITHNER. Let me explain. We are going to lay out a set of broad objectives and principles to guide reform.

Mr. HENSARLING. Is that this year or next year?

Secretary GEITHNER. We are going to put out principles and broad questions this year. We are going to put out some broad questions and invite public comment on those questions. And then we are going to use that process of outreach, and I am sure there will be extensive congressional testimony, to try to shape a set of legislative proposals we can present to the Congress next year.

Congressman, let me say there is nobody who is going to care more about making sure we fix what was broken, not just in Fannie and Freddie, but the broad government's role in the housing market, than me. And we want to make sure that we get it right, That we do it carefully. We can't do everything right away. The judgment we made, and I think this is the right judgment, that if we are going to get this right, we want to make sure that we are proposing these changes at a time when we have a little bit more distance from the worst housing crisis in generations.

Mr. HENSARLING. Mr. Secretary, I understand that. Nobody doubts your sincerity. But, clearly, there was a time that the administration anticipated presenting reform plans in their budget. That is not going to happen today. And I am curious about putting it in the context of what happened on Christmas Eve when Treasury announced that all of a sudden we were going from a potential limit of $400 billion of exposure to the GSEs to unlimited. It appears that clearly you have a larger problem than you anticipated.

And so the question is, I suppose, do you see any limit to the taxpayer exposure to GSEs? It is very disheartening for many to have the administration lift the taxpayer exposure and present absolutely no plan to prevent the future hemorrhage as we are drowning in debt.

Secretary GEITHNER. Congressman, thank you for raising this. I am sorry I didn't respond to this initially, because you said this in your opening statements. The law that authorized the executive branch to go in and stabilize Fannie and Freddie gave the Secretary the ability to provide whatever support was necessary to achieve that objective. We have actually not seen any material change in our estimates of potential losses for Fannie and Freddie.

What we did at the end of the year in sort of an abundance of caution is to try to make sure that the world as a whole, Americans and foreigners around the world, understand——

Mr. HENSARLING. The assessment is not different, Mr. Secretary. You are not anticipating spending more than $400 billion.

Secretary GEITHNER. We have seen no change. We use a variety of independent assessments of potential losses, and we see no change in those estimates of potential losses over the last several

months. Some may look a little better on margin. But what we want to make sure——

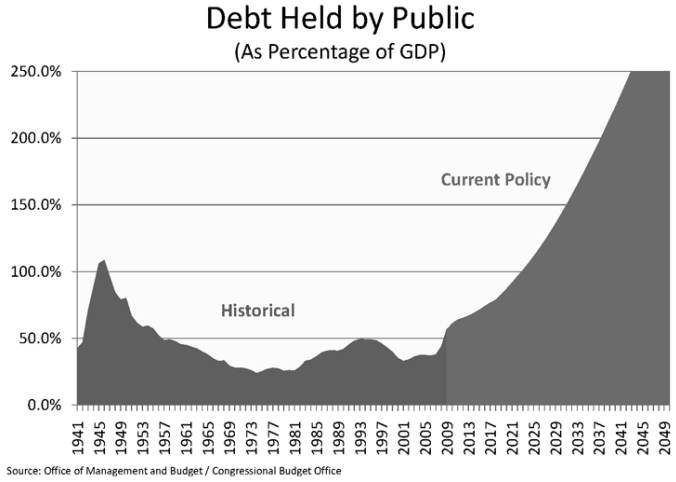
Mr. HENSARLING. I am sorry, Mr. Secretary; what is the extent of the loss that you are anticipating?

Secretary GEITHNER. We laid this out in the budget in details, but I want to just clarify what we actually did. What we did is use the authority Congress gave my predecessor, the previous administration, the Bush administration, to make sure we could take whatever actions were necessary to make sure that investors were confident holding the debt and buying the securities guaranteed by that company. That was a very important thing to do. That was the intent of the law, and we acted consistent with that not because we are concerned about any changes in expectations, but we had to do it in that time frame.

Mr. HENSARLING. I understand you are acting consistent with the law, but I didn't hear the size of the magnitude of the loss that Treasury is anticipating.

Secretary GEITHNER. In the budget, and CBO has this, too, there are a variety of new estimates of potential exposure. But I would be happy to go through those into more detail.

Mr. HENSARLING. Go ahead and move on. If we could pull up the chart on the debt. I know that the President, when he submitted his budget statement—I believe I have the quote right—said, "We cannot continue to borrow against our children's future." You said something similar.



I have no doubt that you are very sincere. I have no doubt that the President is very sincere. Yet I look up here, and, again, all I see is a sea of red ink taking us to levels of debt that America has never seen. And so, again, I find myself agreeing with roughly 80 percent of what the President says; I just disagree with 80 percent of what he does.

And so my first question is: Do you agree with Dr. Orszag that having deficits exceeding 3 percent of GDP are unsustainable in the long term?

Secretary GEITHNER. Of course I do. I said that in the response. I explain why. But I think that is a very misleading chart. We need to look at what happened to the fiscal position of the United States, actual and projected, from 2001 to 2008. You need to show what projected deficits and debt was going to be when we stepped into office.

Mr. HENSARLING. I believe these numbers come from both OMB and CBO of what current policy is, Mr. Secretary.

Secretary GEITHNER. What is essentially misleading about this is, again, in 2001, we had projected surpluses by CBO of $5.5 trillion. And in 2009, when the President took office, before we did one act, those projected deficits——

Mr. HENSARLING. You are not denying the numbers, you are just trying to put them in context to say you are performing better than the worst-case scenario. Maybe it is the next-worst-case scenario.

Secretary GEITHNER. No, no, that is not what I am saying. What I am saying is the debt that you lament, that we are all going to share the responsibility of dealing with, is the legacy of a set of policies put in place before we took office. Now, I welcome——

Mr. HENSARLING. Fine, we can talk about the mess you inherited. But you are in charge now. And I think you said something along that in your testimony, and nowhere in your budget do I see that you change this current policy.

Secretary GEITHNER. No. No.

Mr. HENSARLING. If I could, let me finish this one point. I believe both the debt and the deficit go right back up after 2020. Never reaches 3 percent. In 2020, it starts to go back up to 4 and beyond.

I will end here, Mr. Chairman. I guess the question I would ask is: Where is the leadership? If you agree, the President agrees, we are drowning in a sea of red ink. I understand your economic theory that we have to have these short-term deficits, but, Mr. Secretary, those are long-term deficits that I think you would agree as a professional economist will absolutely wreck our economy in the future. And what I see is an administration proposing more spending, more entitlement spending. And what we are offered is, number one, a commission that Congress didn't have to vote on, where some mandatory spending is taken off the table, number one.

Number two, you spoke of the freeze, which, as I understand it, you essentially exempt 83 percent of the budget. You wait a year to turn on the freeze, or you turn it off after 3 years. According to your own numbers, that is a difference of growing the budget 49.01 percent versus 49.27. The numbers are just put into a Microsoft Excel spreadsheet. Those lines aren't manipulated in any way, unless Mr. Gates of Microsoft did it.

And so the question is: If you know you are on the road to bankruptcy, you know the numbers, and all we get is, Well, we are doing better than somebody else predicted, with all due respect, Mr. Secretary, it is just not enough.

Secretary GEITHNER. Congressman, I welcome your concern about our long-term fiscal position. You state eloquently why it is important that we work together to bring these things down. We face two different horizons for deficits. We have a real problem over the next 5 to 10 years, and we have to act to bring those deficits down. But that is, in a sense, digging out of the mess we inherited

because of the policies of the previous 8 years and because of the recession.

But that is not enough, because as your previous chart shows, we face dramatic escalation in the size of our deficits over the longer term and, as I think you know well, are driven by—overwhelmingly driven by what is happening to health care costs. The only way to deal with that daunting trajectory of future debt burden is to make sure we are bringing down the rate of growth in health care costs.

Now, though I know many people on your side disagree with how we are proposing to reform the health care system, the central rationale underpinning those reforms is to make sure we begin the process now of putting in place policies that will bring down the rate of growth in that part of entitlements. Now, those get worse because we are going to age as a Nation, but those long-term deficits are overwhelmingly driven by the basic costs embedded in our health care system today. If we don't act on that front, then we have no way to return to the point where as a country we are living within our means.

Chairman SPRATT. Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman, very much.

Welcome, Mr. Secretary. I agree with you; turning the economy around and creating jobs and growth through private investment should be our priority, including to reduce both private and public debt. And I hope we can engage here in two areas. This requires that we heal the housing and commercial real estate markets to lead our economy to recovery. Currently those markets are a true drag on that.

Secondly, we need to restore confidence of the normal lending and credit markets. Not Treasury picking favorites. What is happening now is, as the Wall Street Journal adequately documents this morning, lending has been falling at an epic pace, with the largest decline since 1942 through fiscal year 2009.

Now, I have had serious disagreements with the last administration in the manner they proceeded on the housing front and on the normal credit market front, and I am having concerns. Though I disagree with you on a lot of things, I feel sorry for you because I don't think Treasury is the place to heal what I am talking about, and that is what I want to engage with you on these challenges.

First, let us talk about the housing programs. Your administration, compared to the last one, is trying, but you are not hitting the mark because you are not on the bull's-eye; you are on the edges. On housing foreclosures your programs are not working. HAMP is not working. You have recommended cuts in programs that go to the States to help to do workouts. If I could encourage you and Secretary Donovan, make certain Federal benefits to these institutions, the servicers and the banks, dependent on their ability to qualify, let's say, for FHA or to get into one of our secondary markets, because they are not coming to the table.

What was done over the weekend—you are trying to do good. You said, now $1.5 billion we are going to put through TARP, and we are going to do mortgage workouts, but we are only going to do it in five States, and these are the States. Ohio wasn't one of the five. I say, Oh, California. Why California? Oh, Nevada. Arizona? Florida? Michigan, our neighbor.

Let me give you some numbers. Those States rank in unemployment—Arizona has got a 9.1 unemployment rate; Nevada, 13 percent. The district that I represent, Ottawa County, just one county in my district, has 17.3 percent unemployment. Lucas County, 12.3 percent. Erie County, 12.5 percent. The counties I represent have more unemployment than those States and more mortgage foreclosures county by county. I am saying, Why did Treasury do that?

So I believe that the program that was just announced fails to provide sufficient and proportional assistance to hard-hit areas and other regions that were left out for no explicable reason. So you make political choices at Treasury, just like you picked Merrill Lynch—they got merged. But you dumped Lehman Brothers. At least the last administration did. That doesn't give confidence to the housing market.

So I am going to ask you, would you be willing to meet with—and you don't have to answer this on the record—areas where we have these huge housing foreclosure issues, and we don't see that what the administration is doing in the housing markets is actually leading to robust recovery in those markets.

The second point I wanted to get to is the normal lending process, that is not happening. You are picking favorites over at Treasury. SBA, you know, do TARP loans to these small businesses, whereas our community banks back home can't lend for a whole variety of reasons. You are looking at the wrong end of the telescope. The goal should be to get robust activity in the normal banking sector.

Let me read you from an article written by former FDIC Chairman William Isaac, who actually resolved thousands of troubled institutions. He says, The banking system shrank 5.3 percent in 2009, according to the FDIC. The problem remains an approach that is highly pro-cyclical toward regulation, coupled with highly pro-cyclical mark-to-market accounting. The administration is increasing bank capital requirements immediately, making the banks bring securitizations back onto their balance sheets immediately instead of phasing in the change and hitting them with greatly FDIC-increased premiums on top of mark-to-market accounting having destroyed some $600 billion of bank capital. We should increase bank capital, bring securitizations back onto bank balance sheets, and increase the FDIC fund. But they must be phased in.

I know my time has expired, Mr. Chairman, but let me just say, meanwhile the administration is doing nothing effective to help smaller banks survive. They need a net worth certificate program or some type of other capital program to help community banks. That would almost cost nothing and would help the normal system to function.

Could you please address the housing approach of the administration and what you are doing to get the normal banking system to operate rather than Treasury trying to substitute for the lack thereof in the normal credit markets?

Secretary GEITHNER. Congresswoman, those are excellent. Let me start where you ended, and I will come back to housing.

You are absolutely right that one of the most important things for us to do is try to make sure that small community banks across the country have access to capital. Because of what has happened

to our financial system, it is hard for even strong, viable community banks to go raise capital now. So what we have proposed, the President proposed, is that we design a $30 billion small business lending facility that will provide capital to small community banks that use that capital to increase lending to small businesses.

As you said, this is a very cheap program. It does not cost a lot of money and is a very important, necessary thing to do. I would be happy to talk to you in more detail. It requires legislation, but it is not difficult to do and not expensive. One of the most important things we could do is support capital for small community banks.

Second, we are——

Ms. KAPTUR. I have had two businesses come up to me this weekend and say, Can I get one of those TARP loans? That is the wrong question.

Secretary GEITHNER. We are not proposing a TARP program. TARP has outlived its basic usefulness because banks are worried about the stigma of coming to TARP, and they are, frankly, worried about the conditions. We had 600 small banks withdraw their applications because they were scared about the stigma and the conditions that would come.

So what we are proposing to do is to design a new program outside that context that would be targeted just to small community banks; give them capital so they can increase lending to small business customers is a simple, pragmatic, sensible thing to do and does not cost a lot of money. One of the highest return things we can do as a government today is to give a dollar of capital to a small community bank that meets a simple test for viability. I completely agree with that.

One quick thing on capital. You are absolutely right. If you listen to community banks across the country right now, they are worried about three things. They are worried about uncertainty caused by financial reform, what it is going to mean for the rules of the game going forward, and that is one good reason to try to bring financial reform down to Earth to rest as quickly as we can. That will be helpful for confidence and for clarity.

They are very concerned about pressure they perceive from their examiners and their supervisors to raise capital, tighten lending standards—in effect, amplifying the contraction in credit you see produced by the crisis—and they need capital.

But we need to respond on all three fronts. But when we reform capital standards, which we are going to have to do because they were too low, but when we reform them, we are going to make sure they are phased in over time with a decent transition period so we avoid just the risk you appropriately pointed out.

We will be very, very careful about that, and I care very deeply about that.

Now let me say two things on housing. The actions that we took together with the Fed have brought a measure of stability to housing markets. As you saw yesterday, the seventh month of increased prices in the housing market as a whole, that is enormously important to the basic economic security of tens of millions of Americans.

Now the program we designed to help make sure that people who can afford to stay in their homes actually stay in their homes is

now reaching 1 million Americans with very substantial reductions in their monthly payments, which on average saves about $600 a month for these families. This is very powerful, very effective, very direct relief to people who deserve to have the chance to stay in their homes, and it has substantially reduced the pace of increasing foreclosures.

But we are looking all the time at ways to increase the reach and effectiveness of that program. We would be happy to listen to any ideas you have, and the program that we announced over the weekend or last Friday, which is designed to pilot some additional reforms that might improve the reach of these programs for the unemployed and for people facing negative equity, are things that we hope to build on in the future. But we would be open to any suggestions. Any ideas you have we would be happy to talk with you about them.

Ms. KAPTUR. Mr. Secretary, who do we contact on that housing issue?

Secretary GEITHNER. My colleague, Assistant Secretary Michael Barr, is responsible for policy; this is the Treasury. Herb Allison is his colleague. Both of them are in charge, but you can come to me directly if you want to.

Ms. KAPTUR. Thank you.

Chairman SPRATT. Mr. Nunes.

Mr. NUNES. Thank you, Mr. Chairman.

Mr. Secretary, welcome back to the committee.

Mr. Secretary, as you know Mr. Ryan, the ranking Republican member, has introduced his "Road Map" reform. This is the second time that he has introduced it. It is much improved over the first version from 2008.

I would just be interested to know what you like about the plan, what you dislike in the plan, what you suggest that we change in the plan as we move forward, as we look for a credible solution to our Nation's growing fiscal problems.

Secretary GEITHNER. What I like about it is it's a plan. It doesn't ignore the problems. It is straightforward about them, and it meets a basic test of government, which is it proposes specific ways of bringing our fiscal house in order.

I do not agree with much of the specific proposals he made, but I give him a lot of credit for having the courage to put out a lot of stuff that is going to be very controversial, not just among Democrats but within his own party.

We are going to have a difficult debate on these kinds of things, but one of the virtues of this commission that the President has established is that it brings Democrats and Republicans together, asks them to step back from politics, no preconditions, and to figure out where we can build consensus on ways to bring our resources and commitments more into balance.

Mr. NUNES. So I assume you do not like, if I am hearing you correctly, you don't like the aspects of the changes that we make to Social Security?

Secretary GEITHNER. Well, I personally would not propose introducing private accounts. I would not propose privatizing Social Security. I don't think that is necessary to restore solvency to Social Security.

He has got a lot of ideas about what to do on Medicare and Medicaid which I think would leave millions of Americans with inadequate coverage.

But, again, a lot of credit to him for having a plan and proposing specific changes. And I think again, he has met the basic test, which is to say, people who share in responsibility for creating this mess—and that responsibility is shared by many people—are going to be able to share in the privilege of proposing ways to dig our way out of that mess.

Mr. NUNES. You know, if we continue, first of all, I want to make sure for the record that no one is discussing privatizing Social Security, and in fact, we are just trying to offer similar health care proposals or health care plans and Social Security plans and the retirement security plans that Members of Congress have and other Federal employees have, which tend to work pretty well for Federal employees, and I think it would be appropriate to expand those to all Americans. That is really at the basis of what Mr. Ryan's proposal does.

And I would argue that, you know, one of the problems we have with Medicaid and Medicare, despite—I mean, we can argue over the numbers, but they are tens of trillions of dollars in the hole. So they are essentially bankrupt themselves. And I would argue that by doing nothing for these programs means that they will not exist.

Secretary GEITHNER. I completely agree with that. We do not have the luxury of deciding that because it is politically difficult to figure out how to confront these things, we are not going to do anything about it. We don't have the luxury. And the world is not going to wait for us.

Again, a lot of credit to him for having a plan and proposing things that help restore gravity to our fiscal position. I disagree with a lot of the suggestions he made, but I give him a lot of credit for having ideas.

Mr. NUNES. Thank you.

Do I have 2 more minutes here?

Chairman SPRATT. You do.

Mr. NUNES. Thank you.

Just quickly, I think you have read that a lot of people are suggesting that the short-term interest rates need to rise. And some argue they should. Some argue they shouldn't. Some say that because of these low interest rates, it is what has caused this financial crisis to happen. Do you have any comments on that? Do you agree, disagree? What are your thoughts?

Secretary GEITHNER. Congressman, I will never comment on the monetary policy decisions of the Federal Reserve, just as a matter of basic principle, which is they are established as an independent authority with a difficult job of trying to make sure that we achieve sustainable growth with price sustainability in the future, and I am very careful never to comment on the merits of those choices. The Chairman of the Federal Reserve is now testifying, though in another building, today in the Congress right now, and I know that your colleagues are having a chance to talk to him about that. But I leave those questions to him.

Mr. NUNES. Okay. Fair enough.

Thank you very much, Mr. Chairman.

Mr. MCHENRY. Will the gentleman yield 30 seconds?

Mr. NUNES. Sure.

Mr. MCHENRY. Secretary Geithner, in terms of the commission, you discussed the commission. Everything is on the table. No preconditions. If we unwind and raise taxes to the pre-2001 and 2003 levels, undo all those tax cuts and have massive tax increases, the budget still isn't sustainable, is that correct?

Secretary GEITHNER. We are not proposing to do that. I just want to make sure that you understand. What we are proposing to do is a much more narrow, targeted change which we think is fair and necessary which is to allow the tax cuts that benefited 2 percent of the most affluent Americans in the country to expire as scheduled. But we are proposing to make permanent and extend the rest of the tax cuts that would go to 95 percent of Americans.

Mr. MCHENRY. As a matter of this commission, why not say that we have to deal with the spending side and not the tax increase side?

Secretary GEITHNER. Well, I know you know the answer to that question, but let me just say the basic principle.

Mr. MCHENRY. Well, I would like to hear your answer, not my answer. My answer would be not to raise taxes.

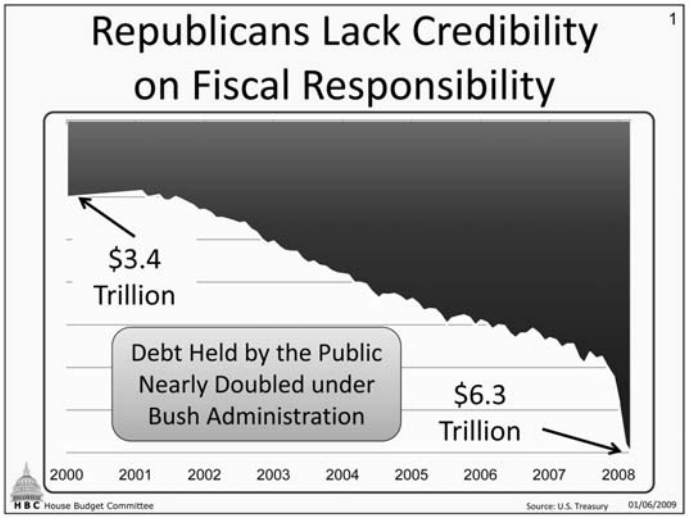
Secretary GEITHNER. People are going to disagree on how we solve this mess. And they are going to have different views as to what the right mix will be. But again, we think it is important, based on the model of really the only successful commission we have had on economic policy in a long time, which is the Reagan-Greenspan Commission on Social Security. We want people to come, step back from politics, no preconditions, take a fresh look at it, and they will make recommendations, we hope, about what the right mix is going to be. And the way this is designed is, it requires a vote of 14 of the 18 members to make a recommendation, and that means that your side would have to be a part of any decision to make a recommendation for changes. So your appointees are going to have the opportunity to fully shape whatever recommendations made, and I am sure they will come with views on, again, what the right mix is of things on the resource side and equipment side.

Chairman SPRATT. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman.

Mr. Secretary, welcome. Thanks for being with us. I have many questions that I would like to ask, but I find myself constantly having to make sure we clear the record on where things stand. And perhaps the best way is to use pictures. This chart that I have up is very similar to the chart that my colleague previously had up with regard to—Mr. Hensarling had up with regard to the national debt. This flips it though. It shows it as I think it should be, as red ink below the line. And the point I would like to make here is that what we find is that all that red ink added up. So at the point, the very tip of that massive amount of red ink, that is when President Barack Obama had a chance to come into office, right around where the lowest point of that red ink is. And all of that red ink put together is what President Obama inherited. In fact, you can see the trajectory of where we were going, and if you ex-

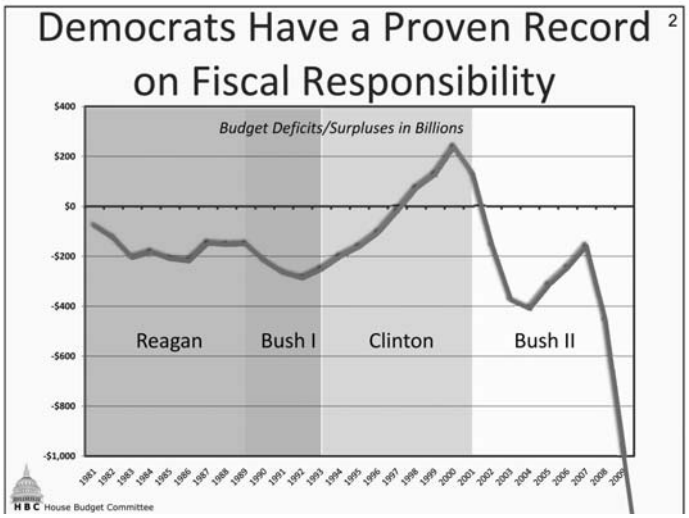
tend it out, that is why the chart that Mr. Hensarling used showed that we were expecting to see a pretty bad fiscal situation into the future.



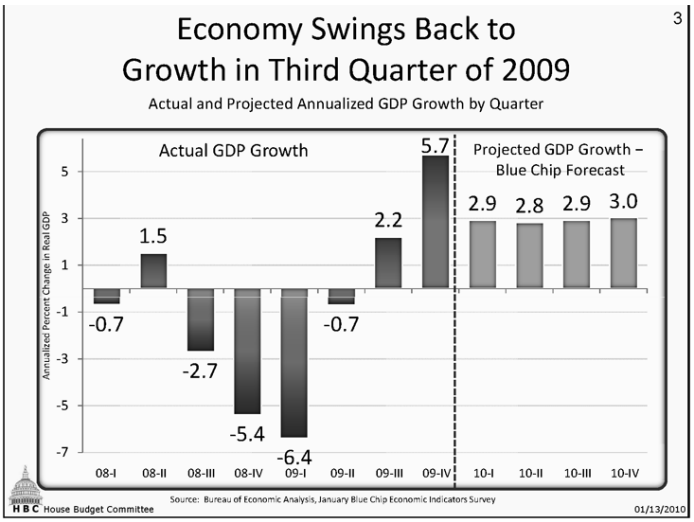
By the way, I want to make sure that we point out, all those years that we had all this red ink, those were years where we had the Bush tax cuts in place, these Bush tax cuts that were supposed to get us back into surplus. All those Bush tax cuts did nothing but add to the red ink.

We go to the next chart, as we hear colleagues talk about, why is it that the President can't resolve this mess? It is as if, all of a sudden, he started at the starting point with a fresh hand when in fact—I don't care which analogy you wish to use, whether he was burdened by tons of weights or whether he was pushed back from the starting line on the 100-yard dash another 100 yards, but it was not at the starting line. If that horizontal line that you see is on the second chart is the starting line, you can see where President Obama got to start the race to try to bring the economy back and get Americans working again. In fact, you don't even see where the President picks up the keys in the White House from the previous administration because the line falls off of the chart. That is how bad these things were with these deficits that we were running.

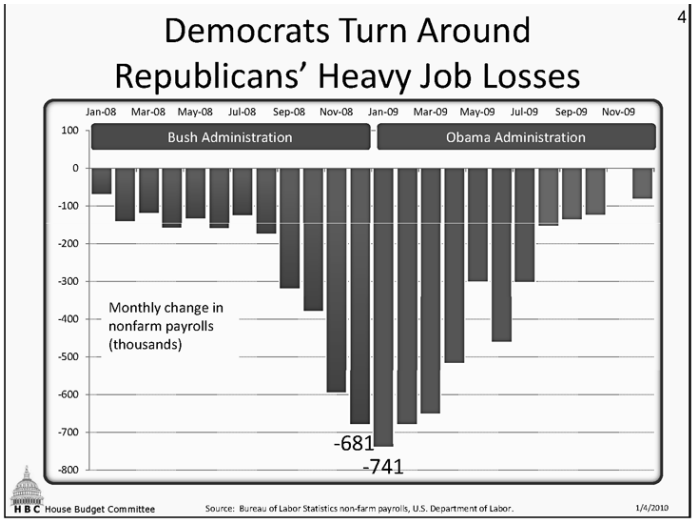
And by the way, the last time we saw any fiscal responsibility happened to be when you see that blue line under President Clinton. But all along the path of President Bush's term, we can all see what is going on. So that is what makes it very difficult. That is why that previous chart by Mr. Hensarling showed so much red ink, because when you don't take care of things at the beginning, it gets even worse. It is like jumping out of the plane and not knowing how to pull open the parachute. That is what happened. We had reckless fiscal policy. The guy didn't know how to pull the cord to open up the chute.



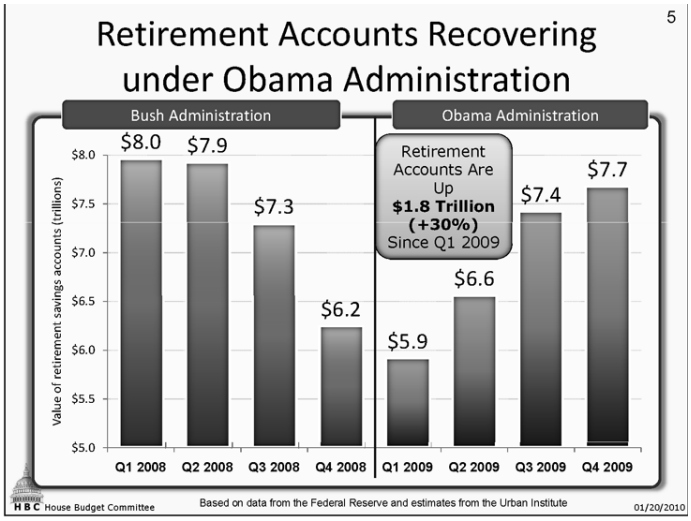
If I can go to the next chart, to the left you see what happens when you don't know how to pull the line on the chute. You continue to see drops in economic growth, and it wasn't until 2009 that you got to see some economic growth begin solidly, and now the projections are for solid growth.



If we go to the next chart, there are consequences to not knowing how to pull the chute by passing massive tax cuts for the wealthy and not paying for them, by starting two wars and not paying for them. And guess what? Everything to the left in the red was the previous administration.



Where you see 741,000 jobs lost that first month of January, that was actually the month that President Obama got the keys, towards the end of January. And that 741,000 is actually 779,000; 779,000 Americans lost their jobs the month that President Bush handed the keys over to President Obama. But since then, President Obama did pull the cord on the chute. We are trying to bring to a soft landing this great recession. And now, for the first time, we are beginning to see some opportunities.



And if we could go to the final chart that I have, what are the consequences for Americans as we talk about all these things without giving people a clear picture? Well, if you take a look at the left side of the chart in red, you see what happens to people's savings accounts when you have reckless fiscal policy and you have got a guy and a party that doesn't know how to pull the cord on the

parachute and takes the American public on a really fast descent. So beginning in 2009, we have seen some change.

Mr. Secretary, I wish I could ask you a whole lot of questions. All I will say is, do you believe that we have now begun to see the end of this great recession that began at the beginning of 2001?

Secretary GEITHNER. Absolutely. You just have to point out the numbers you pointed out. The economy is now growing, and things are healing, and that growth came more quickly and it is stronger, and it is more broad-based than most of us anticipated. And nothing is possible without that. You need growth for jobs to come back.

Again, our obligation right now is to make sure we are doing carefully-designed targeted things to reinforce this process and repair. Because even though we have growth now, the recession caused just a huge amount of damage to the basic fabric of confidence of Americans. But your numbers are good, and it is an important story to tell.

Can I just go back to your first chart? I just want to say one thing about your first chart and your second chart. It is much worse than that. It is not just what happened over that period of time but what projected future deficits were when we took office. And as I said, the beginning, before we came in, before this Congress came into office, the projected increase in the future debt burden facing Americans was going to be $8 trillion over the next 10 years. So it is not just that period. It is what the future looked like over that period of time.

And if you look at your second chart, I just want to point out that I had the privilege of serving the Treasury Department as a career civil servant for much of that period of time, and you saw in that period of time——

Mr. BECERRA. During the Clinton years you mean?

Secretary GEITHNER. During the Clinton era, as a career civil servant, though. It is important to point out that, during that period where you saw fiscally responsible policies put in place, you had very strong private investment, very strong growth, very strong employment growth. You saw the average incomes of Americans rising over time. Growth was much more broad-based. You saw enormous improvements in productivity. So it just shows what you can do if you do what all families do, which is to make hard choices and make sure that you are being responsible.

And I think it is very important to take some encouragement from what you are hearing on both sides of the aisle now because you had a long time when people said that deficits don't matter. People are not saying that anymore. People now say, deficits matter, and I said, at the end, tax cuts aren't free. We have got to pay for the stuff that we commit to do, and we are doing that. But as the chairman said at the beginning, the thing we have to do now, because of how damaging the recession was, to make sure we are reinforcing growth and that we give people some confidence that we are going to be able to work together to bring down those long-term deficits.

Mr. BECERRA. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Latta.

Mr. LATTA. Thank you, Mr. Chairman.

Mr. Secretary, thank you very much for being with us today. I appreciate it.

I know the members of this committee have heard me say this before. I represent the largest manufacturing district in the State of Ohio and also the largest agricultural district, so the two go hand in hand. One of the things I try to do when I am home, I go through as many factories as I can possibly get through.

So the number one issue in my district is jobs. And I know that the chairman had asked a little bit on the stimulus, and you had made some comments earlier. But maybe you can make a comment on this from a statement Mr. Bayh made over the past week on the CBS Early Show. He said, If I could create one job in the private sector by helping to grow a business, that would be more than Congress has created in the last 6 months.

Secretary GEITHNER. Could I not comment on what he said but comment on the broader problem that we face together?

Mr. LATTA. Well, but this is from a perspective of another individual that represents a Midwestern State that has a lot of manufacturing. And you know what the businesses in my district have really said to me, they have cut to the bone. They have laid people off. They are down to what really—to the point in a lot of cases, they are working 32-hour weeks. And I think what the Senator said really reflects what is going on in the Midwest with the people in my area because, you know, they said, you know, we have cut, we have cut, we have cut, but what has the Federal Government done?

They asked me this question: How many Federal employees has the Federal Government laid off?

Secretary GEITHNER. Congressman, I think if you look back at the record of actions that the Congress authorized at the beginning of the year, you saw very substantial tax cuts that went to 95 percent of working Americans, to small businesses, businesses across the country. You saw very substantial assistance provided to States so they could extend unemployment benefits, COBRA, make sure they are not firing teachers, cutting critical services, and you saw some very sensible targeted investments in infrastructure spending. And those actions, combined with what we did to put out the financial fire, have brought growth back to this economy.

Mr. LATTA. Let me, if I could, go with—when CBO was here with the director a couple of weeks ago or several weeks ago, and again we have all talked about the word unsustainable, what is happening here, but in his testimony, he made this comment. Again, this is just commenting on the interest on the debt. But you know, between 2010 and 2020, in nominal terms, from $207 billion to $723 billion, we will more than double as the share of the GDP from 1.4 percent to 3.2. But that interest, then, we are going to be spending—we are looking at $2 billion a day in interest payments.

But again you have to read on, what he says, that that is the CBO's baseline projections if all these things happen. The projections see the major provisions of the tax cuts enacted in 2001, 2003, and 2009 expire as scheduled; that the temporary changes in the alternative minimum tax from affecting more taxpayers will not be extended; and that the baseline projections also see that the

annual appropriations rise only with inflation, which would leave discretionary spending very low to GDP by historical standards.

What the folks back home understand is that we are in a situation that, you know, we are at critical mass right now. But again, how do we go back and explain to the businesses? Because, again, you know, when they look at all these things, from cap-and-tax, you can go down the entire line, that nobody is going to make any moves right now if they want to expand because they are not really sure what we are doing down here.

Secretary GEITHNER. Well, you are exactly right that our deficits are too high. They are unsustainably high, and we have to work together to bring them down over time. But the President did in his budget propose specific ways to constrain spending growth and to make our tax system more fair, and those measures together bring our deficits down by more than half as a share of the economy over this 4-year period of time. So those are very substantial, very sharp cuts in policy.

Now people are going to disagree with them. But I think what we ask is, is that if you don't like that mix of policies, then propose some alternatives. But I think we met the test of proposing some things that are going to be very unpopular because the government has to demonstrate to the American people that we are prepared to go back to living within our means as well, just as we asked them to do.

Mr. LATTA. Let me ask just this one last quick question, because looking at the unemployment rate chart that they had given out that day, we are looking at getting into 2014 to 2015 before we get to quote-unquote normal employment in this country. Again, this is with all of these cuts, everything expiring, according to what CBO says. But are we looking at, through the President's budget, trying to get to that 2014, 2015 period by that time frame?

Secretary GEITHNER. We are going to do everything we can, but it will require the Congress, too. We can't do it on our own, to try to make sure that we are creating strong growth that is broadly shared and that we have as many jobs created as possible with the growth that is going to come. But, again, what you are seeing is just a measure of the damage caused by this recession. It just caused a huge amount of damage to the basic confidence of businesses across the country.

It is starting to heal. It is getting better. But I think we have a lot more work to do. But, again, it requires the Congress, too—we can't do it on our own—to try to make sure that we are reinforcing the healing process, that we make it possible for investors, for businesses to invest again and that they start to add back hours and employees that they cut so deeply in the face of the panic.

Mr. LATTA. Thank you, Mr. Secretary.

I yield back, Mr. Chairman.

Chairman SPRATT. Ms. Tsongas.

Ms. TSONGAS. Thank you, Mr. Secretary, for your testimony.

I would like to ask you a question addressed to housing. And to begin with, I would like to read an e-mail that I have received from one of my constituents in Methuen, Massachusetts: "I am contacting you as a last resort to what has been a never-ending battle with our mortgage lender who we feel has tried to get as much

money as possible from us before foreclosing on our property. We were offered a mortgage modification if we made a good faith payment of $7,700, which we did. We were approved, but we were told we had to reapply because of missing paperwork. To make a long story short, we reapplied, and after losing our documentation seven times, they then put us in a trial payment that was $1,200 more than we had been approved for. More recently, we were told that they were sending out a package immediately, and I would have it in a couple of days. It has now been weeks with no package and no contact."

This is not, as I am sure you know, an unusual story. I have heard from constituents around my district who were given a trial modification through the Home Affordable Modification Program, HAMP, seemed to have been strung along during the trial period, have been told multiple times that their documents were lost, have learned that the foreclosure process was never suspended during the trial period, are being denied permanent modifications, and now can't make contact with their servicer.

Furthermore, many of my constituents are finding that servicers are reporting them as delinquent to the credit bureaus, even as they are making their trial payments in full and on time.

Well, I applaud you for recently announcing proposals to address some of these issues. For instance, requiring documentation before trials are made so that borrowers who could never have qualified for a permanent modification are not given false hope or drained of even more money.

I am concerned that there is still plenty of ways for lenders to exploit borrowers. For instance, there is still no recourse for borrowers when servicers claim to have not received their documentation and no independent appeals process. My constituents repeatedly tell me that they get no response from their servicers, and when they do make contact, are passed from person to person and division to division within the company, hearing contradictory information at each stage and simple promises such as, we will send you the paperwork today, that are never kept.

So as you are addressing this great challenge, I am just asking, are you taking any steps beyond the new guidelines to ensure compliance by the servicers? And what would you need to know that you needed to have additional interventions to make what you are trying to do work?

Secretary GEITHNER. Congresswoman, we hear those stories across the country. It is not unique, as you said. And it is just unacceptable that a crisis caused in part by the fact that we allowed, as a country, a huge amount of basic fraud to happen across the mortgage market has just caused a huge amount of damage, not just to the people who borrowed too much but a bunch of people that were completely responsible in their borrowing habits and are suffering through no fault of their own as they see the value of their house decline, their neighbors' homes foreclosed on. And you are exactly right that servicers are not doing enough now to try to make sure that they are getting relief to people who need it fairly and quickly and sensibly. And we are going to continue to put enormous pressure on them to do that.

Now you can see today, it is very helpful to see, you can see every month now what is happening to servicer performance along their metrics so that the American people can see which servicers are doing better, which servicers are not doing that well. But absolutely, there has not been enough progress on this stuff, and we are going to continue to make sure that we are putting enormous pressure on them to get better at meeting the basic needs of their customers. And we are open to any suggestion for how we can do that, and we would be happy to talk to you in more detail about things that we think will be helpful in that process.

I just want to underscore, though, still that a million Americans today are seeing very substantial reductions in their monthly payments, and we are seeing very substantial conversion of those temporary modifications into permanent modifications. Now it is not going to reach everyone who may feel they may deserve some help on this front, but it is a very substantial benefit, reaching more and more Americans every week. And we are going to continue to work as hard as we can to make sure these servicers are doing the simple fair thing of treating their customers better, making sure they get the relief they deserve.

Ms. TSONGAS. Well, we, Members of Congress, are really the first—we are the people who hear first and foremost. I know we have several people in my office dedicated to helping people who are facing foreclosure, and I would say, to reach out to all of us to hear, are we hearing more success stories rather than many, many of this kind of e-mail of absolute frustration? And I know my staff has found that to be the same.

Secretary GEITHNER. I agree with you.

Ms. TSONGAS. So I suggest you reach out to all of us to hear if what you are doing is working. Thank you very much.

Secretary GEITHNER. Well, it is working, but it is not doing enough yet. And that is why I said—and we are completely committed to make sure that we are doing as much as we can to reach as many people as we can and these servicers are doing a better job of meeting a simple, basic obligation.

Chairman SPRATT. Connie Mack.

Mr. MACK. Thank you, Mr. Chairman. And I thank you for holding this hearing today.

Secretary Geithner, I appreciate you joining us today and giving members a chance to talk to you about some of the issues facing the economy and the Nation as a whole.

It is no secret that our country suffered an extreme economic crisis a year and a half ago. As legislators, we found ourselves in unchartered water, facing not only a financial and housing crisis but also increased unemployment levels and an unprecedented level of government spending. I believe both the Congress and the administration took hasty and unwise actions, and unfortunately, the American taxpayers were left footing the bill.

We passed bills that forced the government to prop up the auto and banking industries, while at the same time spending $700 billion in TARP payments; $800 billion in so-called stimulus projects; and all on top of a 12 percent increase in nondefense discretionary spending over last year. I am afraid that the increased government

involvement in the past year and a half has caused a false sense of security and could lead to a second crash if we are not careful.

Secretary Geithner, as you know, I am one of your harshest critics. I have also been one of the harshest critics of every bailout enacted over the last 2 years. You were in charge of leading these irresponsible policies, and ultimately it was you who decided which corporations would receive government funding and which companies would fail. Instead of allowing dysfunctional corporations to fail, declare bankruptcy or restructure, you protected those failed corporations and funded them with hundreds of billions of taxpayer dollars. These irresponsible actions led to the Federal Government's unprecedented and harmful ownership of private business.

New information continues to come to light about how AIG funneled tens of billions of taxpayer dollars last year to other financial institutions.

It was your role, Mr. Secretary, in crafting these policies that made that possible.

How are the American people supposed to have confidence in this administration when the same person who was supposed to be regulating these financial institutions is now the one choosing which companies to bail out? As a Member of Congress, I am held accountable to my constituents, but who does the taxpayer hold accountable for these out-of-control bailouts?

As a Nation, we cannot continue these reckless policies and unprecedented levels of irresponsible spending. Unfortunately, the President's 2011 budget is no exception. The reckless deficits, runaway debt and unprecedented growth of government; instead of reining in spending like many of my constituents and all of our constituents are forced to do, the administration proposes a budget with a $1.7 trillion deficit.

Secretary Geithner, you agreed, on February 2nd, when testifying before the Senate Committee on Financial Services, deficits matter, and you said that here again today. And stated then, part of laying a foundation for future economic growth and prosperity is returning to living within our means.

But actions speak louder than words. How can you continue to ask the American taxpayer to keep paying for increased government spending when you yourself admit we need to live within our means?

You have also previously discussed the impact of our deficits on international investors and their confidence in investing in America. How do you think this reckless budget will impact our Nation's investment strategies with other nations' investment strategies with the United States?

And Mr. Chairman and Secretary Geithner, I would also like to add, you keep saying that tax cuts aren't free. And you might think that is cute, but it is important to remember that it is not the government's money. It is the people's money who have earned it. So if you take the perspective of it is not free to government; that is not what the American people are interested in.

Secretary GEITHNER. I think I agree with that but——

Mr. MACK. You keep talking about it is not free. We are taking—the government is taking money from the people who earned it,

and I think it is important to recognize that difference in perspective.

Again, thank you for the time and coming before us today. I look forward to hearing your response.

Secretary GEITHNER. Okay. There was a lot in that Congressman, so let me try to respond.

Let me just start where you ended again and say that what I think is not responsible as a government is to promise to reduce future taxes on a permanent basis and borrow to cover the losses in that case. That is not responsible. No family could do that, and I don't think that is fair or responsible to ask them to do.

Mr. MACK. Secretary Geithner, that is why we need a budget that cuts spending.

Secretary GEITHNER. I agree with you. Well, no. I would say that you are right to say that if you are going to do—tax cuts are a good policy. There is a very good case for trying to make sure that you are providing incentives for business; you are doing it in a sort of fair way. But I think the obligation we have is to make sure that we are doing that in a way that is fiscally responsible.

Now people are going to disagree with the mix that we have proposed in our budget. But we do propose measures that will bring those deficits down by more than half of a share of the economy in a 4-year period of time. That is a very sharp, steep trajectory, given where we started. And you know, I understand people are going to disagree with what the mix is. But we have proposed specific things that will do that in a way that is fiscally responsible, and we are proposing to extend and expand a range of targeted tax cuts that go to a lot of businesses and working families across the country. But I want to come back to——

Mr. MACK. Secretary Geithner, you did say and the administration has said that you want to eliminate capital gains on small business.

Secretary GEITHNER. Yes. Zero capital gains.

Mr. MACK. Which I believe is important and is a good thing to do. But Mr. Secretary, at the same time, this budget raises taxes on capital investment on investment, which—you can't have it both ways.

Chairman SPRATT. Mr. Secretary, let's move on if you will.

Secretary GEITHNER. You want me to move on? I would say with reluctance——

Chairman SPRATT. We have further questions to ask, and we have a vote coming up on the floor. So there are more members who are here.

Mr. Etheridge comes next. If you want to squeeze some time out of Mr. Etheridge, you can continue, and I am sure he will accommodate you.

Secretary GEITHNER. Well, I don't want to take his time.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

I will try to give him some time at the end. But I hope we will remember that there were those who argued about whether we should pass the TARP when we did it a little over a year ago, and some who voted for it. They tend to forget the day that the House voted it down, with a majority of the other side doing it. I voted for it, didn't like it, didn't want to do it, and didn't ask for it. The

stock market fell 500 points. But over the weekend, they went to the kneeling bench and came back and decided the world markets were recognizing what we were doing, and we had to pay our bills. So we shouldn't forget that.

As a result of that, from June of 2007 through March of this year, household wealth was insured for $17.5 trillion. These aren't my numbers. These are Federal Reserve Flow of Funds numbers. So we need to remember, we are trying to repair a problem that needs to be fixed.

With that, thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here. And thank you for your testimony.

I am going to try to give you a number of questions and give you time to cover it. The economic indicators indicate our economy is starting to recover. I am thankful for that. I think about 5.7 percent last quarter.

We are still hurting in North Carolina; in December, 11.2 percent, higher than the national average. I introduced H.R. 4437 back at the beginning of this year, the HIRING Act; stalked two Chambers on it within a few days. In Erwin and Benson, they are tickled to death. They didn't really know what it meant, but they knew it meant it was going to help small businesses put people to work.

The President has included some portion of that in his budget, for which I am thankful. It looks like the Senate may pick it up. Let me ask some questions on that and a couple others and then let you respond and pick it up.

Is the President's proposal designed to spur job hiring? I hope you will talk about how that does. And how many jobs does the administration estimate that will come out of the $33 billion in that? And also, mine was a little bit bigger, be that as it may. And how efficient would that be in getting people back to work? And how does creating jobs have a positive or negative impact on the deficit?

The second point has been covered generally, but I want it covered again. I had written you a letter in early February. You have since responded, as it relates to this whole issue of small business people and capital for them. Because as you know, one of our greatest challenges right now and one of the big obstacles to getting this economy up and, I think, moving is the availability of access to credit for expansion and growth for businesses who have paid their bills, who have met their obligations, and yet because of a number of reasons, not necessarily Treasury but it may be on the other side of the regulatory scheme, we have talked about this, of not being able for these small banks to have credit to move. And I know there has been a proposal of roughly $33 billion to help leverage that. I want to hear that again.

And is there anything in the President's proposed budget that is going to help on this front? Because I think this is the one piece left in that pie that is going to get this economy going.

And finally, if you will touch on just briefly, I know you are working on this whole issue as it relates to American Opportunity bonds. We passed the school construction last year, roughly $20-some billion. That is still hanging. We are trying to get that mov-

ing. A lot of shovel-ready projects that will create almost 10,000 jobs in my State and across the country, need for children.

With that, I will leave the rest of the time for you. I have other questions, but I will submit them, Mr. Chairman, for the record.

Thank you, Mr. Secretary.

Secretary GEITHNER. Let me quickly go through these. What we propose is we give a tax credit to small businesses that hire additional workers, a substantial tax credit for each worker they hire above a certain baseline as well as a reduction in——

Mr. ETHERIDGE. Limited to roughly 50,000, similar to what we have got in our bill.

Secretary GEITHNER. Now we have not put an estimate about how many jobs that will create because that is sort of uncertain, but we have said that it would reach hundreds and hundreds of thousands of small business companies. And the independent CBO says that this proposal has the highest bang for the buck in helping job creation in any of the competing tax proposals out there that are designed like this.

Second, on the credit side, you are absolutely right that small businesses need access to credit if they are going to expand. We proposed two things. One is to expand what the SBA can do in terms of guarantees at lower costs to small businesses. We think that can be very powerful but also a program, as I said to your colleague, that would give capital available to small community banks across the country for those that increased lending to small businesses. And under this proposal, we said, is a very simple proposition, which is, the more you lend, the more we will reduce the dividend you have to pay the taxpayer and the government. We think that is sensible policy, good high return.

The school construction bond program, we are looking at ways to make those programs more effective. The Build America program model looks to have been a much more effective way of trying to make sure that local governments, State governments can borrow at affordable rates to fund construction projects, and we are looking at a variety of ways to take what works in that program to reform these other programs to be as powerful as those.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

I yield back.

Chairman SPRATT. Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman.

Thank you, Secretary, for being with us.

You have, in times past, as well as Director Orszag a couple of weeks ago when he testified, talked about the deficit and the debt situation we are in. We are in that situation largely because of four things: The new entitlements that were put in place during the Bush administration; the war efforts that we obviously had to do; the economic downturn; and then the tax cuts. Every time the question, those are the four things, and Director Orszag did it several times in our last——

Secretary GEITHNER. And the recession.

Mr. JORDAN. Yeah, economic downturn, recession, whatever you want to call it. Those are the four things that were pointed to. I want to focus on the last, and obviously some of those things, I

agree, led to the tough situation we are in. But I want to go to the tax cut issue.

Do you think that our economic situation would have been better had not the tax cuts—tax cuts in the last decade, 2001, 2003 tax cuts for families, small business owners, personal income rates that went down, capital gains—do you think our economic situation would have been better had those tax cuts not been put in place? Yes or no.

Secretary GEITHNER. Congressman, I will put it this way: In recessions like the one we were in and we are still facing, there is a very good economic case to have temporary targeted tax cuts that go to businesses and working families. That is what we proposed. Congress enacted that. We think that is very good policy in recessions.

Mr. JORDAN. I am talking about the tax cuts that were put in place because what you point to, every time we talk about the big debt numbers that we see that we all know we can't have, you point to these four things, and there seems to be many times an emphasis placed on the tax cuts that were put in place in 2001 and 2003. I want to know, yes or no, would our economic situation have been worse in your professional opinion had not those tax cuts been put—I mean, good or bad, what were they?

Secretary GEITHNER. In my own view, looking back, but it is hard to know this with confidence, is that if they had been designed differently to be more temporary and more targeted, we would have seen a better record of economic growth and a better record of fiscal responsibility. That is why I said, in recessions, there is a very good case for temporary targeted tax measures to spur demands for private investment, but you have to do that in a way that is responsible, that we can afford. Otherwise, you are just going to add to long-term debt and leave people with a cloud over the future that is going to make them less confident to invest in——

Mr. JORDAN. Well, let me ask you this, then, because I spoke last week in Mansfield, Ohio, a town in my district that has been hit very hard. The Auto Task Force shut down the GM facility in that district. There were 1,400 jobs lost when that took place. I was speaking to a group of NFIB, 40 small business owners in the room, and I brought up what is being talked about right now, something your administration is for, something that just passed the Senate, this jobs package, specifically, the tax credit for hiring someone who has been unemployed.

And I will be honest, when I brought up to the members in that room that small business owners make our economy go, they laughed at the proposal. They said, that is not what we need. We are not going to hire someone unless we see economic growth taking place, unless we can increase sales, and we see good things happen in our economy.

And frankly, they liked—now this is not Jim Jordan, conservative guy from Ohio talking—this is small business owners. They liked the tax cuts you said weren't that good. They liked those tax cuts that were put in place, the across-the-board tax reduction, making it less costly to do business. They liked those, and they did not like this proposal, this idea that somehow if they hire someone,

they are going to get a tax credit, because they aren't going to hire anyone until the economy starts to pick up.

Secretary GEITHNER. We agree on more than you would expect. We are proposing to extend those tax cuts that go to 97 percent of small businesses across the country. So we think that is reasonable policy. We think we can afford to do that. It is not going to be easy. We think we can do that. I also agree with you that the most important thing for small businesses now is to see demand for the products they produce grow over time.

Mr. JORDAN. Certainly.

Secretary GEITHNER. That is the most important thing. But what this tax cut can do—and I believe it is going to have broad Republican support, too—is to try to make sure that as this economy starts to recover—and there are parts of the economy now that are really starting to grow again, orders are picking up significantly—we want to make sure that as that happens, firms have a little bit greater incentive to hire to meet that demand for greater employment. So we think it will have some spark value in increasing the odds that, as the economy starts to grow again, you see more jobs created. That is its basic rationale. But again, you could just look at the CBO. What CBO said is, the most powerful way, biggest bang for the buck is to increase hiring.

Mr. JORDAN. Thank you.

I have 15 seconds. I want to go back to that first question. I want, if you will, you to say yes or no. The tax cuts that went into place, had not those tax cuts happened, do you think our economic situation would have been better or worse?

Secretary GEITHNER. I think that if we had designed them differently——

Mr. JORDAN. I know you said that last time.

Secretary GEITHNER [continuing]. They would have been better.

Mr. JORDAN. But I am saying, no tax cuts or the tax cuts went in place. Which was better?

Secretary GEITHNER. Look, you know, again, there is a very good economic case in recessions for cutting taxes. But you need to do it in a way that is temporary, targeted and is designed to over time——

Mr. JORDAN. It sounds like you are saying that those tax cuts were a positive for our economy.

Secretary GEITHNER. No. What I am saying is, I think they could have been designed in a way that would have been better for the economy and better for our fiscal position.

Mr. JORDAN. Were they negative for the economy?

Secretary GEITHNER. I am not going to say that.

Mr. JORDAN. That is what I figured. Thanks.

Chairman SPRATT. Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chairman.

The tax cuts that were passed by reconciliation in the early 2000s under the Bush administration. They were done at a time that our country was facing war. Has our country ever in its history passed tax cuts at a time that it was borrowing to go to war?

Secretary GEITHNER. I don't know for certain. But I think it was rare, if not fully without precedent.

Ms. MCCOLLUM. So, in most cases, most of our Presidents and Congresses, at a time when our Nation was facing a national security challenge, didn't cut taxes.

I would also just like to talk about this $5,000 hiring credit that I have heard many people say is not good. I will just say, from a point, if an employer is looking at hiring someone, and they are right on that cusp, it costs a lot of money to bring an employee on for the first couple of years. I worked in major retail sectors for 27 years. And it can cost anywhere from $2,000 to $3,000 to even bring on a part-time employee, more dollars just to bring on a full-time employee. And part of what you are doing when I first saw that was giving an opportunity for employers who are right on that cusp, whether or not to hire somebody else, to help offset those first-year costs that you have when you bring on an employee. If you could answer that quickly, and then I would like to get to——

Secretary GEITHNER. You are exactly right. I think what you do is provide an additional incentive, as companies start to see increased demand for their products, to bring on more workers more quickly than they otherwise would. And that is why the CBO in their analysis said this had a very high return for every dollar of resources we are asking the taxpayer to provide.

Ms. MCCOLLUM. Because I know a lot of my colleagues who haven't worked in the private sector with hiring employees and doing training for employees don't know about that cost that you have the first year when you bring an employee on.

I would like to talk for a second with you about TARP. One of the things that you have talked about is how you brought down the cost of the Troubled Relief Asset Program, TARP, which has helped stabilize the financial system. And because of that, you are looking at doing some more stabilization in place. One of those areas is with working with community banks, and I want to commend you for the work that you have done. I have a community bank, Sunrise Community Bank, right on University Avenue by our State capital, and it says in the letter, which I will submit for the record, "I commend the Treasury Department for their responsiveness to community development banks' needs for their rechanneling TARP funds to Main Street." He goes on to say, "Sunrise Community Bank plans to submit an application to participate in the CDFI, capital investment initiative, because it will provide patent and affordable capital and enable us to expand lending and promote economic recovery in our local community."

Could you talk a little bit more about how you are taking this to Main Street?

Secretary GEITHNER. The program you have is just a good example of what you can do with this kind of program. What that program would do, again, is to give capital to community development financial institutions that serve some of the hardest-hit areas across the country that they can then use to expand lending in those communities. It has got a very high return. It is very powerful and effective. We expect that they will make very good use of this program, this money, and we want to take that basic model and extend that to community banks, small community banks across the country, not just those that are community development financial institutions.

The CFI program has a long history, and it has got a great record of returns for the taxpayer, and we think it is one of the most effective ways, again, to help get credit opening up again in parts of the country where it has been most adversely affected. Because what you are seeing now is that the overall system is stable. The system is much stronger today. There is much more capital in the financial system. But for small banks across the country, many of them face a lot of challenges in commercial real estate because of a bunch of decisions they made, and they are going to have to cut back lending further, unless we can find a way for them to be able to get additional capital. That is the basic premise.

And if you talk to community bankers, they are very, very supportive of this program because, again, for those that would normally be able to go out and raise capital but can't do that now, this allows them having to avoid having to cut credit lines further to their customers and expand credit lines to their viable customers.

Ms. MCCOLLUM. So as in the TARP repayment that taxpayers have seen on the rescue to keep our country from sliding into depression, we have seen that payback. We are also going to see a payback on this round to the taxpayers as well as we stabilize our financial institutions in our communities.

Secretary GEITHNER. Exactly. The independent analysts of the costs of this program have concluded that it is like the expected costs are now $400 billion lower than what people estimated a year ago. That is real resources we can help use to meet the long-term fiscal challenges of this country. We have worked very quickly to replace the investments the government had to make in the depth of the crisis with private capital. So $170 billion have already come back into the Treasury with a positive return for the American taxpayer.

We moved very aggressively to make sure that we were reducing the government's involvement in the financial system as quickly as we could, and that has given us more resources today, not just to reduce our future debt burdens but to meet the longer-term challenges we face. So if you are on the conservative side of the aisle, you can look at what we have done and say that, relative to when I came into office, the Treasury has a dramatically smaller stake in the financial system. We have pulled back from the vast bulk of investments we were forced to make—my President was forced to make in the financial system. We have done so at much lower cost than anybody anticipated. We have proposed a sensible fee to make sure the taxpayers don't bear a penny of loss for all the judgments we had to make—my predecessor largely had to make.

And we have some work to do, though, to make sure that small banks can get access to credit, and we are helping reinforce this gradual process of healing in the housing market. So we haven't healed everything that was broken. There is a lot of work we have to do, but we are in a much, much stronger position to do that today because of the actions that we took.

Chairman SPRATT. Mrs. Lummis.

Mrs. LUMMIS. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here. Along the same lines, I want to talk about TARP as well and the flip side of the coin that you have been visiting with, with Representative McCollum.

The administration did propose a tax on banks that either did not receive assistance or paid it back to pay for the TARP moneys that will likely be lost through nonbanking-related TARP initiatives. And then the President also proposed using the $30 billion in TARP money for this new program to subsidize small business loans through community banks, the CDFI program. I am assuming, based on what you have said, that you think that is great, that using TARP money for new spending initiatives when TARP itself required that you recoup losses, it is okay. But how do you justify that? What I see happening is picking winners and losers, government playing a shell game with money that we are borrowing.

Secretary GEITHNER. Let me say this in the starkest terms because I think it is very important to make it clear in this case. We have spent a fraction of the resources Congress authorized us to spend to put out this financial fire because we were successful in adopting a strategy that largely relied on private capital coming in to allow us to get that money back for the American taxpayer. And those resources—and it is hundreds of billions of dollars—go to reduce the debt of the country.

Now Congress gave us authority to continue to try to act to repair what was broken in this financial system, and there is a very good economic case for trying to make sure that we are finding ways to get capital to small banks, helping fix what is still broken in our housing markets. This fee was built—the proposal that we leave the taxpayers harmless for the cost of this crisis was put into law as an obligation on me to propose ways to make sure that we were recouping any losses. So what we did is—I think it is a very fair thing—which is the largest banks in the country that benefited from the most of what we did pay, over a 10-year period of time, a modest fee to make sure that the taxpayers don't bear a penny of losses for the actions we had to take. I think that is a simple, fair thing. It is a fiscally responsible thing to do. There are different ways to do it, but we proposed a sensible way to do it. And again, I think it is important for people to understand that we spent a fraction of the resources Congress authorized.

Mrs. LUMMIS. Mr. Secretary, excuse me. I have some other questions for you.

Secretary GEITHNER. Okay.

Mrs. LUMMIS. If the additional spending comes at a cost to TARP's lifetime cost, will additional taxes or measures be placed on banks to recoup losses——

Secretary GEITHNER. No.

Mrs. LUMMIS [continuing]. That are not theirs?

Secretary GEITHNER. No. I think, again—I think those losses——

Mrs. LUMMIS. And let me tell you, I appreciate your being here today. I am still hearing from banks in my State that because of the increased capital requirements that they have, that they are not lending to borrowers that had very strong balance sheets and that have already paid back all of their previous loans, and they can't borrow money.

What I am hearing from people who want to borrow money from banks to get our economy going and hire people is, they can't borrow money because the banks won't lend it to them—not because the banks don't have access to the capital and not because the bal-

ance sheet of the borrower is bad. So I see it as a regulatory problem. They see it as a regulatory problem, whereas I think you are seeing it as an access to capital problem.

Secretary GEITHNER. As I said earlier, I think there are two related problems in this case. Like in any recession, what happens afterwards is, you know, credit was too easy, and then it gets too tight. People overcorrect. And banks overcorrect, and examiners overcorrect. That is one reason why the recessions can last longer, be more deeper, cause more damage. And it is very important that we work against that basic natural inclination.

And you are right that part of this is concern that examiners across the country are becoming too conservative too late. It is very important that supervisors try to make sure they are bringing more balance to those judgments, and the Chairman of the Federal Reserve and his colleagues are trying to do that. They have issued a series of guidance to try to bring more balance to that but——

Mrs. LUMMIS. And on your side of the equation, there are some regulators, too, on your side, on Treasury's side, right? The Comptroller of the Currency?

Secretary GEITHNER. Those are independent regulators also, and we do not have the ability to—well, those are their judgments to make. But your point is absolutely right.

Mrs. LUMMIS. I want to switch this.

Secretary GEITHNER. But one more thing. The capital thing is relevant to this. They are not separable. If you can make it possible for viable community banks to get capital temporarily from the government, then you will reduce the risk that the regulatory overcorrection causes damage to lending. Doing both things is important, but you are right to emphasize both those things.

Mrs. LUMMIS. Thanks, Mr. Secretary.

Thanks Mr. Chairman.

Mr. DOGGETT. Mr. Secretary, thank you for your comments earlier and your trip to Austin. Certainly the professionalism of the IRS employees there, the help of a good Samaritan, and our first responders were vital in minimizing the loss of life.

Some of the response to that attack has been nothing short of appalling. The terror caused by a suicide attack on this public building certainly didn't involve any heroism by the attacker because terror knows no discrimination. It is, as you know from meeting with his widow, particularly tragic that Vern Hunter, who provided 48 years of public service, almost 30 at the Internal Revenue Service and two tours of service with the Army in Vietnam, was the person who was killed. But thank you.

I wanted to turn to some of the same issues I raised with you at the Ways and Means Committee. You have included in this budget that you are presenting today $122 billion in multinational corporate tax loophole closers. Why is it vital that we enact those?

Secretary GEITHNER. I want to just say one more thing about Austin, and I said this to employees there. How could it be that a man who has served his country in Vietnam and safely served two tours in Vietnam would die at his desk in Austin, Texas, because he was helping make sure that Americans were bearing their fair share of the burden of the privilege of being Americans? It is a tragic, terrible thing. But as I said, I think we owe those men and

women of the IRS our respect and our honor and our support for doing a very difficult, but very important job for the country. But thank you for what you said on this.

We have in our tax system today a basic unfairness. You could have two companies in your State face very different tax burdens. You could have a company that invests more overseas paying less taxes than its competitor pays who is investing in Texas. And the most simple way to say what we are proposing is a way to change that basic balance. So we want to make sure that we are taking out of the Tax Code incentives that have the effect of encouraging companies to shift more investment and more jobs overseas. That is the basic rationale.

Mr. DOGGETT. As you know from my prior questioning, I have some concern that so little effort, other than the President saying, Let's stop exporting jobs overseas, and the reports in The Wall Street Journal that you and former Secretary Summers sought to calm concern about this as to how much commitment there is in the administration, and as a member of this committee wondering if we need to find some other way to bring balance as to whether you will really have a commitment to getting this $122 billion in loophole closers adopted. What specific steps are you taking as Secretary of the Treasury to make this a reality?

Secretary GEITHNER. The President supports this. I support this. We think it is good policy. As a measure of our commitment to it, I draw your attention to the fact that we did take a careful look at it, and we did modify some of those proposals. So the proposals in the budget today build on things you have supported in the past, Chairman Rangel has supported in the past, but we have changed them in ways that we think will improve the odds that they could become law. But we will be as persuasive as we can——

Mr. DOGGETT. This year.

Secretary GEITHNER [continuing]. This year with your colleagues. But as you know, this is something Congress has to enact.

Mr. DOGGETT. I would just like to see the same level of commitment that the President has had to taxing employer health plans devoted to this.

Let me touch on one other area. When you opened your testimony in Ways and Means earlier in the month, you commented on compensation practices that defy gravity, that were deeply irresponsible, in referring to AIG. Since that time, we have had $16 billion in compensation bonuses from Goldman Sachs, substantial amounts from Morgan Stanley and JPMorgan Chase. Why shouldn't we follow the direction that our trading partners, the United Kingdom, France, other countries, have in putting a surtax on those excessive bonuses? It is deeply troubling, as you have noted. The American people——

Secretary GEITHNER. Congressman, I completely agree and share your concern about not just what happened in the past, but what we are still seeing. Again, we think the most effective way to bring some basic judgment or reality to those compensation practices is to make sure that shareholders have the opportunity to vote and approve to see them in the cold light of day what these firms are proposing to pay their senior people, and we want to make sure that their supervisors are enforcing clear standards that will make

those compensation practices less risky in the future. We think those are the most effective ways to do this, but of course, we are open to suggestions.

I do not believe that if you look at what other countries have tried in those areas—you just mentioned some of those things—have been effective, frankly, in bringing those reforms. We have seen substantial reforms already in the structure of compensation, but we think we can do better than that.

Mr. DOGGETT. Thank you.

Chairman SPRATT. Mr. Diaz-Balart.

Mr. DIAZ-BALART. Thank you, Mr. Chairman.

Mr. Secretary, we have votes, as you well know, so I am going to try to be as quick as I can. So I am going to have to throw you a softball, frankly. Look, there have been a lot of reports of fraud and waste in the stimulus. That shouldn't surprise us. It is a Federal program.

Secretary GEITHNER. Remarkably few I think, actually.

Mr. DIAZ-BALART. I would beg to disagree with you, but that is an issue I guess of what one is willing to accept as far as waste and abuse.

Secretary GEITHNER. No, it is not acceptable.

Mr. DIAZ-BALART. Right. I think it is way excessive. That is just my opinion. And we could talk about those instances of waste, fraud and abuse, and I would say such cases as campaign consultants receiving stimulus money to help with the digital conversion, even though the Federal Government has spent hundreds of millions of dollars already doing that.

But here is my softball question. Specifically, what is this administration doing, if anything, to actually recover those funds? I mentioned one of the cases, but there are obviously thousands upon thousands. What specifically are you doing to recover the funds?

Number two is, how much do you think people can expect to recover from those funds? And by when?

Secretary GEITHNER. Well, I don't think I can speak to that specific case, but I can state that——

Mr. DIAZ-BALART. No, I am not asking about that specific case.

Secretary GEITHNER. Look, the Vice President of the United States runs a very intensive, very tough process of review to make sure that we are doing everything possible to limit opportunities for fraud, to make sure that those tax dollars are going to serve the purposes they were designed to serve. And I believe the record shows remarkable care and discipline to date on that process, something we can all be proud of. But of course, I know he believes that we can do better. We are going to keep doing better because we all share an obligation to make sure that those resources are going to where they are supposed to go.

Mr. DIAZ-BALART. What are you doing to get the money back?

Secretary GEITHNER. Again, I would be happy to respond to you in writing to that specific case, but I know he is running a very tough, very exacting process, and he will do everything possible to make sure that we are protecting the American taxpayer from risk of fraud.

Mr. DIAZ-BALART. Mr. Secretary, again—and it is not your fault that we are running out of time here, but I would like some spe-

cifics in all these cases of what you are doing specifically to try to get actual recovery.

Secretary GEITHNER. I would be happy to do that.

Mr. DIAZ-BALART. I am going to yield now to my colleague, Mr. Austria.

But before I do that, I know that the administration is working really hard and with unprecedented fervor to try to track down the money.

But with all due respect, sir, when money goes to congressional districts that don't exist, when $18 million is spent on one Web page, I hate to tell you, if that is the best—and I am not placing fingers—but if that is the best that the Federal Government can do, it tells you why the American people are skeptical.

Secretary GEITHNER. I agree. We are going to do as good of a job as we can. I would be happy to provide details to you and what all the things the administration——

Mr. DIAZ-BALART. Thank you for allowing me to do it quickly.

And I would like to yield to my colleague, Mr. Austria, if that is all right with you, Mr. Chairman.

Mr. AUSTRIA. I thank the gentleman for yielding. I know we have votes.

Mr. Secretary, thank you for being here. I want to go back to TARP because I opposed the bailouts for multiple reasons as far as picking and choosing winners in the private sector. I didn't believe at the time we really had a plan in place—or at least it wasn't transparent—as to how those dollars were going to get into the private sector to help families who were struggling from paycheck to paycheck, to help businesses that are struggling from payroll to payroll. And I really—you know, as Members of Congress, we are faced with our constituents when we walk down Main Street, whether it be Main Street, USA, or in my district, Main Street, Ohio. And when we are talking to businesses—and I would love to take you down to my district and talk to some of these small businesses.

We are getting more and more calls in our district office about how they are having a difficult time getting financing, getting credit, how they are having a difficult time with their line of credit being reduced on them, or more restrictions being put on them in order to maintain those lines of credit.

Let me ask you, I mean, this is the reality of what we are facing right now. What would you say to these small business owners? If you walk down, you know, Main Street, Ohio, or USA with me, how would you explain to them that what we have done with TARP is working and, you know, it has been helping them? Because we are not seeing it. We are not seeing——

Secretary GEITHNER. I think you are exactly right, that if you are looking at what has happened across the country today, many small businesses in many States and communities across the country are finding it very difficult to get access to credit. And it is not just the companies that are in industries suffering the most from the recession. It is companies with pretty strong businesses, pretty strong growth prospects, too. It is a real problem still. What I would say to them is, call your Congressman——

Mr. AUSTRIA. They are, I will tell you that.

Secretary GEITHNER [continuing]. And ask them to support some additional measures to try to make sure we are getting access to capital at those small banks that they depend on and that the SBA can do the things it needs to do and that we are supporting sensibly-designed targeted tax measures to make sure that we are reducing the costs on those businesses. That is what I would say.

Mr. AUSTRIA. I know we have to vote. I see the time has expired.

Mr. Secretary, that is not what we are hearing from our small businesses. They are not able to get the financing, the credit, that should be out there for them to help them, you know, keep their doors open, to help them from having to lay off people and make it from payroll to payroll.

Secretary GEITHNER. Congressman, I agree with you.

I think you are right to describe; that is true for many small businesses. But it just underscores the importance of trying to make sure that we are working together to try to make sure that the banks they depend on can have access to the capital they need to meet the needs of those customers.

Chairman SPRATT. Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here.

There may be fraud and abuse in the Recovery Act, and I am sure there is, but I know that the Recovery Act didn't pay to stick accelerators or cause steering wheel problems either. So this problem is not limited to government. So as long as we are clear on that issue. Because I am still working on the thank-you letters from the kids. And my hometown of Arlington will get to walk on the Gifford Avenue sidewalks and have a safe place to walk to Presidents Elementary the first time ever, and that is from the Recovery Act. The same place in the Cedarhome neighborhood in Stanwood, Washington. Eighty-four men and women working on construction on 2nd Street in Ferndale to help with economic development in Ferndale, Washington, about as far north and west as you can in the lower 48 from Washington, D.C. I don't expect them to write thank-you letters. But Members should go visit these Recovery Act projects because they are all over the place, all over the districts, and they are really working.

I really have one question, and it has to do with access to capital. In speaking with the smaller banks, the community banks, and the big concern is if you follow through on this $30 billion small business lending fund, what is to stop the regulating community from going to that community bank and saying, Hey, we just saw you got $25 million from this lending fund; keep it in the door. No amount of incentive decreasing the interest rate, payback rate, is going to stop that. So what are you doing to regulators on this message that this is money for lending, not money for them to count against capital ratios?

Secretary GEITHNER. I think you are right. It is a very important concern. And these are independent supervisors, under the laws of the land. But we are working very closely with them to encourage them to make sure their examiners are not overdoing it. The four Federal bank supervisors have put out two important public guidance to examiners that everybody can see in the public domain, trying to make sure that examiners are not doing it. These directly

address concerns about how they are treating loans backed by commercial real estate as well as loans to small businesses. We think that is important to do.

But I want to just underscore one thing. If you don't have enough capital today, and you get a dollar of capital from the government, from the private markets, then you will not have to reduce lending by another $8 to $12. So that act in itself will help reduce the risk that you see strong businesses starved of the credit they need to grow. But we want to make sure this is targeted to those banks that are likely to expand lending. Use the capital to do that. You can't force it, you can't compel it, but we think we designed it in a way that will substantially increase the odds of that happening.

Mr. LARSEN. To clarify, as you are walking through this and developing it for our consideration, you are speaking with the regulating community.

Secretary GEITHNER. They are very supportive. Again, if you can help a small community bank get access to capital, then it is much less likely that they are going to face a lot of pressure from their supervisors to force them to reduce lending or to husband those resources. That is the basic balance we are trying to strike.

Mr. LARSEN. Thank you.

I will yield Ms. Moore from Wisconsin the remainder of the time.

Chairman SPRATT. Ms. Moore.

Ms. MOORE. Well, thank you so much, Secretary Geithner. I just want to start by saying that I have met with some of the community banks in my area, and they feel that you have been very responsive to sitting down with community bankers and really identifying their needs and letting them help shape the process for going forward. I thought you may have needed that. I know you have been beaten up quite a bit lately. They wanted to make sure I conveyed that message to you.

Everything has been said, but everybody hasn't said it, so that is why I am here. I am going to ask you some questions with regard to that first chart that Mr. Hensarling put up there regarding debt. He says that that chart reflected current law. Does that chart that he put up assume the tax cuts don't expire and also that Medicare Part D and health care is not fixed?

Secretary GEITHNER. I am not actually sure. I don't know what those charts came from, so I can't be sure.

Ms. MOORE. All right. The $30 billion TARP program provides capital to small and community banks. Would you object to our looking at that for credit unions as well?

Secretary GEITHNER. We are taking a look at that. In fact, I think I am going to be spending a little time with them directly talking to them about that. So we are taking a look at that. I am not sure what we are likely to recommend. But ultimately this requires Congress enacting legislation, so you will have a chance to reflect on that, too.

Ms. MOORE. The $5,000 tax cut to create new businesses or to increase hours or increase wages, you said that the CRS says——

Secretary GEITHNER. CBO.

Ms. MOORE [continuing]. Is the best bang for the buck. As compared to what? As compared to actually, say, for example, creating some WPA kind of jobs? As compared to what?

Secretary GEITHNER. I need to go back and look at their study carefully, but I think relative to almost any alternative use of a dollar of taxpayers' money, it has a very high bang for the buck. But I want to underscore the following: What we are suggesting is that we also provide support for infrastructure projects; that we also provide support for State and local governments so they can provide critical services; that we also support other tax incentives that can go directly to businesses, small businesses in particular. So it is the package of measures that we think together provide a pretty good mix of support.

Ms. MOORE. Thank you. Because I think as Democrats we are constantly pummeled with this notion that trickle down works. I think what small businesses need—I agree with the Republicans—they need customers. Actually, they need people who have money to spend, and they will increase their payrolls based on that.

I do question that particular tax cut, particularly since we don't know—you indicated that you didn't really know how many jobs it would create versus other sort of targeted things.

Speaking of targeting, as a member of the Congressional Black Caucus, we have been very, very concerned about the three indices that we learned from Larry Summers: targeted, timely, and temporary. We really bought into that and felt that that was important. So we see a lot of incentives not really getting down to the PUMA level, the Public Urban Micro Areas, and moneys given through these broad screens of States and so forth, and it doesn't really help the lowest-income and the poorest people.

So we are really hoping that through the budget process that you will agree with us that targeting—that you will stick with that analysis where you get the most bang for the buck.

Secretary GEITHNER. Yes. I just want to say, again, one of the most effective things we can do is to try to make sure that we are providing resources to not just State governments, but local governments, to make sure they can maintain the critical services. We think those have a very high return. But we are also being very supportive of a set of very effective targeted programs that go directly to some of the hardest-hit communities in the country, like the New Market Tax program, like the CDFI program. But there are a range of other things we are looking at in this area that we hope we can work with the Congress to support as we move a series of jobs measures over the next few weeks and months.

Ms. MOORE. Last, I would like to agree with Mrs. Lummis that I think that the regulatory agencies are overcorrecting. And I don't agree, I think, that you just have a total hands-off approach. I think that we have had other conversations where I think that the banking community feels that they are being somewhat arbitrary. It is not clear to them what the new capitalization requirements are. And there are very many creditworthy people who will not—thank you. I yield back.

Chairman SPRATT. Mr. Secretary, thank you for coming, thank you for testifying and for your forthright answers. We look forward to working with you in this budget season to put together a good budget for the United States. Thank you again for your participation.

Secretary GEITHNER. Thank you, Mr. Chairman.

Chairman SPRATT. The committee is now adjourned.

[Questions for the record and their responses follow:]

QUESTIONS FROM REPRESENTATIVE MARCY KAPTUR (D–OH)

1. Mr. Secretary, as I think regardless of party affiliation, every Member here has heard from her or his constituents that the Making Homes Affordable Program is not working—my constituents are struggling with the servicers, applying many times over, being told one thing one day to have the opposite told to them the next day. Servicers seem to be obstructing the process. This program, being under the TARP, is under your watch and your jurisdiction.

We agree that challenges exists, but the program has made considerable progress: nearly 1.2 million borrowers have started trial modifications, 1.4 million borrowers have received modification offers, more than 230,000 permanent modifications have been granted to homeowners and an additional 108,000 permanent modifications have been approved by servicers and are pending borrower acceptance. Borrowers are saving a median of 36%—more than $500 each month. Still, we recognize that a number of challenges remain and we have been working to improve the borrower experience during the Home Affordable Modification Program (HAMP) process.

We recently revised program rules to provide borrowers with a number of new protections in the HAMP evaluation process to help address some of the confusion and anxiety that some borrowers reported surrounding their rights during the evaluation process. These new rules address borrower solicitation, borrower response timelines, the foreclosure process, and borrowers in bankruptcy. They also require and define reasonable outreach efforts to homeowners by servicers and establish a timeframe for servicers and borrowers to respond. This guidance also clarifies that servicers must consider borrowers in bankruptcy for HAMP if a request for modification is received.

Revisions also address the HAMP evaluation process with respect to foreclosure. Currently, servicers may not refer a mortgage to foreclosure if the borrower is in a trial modification. The guidance prohibits foreclosure referral for all potentially eligible loans unless the borrower does not respond to solicitation, was not approved for HAMP, or failed to make their trial modification payments. Servicers will be required to provide borrowers with clear written communications explaining the foreclosure process and stating that a foreclosure sale will not take place during the trial period. If a borrower is found ineligible for HAMP, a foreclosure sale cannot be scheduled sooner than 30 days after the date of a Non-Approval Notice so that the borrower has a chance to respond. Servicers must also certify to their foreclosure attorneys that a borrower is not eligible for HAMP before a sale may be conducted.

Additionally, Treasury shares your concerns about delays in the HAMP process and we have taken a number of steps to remedy these delays and hold servicers accountable for their performance. First, we released updated guidance at the end of January that defines specific timelines servicers must follow to respond to borrowers.

Within 10 business days following receipt of an Initial Package, the servicer must acknowledge in writing the borrower's request for HAMP participation by sending the borrower confirmation that the Initial Package was received, and a description of the servicer's evaluation process and timeline. Servicers may respond by e-mail if the Initial Package was transmitted in that form.

Within 30 calendar days from the date an Initial Package is received, the servicer must review the documentation provided by the borrower for completeness and send the borrower a Trial Period Plan Notice in the event of approval, a Borrower Notice in the event of non-approval, or an Incomplete Information Notice if documentation is incomplete.

All Borrower Notices must be mailed no later than 10 business days following the date of the servicer's determination that a Trial Period Plan or official HAMP modification will not be offered. Program guidance defines specific timeframes and circumstances under which borrowers can appeal the results of a negative net present value (NPV) test and receive an answer from their servicer.

The Incomplete Information Notice must include a specific date by which the documentation must be received, which must be no less than 30 calendar days from the date of the notice. If the documents are not received by the date specified in the notice, the servicer must make one additional attempt to contact the borrower in writing regarding the incomplete documents. This additional notice must include the specific date by which the documentation must be received, which must be no less than 15 calendar days from the date of the second notice. If a borrower is unre-

sponsive to these requests for documentation the servicer may then discontinue document collection efforts and determine the borrower to be ineligible for HAMP.

Lastly, we have developed operational metrics to measure the performance of servicers in responding to borrowers in a timely manner. These metrics include such measures as the average time to pick up incoming borrower calls and the percent of borrowers personally contacted with responses. If a servicer's performance under any of these operational metrics is determined to be materially insufficient by Freddie Mac, which serves as Treasury's compliance agent for HAMP, Fannie Mae, which serves as Treasury's financial agent for HAMP, can undertake remedial actions that may include clawbacks—withholding or reducing incentive payments to servicers, or requiring repayments of prior payments made to servicers with respect to affected loans.

2. What do you intend to do to improve the program and help more homeowners stay in their homes with workable mortgages? What can you do to get the servicers in line, if anything?

On March 26, 2010, Treasury announced a number of enhancements to HAMP, which reflect the Administration's commitment to broaden the program's reach and impact, to strengthen the program's implementation, and to continue to provide relief to American homeowners and the mortgage industry as a whole.

These changes will provide temporary mortgage assistance to some unemployed homeowners; encourage servicers to write-down mortgage debt as part of a HAMP modification, allow more borrowers to qualify for modification through HAMP, and help borrowers move to more affordable housing when modification is not possible. The changes will be implemented over the coming months.

The Administration has taken additional steps to provide assistance to underwater borrowers. We have made adjustments to the Federal Housing Administration (FHA) programs that will provide additional refinancing options to homeowners who owe more than their home is worth because of large falls in home prices in their local markets. These adjustments will provide more opportunities for qualifying mortgage loans to be responsibly restructured and refinanced into FHA loans provided that the borrower is current on the mortgage and the lender reduces the amount owed on the original loan by at least 10 percent.

Lastly, on March 29, 2010, the Administration announced that it would expand the Housing Finance Agency Innovation Fund for the Hardest-Hit Housing Markets (the "HFA Hardest-Hit Fund") for state HFAs to design innovative, locally targeted foreclosure prevention programs. The expansion allocates $600 million to states with high concentrations of people living in economically distressed areas, defined as counties in which the unemployment rate exceeded 12 percent, on average, over the months of 2009. Combined with the first amount of funding, made available from the HFA Hardest-Hit Fund, which provides limited additional resources to states that experienced home price declines of 20 percent or more, this program will draw on $2.1 billion from TARP.

3. On Friday, February 19, the Obama Administration announced that just 5 states would receive $1.5 billion in special mortgage assistance through TARP for home mortgage modifications.

These states are: California, Nevada, Florida, and Arizona, and Michigan. I am stunned that Ohio was omitted.

Last year was the fourteenth year of record foreclosures in Ohio; that is, each year for the last 14 years we have set a record for the number of foreclosures.

A Ohio housing organization looked at the HAMP Program and Ohio ranked 48th in terms of the number of modifications vs. the number of homes in serious delinquency.

Yet, Ohio did not receive help from this "special assistance". This is in many ways an outrage—Ohio has been ravaged economically, with foreclosures on the rise for each year for 14 years! How can you overlook states like Ohio where the Making Homes Affordable Program, touted and sold to us to help millions of Americans, has helped 2,529 Ohio homes move into a permanent modification since last year?

What is your plan to help states like Ohio?

Is this announced assistance to 5 states the first of several announcements of assistance to states in need or is it the only move of the Administration to extend assistance to states suffering from high percentages of foreclosures?

I would like to ask that you submit for the record the requirements and the related valuation estimates or formulae used to determine which 5 states were most in need and thus set to receive this special assistance.

We urge you to identify other immediate means to assist hard hit states addressing escalating foreclosures, like Ohio, that were so sadly omitted from the TARP decision.

The first Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("HFA Hardest Hit Fund"), announced on February 19, 2010, was designed to provide additional resources to states that experienced home price declines of 20 percent or more, using the Federal Housing Finance Agency (FHFA) Purchase Only Seasonally Adjusted Index. Such large declines in home prices are enough to erode the equity of responsible borrowers, many of whom made large down payments on their homes.

Treasury recently announced an expansion of the HFA Hardest Hit Fund. This expansion will provide $600 million to states that meet a set of criteria different from the first round of funding. In light of the populations of the areas covered, this is equivalent on a per person basis to the $1.5 billion awarded in the first HFA Hardest Hit Fund. The second HFA Hardest Hit Fund, announced on March 29, 2010, targets five states with high concentrations of people living in economically distressed areas. Specifically, states were ranked by the share of their state population living in counties in which the unemployment rate exceeded 12 percent, on average, over the months of 2009. The five states that have been selected are at the top of this ranking, after excluding states that have already been selected for the first HFA Hardest Hit Fund. The five states that will receive allocations based on this criterion are: North Carolina, Ohio, Oregon, Rhode Island, and South Carolina.

The objective of the HFA Hardest Hit Fund is to allow HFAs to develop creative, effective approaches that consider local conditions. Focusing on these areas will allow limited funding to be deployed with enough scale to have a more significant impact. Further, lessons learned through these programs will help other HFAs better serve their communities.

Additionally, Ohio has received a significant portion of federal funds dedicated to helping communities cope with foreclosures and neglect. In October of 2009, the Administration announced a nationwide HFA Initiative to support the important work of state and local HFAs in providing affordable and sustainable housing resources to working families. A total of $527 million was allocated to the Ohio Housing Finance Agency (OHFA) as part of that program. In the second round of the Department of Housing and Urban Development's (HUD) Neighborhood Stabilization Program funding, Ohio received over $175 million—the 4th highest funded state in that round. These funds support eight different programs statewide and are critical to addressing issues of blight. HUD awarded $83.4 million in Tax Credit Assistance Program (TCAP) funds to the OHFA to restart stalled affordable housing projects. Through the Homelessness Prevention and Rapid Re-Housing Program, Ohio received $65.6 million for financial assistance and supportive services for the homeless and those at risk of becoming homeless. In total, Ohio has received more than $1 billion in funding to help prevent avoidable foreclosures and stabilize local communities.

4. Secretary Geithner, at times I think that the only person watching out for the taxpayer when it comes to the TARP is the Special Inspector General for the TARP and his staff. Can you please explain why your budget request includes such a drastic drop? Although some TARP programs will be phased out by the end of the year, is it clear that the investigations and oversight of the SIGTARP will not be complete nor should they be.

While some programs under TARP are being phased out, the Special Inspector General for TARP (SIGTARP) will continue in fiscal years 2010 and 2011 to conduct audits of TARP and enforce investigations to prevent, detect, and refer for prosecution cases of fraud, waste and abuse of TARP funds. In order for SIGTARP to continue to fulfill its mission of overseeing TARP, the President's Budget provides the full amount requested by SIGTARP for FY 2011 which is a 13 percent increase over FY 2010 budgetary resources.

5. On Christmas Eve, the Treasury essentially agreed to fill whatever hole of debt both Fannie Mae and Freddie Mac dug—regardless of the amount of taxpayer dollars that it would take to fill both of the holes. How is this commitment included in the Treasury's budget? Since both institutions are in conservatorship under the Federal Housing Finance Agency, should we be looking to see this bookkeeping at HUD? In addition, I'd like you to explain the reasoning behind this decision to hand Fannie and Freddie a blank check, when it is clear that neither institution was functioning properly nor we would not have had to place them in conservatorship.

The FY2011 Budget captures the full estimated cost of the Government's expected loss exposure through the Preferred Stock Purchase Agreements (PSPAs). The expected outlays for these payments as well as the expected dividends paid to us by the Government-Sponsored Enterprises (GSEs) as budgetary and reflected in the

deficit. This captures the nature of any contingent liability and the information has been fully disclosed as part of the budget.

FHFA placed the GSEs Fannie Mae and Freddie Mac into conservatorship nearly 19 months ago (September 2008) in response to their declining capital adequacy and to support the safety and soundness of the GSEs and their role in the secondary mortgage market. In February 2009 we announced a comprehensive set of actions to support housing market stability and provide assistance to responsible American homeowners—and we have seen substantial impact from these programs.

A part of that announcement was continued capital support for Fannie Mae and Freddie Mac through the PSPAs to strengthen our housing and mortgage finance markets, and we reaffirmed that commitment through our actions taken in December.

Certainty regarding the government's support for the GSEs is crucial to stabilizing the housing market. At the height of the housing crisis, private participants abandoned the housing finance market, causing interest rates to rise and making it more difficult for Americans to obtain a mortgage to buy a new home or refinance the mortgage on their current home. In direct response to these problems, the Congress included in the Housing and Economic Recovery Act (HERA) specific authority for Treasury to provide all necessary financial support to the GSEs.

Today, as the housing market has stabilized considerably, we do not believe that the GSEs will need more funding than the amounts we previously committed. Out of an abundance of caution, however, we decided to provide additional flexibility to exceed the earlier funding levels in order to maintain confidence in the initial commitments to stand behind the GSEs. The changes we announced were designed to make those continued commitments clear.

QUESTIONS FROM REPRESENTATIVE KURT SCHRADER (D–OR)

1. I have been a strong supporter of the Administration's efforts to help troubled borrowers and homeowners. However, I am concerned by the lack of bank participation in these efforts and the negative affects this inaction is having on many of my constituents. Other than publishing a list of banks who are lending and a list of those who are not, what is the Treasury doing to compel banks to participate in the Administration's mortgage modification programs?

HAMP is a voluntary program. We cannot compel banks to participate, although the Obama Administration did require banks that received new TARP funds under new TARP programs that were announced after HAMP was announced to agree to participate in HAMP. Though we recognize that some servicers have yet to sign up for the program, we are encouraged that nearly 90% of the outstanding mortgage debt in the country is now covered by servicers participating in HAMP. In the last quarter of 2009, the number of participating servicers increased from 63 to 102, and the current number is 113. In addition, about 2,300 lenders servicing loans owned or guaranteed by Fannie Mae or Freddie Mac are required to consider those loans for HAMP. Expanding the universe of participating servicers continues to be a key to maximizing program impact and Fannie Mae, in its role as Treasury's financial agent for the program, will continue to actively solicit additional servicers for participation.

2. I support many of the Administration's efforts to support small business growth and job creation. However, lower SBA fees and increased SBA loan guarantees only go so far. Banks must lend for small and large businesses to grow. What are you doing to encourage banks to reengage the private commercial lending market and restore private investment?

Improving small business access to credit is an element of the Administration's efforts to spur job creation and ensure a robust recovery. In addition to extending the lower fees and higher guarantee levels enacted under the Recovery Act, the Administration has developed and pursued a broad small business agenda.

First, Treasury has put forward a proposal to create, through legislation, a new $30 billion Small Business Lending Fund (SBLF). Under the fund, the Administration proposes providing capital to community and smaller banks to support additional small business lending. Banks would receive a reduction in the dividends they pay on this capital based on additional lending over a baseline set using 2009 data—providing a strong incentive for banks to increase their lending. By providing capital to banks, this program could potentially leverage multiples of the amounts of Federal dollars invested in new lending. Moreover, by creating a new program outside of TARP, this effort responds to input from community banks as to how to maximize participation and its impact on credit availability.

In addition to the SBLF and Recovery Act-related SBA proposals, Treasury has worked closely with the SBA on other efforts to expand the tools banks can use to support lending to small businesses. We have taken steps to unfreeze the secondary markets on which SBA loans are bought and sold, helping to return activity and pricing on these markets to pre-crisis levels. We are also working with Congress for a temporary increase in loan limits on SBA Express working capital loans and allowance for certain commercial real estate refinancing under the 504 program, as well as a permanent increase in the maximum loan sizes for its largest guarantee programs—expanding the SBA's reach so that additional small businesses can receive the credit they need to grow and create new jobs.

Finally, Treasury continues to encourage banking regulators to take a balanced approach—protecting the safety and soundness of banks, while discouraging overly cautious practices that could discourage appropriate lending. In February, with Treasury's encouragement, the banking regulators released guidance—consistent with previous guidance related to commercial real estate lending—instructing examiners to avoid classifying loans to sound borrowers based solely on a decline in the value of underlying collateral. Encouraging the implementation of such policies will continue to be a high priority for both Treasury and the Administration.

3. The ARC Loan Program established under the American Recovery and Reinvestment Act is supposed to serve as a temporary zero-interest immediate flow of capital for small businesses. While I support the program, it is expensive to administer and difficult to manage. What steps is the administration taking to reduce their personal budget while making this loan more profitable and more accessible to banks and small businesses?

This program does not fall under Treasury's jurisdiction. Questions regarding its effectiveness are best answered by the Small Business Administration (SBA).

4. What specific precautions have you taken to make sure the proposed infusion of $30 billion in TARP funding to the SBA for small businesses will be used to grow small businesses? Specifically, how will you ensure this capital infusion is not used to simply shore up balance sheets without onerous bureaucratic red tape?

The Administration is proposing the $30 billion SBLF that will support small business lending at community and smaller banks. This facility would be in addition to initiatives undertaken by the Small Business Administration to expand its credit programs.

Treasury has significant experience with bank capital programs and could implement this initiative quickly and efficiently. Our core proposal for the SBLF would be to provide smaller banks capital with incentives to increase small business lending by reducing the dividend that banks must pay as they increase their lending relative to a baseline set in 2009. This structure would provide a powerful motivation for banks to increase their lending. Furthermore, by providing this capital, our investment could be leveraged several times over to increase lending by far more than the $30 billion we dedicate to the facility.

Those banks that did not increase their lending would continue to pay the higher initial rate—which is set at a level where the government would anticipate earning a profit. Consequently, any budget subsidy provided by the program would be received by those banks that had increased their lending.

While the Administration has presented this option for using the SBLF to make credit more available to small businesses, we look forward to discussing with Congress other ways that—in addition to what is described above—the fund could be fully deployed. Additionally, we continue to discuss with federal banking regulators ways to spur lending while enabling banks to remain well-capitalized.

5. What are the specific measures you have taken to reduce the red tape and duplicative paper work already hampering SBA lending?

Treasury does not directly administer SBA loans, but we are working with SBA to make sure that as many small businesses as possible have access to the capital they need to support economic growth and job creation.

6. What are you doing to rein in overzealous and reactionary regulators who set artificially restrictive quotas and prevent time honored good business practices that get in the way of good loan officers trying to get qualified but struggling businesses the credit they need?

While we support the independence of the banking regulators, Treasury has encouraged the agencies to take a balanced approach that supports safety and soundness but does not exacerbate economic difficulties. Last October the agencies issued a "policy statement" on workouts of Commercial Real Estate loans with the intent to promote consistency among examiners and agencies, increase transparency for workouts, and ensure that examiners do not inadvertently curtail credit to sound

borrowers based solely on a perceived decline in the value of underlying collateral. In February, with Treasury's encouragement the agencies released similar guidance on small business lending. It urges banks not to be overly cautious in making loans and instructs examiners to exercise reasonable restraint.

7. How will you be carefully withdrawing the government capital supporting the economy and allowing the private sector to take back over as the recession gives way to economic growth?

Our progress to date in stabilizing the financial system, bringing down the cost of credit, and opening up capital markets has enabled us to begin terminating and winding down many of the programs put in place to address the crisis. Many of those programs were designed to have costs to the recipients of federal assistance. Fees and other pricing aspects have made them increasingly unattractive as financial conditions have stabilized. Participation in these programs has fallen over the past year, and most are now closed. Some programs were designed to mobilize private capital and replace public investments. These programs are succeeding on both fronts. Other programs were designed to terminate according to an announced schedule and are doing so—generating returns to taxpayers reducing the total costs of stabilization efforts.

• Credit extended through extraordinary Federal Reserve liquidity programs has declined substantially as market conditions have improved, and the majority of those programs terminated in February of this year.

• The "stress test" of our largest financial institutions provided the transparency and confidence necessary for them to raise over $150 billion in capital from private sources. In turn, banks have repaid 70 percent of TARP funds they received, and the Capital Purchase Program, under which the bulk of support to banks has been provided, is closed. We currently expect that TARP investments in banks will result in positive returns for taxpayers. They have already generated $20 billion from dividends and warrant sales.

• In September, Treasury ended its Money Market Fund Guarantee Program, which guaranteed, at its peak, over $3 trillion of assets. The program incurred no losses, and generated $1.2 billion in fees.

• New issuance under the FDIC's Temporary Liquidity Guarantee Program (TLGP) Debt Guarantee Program ended in October, and the TLGP Transaction Account Guarantee Program will likely terminate in December of this year. Fees from participants in those programs are expected to cover any losses from FDIC guarantees.

• Treasury ended its GSE MBS purchase program in December 2009 and the Federal Reserve completed its announced purchases of GSE and Ginnie Mae MBS and GSE debt in March, 2010.

However, the financial recovery is incomplete. Persistent high unemployment and high loan-to-value ratios weigh on the finances of many Americans and will lead to additional foreclosures, which could slow the recovery in housing markets. Credit remains tight for small businesses. Some U.S. institutions and markets remain heavily dependent on public support, with housing as the clearest example. Further, as we wind down many of the programs put in place to address the crisis, new shocks could have an outsized effect. We will continue to repair the damage from the financial crisis through targeted programs, guard against potential shocks, and pursue reforms to ensure that our financial system contributes to our economy without putting it at risk of collapse.

In the meantime, the government will continue to manage outstanding commitments in financial institutions and markets to maximize taxpayer return while preserving financial stability. The Federal Reserve announced that in the near term it will allow its holdings of Agency debt and MBS to run off as they mature or are prepaid. The Federal Reserve also announced that it may sell those securities in the future if it determines that the economic recovery is sufficiently advanced and financial tightening is warranted.

Some remaining commitments have a fixed duration. The guarantees provided through the FDIC's TLGP Debt Guarantee Program will expire by the end of 2012 with fees expected to cover losses associated with the program. The increase in deposit insurance from $100,000 to $250,000 per account is scheduled to expire at the end of 2013, and industry assessments are expected to cover FDIC losses from its guarantee on deposits. Similarly, most loans through TALF have a three-year maturity and will roll off by 2013. The vast majority of those loans are current. The Federal Reserve's senior loans to Maiden Lane II LLC and Maiden Lane III LLC are scheduled to be repaid by the end of 2014. Both loans have already been paid down significantly. The Federal Reserve's senior loan to Maiden Lane LLC is scheduled to be repaid by 2018.

AIG is making progress in restructuring its operations to reduce its risk to our economy and to repay taxpayers. The company is winding down its Financial Products subsidiary, where AIG's risks were concentrated. Its insurance subsidiaries are generating positive returns and attracting attention from private investors. AIG recently announced that it reached agreements to sell two large insurance subsidiaries for a total of more than $50 billion, which will be used to pay down the Federal Reserve's loan. We expect that AIG will complete additional asset sales and continue to enhance revenues, consistent with its strategy to repay taxpayers. However, TARP investments in AIG will likely still result in some loss. The FY2011 Budget reflected estimated losses of nearly $50 billion. Today, on the basis of a range of measures, Treasury believes that losses on its investments in AIG are likely to be lower. In March 2010, the Congressional Budget Office estimated that losses on all Treasury investments in AIG would be about $36 billion.

The auto industry has also undergone significant restructuring, and prospects for repayment of government investments in the industry have improved. GM and Chrysler increased sales and revenues. GM repaid its $6.7 billion TARP loan ahead of schedule. The $1.5 billion loan to a Chrysler Financial special purpose vehicle has also been repaid. Last year Treasury terminated the Warranty Commitment Program, and the Supplier Support Program will wind down by April. Treasury plans to recover additional TARP investments in GM once the company launches an initial public offering. Treasury will also likely exit its investment in GMAC through a gradual sale of shares following a public offering. However, as with commitments in AIG, it is possible under certain scenarios that the government investments in GM, Chrysler, and GMAC will result in a less than full recovery.

With respect to other outstanding TARP commitments, Treasury intends to liquidate its holdings of Citigroup common stock by year-end in an orderly manner. We will work with other TARP recipients and their supervisors to accelerate repayment where appropriate. In addition, we will conduct additional warrant auctions throughout 2010, which will generate additional returns for taxpayers.

Finally, Treasury will follow the principle that we intend to exercise our voting rights in outstanding common stock investments only on core issues such as election of directors, and not interfere in the day-to-day management of companies. We will also continue to manage investments in a manner that ensures accountability, transparency and oversight.

In sum, we are working to return the capital base of our financial system to private hands as quickly as possible, while preserving financial stability and promoting economic recovery.

8. Please elaborate on Treasury's plans to increase tax enforcement activities as described in the President's FY2011 Budget Proposal.

The Budget Request includes additional resources for the Internal Revenue Service (IRS). With these resources, IRS will continue initiatives implemented with the funding from FY2010 appropriations and establish new initiatives that will bring in nearly an estimated $2 billion per year in additional receipts once the new hires reach full productivity in 2013. The budget supports IRS taxpayer services, which are critical to voluntary compliance; IRS runs a variety of programs to assist taxpayers who are trying to meet their obligations under the law. The budget also funds IRS enforcement priorities, including international tax compliance of high-net worth individuals and corporations. This has been a strategic priority for the Administration. The additional resources will also focus on implementation of new information reporting authorities, including merchant payment card and securities cost basis reporting, which will improve compliance and provide taxpayers with a more straightforward interaction with the IRS. The Budget Request will also allow the IRS to broaden its collection coverage and address noncompliance more effectively.

QUESTION FROM REPRESENTATIVE PAUL RYAN (R–WI)

1. Mr. Secretary, on 5 June 2009, Budget Committee Ranking Member Paul Ryan and Vice Ranking Member Jeb Hensarling submitted a letter to you regarding the budgetary treatment of the Federal National Mortgage Association [Fannie Mae] and the Federal Home Loan Mortgage Corporation [Freddie Mac], and other issues. The Committee would appreciate a response to the letter at your earliest convenience.

Treasury responded in writing to the June 5, 2009, letter on September 30, 2009. For your reference, we have enclosed the response letter as an attachment.

[The letter referred to follows:]

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

September 30, 2009

The Honorable Paul D. Ryan
Ranking Member
Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515

Dear Representative. Ryan:

Thank you for your letter providing your concerns and questions regarding the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The potential for Fannie Mae and Freddie Mac to pose a systemic financial risk was highlighted by many people over the years. Unfortunately, these warnings proved true as increased stress in mortgage markets and diminished capital positions of Fannie Mae and Freddie Mac ultimately resulted in the Federal Housing Finance Agency (FHFA) placing both companies into conservatorship in September 2008. At the same time, to address the potential systemic consequences associated with a failure of Fannie Mae and Freddie Mac, the Treasury Department exercised authorities granted under the Housing and Economic Recovery Act of 2008 (HERA) to provide financial assistance to these companies. Answers to your specific questions are provided below.

First, you asked about future plans for the Treasury Department's Senior Preferred Stock Purchase Agreements (SPSPAs) with Fannie Mae and Freddie Mac, which were established under HERA. In February 2009, I announced a doubling (from $100 billion to $200 billion) of the financial commitment available to Fannie Mae and Freddie Mac under the SPSPAs. Given the crucial role that Fannie Mae and Freddie Mac play in the mortgage market, this increase was designed to maintain confidence in these companies as we continue to work through the housing correction. The structure of the SPSPAs permits draws under the SPSPAs to occur beyond December 31, 2009. As with the Administration's other financial stability programs, we will continue to evaluate market conditions as we consider whether augmenting the SPSPAs would be warranted.

Second, you asked about limits on the use of the Treasury Department's HERA authority to support participation by Fannie Mae and Freddie Mac in the Administration's initiatives to stabilize the housing market. Given the important role that Fannie Mae and Freddie Mac play in the mortgage market, their participation in efforts to reduce preventable foreclosures is vital to speeding the housing recovery. As noted in your letter, it is expected that Fannie Mae and Freddie Mac may draw up to $25 billion under the SPSPAs to fund their participation in the "Making Home Affordable" program. In evaluating the participation of Fannie Mae and Freddie

Mac in this program, both the Treasury Department and FHFA gave careful consideration to the public purpose of Fannie Mae and Freddie Mac, and the impact on their operations. The "Making Home Affordable" program is consistent with the public purpose of Fannie Mae and Freddie Mac, not only by improving their own credit positions, but also by reducing preventable foreclosures and stabilizing housing prices, which should reduce future losses. Any future participation by Fannie Mae and Freddie Mac in efforts to stabilize the housing market would be evaluated by taking into consideration the same factors, which provides a limit on the potential scope of activities.

Third, you asked about potential conflicts between FHFA's role as a regulator and conservator. Fannie Mae and Freddie Mac were established as government sponsored enterprises (GSEs) to serve specific public purposes associated with providing stability, liquidity, and affordability to the secondary mortgage market. Even with Fannie Mae and Freddie Mac in conservatorship, FHFA must continue to balance the public purpose of these companies embedded in their GSE charters with sound operating standards. To the extent that a potential conflict exists, such a conflict is embedded more in the GSE structure than in FHFA's dual role as regulator and conservator.

Finally, you asked about the Administration's plans for the future of Fannie Mae and Freddie Mac. We are still working our way through the housing crisis, and Fannie Mae and Freddie Mac continue to play a vital role in maintaining stability in the mortgage market. Determining the future of Fannie Mae and Freddie Mac will require careful consideration of the appropriate role of the Federal government in the mortgage market. The Administration has committed to developing recommendations by early next year on the future of Fannie Mae and Freddie Mac. I look forward to working with the Congress, the regulatory community, and the mortgage industry to determine the best possible solution.

Thank you again for your views on these important questions. Please let me know if you have any further questions.

Sincerely,

Timothy F. Geithner

QUESTIONS FROM REPRESENTATIVE ROBERT B. ADERHOLT (R–AL)

1. In the Administration's ten year budget outlook, its best prediction for the deficit as a percentage of GDP is 3.6 percent. OMB Director Peter Orszag has stated that the deficit needs to be at least 3 percent of GDP to be manageable. Why does the President not submit a budget which meets this standard as a starting point for discussions within Congress?

The Administration's Budget goes a long way to closing the fiscal gap in the near term, although we know that there is more work to do to bring the deficit onto a sustainable path in the longer term. The policies we have proposed demonstrate our commitment to bringing down the deficit and putting our country on a sustainable fiscal path.

First, there are tough decisions that had to be made this year—about spending, in particular. We are continuing to go line by line through the budget looking for programs—large and small—that work and those that do not. The Budget identifies more than $20 billion in savings. We are putting in place a three-year freeze on non-security discretionary spending. This is not a blunt cut, but targeted so that we are investing in our priorities—what will spur job creation and economic growth.

Second, we also will be restoring some balance to the tax code: ending the Bush tax cuts for those making over $250,000; making sure wealthy investment managers pay the same income tax rates as middle-class tax payers; and closing other loopholes.

Third, we are working with the Congress to pass legislation that would put in place a fee on the biggest financial institutions so that American taxpayers are paid back for the extraordinary help they provided under Emergency Economic Stabilization Act of 2008 (EESA).

We recognize, however, that we need to go beyond the proposals in the Budget if we are to bring the deficit down to a sustainable level over the intermediate and longer term. This will be a difficult task, one that will require tough and—at times—politically unpopular choices. The President has created a bipartisan National Commission on Fiscal Responsibility that is charged with suggesting ways to put the government's finances on a sustainable path in the medium term and beyond.

While the Commission's first job will be to balance the operating budget of the government by 2015, it will also be responsible for finding long-term solutions to our fiscal situation. The Commission will have 18 members—10 Democrats and 8 Republicans. And to guarantee bipartisan support, at least half the members of both parties must vote for a recommendation before it is passed along to the President. This ensures that the proposals the Commission makes will represent workable solutions that have a good chance of actually being adopted.

2. The nation's debt and deficit is increasing to levels not seen since World War II, possibly threatening our nation's credit rating and increasing the burden for younger generations. Does the administration plan to apply unused TARP funds to lower the nation's debt, as was originally intended?

As a result of careful stewardship and improved financial conditions, the projected cost of the Troubled Asset Relief Program (TARP) has fallen from $341 billion last August to $117 billion—reflecting a $224 billion reduction in the expected cost to the deficit.

The Administration plans to apply repaid TARP funds to lower the nation's debt, as required by Section 106(d) of the Emergency Economic Stabilization Act of 2008. Treasury continues to follow the requirements under EESA to deposit those returns to the general fund to reduce the debt.

The combination of the reduced scale of TARP commitments and substantial repayments should allow us to commit significant resources to pay down the federal debt over time and slow its growth rate.

3. When deciding to cancel NASA's Constellation Program, did you consider the billions of dollars spent thus far in the sense that it represents a lot of progress which now will have to be repeated by companies far less experienced than the current Constellation contractors?

This program does not fall under Treasury's jurisdiction and is best addressed by NASA.

4. Since its inception, the Constellation Program has performed several successful tests and the Ares I-X text went very well in the fall of 2009, despite having less funding than it was promised in multi-year budgets. The new Ares rockets will be 10 times safer than the shuttle. Should the so-called commercial companies follow the same safety criteria as the current Constellation contractors? If not, why?

This program does not fall under Treasury's jurisdiction and is best addressed by NASA.

[An article submitted by Ms. Kaptur follows:]

[January 22, 2009]

Want More Lending?
History Offers Lessons

By WILLIAM M. ISAAC*

The failure to learn the lessons of financial history led to the financial crisis of 2008 and that same failure is hampering efforts to find a way out of it. In 1938 President Roosevelt and his Secretary of the Treasury Henry Morgenthau ordered bank regulators to abandon mark to market accounting (MTM) in favor of historical cost accounting because MTM was inhibiting lending and prolonging the Depression.

In his quest to increase bank lending, President Obama should take a page from President Roosevelt's book and demand that the Financial Accounting Standards Board immediately reverse the MTM rules it imposed beginning in the early 1990s.

The FASB re-instituted MTM despite strong objections from the Chairmen of the Federal Reserve and Federal Deposit Insurance Corporation and then Secretary of the Treasury Nicholas Brady. Brady's March 24, 1992 letter was prescient:

[MTM] could result in extremely volatile earnings and capital. This volatility would not be indicative of a bank's operating results and would therefore be misleading to * * * users of financial statements * * *. Moreover, [MTM] could even

**Mr. Isaac, former Chairman of the Federal Deposit Insurance Corporation, is Chairman of LECG Global Financial Services, based in Washington, D.C.*

result in more intense and frequent credit crunches, since a temporary dip in asset prices would result in immediate reductions in bank capital and an inevitable retrenchment in bank lending capacity.

This is precisely what happened in 2008. MTM forced banks to write down assets when the market collapsed even for performing assets and destroyed $600 billion of capital. If the FASB would reverse its insidious MTM rules, bank lending capacity would jump by nearly $5 trillion!

Stated simply, MTM requires that loans and other financial instruments held by banks be continuously marked to market prices. Historical cost accounting records assets at their original cost (adjusted for depreciation and amortization) and leaves them at that price unless the bank (or its accountant or regulator) decides the value of the asset is permanently impaired.

Robert Herz, FASB's Chairman, has been a staunch defender of MTM and FASB's right to promulgate accounting rules without government oversight. In a recent speech before the AICPA National SEC Conference, Herz justifies MTM's blind reliance on markets and models as somehow more "transparent" than historical cost accounting, which relies on the time-honored practice of valuing assets based on projected cash flows.

Herz cites, approvingly, a Government Accountability Office 1991 report that concluded historical cost accounting masked the S&L problems in the 1980s and urged implementation of MTM so that "banks' true financial condition could be reported promptly * * *."

Herz admits that the FASB implemented MTM to prevent a future S&L crisis. If this isn't within the purview of a systemic risk regulator I don't know what is.

The GAO report and the FASB's reaction to it were simply wrong. As Chairman of the FDIC during the S&L debacle, I know that historical cost accounting did not mask or prolong the S&L problems. Resolution of the S&L problems was delayed by the substitution of "regulatory accounting principles (RAP)" for "generally accepted accounting principles (GAAP)."

The former Federal Home Loan Bank Board's official policy, supported by the Reagan Administration and Congress, was to allow the S&L industry time to grow out of its problems by adding new higher yielding assets. This policy required overriding GAAP accounting.

The FDIC coped with problems of the same type and magnitude in the FDIC-insured savings bank industry. The FDIC rejected calls to implement RAP and allow savings banks to pursue rapid growth. This is a major reason why the savings bank problems cost the FDIC only $2 billion vs. nearly $150 billion of taxpayer losses in the S&Ls.

Overriding GAAP accounting, sanctioning rapid growth by poorly capitalized and managed S&Ls, and failing to properly supervise S&Ls were villains in the S&L crisis, not historical cost accounting.

The FASB's ignorance of this simple truth is evidenced by the major recommendation in Herz' speech in which he urges that bank regulation be "decoupled from U.S. GAAP reporting requirements." Herz would have us return to the separation between RAP and GAAP that cost taxpayers $150 billion in the S&L debacle!

It is highly inappropriate for the FASB—five anonymous accountants selected by trade groups—to take it upon itself to determine what caused the S&L crisis and endeavor to correct it through accounting policy. In its effort to "fix" an accounting system that was not broken, the FASB wreaked havoc on the banking industry and the economy, costing millions of people their jobs, homes and life savings and costing taxpayers hundreds of billions of dollars to help repair the devastation.

The FASB's blunders cry out for establishing formal government review of the potential systemic effects of accounting policies. Financial reform legislation that fails to address this critical issue invites the next crisis.

[A letter submitted by Ms. McCollum follows:]

Sunrise Community Banks

Franklin Bank
Park Midway Bank
University Bank

February 19, 2010

Representative Betty McCollum
1714 Longworth Building
Washington, DC 20515

Dear Representative McCollum:

I am writing to ask you to write a letter of thanks to the U.S. Department of Treasury commending them for their recent action to create the CDFI Capital Initiative (template letter enclosed). This new program was announced by Secretary Timothy Geithner on February 6, 2010. The CDFI Capital Initiative will utilize unused or repaid proceeds from the TARP Program to invest in banks, thrifts and credit unions that are certified by the U.S. Department of Treasury as Community Development Financial Institutions (CDFIs). Certified CDFIs are financial institutions that have demonstrated that at least 60% of their total lending and investments serve low income people and communities.

The CDFI Capital Initiative will channel resources to support lending in communities hardest hit by the recession. These resources will be directed to Main Street. The new lending that will be generated will: (1) expand small businesses and help entrepreneurs start new ones; (2) create or retain jobs in places with the highest unemployment in the nation; (3) spark revitalization of disinvested neighborhoods; and (4) re-establish stability in housing markets ravaged by predatory lenders and foreclosures. The Treasury's action should be commended because it explicitly recognizes the important role that CDFIs can and will play in the economic recovery of our nation's low income communities.

My institution, Sunrise Community Banks, is a certified CDFI bank holding company that owns three CDFI certified banks (Franklin Bank, Park Midway Bank, and University Bank). Sunrise Community Banks plans to submit an application to participate in the CDFI Capital Initiative because it will provide patient and affordable capital that will enable us to expand lending and promote economic recovery in our local community. Sunrise Community Banks received a Treasury investment through the Capital Purchase Program in June of 2009. This $11,926,000 capital investment gave our banks the ability to increase lending in our local community. During the six months after the receipt of the funds, our average loan portfolio grew 8%, or $31 million. These loans financed small businesses and created jobs in the urban core of Minneapolis and Saint Paul. Under the newly created CDFI Capital Initiative, we will be eligible to refinance our existing Treasury capital and increase the total capital available to us to $22 million.

200 University Avenue West, Suite 200, St. Paul, MN 55103 *phone:* (651) 259-2200 *fax:* (651) 259-2201

During the creation of this program, I worked closely with the Treasury Department and the CDFI Fund to stress the importance of capital to local banking institutions like ours. I commend the Treasury Department for their responsiveness to community development banking needs and for rechanneling the TARP funds to Main Street.

Thank you for consideration of this request. Please contact me at david@sunrisebanks.com or 651-259-2220 if you have questions.

Sincerely,

David C. Reiling
CEO

CC:
Anthony Jones
Joshua Straka

[Whereupon, at 12:14 p.m., the committee was adjourned.]

○