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NOMINATION OF HERBERT M. ALLISON, JR.

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

ON

THE NOMINATION OF HERBERT M. ALLISON, JR., OF CONNECTICUT, TO BE ASSISTANT SECRETARY FOR FINANCIAL STABILITY (TARP), DEPARTMENT OF THE TREASURY

JUNE 4, 2009

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NOMINATION OF HERBERT M. ALLISON, JR., OF CONNECTICUT, TO BE ASSISTANT SECRETARY FOR FINANCIAL STABILITY (TARP), DEPARTMENT OF THE TREASURY

THURSDAY, JUNE 4, 2009

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

The Committee met at 9:38 a.m., in room SD–538, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. Good morning. The Committee will come to order. Let me welcome all of you here this morning, and let me say that my friend and colleague, Senator Shelby, the former Chairman of the Committee, will be with us shortly this morning. We have been joined, I see, by Senator Schumer, Senator Tester, who are here, and others.

Let me welcome our nominee this morning, Mr. Herb Allison, who is our nominee to be Assistant Secretary for Financial Stability at the Department of the Treasury. We welcome you as well, Mr. Allison, and let me begin by thanking you for your willingness to serve during these times.

I am going to take a couple of minutes for some opening comments, and I will ask my colleagues whether or not they would like to share any opening thoughts on this matter, and then we will turn to you for some opening statements. As soon as Senator Shelby comes in, I will also interrupt wherever we are and give him a chance to make any opening comments, and then we will get to some questions for you, if we can.

So let me begin by welcoming everyone here. It is no overstatement to suggest that this position for which you have been nominated, that of Assistant Secretary for the Office of Financial Stability within the Treasury Department, is among the most important this Committee will consider in this term of Congress. You have inherited a giant task, none bigger than overseeing the Troubled Assets Relief Program.

The Office of Financial Stability was created as part of the Emergency Economic Stabilization Act. Congress believed that the size of the program, $700 billion at the time last fall, required the full-

time attention of skilled professionals to oversee and manage purchases made under the program.

At first, some resisted the call to establish such an office, arguing that it would create a layer of bureaucracy within the Treasury. But I and many of our colleagues, including Senator Schumer and Senator Tester, who were deeply involved in the formation of the Emergency Economic Stabilization program last fall, believed it was a very important mechanism to provide accountability and transparency so that the public could understand the Government's decisions.

Now, with 12 TARP initiatives announced by Treasury, the need for a dedicated office to ensure the proper management of their money, the public money, taxpayer money, is obviously clear. And proper competent management is what the TARP program desperately needs.

We need strong, steady management to ensure that the core purposes that Congress outlined with the Emergency Economic Stabilization Act—protecting homeownership, college funds, retirement accounts, life savings, and jobs—are fulfilled by the TARP. TARP funds must be used to get credit flowing again to families, pay for homes, a car, or college tuition, and to small businesses to stock inventory and to meet payrolls, because with 10,000 foreclosures every day being filed and 20,000 layoffs occurring every day, families and small businesses still need our help desperately in this country.

Thankfully, we have begun to see a sharp change in direction for the TARP program, from the Homeownership Preservation Program, which draws upon the $75 billion in TARP funds, to more accountability from firms which receive taxpayer assistance.

But as the news this week that General Motors was filing for bankruptcy reminds us, we are hardly out of the woods, and I would add that this Committee intends to hold another hearing next Wednesday to examine the administration's plans to restructure GM and Chrysler.

There are also real questions about the future of the Public–Private Partnership Investment Program to purchase so-called legacy assets from banks and other institutions which have put an enormous strain on our financial system. When the Treasury Secretary was here a few weeks ago, I asked him if this program would work and if he believed banks would still be willing to sell these so-called toxic assets at discounted prices given the better-than-expected stress results that were completed about 2 weeks ago. He said that he expected those programs to begin operating over the next 6 weeks, but now some are arguing that the program may no longer be necessary because of the unanticipated strength of these financial institutions.

And so, Mr. Allison, the responsibility falls to you to provide the kind of steady leadership our country needs to navigate through the complexities of this economic crisis. With America's financial system continuing to hang in the balance, this office that you will be heading needs a strong and vigilant manager, someone who can follow through on commitments made and maximize the return to taxpayers, as well as keeping them well informed in understandable language as to what is occurring, why it is occurring, what our

plans are, and where we are headed, where the shortfalls are, the pitfalls, what is not working, as well as what is working, in clear, clear language.

There is a tremendous difficulty for the public, as well as many members up here, to understand on a daily basis how this all is unfolding, how it is working. We need someone who will listen, who is responsive to legitimate concerns raised by the TARP oversight bodies, makes course corrections when necessary, keeps a watchful eye to prevent any conflicts of interest that might arise, and keeps this Committee very well informed. We will have to determine some way to do this, but almost on a regular basis so that we are knowledgeable about any things you see that we ought to be aware of rather than just waiting for a hearing process to occur before we discover it or read about it in the newspapers.

We will need someone who is judicious when it comes to committing the remaining TARP funds as well, estimated at some $109 billion, someone who can ascertain which areas of our financial system require assistance and which do not. Above all, we need someone who can inspire confident, who can articulate a clear vision to the public and policymakers regarding the role the TARP program and must play in helping our economy recover.

Mr. Allison, you know as well as I that you face a difficult road ahead. As I am sure you have discovered during the last several months overseeing Fannie Mae, there will be no parades in the National Mall should you succeed, in my view. But I hope you will use your diverse professional background in the fields of finance, retirement services, and education to fulfill the core purposes that Congress outlined with the Emergency Economic Stabilization Act.

You have an incredible background. It really is remarkable. When I looked over the experiences you have had in these areas of finance, of retirement issues, of education, you are tremendously well suited to do this, in my view. You have had a distinguished academic career. You served our country with great distinction—in the Navy during the Vietnam Conflict, a graduate of Stanford as well as a Yale undergraduate degree.

So you really have the tools and the experience and the background, I think, to make a significant difference, and I personally want to say I am excited about your nomination. I think this is going to be a great opportunity for us to get this right and to give the country that renewed sense of confidence about how this program is working and why it is in their interest that we succeed with it.

You and your family have epitomized the importance of public service. You know you now have a unique opportunity to affect the role that our financial markets and institutions play in the lives of literally virtually every American citizen. In many ways, you will hold the keys to the future of the housing, financial, and economic crises that we are currently encountering. And you have a remarkable opportunity to make a difference for millions of Americans, as I know you are aware.

I know you have some family members here as well this morning. Why don't you take a minute and let us introduce them as well? Can we do that before you start?

Mr. ALLISON. Thank you very much, Chairman Dodd. I would like to introduce my wife, Simin, and my sons, John and Andrew.

Chairman DODD. Welcome.

Mr. ALLISON. As well as my brother, George Allison, a retired captain in the U.S. Navy.

Chairman DODD. What was that?

Mr. ALLISON. Retired captain in the U.S. Navy.

Chairman DODD. Welcome. Nice to have you.

Mr. ALLISON. Thank you.

Chairman DODD. Surface ships or submarines?

Mr. GEORGE ALLISON. Surface.

Chairman DODD. Ah, well. I thought you might have had some experience in Groton, Connecticut, along the way.

Let me turn to Senator Tester.

STATEMENT OF SENATOR JON TESTER

Senator TESTER. Thank you, Mr. Chairman, and those introductions cleared up a lot, because when I came in, I met Mr. Allison in the back room, and I walked out here, and I saw his brother George, and I thought, "Wow, how did he get out here so quickly?"

[Laughter.]

Chairman DODD. He is going to be good.

Senator TESTER. Exactly. He is going to be very, very good.

Thank you, Chairman Dodd, and I want to thank you for calling this hearing, and, of course, welcome, Mr. Allison. I want to echo the Chairman's comments on thanking you for your willingness to serve and your willingness to appear before the Committee today.

It was Milton Friedman who said that nothing is so permanent as a temporary Government program. We need to make sure that TARP does what it needs to do and then wind it down and get the taxpayers' money back as soon as possible. And I know you feel that way.

I want to commend you, Mr. Allison, for your willingness to serve and your efforts at Fannie Mae. I also want to urge you to be mindful of what I think we are going to need to do to get out of this economic recovery. We need to be mindful that the successes of this economic turnaround will be driven by small business and middle-class families. It is important, as I said earlier, to repay the taxpayers as quickly a possible and not to just reinvest the funds because we have them. I think this money was specifically put out for a specific reason, and we need to keep that in mind as we move forward.

We also need to understand that community banks play a critical role in the lifebloods of our small rural communities across this country, and they really were not the cause of the economic problem, at least from my perspective. And maybe most difficult is we need to deal with the "too big to fail" problem that comes out. And if you can help us in that, I think that the sooner we can deal with that, the better off this country is going to be in general.

With that, Mr. Chairman, I look forward to the testimony of Herb Allison, and I look forward to a quick confirmation.

Mr. ALLISON. Thank you.

Chairman DODD. Thank you.

I just noticed the arrival of our colleague from Colorado, Senator Bennet, I am saying with some deliberation, and I will give you a chance to get seated over there. Would you care to make any opening comments at all on the case of our nominee?

STATEMENT OF SENATOR MICHAEL F. BENNET

Senator BENNET. Thank you, Mr. Chairman.

I would just like to thank you, Mr. Allison, for being here. Thank you for your willingness to serve. I unfortunately have an Agriculture Committee hearing that I have to go to, but I just want to stress—as I was coming in, I heard Senator Tester say this—how important small business and community banks are to this recovery effort. We have had a number of conversations here with the Treasury Secretary on that subject. We have a case of our own in Colorado relating to a bank failure of one of our agricultural banks that is under review by the Treasury Department. My perspective is the same as Senator Tester's, which is that until we begin to see this involvement beginning to take place at the local level, our public is still going to wonder how we are sending our taxpayers' money.

So I want to just underscore that for you. I am sure you know that. I look forward to hearing your thoughts about that and to working with you as a member of this Committee. Thank you for being here.

Mr. ALLISON. Thank you.

Senator BENNET. Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator, very much.

Mr. Allison, welcome again to the Committee. We are happy to hear your opening comments.

STATEMENT OF HERBERT M. ALLISON, JR., OF CONNECTICUT, TO BE ASSISTANT SECRETARY FOR FINANCIAL STABILITY (TARP), DEPARTMENT OF THE TREASURY

Mr. ALLISON. Thank you very much, Chairman Dodd and other members of the Committee. I am honored to be before you today.

First, I want to thank President Obama and Secretary Geithner for the trust they have shown in asking me to serve. I also want to thank you and your staff for the time you have spent acquainting me with your perspectives on the financial crisis and the measures to address it.

Before I review my background and my plans for the Office of Financial Stability, if confirmed, I want to recognize my wife, again, of 35 years, Simin, and my sons, John and Andrew, for their steadfast support over those years.

I began my career, as the Chairman said, as an officer in the U.S. Navy, serving 4 years on active duty, including a year in Vietnam. After attending business school, I joined Merrill Lynch and spent 28 years there, leaving as President in 1999. At Merrill, I held many positions in finance, human resources, investment banking, capital markets, and general management. In 1998, I played a central role in unwinding Long Term Capital Management—the hedge fund that a decade ago presented a systemic risk to our banking system.

I learned from my experiences at Merrill that the long-term success of financial institutions depends on sound corporate governance, including independent checks and balances, tight control over risk, and executive compensation geared to long-term performance on behalf of clients as well as shareholders. At Merrill Lynch, I contributed to strengthening those governance practices in the 1990s.

Since leaving Merrill Lynch a decade ago, I have led two other major financial institutions through transitions necessary for their long-term success.

In 2002, I became Chairman and CEO of TIAA–CREF, the leading provider of retirement and asset management services. We adapted the company to changing markets, created independent risk management, and doubled the company's capital so we could withstand a harsh investment climate. As a result, TIAA–CREF is now one of very few financial companies that carry AAA ratings. And during my tenure, TIAA–CREF became the first company in the Fortune 100 to allow its stakeholders an advisory vote on executive compensation.

In September of 2008, I was named CEO of the Federal National Mortgage Association as that company was placed into Government conservatorship. The crisis that devastated Fannie Mae's liquidity and capital base also threatened millions of American homeowners with foreclosure. New management had to shift the company's focus from maximizing profit and market share to helping hard-pressed American families stay in their homes. As a result, Fannie Mae is the agent for the President's Home Affordable Refinance and Modification programs, which offer financial relief to millions of Americans.

Members of the Committee, the Financial Stability Program is essential to President Obama's and Secretary Geithner's plans for recovery. Our economy declined sharply last year in part because credit stopped flowing. Without access to credit, small businesses cannot buy the new equipment, raw materials, and inventory that they need to expand. And larger businesses need well-functioning credit markets as they adjust to the changing nature of the global marketplace.

If confirmed, I will keep in mind that the financial crisis is not mainly about banks. It is about alleviating the real hardships Americans are facing every day. I will strive to be a prudent investor on behalf of the American people. To protect the taxpayers who have entrusted us with so much of their money. So let me tell you what my top priorities will be if you decide to confirm me.

First, I will carefully review the controls over managing the taxpayers' money, giving special attention to compliance with laws and directives, managing risks, and internal audits. I will work closely with the Special Inspector General, the Government Accountability Office, the Financial Stability Oversight Board, the Congressional Oversight Panel, and the committees of Congress to assure the accountability and oversight that the American people demand.

Second, under the direction of Secretary Geithner, I will continually strive to maximize the effectiveness of financial stability pro-

grams, restoring soundness to financial institutions and liquidity to our markets.

And, finally, as Secretary Geithner has directed, I will emphasize transparency and interaction with Congress so that you and the American people will know what we are doing with their money, why we are doing it, and how it is making a difference to our economy.

Members of the Committee, let me close by thanking you for considering my nomination as Assistant Secretary of the Treasury for Financial Stability. I was raised by a family that has always valued public service. My family spent much of his career as a special agent in the FBI. My Dad's father worked in the U.S. Department of Agriculture here in Washington, DC. My mother's father was sheriff of Sioux Falls, South Dakota. And my brother, George Allison, with me today, retired with the rank of captain after 28 years in the U.S. Navy. Having started my own career in the Navy, I am honored and inspired by the opportunity to return to public service.

Thank you very much.

Chairman DODD. Well, thank you very, very much. In our conversation, I did not know that your Dad had been in the FBI. My father was an FBI agent. In fact, his first post was in Sioux Falls, South Dakota.

[Laughter.]

Chairman DODD. Long before I was born, by the way. I might have been raised there. Well, thank you.

We have been joined by Mark Warner, Senator Warner of Virginia. Mark, do you have any opening comments you would like to make before we——

Senator WARNER. Senator Tester told me since I was late, I had to reserve my comments to the questioning time.

[Laughter.]

Chairman DODD. Well, Jon runs the show around here. We appreciate it.

Let me start with some questions, and I am going to leave the clock off here. In fact, I am going to invite my colleagues, since there are only three or four of us here, to have more of an informal conversation with you here. So feel free as colleagues, if I start a line of questioning and you have a thought along the same line, jump right in here so we make this in a way more cohesive in that sense.

There are so many places to start. Let me start with this: SIGTARP noted that since TARP's inception, the program's scope, size, and complexity have dramatically increased. I made note of this in my opening comments when I mentioned the 12 separate initiatives under TARP that are around today. Some of these interact with the Federal Reserve, some with the FDIC, some with, obviously, private investors, as we have discussed as well.

I wonder if you could begin, and I think some of this you mentioned in your initial steps you intend to take, but I would like you to expand on this and how you would assure this Committee and the public at large of the effective management of such a complex program that involves already interaction with almost every other Federal agency that is directly or indirectly involved with economic recovery in the country. And I wonder if you might share those

thoughts—and I have been joined now by our colleague from Alabama, and so let me interrupt myself and ask my friend and colleague if he would like to make some opening comments.

Senator SHELBY. Mr. Chairman, I was late. I have been in the Appropriations Committee meeting with Senator Mikulski. We have the FBI Director there. But I told him we also had a very important hearing on this nomination here in the Committee. I would ask that my opening statement be made part of the record. I might have questions in a few minutes.

Chairman DODD. Great, terrific. We just heard, by the way, that Herb Allison's father was an FBI agent for many years, so it is a timely connection.

Senator SHELBY. It is very good. He has got a presumption in his favor right now.

[Laughter.]

Mr. ALLISON. Thank you.

Chairman DODD. Why don't you begin with that. Now, you have been involved in complex entities in the past, obviously, at Merrill and Fannie and TIAA–CREF and so forth. So you have a background in this, but give us some sense because it seems to us every time we turn around here, there is some new activity involved with the TARP program, and I am wondering how we get our arms around this. And it is getting more and more complex in understanding how these resources are being used. But give us some sense of how you would approach this.

Mr. ALLISON. Yes, sir. Thank you very much for the question. Actually, one of my first steps as I joined the Treasury was to contact the Special Inspector General, Neil Barofsky, and ask to meet with him. We have been meeting every week since. I think he plays a very important role in protecting American taxpayers, and I want to do all I can to work with him going forward.

As you well said, this is an extremely complex and very large program. It requires vigilant control. One of my first acts will be to meet with our people in Compliance as well as our own Internal Audit people, people in the legal area, to reexamine all of our controls over the financial stability programs.

Second, we are building our information systems even further so we can monitor the performance of each of these programs, monitor these controls. I am having—will have, when I am confirmed, weekly meetings with the management team to go over all those metrics. We are going to be inviting in members and meeting with the Congressional Oversight Panel and the other oversight groups, including the GAO, and seeking their guidance as well to make sure that this program is well controlled and highly transparent to all who have to oversee it.

Chairman DODD. Well, let me jump to the issue of foreclosures. There was an article in one of the leading newspapers in the country yesterday about concerns over whether or not the foreclosure mitigation program, which we have been so actively involved in on this Committee for the last several years, is working very well. The administration has dedicated $50 billion of TARP funds for foreclosure prevention and mitigation through a loan modification program. I and most members of this Committee strongly support that effort. We have tried various ideas as to how this would work, and,

obviously, when there are 23 of us up here trying to craft something, you get a lot of different ideas that can make up that decision. And all of us I think understand as well that while we may debate about how many causes contributed to this crisis, I think all agree that a major cause was, of course, the residential mortgage market, the subprime lending, the predatory lending that went on. And so any effort to address all of this absolutely demands, insists that we do everything we can to try and keep as many people in their homes, the 10,000 people a day with the foreclosure filings every single day in this country, and the numbers may increase in the coming weeks and months.

So the concern about whether or not this program is going to work very well raises two issues, in my mind, given the apparent resistance on the part of servicers to participate in this program. First, we need good data on how many loans are being modified or refinanced in the Hope for Homeowners Program, how many are being rejected for assistance in order to hold servicers accountable for their promises, and we need that data made public on a servicer-by-servicer basis. I wonder if you might commit to doing that very quickly.

And, second, there needs to be some process by which homeowners or consumers can raise concerns about the way the process is working. I have two thoughts on this: either creating an ombudsman in a sense that gives people an opportunity to understand all of this, dedicated loan modification; or perhaps we ought to ask the Special Inspector General to oversee compliance with foreclosure prevention programs.

I wonder if you might share some thoughts. This goes to the heart of this in so many ways. If this fails and we are not making the kind of—not that we are not making the effort, but if the effort is not succeeding in this area and we end up with a new wave of foreclosures coming in, as we could, swamping the kind of efforts that are being made, this thing is beginning to gain traction. Things are beginning to improve. Confidence and optimism clearly seem to be getting better. And what none of us wants to see is this all of a sudden stalling out and falling back. If it does, to regain that momentum again I think will be a lot harder than it was in the initial effort.

So this is a critical moment, it seems to me, not to lose that momentum, however slight it may be, but certainly momentum heading in the right direction for the first time in months, in my view. But failure in this area I think would throw us back in ways that would make it very difficult to recover. So I would be very interested in the ideas and how you can—I do not think we want to wait weeks or months to find out whether or not this was working. The concern is that it is not working as well as all of us up here would like it to work, and we need to know whether or not we need to do something, what can you do, what can the administration do to get this back on track again.

Mr. ALLISON. Yes, thank you for your question and your thoughts, Mr. Chairman. I fully share your concerns about this crisis of foreclosures and defaults in mortgages across the country. Millions of Americans have been affected by this. There are many desperate households today anxious to hold on to their homes, and

that is why the President and the Treasury Secretary have made this one of their top priorities, and the Home Affordable program I think is an extremely effective tool. It is going to take time to really ramp up and reach full scale, and as you well said, it is important that the Congress and the public are informed about the performance of these programs. And I would pledge to you that if I am confirmed, one of my first acts will be to reexamine our information systems and our reporting. And I know that the Treasury is pulling together more information, as we speak, about this program.

I think we have to be agile as we look at this program as well. Let us see how it is working. If it is not working as effectively as it needs to, we will make every effort to make it more efficient and more effective and to reach more people.

What is extremely important in dealing with the mortgage crisis is to reach out to as many people as possible. People are fearful about losing their homes. They are fearful of contacting their bank or their servicer to describe their problem for fear that that could cause itself a foreclosure on their house.

We have to reach out and tell people that programs are available, banks are willing to work with you, Fannie Mae and Freddie Mac are willing to work with you. You can go to the Financialstability.gov Web site if you are a homeowner who is concerned and get more information and contacts, people who can counsel homeowners about how best to hold on to their homes.

Chairman DODD. But the servicers need to do this as well. You know, we carved out that safe harbor provision, which was controversial, to insulate them against lawsuits from investors. And, frankly, the investor community spoke up and said, "You know, you are breaking contracts here." And they were right. But we understood if we did not do that the argument would be, look, we would like to help out these homeowners, but we cannot face the possibility of an overwhelming number of lawsuits by investors who will sue us for engaging in modifications. So we insulated them from that problem.

What are the servicers doing? Servicer by servicer, I want to know what they are doing out there. I mean, the homeowner is reluctant, you are right. The servicer should not be reluctant.

Mr. ALLISON. Yes.

Chairman DODD. In light of what we have done here for them to create that safe harbor and other provisions. So I would like to know what they are doing and whether or not we are probing those servicers to find out why they are not stepping up, if, in fact, they are not doing that.

Mr. ALLISON. Mr. Chairman, thank you for your question, and at least 14 of the top servicers in the country have already signed up, and they are already active in this program, and they account—including Fannie Mae and Freddie Mac—for over three-fourths of the mortgages in America. So this is moving ahead.

I will say that this is an extremely complex, large-scale program. It takes time to fully get to speed. It is moving ahead rapidly. I think we are going to see over the next few months it reaching out to even more people. It is encouraging that already over 100,000 offers for mortgage modifications have been sent out to people. We

have received millions of contacts on the Web site, people wanting more information.

So, again, this is a matter of outreach. It is a matter of taking some time so these banks can reconfigure some of their systems and their capability to be able to handle the large volumes that we expect. But it is moving forward, and I will be happy to report to you often on the progress of that program.

Chairman DODD. I appreciate it.

Senator Warner wanted to make a comment.

Senator WARNER. Thank you, Mr. Chairman, and thank you for opening up this line of questioning. Mr. Allison, good to see you this morning, and I am glad you raised that issue of the 100,000. That is what I have heard as well. I have to tell you, folks in my State—I remember when Secretary Donovan was here, and I understand this is a Treasury program and also has, obviously, a great deal of collaboration with HUD. You know, we told folks, "Call after March 4th," and at least the folks in my State would call, and they would then get a basic response that said, "Well, thanks, but we do not have any of the details ready." And I understand the complexity. I think the Chairman has raised a good point about perhaps an ombudsman, some kind of appeals or process so that if you cannot get answers, a Web site alone may not be enough.

I guess one of the things I think would be helpful from an information standpoint—and this just may be one-off examples, but what I am hearing in my State is that there are a number of banks that basically have stopped processing foreclosures, waiting for this loan modification program to be fully in place; and that while the wave of foreclosures has slowed, it has not slowed because necessarily economic conditions have dramatically improved, but everybody is just kind of taking a time-out until the loan modification program is fully put in place. And while it is great that 100,000 offers have been made, one, I would love to know how many of those offers have been accepted. And, two, if all of these servicers do not get fully engaged, do we have this enormous potentially multi-million backlog of foreclosures waiting to flood the system if these initiatives are not successful? And do you have any sense on whether there is this backlog that has been created? Is this just kind of a one-off example or—my sense is this is probably going on around the country.

Mr. ALLISON. Yes, sir. Thank you, Senator, for your question and for your concerns about this. It certainly is true that the program had to be organized, and during the organization period, anxious homeowners were calling in trying to find out when they could get assistance. I think we see a much fuller response today than just a couple of months ago.

As to the foreclosure crisis, there were moratoriums. Many of those have been lifted now, but recently, the Government has instituted a couple of new programs that can ease the situation for homeowners. One is called Deed in Lieu. And, also, there are efforts to get out to as many people right now as possible to engage in mortgage modifications. And I think it is extremely important—I want to say this again—that we all reach out to as many people as possible to alert them to these programs, that help is available

for them. And I think as we do that, we can help prevent many, many foreclosures.

One of the prime objectives of this administration is to do all possible to keep people in their homes, and we need feedback. We need information systems. And if I am confirmed, I will come back to you and other members of the Committee with fulsome reporting about the progress of carrying out mortgage modifications, the pace at which we are doing it, whether we are on track, and what more we can do going forward.

Senator WARNER. Thank you, and that will obviously include what percentage of the take-up of that 100,000 offers made, what kind of backlog we are looking at, because I am just afraid that we may have, in a sense, a false sense of progress because there are people in arrears, people about to be foreclosed upon. The actions haven't been taken, but my gosh, if the bullets we fired haven't worked, we have got to be prepared for what is next.

Mr. ALLISON. I fully share your concern about that, Senator, and we will provide you with that information. Thank you.

Senator WARNER. Thank you.

Chairman DODD. Senator Schumer wanted to make a comment on this, as well.

Senator SCHUMER. I just have a quick question. I apologize for having to go. I just am curious, how much of the capital program funds do you anticipate will be repaid next week, in the next 6 months, next year? How much are we going to get back, which gives you money to play with, I guess, or not play with, but have in need of an emergency?

Mr. ALLISON. Senator, I will have to await the final results on that. That will be communicated as soon as possible, as the Treasury has been communicating repayments over time, and——

Senator SCHUMER. Don't we expect a bump next week?

Mr. ALLISON. I think that is quite likely, that there will be a bump next week, and that is——

Senator SCHUMER. Do you have a ballpark estimate?

Mr. ALLISON. I wouldn't want to make an estimate, Senator, as to what it will be. I would wait for the Federal Reserve and the Treasury to complete that process.

Senator SCHUMER. OK, and just one more quickie.

Mr. ALLISON. Yes, sir.

Senator SCHUMER. Several firms feel they are going to be at a disadvantage if their competitors are approved for repayment before they are. You know, there is always competition, of course.

Mr. ALLISON. Yes.

Senator SCHUMER. Have you heard that concern? How are you going to address it?

Mr. ALLISON. Senator, I have heard that concern and I am sure that the administration is well aware of that and it will be taken into account as the announcements are made.

Chairman DODD. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Mr. Allison, thank you for taking on this responsibility. I wish you well. What assurances have you been given from Secretary Geithner and the White House that you will have sufficient auton-

omy in your decision making, in other words, the management of this program?

Mr. ALLISON. Senator, first of all, I understand my responsibilities if I am confirmed for this position, and my role is to carry out the Treasury Secretary's directives, as well, on this program. He and I will be consulting frequently. I know how concerned he is about making sure that these programs are successful. I see him daily about these issues. And those contacts will probably grow even closer if I am confirmed.

Senator SHELBY. What is your view, if you have one at the moment, of how the Treasury, which you will be right in the central role there, should manage its investments in GM and Chrysler, and how long do you believe Treasury will be a shareholder of GM and Chrysler, if you want to?

Mr. ALLISON. Thank you for the question, Senator. I must say to you that I have not been involved directly in the auto initiative, and at this point, that would have been presumptuous of me to get involved before I am confirmed, so I can't give you details on the auto program.

Senator SHELBY. But you plan to get involved, don't you?

Mr. ALLISON. Yes, sir, very much involved.

Senator SHELBY. With both elbows?

Mr. ALLISON. Yes, sir. Absolutely. I can assure you that I will get involved in all of the initiatives under the Financial Stability Program.

Senator SHELBY. Sure. Well, your No. 1 goal right now is to get confirmed. We all here understand that.

AIG, the management of AIG, what steps do you believe need to be taken—have you thought about this—for the Federal Government's oversight of AIG? In other words, you have got a big bear and you can't turn it loose. I hope we won't have to put more money into it. I don't know. But it seems—I don't know how you discard it.

Mr. ALLISON. Well, Senator, certainly I understand the importance of the AIG situation. Again, I have to tell you that I have not been involved in AIG because, again, that would have been presumptuous if I started getting into it. But I will certainly, if I am confirmed, immediately turn my attention to that issue, as well, and I will be happy to come back and discuss it with you.

Senator SHELBY. Just a generic thing. What do you believe is the best way for the Federal Government to manage its equity investments in the TARP recipients to, one, ensure that the management of these firms have the proper incentives in running their companies and hopefully paying back the money?

Mr. ALLISON. Senator——

Senator SHELBY. You would have an interest in that, would you not?

Mr. ALLISON. Yes, sir. I think that is a very important question that you are asking and very shortly, the administration will be announcing its policies as a shareholder of companies, and we have all heard the President as well as Secretary Geithner say the government has no desire to be a day-to-day manager of those companies. It will be a shareholder and its policies on governance as a shareholder will be made public soon.

Senator SHELBY. Mr. Allison, you well know this. We all do. Government programs are quite often difficult to create and sometimes just about impossible to terminate. The TARP program has a statutory termination date that can be slightly extended——

Mr. ALLISON. Yes, sir.

Senator SHELBY. ——at the request of the Treasury Secretary. You know this. Do you believe that the TARP program should ultimately be terminated, and would you have any concerns if the program were converted into some kind of permanent revolving fund?

Mr. ALLISON. Senator, I think that is an important question many Americans, as well as people in Congress, are asking. As you said, the program is scheduled to terminate at the end of the year, although it could be extended by an act of the Secretary until, I believe, as late as October of 2010. But I think it is important to point out that the programs within the national stability area have themselves termination provisions, many of them. There are terms to the financing, end dates. There are also disincentives built into those programs that cause—which should cause banks to want to repay that money as fast as possible. We have already seen and we will see additional repayments. So this program is designed to deal with an extremely serious financial crisis and it was not set up to be a long-term permanent program.

Senator SHELBY. Mr. Allison, while the TARP program has provided hundreds of billions of dollars to the banking sector, there have been a lot of complaints, and we all hear it here in the Senate, that the banks receiving TARP funds are not making loans, at least not enough. What is being done, and what do you intend to do, about ensuring that the TARP recipients are making loans, particularly to small businesses? We are not talking about making bad loans. I know you can't micromanage the daily activities of them. But as far as policies, it seems that the small business community is really being squeezed in the financial sector in this country.

Mr. ALLISON. Yes, sir. Well, we are acutely aware that in many small communities around the country, small businesses are still having difficulty getting access to credit. I think there are a number of reasons for that, but it is important to point out that the Secretary recently directed that we would reopen the Capital Purchase Program for small banks, which provide an out-sized portion of lending to small businesses around the country——

Senator SHELBY. You believe that will help a lot, don't you?

Mr. ALLISON. I do, and I think it is important. We are not forcing money on banks. We are making money available. We want to be helpful in every possible way to small business. We are also—the Secretary has initiated a number of actions—and to small banks. I think what is the first priority is to make sure these banks are well capitalized, and over time, that capital will turn into more and more lending. I think we have to go through a period where there are concerns by borrowers, as well. Small companies, in some cases, are fearful about borrowing because they are not sure about the economic environment.

As the Chairman said, we are not yet out of the woods with this economic crisis. We all have to be aware of that. We have to be vigilant. We can't be complacent. We have to be willing to modify these programs, if necessary, moving forward. We have to have a

constant dialog with the Senate, with the House, with the American people, and with the financial community to make sure that these programs are as effective as they possibly can be, and I know that the Secretary is completely dedicated to making sure that happens.

Senator SHELBY. Thank you, and thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator Shelby.

Senator Tester.

Senator TESTER. Thank you, Mr. Chairman.

Kind of going back to when this program would end, assuming it wouldn't be extended, does that mean that the money would be paid back by October of 2010 for the program to end, or does that mean that no more money would be lent out by October of 2010?

Mr. ALLISON. Senator, it would mean that no more money is going to be invested from this program from that point onward.

Senator TESTER. OK.

Mr. ALLISON. There still may be monies outstanding. That is why it is also important that we have a strong and effective asset management capability within the Office of Financial Stability——

Senator TESTER. Yes.

Mr. ALLISON. ——and that will be one of my responsibilities, if I am confirmed, as well, to make sure that happens.

Senator TESTER. And you may or may not have looked at this. I mean, you are talking about AIG, Bank of America, GM, Chrysler. Those paybacks are probably going to take some time, or what is your perspective on that?

Mr. ALLISON. Senator, I don't think any of us can forecast exactly how long that will take. I think it will take some time. The purpose of putting capital in there is to enable, for instance, the auto companies to make that transition over some period.

Senator TESTER. OK. Jump back to the auto program. You had said that you are going to be jumping in waist-deep, at least, if not further, into this program. Can you tell me, from your perspective right now, who is making the day-to-day decisions on that program, or will it be you?

Mr. ALLISON. Well, eventually, if I am confirmed, I will be involved in making those decisions——

Senator TESTER. The primary decision maker?

Mr. ALLISON. The Secretary is involved, as well, and I will report to the Secretary of the Treasury, as well, and I am sure we will have a continual dialog about that along with others within the Treasury Department and throughout the government.

Senator TESTER. One of the concerns that Ranking Member Shelby brought up, I believe, or maybe it was Chairman Dodd who brought up the fact that the TARP recipients aren't loaning money, or at least in some cases that is the case. Yesterday, it was brought up to me by a person who uses—an industry, actually, that uses a lot of fuel that this TARP money is being used to speculate in the oil market. Would you have any control in your position to look at that? Quite honestly, I have got some real problem with folks tinkering around in the oil industry that aren't taking delivery on the product, and maybe I am alone in that, maybe I am not, but it creates artificial balloons and when they pop, we have problems. Would you have any ability in your position to take a look at if,

in fact, they are doing something like messing around in oil speculation and driving the prices up artificially?

Mr. ALLISON. Senator, I should point out that already, the Treasury Department is producing monthly reporting on the lending activities of the banks that are receiving Financial Stability funds and that reporting was recently expanded to include all the banks that have received that funding. We will work to make that reporting as fulsome as we possibly can.

Let me also point out that throughout this recession, and I think thanks to these programs that have been put in place, we have seen lending remain fairly steady throughout this period, and I think it has been important, by injecting capital into these banks as they wish to have it, that we have been able to sustain lending during this very difficult period. But all of us want to see lending increased.

And may I also say, Senator, that we will—I will be glad to get back to you on your question about whether these monies are being used for oil speculation. We want to develop more reporting, both for the oversight committees as well as for the Congress.

Senator TESTER. If they are——

Mr. ALLISON. Yes?

Senator TESTER. ——is it within your capacity to say no?

Mr. ALLISON. Senator, we are not going to be in the business of micromanaging these banks. We are there to help them be financially sound.

Senator TESTER. I appreciate that. But the reports that we can get, we can give direction off the reports.

Mr. ALLISON. Yes, sir.

Senator TESTER. Thank you.

Mr. ALLISON. Thank you.

Senator TESTER. A couple questions, if I might, Mr. Chairman. Your predecessor recently commented that firms deemed too big to fail have an unfair advantage over smaller competition because they can raise money more cheaply in the debt markets. What are your thoughts on that?

Mr. ALLISON. Senator, the administration is working right now on a proposal on financial reregulation that is very much needed and I am sure that it will be addressing broadly the type of issue that you are raising.

Senator TESTER. So you do think that it is a concern?

Mr. ALLISON. I think that there is a concern on behalf of the American public and certainly myself that we have a strong, stable financial system——

Senator TESTER. Yes.

Mr. ALLISON. ——and a system that is responsive to the long-term needs of the shareholders and the long-term needs of this country.

Senator TESTER. OK. I will let you off on that one.

Do you think—just give me your opinion on the too big to fail thing as an overall perspective, and you know what mine is. I mean, I think that if failure is not a possibility, that means the taxpayers are on the hook, and that also means that there is not a lot of risk there if you know that you cannot fail and you are one of those banks that are too big. What is your perspective on that?

Do you think it is healthy? Do you think we need to do something about it? What would you do if you were in my boots?

Mr. ALLISON. Senator, I think one of the reasons for this initiative on financial industry reform and reregulation is to deal with the fact of what we were confronted with as a country last year when these huge institutions began to fail and there was no real mechanism for an orderly resolution to those problems. I think what we need is to have a mechanism in place to, if that type of event should ever recur again, and we are going to try to work very hard to make sure it wouldn't——

Senator TESTER. Right.

Mr. ALLISON. ——that there is a mechanism for dealing with it. The other is to make sure that these organizations have a framework of regulation that will allow for transparency and active interaction between regulators and financial institutions to try to prevent some situation like this from happening again.

Senator TESTER. OK. Very good. Thank you, Mr. Allison. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much.

Senator Warner.

Senator WARNER. Thank you, Mr. Chairman.

I want to go back to comments that both Senator Schumer and Senator Shelby made. Senator Shelby raised the point of—I liked your analogy to we have got this bear, AIG, and we don't know what to do with it. Senator Corker and I, when Secretary Geithner was in recently——

Chairman DODD. Senator Warner, let me apologize. I did not see Bob Corker walk into the room. I apologize to my friend from Tennessee.

Senator WARNER. I was about to say good things about him and you are going to cut me off?

[Laughter.]

Chairman DODD. No, no, no. I apologize, and my apologies to my colleague from Tennessee, but normally we go back and forth from one side to the other, so forgive me. Senator Corker, I apologize.

Senator CORKER. I will let him ask his first question——

Chairman DODD. All right.

[Laughter.]

Senator CORKER. ——and then come back to him, because I think——

Chairman DODD. He seems to be complimenting you in some way.

Senator CORKER. No, that is right. Go ahead. Go ahead with that.

Chairman DODD. Very smart of you, Senator Warner, to do that.

Senator WARNER. I am learning, Mr. Chairman. I am learning.

[Laughter.]

Senator WARNER. But we pressed—we were very concerned, and I think a lot of folks have been obviously very concerned about the whole AIG situation. We were concerned with the fact that 100 percent pay-off on the counterparties with AIG, no haircut taken. Secretary Geithner said, well, he didn't have any authority and now there is a precedent set, and consequently, even if we tried to give him authority, perhaps it couldn't be fully utilized.

That brings me to what Senator Schumer raised earlier, which is as we think about a repayment pattern from the financial institutions that receive TARP funds, we know they want to pay back these dollars. We know many of them want to pay them back as soon as possible. Secretary Geithner said that as these banks start paying back, at least initially it was his intent to take back not only—let them repay, but also kind of wash out the warrants or sell back the warrants, as well.

And my concern is before we start setting precedents on this repayment program that we think through an overall strategy and policy goal for our repayments, and what I am particularly concerned about is the warrants. You know, the American taxpayers, we as shareholders and investors took an awful lot of downside risk exposure and I would like to see some of the upside here.

Now, I know that we don't want to be long—none of us want us to be long-term holders of—investors in financial institutions, but my hope would be that, one, you would have an overarching policy in terms of repayments; that second, that one thing that you would consider, and we raised this with Secretary Geithner, that while we, the Federal Government, may not want to hold those warrants too long because we don't want to have that potential even hint of political interference, I would hope we would at least consider some other options rather than selling them before we got full value, which might include setting up a trust or selling them to a third party where we could share some of the upside so there is an independent financial entity that is making sure that we get some value on those warrants since we, the taxpayers, have taken that risk. So if you could comment a little bit about your thoughts about a repayment policy and particularly as it applies to the warrants.

Mr. ALLISON. Senator, first of all, I appreciate your concern about the taxpayers and the importance that the taxpayers receive an appropriate return on the investment that they have been making in these institutions. Given the recent enactment of the Reed amendment, which gives the Treasury more flexibility as to the timing of disposition of the warrants, the Treasury is now looking at that issue actively and I am sure it will be announcing before too long what its policy will be on warrants, given this change in the rules governing the management of the warrants.

Senator WARNER. So in other words, that doesn't give any hint of what your thoughts are.

Mr. ALLISON. This is actively being discussed right now and I am sure that there will be policy that is made public before long.

Senator WARNER. Thank you, Mr. Chairman.

Chairman DODD. And, of course, under the Reed amendment, there is a lot of flexibility.

Mr. ALLISON. Yes, sir.

Chairman DODD. That was the idea.

Mr. ALLISON. There is.

Chairman DODD. I think what Senator Warner is suggesting, that now that we have the flexibility, looking at a range of ideas that would give us additional options within that range of flexibility other than making the choice of either selling those warrants or holding those warrants, it seems to me between those two bookends, there are some opportunities here that we ought to examine.

Senator Corker.

Senator CORKER. Thank you, Mr. Chairman.

Chairman DODD. My apologies again.

Senator CORKER. No, no, no. I understand. There is a lot going on.

Mr. Allison, first of all, thank you for being here, being willing to do this. I think we are fortunate in the public arena to have people like you with the background you have that are willing to offer yourself and I want to thank you for that.

Mr. ALLISON. Thank you, Senator.

Senator CORKER. I have a lot of similar kinds of concerns. When we began this program with TARP, it was sold and we all focused on it in this way, I think, as something where we were going to buy assets of value. We all talked about the fact—I know we were highly involved in meetings about the fact that the $700 billion in all likelihood would yield a return, that we would get back more than $700 billion. And by the way, I think that very well could have been the case. It is evident with some of the things like AIG, and I don't want to create a debate here on the panel, but starting to use money for things like mortgage modifications and all that, that that is likely not going to be the case today.

But as we look at the various—as we look at TARP, or as you look at it, I would like to get an understanding. I know that these things evolve and there is fine print in bills and people are able to be very entrepreneurial about taking advantage of a few words in a bill and starting to do a lot of other things with it, which I think we have all learned a lesson from in many, many ways. But is it your perspective that with these TARP funds, your primary goal is in stabilizing the financial system, investing in things that will have value and that will return taxpayers their money?

Mr. ALLISON. Yes, sir. As the law states, the Financial Stability Program is intended to improve the stability of the financial system while protecting the interest of taxpayers. I think it is very important that I, if I am confirmed for this responsibility, are mindful of both of those conditions. I think it is early to say what the eventual returns will be to the American public. I can assure you that if I am confirmed, I am going to work very hard to make sure that these monies are well invested and well managed and tightly controlled going forward, keeping the interest of the taxpayer and American people very much in mind.

Senator CORKER. You know, as we look at where we are in the TARP program today, somebody like you, I don't think, would take on a position like this unless you had responsibilities and you felt like you were making a difference. I mean, you have stature and you have substance. And yet as I look at the program and where we are, it seems to me that those decisions that are going to be left as it relates to TARP, other than making decisions about timing and when we take advantage of our warrants and those kinds of things, much of the heavy lifting may have already been done. It seems like the decisions about who we are going to invest in majorly will be made by the Treasury Secretary and that the TARP leader may be more of an implementor, and I am just wondering what kind of conversations you all have had in that regard, be-

cause again, looking at your resume and background, I am just wondering what it is that is luring you to this position.

[Laughter.]

Mr. ALLISON. Well, I am lured to the position and have taken on this responsibility, if you confirm me, because I believe that this is still a very serious economic time for this country, that much still has to be done to restore stability. There are many positive signs thanks to the initiatives by the administration and these programs. We are seeing spreads coming down, credit spreads in the banking area. We have seen home sales more steady the past few months. And there are other signs, for instance, the banks being able to issue equity on their own, to issue unsecured debt. These are all very positive signs. But we also see housing prices are still falling. The commercial real estate market is still under pressure. Small businesses are still having some difficulty. We have still credit spreads, this measure of risk in the system, still higher than they historically had been and should be.

There is still a great deal of work to be done here and I don't think at this point we ought to become complacent and think that because the banks are starting to repay some of this money that the crisis is over and we can just go ahead. There still could be, as the President and the Secretary have said, some bumps along the road here.

I think we have to see this program through and make sure that it is well administered all along the way. As the Chairman said, this is going to require close management and experienced management skills and I think that is what I can help to bring to this and also provide assistance to the Secretary of the Treasury, who has the overall responsibility for these programs.

Senator CORKER. A very good answer, and this is my last question, Mr. Chairman. Secretary Paulson last summer, when he was given the authority, if you will, to act as a conservator for Fannie and Freddie, mentioned that before he left, he was going to give a statement about what the ultimate outcome of those two organizations ought to be. The events of the day and the crises that continued sort of prevented that from happening, or if it happened, it was overwhelmed by other news that was happening at the time.

You have been at Fannie and you are a smart guy, and I am wondering if while we are all here, since it is a major responsibility of all of us on this committee, if you could just tell us what you think, as we move through this crisis, what the ultimate outcome should be with Fannie and Freddie. A lot of people have talked about privatization. A lot of people have talked about we ought to only use them as insurers. There are all kinds of things that have been stated. You have lived it and breathed it and I wonder if you might share with us what you think the ultimate outcome of those organizations ought to be.

Mr. ALLISON. Senator, thank you for the question and let me just tell you what I used to tell the people at Fannie Mae who were asking this question themselves. You could see they were quite concerned about the future of an institution where they had worked for many years, and by the way, they are outstanding employees and they are working extremely hard today on behalf of the American public.

What I told them was, let us not try to anticipate what form this company may take and whether it may even exist in the years ahead. Let us look at what is in the best interest of the American public. Let us do our jobs on behalf of people right now who are desperate to stay in their homes, and that is the line of business of Fannie Mae today, is to keep people in their homes.

I think that this will be an issue debated within Congress. The administration will take its viewpoint on this down the road. I think what is most important is that we have a vibrant housing system in the United States with liquid markets so that people can access credit in responsible ways to own their home. After all, that is part of the American dream. So at this point, I wouldn't offer any specific prescription. I think this depends on major government policy going forward. This is a pivotal moment and I think that it calls for a debate, a reasoned debate about the future of the housing market and of housing policy in the United States.

Chairman DODD. Thank you very much, Senator——

Senator CORKER. That was pretty much a nonanswer, and I guess during a confirmation hearing, when you don't know if you are going to be confirmed or not, it is maybe unfair to ask that. I sure hope that as time moves on and you are confirmed, that you will be more clairvoyant and helpful to us as to what you think ought to occur. But I will certainly, like Senator Tester, will give you a pass and tell you you would be well qualified to run for public office based on that answer, but thank you.

[Laughter.]

Mr. ALLISON. Thank you, sir.

Chairman DODD. Let me just say, I was going to suggest, by the way—let me just mention to my colleague, before Senator Corker leaves, just so my colleague is aware, your reputation at Fannie among the employees was just remarkable. At a time when they were being absolutely deluged and overwhelmed, you restored a sense of confidence to a workforce that was feeling rather battered in many ways, and I want my colleagues to know about that. That is strong leadership at a time like that.

And obviously, we would like your ideas. I want to pick up on Senator Corker's point. This is a very important issue as to where we go with this policy, and the fact that you were there and understand that institution as well as you do and enjoy the reputation with the workforce as strongly as you do. This is not the moment for it. But there will be a moment we would like to invite your thoughts and ideas of how that construct ought to occur, so I second the request——

Senator CORKER. Thank you, Mr. Chairman.

Chairman DODD. ——and appreciate that.

Let me go back to Senator Warner. Do you want to finish up and then——

Senator WARNER. Yes. I just have one more point. Thank you, Mr. Chairman.

Mr. Allison, one of the comments you made in terms of your priorities was transparency, and I just want to get a little further confirmation on that as well. One of my frustrations that actually led me to put forward legislation with Senator Martinez and Senator Brown—and Senator Tester said he wants to join me in this—to try

to mandate, since we have not seen it so far from the administration, on a publicly accessible, single–Web site basis the status of all of the investments we have made with the TARP program. I mean, the Chairman made clear that, I think, there are 12 odd separate programs and initiatives, and the administration has gotten better on this. You still need not only a technology degree but also a finance degree to try to find all this information on various Web sites around, and the fact that it could and should be consolidated into a user-friendly, single-site where the American people can check what we have done with this $700 billion and what the status of these loans and investments are is terribly important, because I can tell you, at least, again, in my State, an awful lot of folks think that we have taken these funds and basically either thrown them into the wind or flushed them down the toilet and that we are never getting them back, when in reality I am optimistic that we—I would like to hope we get it all back, but that we will actually get a fairly good rate of return and that we will have shored up the financial system.

This is as much a comment as a question, but my hope is that when you get confirmed, as I know you will, that perhaps you could mitigate or even get rid of the reason for this legislation by trying to put in place this kind of user-friendly, single–Web site to highlight and in real time indicate the status of all these TARP programs and let the American public know where these funds have gone and what the status of either repayment or potential for repayment would be.

Mr. ALLISON. Senator, thank you very much for your suggestion. I fully share your thoughts about that, as I know the Secretary does as well. And the Treasury is in the process of further enhancing the information on its Web site about these programs, and I have met with people in the homeownership initiative area about that very subject. So I am confident that we will be able to prepare more information, and we would like to have a two-way dialog about this and make sure that we are satisfying your needs for information and those who you represent.

Senator WARNER. Well, Mr. Allison, I hope that would be the case. My only hesitancy—and it is one of the reasons why we actually put forward legislation, which I, again, would love to not have the need for—is that we have heard that response from every individual who has testified, from the Secretary on down, that, yes, that is a good idea, we want to get this information out, yet it is still pretty hard to find in a single source and in a user-friendly way. So we look forward to that kind of conversation and that kind of result.

Mr. ALLISON. Thank you.

Senator WARNER. Thank you, Mr. Chairman.

Chairman DODD. Thank you very much.

Senator Merkley.

Senator MERKLEY. Thank you, Mr. Chair, and I thank you for your testimony, Mr. Allison. You have both the Wall Street experience and the experience in the housing world. I wonder if you can give us some insights on the role that prepayment penalties and yield spread premiums played in creating financial risk or contrib-

uted to the housing bubble and how we ought to address those in the future.

Mr. ALLISON. Well, I think that there is a need to reexamine the financing of homeownership in the country. It is obvious that some of these loan structures were totally inappropriate for the people to whom they were sold, and I think that needs to be looked at very carefully. I think there should be a simpler process for borrowing. The terms of the borrowing should be highly transparent. And I think that attention is going to be given to that as well, as the Government looks at reregulation of the financial industry.

You know, a home is the biggest investment most people ever make, and that should be taken into account. If we want to promote homeownership and promote wealth creation in the United States among the public, I think there has to be much more attention given to the structures of those loans.

Senator MERKLEY. How did those practices contribute to systemic risk?

Mr. ALLISON. I think we have seen inappropriate lending practices, not full transparency in some cases. I think there is plenty of evidence that many homeowners were convinced to take risks that they should not have been taking, and that happened on a pretty large scale. And I think that led to a significant part of the housing crisis.

Senator MERKLEY. Thank you. I would just suggest that one has to track how the securitization and the subsequent splitting of the tranches, and the creation of CDOs and CDO-squared contributed to creating really the toxic assets that contaminated the international banking world, and one needs to make those connections, I feel, in order to get one's hands around the systemic risk part of this.

Am I way off track here, or do you share that——

Mr. ALLISON. Well, I think that we have seen that Secretary Geithner is concerned about making sure that there is adequate disclosure, that there are mechanisms in the marketplace that will lead to better risk management. And this is complex issue. There are many elements to having an inappropriate risk management approach within the financial industry, and I am sure that is getting a lot of attention among those who are working on these proposals for reregulation.

Senator MERKLEY. To change topics here, my support for the second half of the TARP was contingent upon a big chunk of it going to mortgage modification, assisting homeowners, or perhaps in refinancing. The reports we get from the field in Oregon remain very minimal; that is, people are as frustrated today in trying to reach someone they can talk to. Those who service the loans are as unknowledgeable, if you will, and as unhelpful as they were months ago. We have one particular institution that folks repeatedly get told, "Well, our institution is participating," when their institution is participating. This institution was featured in an article yesterday in a different States with experiences that very much reflect what is happening in Oregon, in which a person who had lost their job and was doing everything they could to make their payments, but clearly was going under, was simply told they would have to wait until they were behind 3 months, and then the effort

was made to sell them a new loan at a higher interest rate with high servicing charges that would have put them further in the hole, kind of a repeat of the types of flipping practices that have been destructive.

Somehow we have to get over the hill here. We have to get into the world where our institutions are really taking seriously the modifications programs. Institutions that have received enormous tax support from citizens who are earning 30,000 bucks a year and seeing their tax money go to help these institutions but then in return are being stonewalled on the mortgage front.

What can we do to accelerate this effort to assist our citizens?

Mr. ALLISON. Senator, I share your concerns that we be as effective as possible in rolling these programs out to every community in America where people are feeling under great pressure right now. And this is a mammoth program, and it has taken some time to get rolling. I think all of us are impatient. We want this to be working as quickly as possible because people are suffering every day.

So I know that people are working day and night. I am encouraged, as I mentioned before, that more banks are becoming involved. The banks who account for the institutions, at least 75 percent of mortgage loans are involved in this program right now. It has taken them time to build their staffing, to change some of their systems, to be able to implement this program as it is designed. And it is frustrating when we all want to see this operating overnight because we know people out there need this immediately.

So I can assure you that, if I am confirmed, I will be working with others within the Government. I know that Secretary Donovan is very concerned about this, Secretary Geithner, not to mention President Obama. There is a great deal of pressure on even to get this program out as fast as possible, working closely with the banks, and they are making, I think, great efforts to.

Now, we have to do more. We have to reach more institutions. We have to reach more people. It is important that they know these programs are available. In the case you mentioned, I think, you know, it is important that we try to get as many banks as possible involved in this program. And I would be happy, if I am confirmed, to talk with you or your staff about this and learn more about those situations. I think everybody has got to be working at maximum effort to try to make this program effective.

Senator MERKLEY. I appreciate your statement and what I can characterize as a commitment that it is a high priority for you, maximum commitment.

Mr. ALLISON. Yes, sir.

Senator MERKLEY. Or an effort to make this program success. Thank you.

Mr. ALLISON. Thank you.

Chairman DODD. Thank you very much, Senator.

Senator Reed has joined us, and I am going to have to slip out in a minute. Senator Tester I think is going to take the gavel to finish the hearing. I have been told you are, anyway.

Let me, if I can, the issue was raised by Senator Shelby earlier about AIG, and on May 20th we had a hearing—in fact, the Secretary was here, and the issue came up dealing with creditors and

counterparties. And, obviously, a lot of the attention was focused on bonuses and so forth when the AIG matter broke in the winter. At about the same time, there were announcements about the counterparties and creditors that did not get anywhere near the same attention. But one of the things that has been disturbing is the fact that while the value of an AIG stock has declined, obviously, the creditors and counterparties were getting paid 100 percent of value.

The issue it obviously raises, as many of us raised here, is: Who is doing the negotiating? We are an 80-percent owner of this company, and here counterparties are getting 100 cents on the dollar. It does not exactly sound like a great negotiating position, it seems to me, given the exposure of the dollar amounts.

What I would like to know is—and, again, I realize you are not in the job yet, but, you know, what tools do you feel the Government needs to negotiate the best terms for taxpayers? Do we need to give you any additional tools? If there is something we need to be doing, I would like to know about it. If you have the tools necessary to negotiate better, then we would like to know whether or not—what they are and how they are intended to be used, without getting into—I do not expect you to necessarily tell me what the answer ought to be. But the answer that we cannot do anything, that we just have to accept this, is unacceptable. I think most of this, anyway, is just unacceptable given the exposure we are talking about.

Mr. ALLISON. Mr. Chairman, I think everybody is frustrated about the AIG situation. I think that is a major reason why the Secretary and others are working hard on financial reregulation proposals. There was no mechanism for the orderly resolution of the AIG problem, and there needs to be if, God forbid, there ever is another situation like that.

I think one of the practical implications—and, again, I am not involved in the AIG matter directly, but there were cross-default clauses that would trigger defaults across AIG's exposures to counterparties and debt holders that would have caused a massive problem within the financial system given the size of that entity. And that could have had ripple effects throughout the banking system.

So I think that the Government has been doing what it can in that very difficult and very complex situation to protect the interests of taxpayers. That is frustrating, and I think that it is a very strong reason why there is a need to put new measures in place that can deal with a situation like that if it ever does happen again.

Chairman DODD. Well, the resolution mechanism is clearly something we have got to deal with, but, again, the negotiating process that goes on, I believe the tools are there. It is a question of whether or not you buy into the notion that any negotiation that could in any way diminish something less than 100 cents on the dollar value would somehow create the kind of economic problems that you have just mentioned, or not. And I know there is a pretty significant debate. I am not satisfied that that is the case, but I am going to continue raising this issue, as I am sure others will, because, again, the exposure dwarfs—there were a lot of headlines

about the bonuses. The bonuses by comparison to the exposure here is just no comparison, it is such a vast difference what we are talking about potentially.

Let me turn to Senator Reed, and thank you very much, and we look forward to moving your nomination as soon as we possibly can.

Mr. ALLISON. Thank you.

Chairman DODD. And thank you again for your willingness to take on this job.

Mr. ALLISON. Thank you very much.

Chairman DODD. And welcome to your family as well. Delighted to have them.

Mr. ALLISON. I appreciate that very much. Thank you.

Senator REED. Thank you, also, Mr. Allison. Thank you, Chairman Dodd.

Senator Warner I believe raised the issue of warrants which is close to my concern also. Just once again to emphasize with the recent legislation you have complete flexibility on the use of the warrants, and I urge you to use that flexibility wisely.

There is an issue that, frankly—this is a question that has just come to mind. The TARP fund will receive two forms of payment: the principal that was advanced and also interest on the preferred. Does that interest revert back into the TARP program? And another question related is the value of the warrants, the profits from the warrants, does that go back into the TARP program?

Mr. ALLISON. Senator, as I understand it, the monies that are received go into the general funds of the U.S. Treasury. The amount advanced initially is then deducted from the amount outstanding under the $700 billion limit. I will double-check that for you, but that is my understanding.

Senator REED. So, essentially, the repayment would restore the ability to extend the principal amount that is repaid, but the additional, the profits, the interest, and the value of the warrants, they go back to the general Treasury.

Mr. ALLISON. Again, that is my understanding. I will go back and double-check it for you, Senator.

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

I would assume that you have looked at the April 21st report of the Special IG for TARP.

Mr. ALLISON. Yes, sir.

Senator REED. And I think he did a very good job in laying out some of the problems of transparency and oversight. Do you have any thoughts about these recommendations and how to influence them? And if you have covered them before, I apologize.

Mr. ALLISON. I have begun in my first week in the Treasury to meet with the Special Inspector General. I meet with him every week, if not more often. Our staff at the Treasury meets with him also, and his staff.

We are, I think, all intent on making sure these programs are very well controlled and that there is as much transparency as practical given the need to have these programs also be quite broad. I know that the Special Inspector General shares those objectives. So we are respectful of his findings, and we take them

very seriously, and we are working with him to find practical ways of dealing with those concerns.

Senator REED. And there is another issue, or potential issue. I know the regulators are doing a great deal to avoid the issue, that is, a reapplication to TARP for an institution that might have paid out but then needs additional assistance. Are you establishing any procedures for that, or is that something that is still off on the horizon?

Mr. ALLISON. Senator, if I am confirmed, I will certainly look at that, and I would be happy to meet with you or your staff on that question. Thank you for the question.

Senator REED. Well, again, thank you, Mr. Allison, for your willingness to serve. I think it began as a lieutenant—or an ensign, really, in the United States Navy.

Mr. ALLISON. Yes, sir.

Senator REED. So thank you very much.

Mr. ALLISON. Thank you very much.

Senator TESTER [presiding]. Thank you, Senator Reed.

Senator Merkley, do you have any further questions?

Senator MERKLEY. Yes, I would like to ask one more question, if appropriate. One of the concerns I have is related to the PPIP program and the possibility of manipulation between buyers and sellers. I believe that TARP recipient banks are not going to be participating in the legacy loans program, but that no such restrictions have been put in place in the legacy securities program, which will be managed by Treasury and the Fed under TALF.

Any thoughts or insights that you have basically parties with an interest on both sides of the transaction?

Mr. ALLISON. Well, there are going to be very clear conflict-of-interest rules in the Public-Private Investment Partnership, and those rules are also being discussed with the Special Inspector General as well as with people within Treasury. I think it is very important for the credibility of the program and to protect the taxpayers that the program be administered in a way that prevents such conflicts of interest.

Senator MERKLEY. Absolutely. Thank you.

Mr. ALLISON. Thank you.

Senator TESTER. Mr. Allison, there have been a few figures floating around about how much is left out there to be invested or loaned, however you want to put it. Have you been able to take a peek and see what is left out there, how many billion are left?

Mr. ALLISON. It is roughly $100 billion, Senator, that is available today.

Senator TESTER. And as things unfold here, your crystal ball being as clear as anybody's, what kind of criteria do you see utilizing for potentially investing those dollars, personally?

Mr. ALLISON. Well, I think first of all it is important that we leave some headroom in this program because we are not yet out of this crisis.

Senator TESTER. Right.

Mr. ALLISON. And I think the Treasury, the Government, needs some flexibility so that if there is a need in the future, we can intervene in a timely manner on behalf of the American public.

Senator TESTER. So it is $100 billion which you think is adequate for headroom?

Mr. ALLISON. Senator, I would not want to place a number on that. I think we all have to be vigilant, and there needs to be flexibility in this program so we can act on behalf of the American people, if necessary.

Senator TESTER. OK. Thank you. Thank you very much. I appreciate you putting yourself forward for public service and going through all the questions.

Mr. ALLISON. Thank you.

Senator TESTER. I also appreciate your family for being here. I think that behind every good guy there is a good family, so we appreciate that.

Thank you very much.

Mr. ALLISON. Thank you, sir. Thank you, Senator.

Senator TESTER. This hearing is adjourned.

[Whereupon, at 11 a.m., the hearing was adjourned.]

[Prepared statements, biographical sketch of nominee, and responses to written questions supplied for the record follow:]

PREPARED STATEMENT OF SENATOR RICHARD C. SHELBY

Thank you Mr. Chairman. This morning we are considering the nomination of Mr. Herbert Allison for the position of Assistant Secretary for Financial Stability at the Department of the Treasury. If confirmed, Mr. Allison will have the primary responsibility for running the TARP program.

When Secretary Geithner appeared before the Committee a few weeks ago, I noted my serious concerns about the manner in which the TARP program had been hastily conceived and then inconsistently administered.

I believe the failures in both design and execution have wasted taxpayer funds and done little to address the problems in our financial markets. I think it is crucial that we terminate this program as quickly as possible.

That said, the TARP program remains in place and hundreds of billions of taxpayers dollars are at risk. Consequently, the program must be properly administered until it is wound down.

I believe proper administration means protecting the American taxpayer while taking deliberate but careful steps to end the program.

As I noted at the earlier hearing with Secretary Geithner, we should be under no illusions about how difficult it will be to unwind the massive funding facilities that have been constructed.

In fact, it is very likely that the greatest challenges posed by this financial crisis still lie ahead.

If the Treasury stumbles in dismantling its facilities, there is a great risk of sparking another and potentially more severe crisis.

If done well, the withdrawing of government intervention will likely do no more harm. If done poorly, we could face serious and prolonged economic problems.

I look forward to hearing today from Mr. Allison about how he would manage the TARP program, how he proposes to retract TARP facilities, and how quickly he believes that can be done.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF HERBERT M. ALLISON, JR.

TO BE ASSISTANT SECRETARY FOR FINANCIAL STABILITY (TARP),
DEPARTMENT OF THE TREASURY

JUNE 4, 2009

Chairman Dodd, Ranking Member Shelby, and all of the Members of this Committee, I am honored to be before you today. First of all, I want to thank President Obama and Secretary Geithner for the trust they have shown in asking me to serve. I also want to thank you and your staff for the time you have spent with me, helping to move my nomination forward, and working to acquaint me with the concerns you have about the financial crisis and the comprehensive measures needed to address it.

If I am confirmed, I will always keep in mind Congress's directive, that the primary objective of the Assistant Secretary for Financial Stability is to restore liquidity and stability to the financial system of the United States. In doing so, we must never forget that this financial crisis isn't just about banks, credit, and lending—it's about the day-to-day effects the crisis is having on the American people. Millions of people have lost their jobs, numerous families have lost their homes, nearly all working people have lost retirement savings, hundreds of thousands of young people have been forced to postpone college, and countless small businesses have curtailed their activities and laid-off skilled employees, all because of failing credit markets. These real-world harms are the reason Congress has given the Office of Financial Stability the mandate it has, and I will ensure that combating these human costs remains the focus of the office.

Before I briefly review my background and my plans for the Office of Financial Stability, should I be confirmed, I want to express my heartfelt thanks to my wife of 35 years, Simin, and my sons, John and Andrew, who are with me today and have provided unwavering support over many years.

I began my career in public service, as an officer in the U.S. Navy, serving 4 years on active duty, including a year in Vietnam, before receiving an honorable discharge in 1969. After attending the business school at Stanford University, I joined Merrill Lynch and spent more than 28 years with that company, leaving as President in 1999. In 1998, I played a central role in devising and negotiating the unwinding of

Long Term Capital Management—the hedge fund that a decade ago posed systemic risk to our banking system.

In all of these areas, my experiences taught me lasting lessons about the right ways to do business including the importance of sound corporate governance, independent oversight, tight controls over risk and pay geared to long-term performance. At Merrill Lynch in the 1990s I contributed to strengthening all of these practices, which were not always popular, but which have proven essential to the long-term viability of any company. If I am fortunate enough to be confirmed, I will bring those principles with me to the Office of Financial Stability.

Since leaving Merrill Lynch, I have led two major financial institutions through transformations necessary to their future success, TIAFF–CREF and Fannie Mae.

In 2002, I became Chairman and CEO of TIAA–CREF, the leading provider of retirement and asset management services in the educational, medical, and cultural fields. To meet the changing needs of its customers, the challenges from increased competition, and the need for more stringent regulation, we transformed operations, controls and product lines. While improving investment performance, we doubled its capital base and established strong, independent risk management. We also upheld TIAA–CREF's leadership in corporate governance, becoming the first Fortune 100 company to allow stakeholders an advisory vote on executive compensation. And we redesigned executive compensation programs to give far greater weight to performance on behalf of clients than to profits. These efforts produced results: TIAA–CREF is one of a select few financial companies in the United States that retains AAA debt ratings, and the company and its clients have avoided the worst effects of this crisis.

In September of 2008, I was named CEO of the Federal National Mortgage Association as the company was placed into government conservatorship. The crisis that devastated Fannie Mae's liquidity and capital base also threatened millions of American homeowners with foreclosure. New management had to quickly transform the company's focus from maximizing profit and market share to helping hard-pressed American families stay in their homes. While much remains to be done, we have laid the groundwork for success. Working closely with the Federal Housing Finance Agency, we began developing foreclosure prevention and mortgage modification programs and the systems to support them. The hard work by the company's employees convinced the government to appoint Fannie Mae as agent for the President's Home Affordable Refinance and Modification programs, which offer financial relief to millions of Americans. We also began reforming aspects of Fannie Mae's operations, controls, and policies that had contributed to the company's excessive risk-taking. We initiated quality-assurance programs covering the company's purchases of mortgages; no longer would Fannie Mae simply take the word of bankers and mortgage brokers for the quality of their loans. And we began to pursue institutions that had not been upfront about the defective loans they were selling the company. Today, although still burdened by credit losses on loans made during the housing bubble, Fannie Mae is performing well on behalf of the American people.

Members of the Committee, if I am confirmed, I will bring the same managerial discipline and drive for results to the important office I will occupy. The Financial Stability Program is essential to President Obama's and Secretary Geithner's plans for recovery. Our economy declined sharply last year in large part because credit stopped flowing. Without access to credit, small businesses in Connecticut, Alabama, and Colorado cannot buy the new equipment, raw materials, and inventory that they need to expand. And larger businesses, like Boeing, Caterpillar, and United Technologies, need well-functioning credit markets as they adjust to the changing nature of the global marketplace. The Financial Stability Program is designed not only to help companies endure the challenges of the current economic crisis, but also to enable them to compete successfully in the new economy. Strengthening and reforming our financial markets is an essential to furthering those goals and achieving our ultimate ends: putting Americans back to work and resuming strong, sustainable economic growth.

Given the magnitude of the financial crisis, this program must meet the highest standards. Much good work has already been done and for that I am grateful to those that have already served. But with the extraordinary amount of the American people's money with which we have been entrusted, good work is not enough—we must strive to be flawless. Every dollar must be wisely and carefully managed, and we must be constantly accountable to the public which has entrusted us with their money.

To that end, if confirmed, I will work closely with the Special Inspector General, the Government Accountability Office, the Congressional Oversight Panel, the Financial Stability Oversight Board, and the committees of Congress to assure the kind of accountability and oversight the American people deserve. And finally, as

Secretary Geithner has directed, I will emphasize transparency so that the Congress and the American people will know what we are doing with their money, why we are doing it, and how it is making a difference in our economy. Openness will be a guiding principle of this office and will help ensure that we remain focused on putting these taxpayer dollars to their highest and best use—rebuilding the American economy.

In closing, I would like to say a few words about public service. My family has always emphasized to importance of serving one's community, whether at the federal or local level. My father spent much of his career as a Special Agent with the FBI. His father worked for years for the United States Department of Agriculture. My Mother's father served as Sheriff of Sioux Falls, South Dakota. And with me today is my brother, George Allison, who retired with the rank of Captain after 28 years in the U.S. Navy. I admire all Americans who devote themselves to serving their communities and their country. Having started my career as an officer in the U.S. Navy, I am honored and inspired by this opportunity to return to public service. Thank you.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: **Allison, Jr.** (Last) **Herbert** (First) **Monroe** (Other)

Position to which nominated: Assistant Secretary for Financial Stability

Date of nomination: May 1, 2009

Date of birth: August 2, 1943 (Day) (Month) (Year) **Place of birth:** Pittsburg, PA (USA)

Marital Status: Married **Full name of spouse:** Simin Nazemi Allison

Name and ages of children:

John Reza Allison (33)

Andrew George Allison (27)

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Garden City High School	9/58-6/61	H.S. Diploma	June 1961
Yale University	9/61-6/65	B.A Philosophy	June 1965
Graduate School of Business Stanford University	9/69 – 6/71	M.B.A	June 1971

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships and any other special recognitions for outstanding service or achievement.

Navy Commendation Medal with Combat "V"

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Siwanoy Country Club		1984-1998
Catalyst	Board Member	1997-1999

United Negro College Fund	Board Member	1997-2004
Business Roundtable		2003-2008
Financial Services Roundtable		2003-2008
New York Stock Exchange	Director (unpaid)	2003-2005
Federal Reserve Bank of New York's International Advisory Committee		2003-2009
Council of Graduate Schools Advisory Committee		2003
Board of Directors of the Conference Board		2003-2008
Board of Trustees of the Economic Club of New York		2003-2008
Blind Brook Club		1999-2009
Partnership for the City of New York (Board Member)		2003-2008
Yale Club of New York		1978-Present
Links Club		1992-Present
Advisory Board of Yale School of Management		1999-Present
Advisory Council of the Stanford Graduate School of Business		1992 – 1999, 2006-Present
American Legion, Post 11		2005-Present

Employment record: **List below all positions held since college, including the title or description of job, nam of employment, location of work, and inclusive dates of employment.**

9/65 – 6/69: U.S. Naval Reserve (Active), Last Rank: LT (Senior Grade)

7/71 – 7/99: Merrill Lynch & Co, Inc

7/71 – 6 /72: Associate Investment Banking, Merrill Lynch & Co, Inc, New York

7/72 – 11/73: Associate Investment Banking, Merrill Lynch & Co, Inc, Paris France

12/73 – 12/74: Assigned by Merrill Lynch as advisor to IMDBI(Industrial & Mining Development Bank of Iran), Tehran

1/75 – 2/78: Deputy Managing Director Iran Financial Services Co., Tehran (AJoint venture of Merrill Lynch, Bank Mellon, Iran & IMDBI)

2/78 – 9/78: Executive Director, Merrill Lynch International Bank, London

9/78 – 10/80: Assistant to the Chairman & President, Merrill Lynch & Co, Inc, New York

10/80 – 10/81: Vice President Strategic Planning, Merrill Lynch & Co, Inc

10/81 – 9/83: Manager, Market Planning, Merrill Lynch Individual Services

10/83 – 10/86: Treasurer, Merrill Lynch & Co, Inc

10/86 – 8/89: Director Human Resources, Merrill Lynch & Co, Inc

8/89 – 11/90: Executive Vice President, Chief Administrative Officer, Merrill Lynch & Co, Inc, New York

11/90 – 5/92: Executive Vice President, Chief Financial Officer, Merrill Lynch & Co, Inc, New York

5/92 – 1/95: Executive Vice President, Investment Banking, Merrill Lynch & Co, Inc, New York

1/95 – 4/97: Executive Vice President, Corporate & Institutional Client Group (Investment Banking, Debt & Equity Capital Markets)

4/97 – 7/99: President, Chief Operating Officer & Director, Merrill Lynch & Co, Inc

9/99 – 3/00: National Finance Chairman. McCain 2000 Presidential Campaign

9/00 – 10/02: Chief Executive Officer, Alliance for Life-long Learning (Joint Venture of Oxford, Stanford & Yale Universities) New York

11/02 – 4/08: Chairman, President & Chief Executive Officer, TIAA-CREFF, New York

8/08 – 4/09: Director, Time Warner Inc, New York

9/08 – 4/09: President, Chief Executive Officer & Director, Federal National Mortgage Association, Washington DC

Government Experience: **List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part time service or positions.**

2003-2005 Chairman Vietnam Education Foundation, Federal Agency funded by US Treasury, Dept of Agricultural Business-Higher Education Forum

2006-2007	New York State Commission on Education Reform
2007-2008	New York State Commission to Modernize the Regulation of Financial Services

Published Writings: **List the titles, publishers and dates of books, articles, reports or other published materials you have written.**

"Giving Investors a Say," editorial, The Washington Post (August 19, 2004).

Political Affiliations and activities: **List memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.**

Republican Party
Independent
Democratic Party

9/99 – 3/00: National Finance Chairman, McCain 2000; Volunteer Position

Political Contributions: **Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify specific amounts, dates, and names of recipients.**

OBAMA FOR AMERICA	$2300	8/25/2008
OBAMA FOR AMERICA	$2300	1/27/2008
TIAA-CREF PAC	$5000	4/2/2008
SANDHILLS PAC	$5000	6/27/2007
TIAA-CREF PAC	$5000	1/31/2007
AMERICAN COUNCIL OF LIFE INSURERS PAC	$5000	9/1/2006
STRAIGHT TALK AMERICA	$5000	5/15/2006
AMERICAN COUNCIL OF LIFE INSURERS PAC	$5000	6/24/2005
STRAIGHT TALK AMERICA	$5000	10/25/2005
GRASSLEY COMMITTEE	$1000	9/30/2004
COBURN FOR SENATE COMMITTEE	$500	5/14/2004
(CAROLYN) MALONEY FOR CONGRESS	$500	6/25/2004
PORTMAN FOR CONGRESS COMMITTEE	$1000	7/19/2004
EARL POMEROY FOR CONGRESS	$500	9/30/2004
AMERICAN COUNCIL OF LIFE INSURERS PAC	$5000	7/23/2004
SANDHILLS PAC	$5000	12/30/2004
FRIENDS OF JOHN MCCAIN INC	$2000	2/27/2003
DYLAN GREEN FOR CONGRESS	$1000	12/1/2003
SANDHILLS PAC	$5000	12/18/2003

LINDSEY GRAHAM FOR SENATE	$1000	6/13/2001
HAGEL FOR SENATE COMMITTEE	$2000	12/7/2001
PETE KING FOR CONGRESS COMMITTEE	$1000	9/21/2000
SANDHILLS PAC	$2000	2/16/2000
MCCAIN 2000 INC	$1000	9/30/1999
KERREY FOR U.S. SENATE COMMITTEE	$1000	4/6/1998
AMERICANS FOR A REPUBLICAN MAJORITY PAC (TOM DELAY)	$1000	6/17/1998
MOYNIHAN COMMITTEE INC	$1000	5/9/1998
FRIENDS OF SENATOR D'AMATO	$1000	10/13/1998
BUILDING AMERICA'S CONSCIENCE & KIDS BACK PAC	$5000	11/23/98
THE FREEDOM PROJECT	$5000	9/20/1998
CAROL MOSELEY-BRAUN FOR US SENATE	$1000	1/22/1998

Qualifications: **State fully your qualifications to serve in the position to which you have been named. (attach sheet)**

1. Leadership of three of America's largest financial services companies: Merrill Lynch, TIAA-CREF and Federal National Mortgage Association.

2. Executive Management of a broad range of financial activities: Investment banking, securities trading, insurance investment management, mortgage banking and retail brokerage

3. Played a key role in devising and leading the rescue of Long-Term Capital Management in 1998.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes, resigned from Federal National Mortgage Association on April 21, 2009

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

None

3. Has anybody made you a commitment to a job after you leave government?

No

4. Do you expect to serve the full term for which you have been appointed?

I do and I will serve at the pleasure of the President of the United States.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

I participate in a deferred compensation plan with my former employer TIAA-CREF through which I will receive fixed payments, based upon the unit value of my interest at the end of 2008, for the next 3 years. In addition, as a retiring executive of Fannie Mae, I am entitled to receive life insurance coverage for four years, consistent with the corporation's practice for retiring executives. Also, I currently participate in a deferred compensation plan with Merrill Lynch whereby Merrill Lynch has agreed to pay me a deferred compensation. However, pursuant to my Ethics Agreement, I will divest my entire interest in the deferred compensation plan by giving my interest to a charitable organization, or organizations, of which I am not a trustee, officer or director.

I will continue to receive an annuity from Merrill Lynch. Also, I will continue to receive an annuity from TIAA CREF, as well as to continue to participate in the TIAA CREF SERP retirement plan.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Department of the Treasury's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the Department's designated agency ethics official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

3. Describe any business relationship, dealing or financial transaction (other than tax paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Department of the Treasury's designated agency ethics official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into

with the Department's designated agency ethics official and that has been provided to this Committee. I am not aware of any other potential conflicts of interest.

4. List any lobbying activity during the past ten years in which you have engaged in for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

I have never been a registered lobbyist under the Lobbying Disclosure Act. I have attended meetings with Members of Congress on various issues and met with Members of Congress as CEO of TIAA-CREF regarding the proposed abolition of Section 403(b) retirement plans.

5. Explain how you will resolve any conflict of interest that may be disclosed by your responses to the items above.

In connection with the nomination process, I have consulted with the Office of Government Ethics and the Department of the Treasury's Designated Agency Ethics Official to identify potential conflicts of interest. Any potential conflicts of interest will be resolved in accordance with the terms of an ethics agreement that I have entered into with the agency's designated agency ethics official.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

RESPONSE TO WRITTEN QUESTIONS OF CHAIRMAN DODD FROM HERBERT M. ALLISON, JR.

Q.1. It has come to our attention that some TARP recipients are exerting their status as creditors in corporate bankruptcy/restructuring proceedings to obtain the best financial outcome for themselves. In some cases, the heavy hand of these creditors is preventing companies from successfully restructuring to eliminate debt, preserve jobs, and emerge stronger and more stable. Do you believe it is appropriate for TARP banks to exercise their creditor status in this manner?

A.1. Mr. Chairman, I appreciate your leadership on this issue and, if confirmed, I look forward to working with you on this and many other matters. President Obama and Secretary Geithner have stated that, as a general matter, the Administration is not seeking to involve itself in day-to-day management of individual companies. I believe taxpayer value is best protected by avoiding government involvement in tactical business decisions. While some recent corporate bankruptcies and their impact on communities and employment concern me deeply, if confirmed, I intend to work with my colleagues at Treasury and throughout the Administration more broadly to find alternate ways to help these companies and their employees and support overall recovery.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR REED FROM HERBERT M. ALLISON, JR.

Q.1. A recent report from the National Foreclosure Mitigation Counseling Program indicates that homeowners are waiting, on average, 45–60 days for responses to requests for help. Other homeowners are finding servicers reluctant to make meaningful changes to the terms of their mortgages despite advertised participation in the Administration's foreclosure prevention initiatives. Companies that have agreed to participate in these programs must be held accountable, especially when so many are simultaneously receiving taxpayer dollars. What mechanisms would you recommend putting in place to ensure that servicers' public pronouncements translate into relief for homeowners? Would you, for instance, consider collecting regular data on the volume of homeowner inquiries, average response time, and number and type of workouts offered, in the model of the Monthly Lending and Intermediation Surveys? Would you consider requiring detailed action plans from participating servicers for how they will expand the capacity of their loss mitigation departments, and holding them accountable to meeting benchmarks?

A.1. I agree that it is extremely important that participating servicers fully comply with the Home Affordable Modification Program (HAMP), and I also recognize the importance of providing robust public reporting on servicer performance and borrower behavior and experience under the program. If confirmed for this position I expect to oversee this process and make sure as many Americans as possible are able to take advantage of this program.

In specific response to your question, the Treasury is currently working with Fannie Mae, the program administrator, and with the servicers to provide detailed information concerning the pro-

gram. We will be capturing information from each servicer at the loan level and it will include items such as homeowner contacts, types of workouts offered and accepted, interest rate before and after modifications, payment amount changes, as well as a number of other categories. We will be able to look at this data by different views including by servicer, geographic regions, and loan characteristics. We are also creating a database which will allow further views of the data. This detailed information will begin flowing the end of June. At that time Fannie Mae will have completed the electronic system to capture this information. It is anticipated that the first payments under this system would happen in July when the first set of homeowners would complete the 90 day trial modifications.

In addition to this detailed information which we will be receiving from the servicers, we have also instructed Fannie Mae to establish a call center capability that will allow the borrower to be able to speak to a representative to obtain more help with the program. This call center augments the Making Home Affordable web page which was launched a couple of months ago. The call center provides the extra support that borrowers might need. This call center has been established through the "Hope hotline." It will allow us to also capture independent information concerning the borrowers' experience with each servicer,invaluable in managing the program. Another important feature of the call center is that borrowers that need more help will be able to be immediately transferred to a HUD certified counselor who can provide the extra support that they may need. The contract to expand the "Hope hotline" was signed this past month and the hotline has been ramping up over the last few weeks and it should be fully operational, with the further Making Home Affordable information, now.

In addition, if confirmed, I expect to be working closely with servicers to ensure they put in place the proper systems and workforce to properly implement this program.

All of the features I have described should help to make this program live up to the expectations of the Congress and the Obama Administration. It is a complex issue that has required tremendous effort on all parts in order to handle the volumes of borrowers, technical changes to systems, and proper support mechanisms to be put in place in such a short span of time. If confirmed for this position I expect to oversee this program and make sure it is done right.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BENNET FROM HERBERT M. ALLISON, JR.

Q.1. It's my understanding that certain TARP recipients, which are creditors to companies undergoing Chapter 11 bankruptcy, are using the restructuring process to increase the pricing of their debt instruments. It's troubling that financial institutions that have benefited from taxpayer money are now acting in a manner that undermines the vitality of companies that don't have the luxury of receiving Federal assistance. It's also disturbing that these creditors were expected to be repaid in full under the bankruptcy process. Is this an issue that the Treasury Department is monitoring?

A.1. Both President Obama and Secretary Geithner have stated that, as a general matter, the Administration is not seeking to involve itself in the day-to-day management of individual companies. I believe taxpayer value is best protected by avoiding government involvement in these individual business decisions. While some recent corporate bankruptcies and their impact on communities and employment is something that concerns me deeply, I intend to work to find alternate ways to help these companies and their employees and support overall recovery. I appreciate your attention to this issue and, if confirmed, I look forward to working with you on this issue.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR BUNNING FROM HERBERT M. ALLISON, JR.

Q.1. ESSA established numerous reporting requirements regarding a variety of issues, but all with a common purpose—to provide information to Congress and other government entities on the implementation of the Act's provisions.

The Act's stated purposes are:

> (1) to immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States; and (2) to ensure that such authority and facilities are used in a manner that—(A) protects home values, college funds, retirement accounts, and life savings; (B) preserves homeownership and promotes jobs and economic growth; (C) maximizes overall returns to the taxpayers of the United States; and (D) provides public accountability for the exercise of such authority.

This is the Black Letter Law that was written into the ESSA Act and cannot be superseded. Even though transparency is at the discretion of the Secretary of the Treasury as stated in section 114, the Act still requires the Secretary to make sure that the intent as described above is insured under the act.

If confirmed, can you please share with us how under your leadership the Department of Treasury will ensure and safeguard the Act's stated purposes?

A.1. If confirmed, I will do my best to see that the Office of Financial Stability operates effectively and efficiently, maintains high ethical standards, manages its programs in a way that maximizes their effectiveness in order to restore liquidity and stability to the financial system while protecting the interests of the taxpayers, and provides full and timely disclosure of its activities to Congress and the public.

Q.2. Although most firms will perform fully within their commitments to correctly manage the funds provided to them, isn't there potential that this opens the opportunity to have the funds used inappropriately without the proper level of transparency as both a deterrent and a regulatory process?

If confirmed, will you institute a technological system that would not only provide for true transparency, but provide for near real time oversight of how TARP funds are being utilized?

A.2. If confirmed, I will continue Treasury's efforts to develop ways to monitor the effectiveness of TARP programs. Technology is a necessary part of these efforts and I look forward to hearing from and working with Congress.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM HERBERT M. ALLISON, JR.

Q.1. Can I have your assurances that you will look into making sure that the Federal Home Loan Banks are sufficiently strong to continue to achieve their core mission of providing liquidity and supporting community banks and thrifts?

A.1. The Federal Home Loan Banks have played an important role of providing a stable source of funds to their member institutions throughout the recent disruptions in credit markets. The Federal Home Loan Banks have access to a credit facility that the Treasury Department established under the Housing and Economic Recovery Act of 2008. The Treasury Department works closely with the Federal Housing Finance Administration in evaluating the financial condition of the Federal Home Loan Banks. If confirmed, I will look forward to continuing this work with my colleagues at the Treasury Department.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MARTINEZ FROM HERBERT M. ALLISON, JR.

Q.1. The Special Inspector General for TARP continues to recommend that Treasury require all TARP recipients to report on their actual use of TARP funds. To my knowledge, Treasury has no data driven, transparent way to show that the funds infused into TARP recipients have been used and performed as intended. The American people have a right to know how their tax dollars are being spent. If confirmed, how would ensure that TARP funds are better accounted for?

A.1. This is an important issue and I share President Obama and Secretary Geithner's commitment to transparency. I agree with you that it is important to monitor TARP investments to determine whether they are achieving their intended purposes.

Treasury has already taken a number of steps towards these goals. Treasury is tracking lending levels at the banks that have received CPP funds. Treasury has launched a monthly lending survey of the 21 largest CPP recipients, and has issued four monthly Snapshots that provide detailed information by institution and category of loan. It contains quantitative information on three major categories of lending—consumer, commercial, and other financial activities—based on banks' internal reporting, as well as commentary to explain changes in lending levels for each category. In addition, the survey contains a qualitative section that provides market color on lending demand and credit standards generally to help Treasury and the public meaningfully and accurately interpret the quantitative data. Treasury has recently added a small-business lending component to this survey.

Treasury has also published its first monthly report of lending activity by all CPP participants (over 500 banks). This report meas-

ures consumer and commercial lending activities at CPP participants.

Because banks' double-entry bookkeeping systems, including their cash flow statements, cannot trace the precise paths of funds from their receipt to investment, we have no way to attribute contributions of TARP capital to particular uses. Nonetheless, if confirmed, I will continue Treasury's efforts to develop additional ways of assessing the performance of TARP programs and more detailed reporting of results to Congress and the American taxpayers. I will be pleased to brief members of the Committee on those initiatives in the months to come.

Q.2. Senator Warner and I introduced the TARP Transparency Act (S. 910), which directs Treasury to implement technology to more aggressively compile information and disclose to the TARP Inspector General, the Congressional Oversight Panel, and the GAO how TARP funds have been used. This type of system will bring to the surface potential issues in real time as they occur, not after the fact like traditional audits.

Do you believe a technological system, utilizing near real time data, would be beneficial to Treasury's efforts to track, report, and analyze the impact of TARP funds?

A.2. I appreciate your concerns and if confirmed, I would be happy to study this issue in greater detail. While I agree that advanced technology could improve Treasury's ability to track, report, and analyze the impact of TARP funds, the absence of such a system does not undermine transparency or impede the flow of information to TARP's oversight bodies. In fact, Treasury already publishes a wealth of information about TARP programs and investments on the financialstability.gov Web site, and maintains active and open working relationships with SIGTARP and GAO and, increasingly, with the Congressional Oversight Panel.

Treasury staff provides briefings for all four oversight agencies as new programs are developed, announced, and structured, as well as in response to specific requests from the oversight agencies. Additionally, Treasury staff interacts with the staff of the oversight agencies on a daily basis, answering questions, providing information, and making itself available for meetings to discuss topics of interest or address audit inquiries.

If confirmed, I intend to be in regular contact with the Special Inspector General to discuss any issue or concern that either party wishes to raise.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR VITTER FROM HERBERT M. ALLISON, JR.

Q.1. On February 5, 2009, in a GAO TARP report on the Status of Efforts to Address Transparency and Accountability Issues, Assistant Secretary for TARP Neel Kashkari said, "Once the funds are given to the institutions, the money is fungible, we have no idea how to track it."

Do you agree with Mr. Kashkari that TARP funds cannot be tracked and thus there is no way to determine how TARP funds have been used?

A.1. It is important to distinguish between Treasury's capital-enhancement programs and its other programs. The Capital Purchase Program, Capital Assistance Program and institution-specific programs for AIG, Citigroup and Bank of America were designed to provide capital to cushion against losses and allow financial institutions to continue operating in the ordinary course of business, including lending to consumers and businesses. In order to serve its purpose, capital must be available for any legitimate business purpose. While Treasury requires applicants for participation in the Capital Assistance Program to specify how they intend to use the funds, accounting for actual use of particular dollars invested as capital is not a meaningful exercise. Because banks' double-entry bookkeeping systems do not trace the paths from creating liabilities (receiving capital) to investing in assets (making loans), we cannot precisely attribute the contribution of TARP capital to particular uses. The banks can, however, report trends in loans and other uses of funds, and we do require that they report such to Treasury.

On the other hand, Treasury's homeownership preservation program, small business lending initiative, auto industry programs, and the terms of Treasury's participation in the Term Asset Backed Securities Loan program impose specific limitations on the use of TARP funds, and require controls and periodic reports to insure that those limitations are respected.

Q.2. If you do agree, are you saying, that that this Congress and the American people will never know how over $700 billion of taxpayer dollars were spent?

A.2. As Secretary Geithner has said, our two goals are first, to stabilize the financial system and second, to protect the American taxpayer. I am committed to both of these goals and will work to ensure that our investments through TARP are achieving their intended purposes.

The Financial Stability Plan and other Administration initiatives seem to be having positive effects (such as rising consumer confidence, lower credit spreads, and relatively stable volumes of lending in spite of a deep recession) that should lead to increased willingness of companies to borrow and banks to lend as the economy stabilizes.

Q.3. As you know, Treasury Secretary Timothy Geithner has said, "Oversight and transparency requirements in the original (TARP) proposal were inadequate." And, Lawrence Summers, Director of the National Economic Council, has said, "The priority now has to be restoring trust, demonstrating that the financial system can be supported in ways that are accountable and transparent."

If there is no one specific source of information that would provide a transparent exposure to the true nature of the use of taxpayer-supported TARP funds, from a statisticians perspective, it is impossible to determine if these infusions were either associative or causal in actually improving the health of the financial sector and the overall economy.

Is it possible to have better technological mechanisms and processes in place to determine the actual impact the infusion of TARP funds have had on the overall economy?

If it is possible to use better technology to track TARP expenditures, what impediments stand in your way to instituting such mechanisms and processes?

A.3. Just as it is impossible to pinpoint any single cause of the current financial crisis, it is impossible to measure the precise effect of any particular expenditure of TARP capital. Nevertheless, it seems clear that the funds injected into the financial system through TARP have had a positive effect. For example, risk spreads in the interbank market, which were at unprecedented levels before the Capital Purchase Program was announced, have returned to more normal levels. The 3-month LIBOR–OIS is down to 45 basis points from 365 basis points in October 2008. Spreads for investment grade corporate bonds have fallen 250 basis points since November 2008 and spreads on high yield corporate bonds are down 870 basis points.

Issuance of asset-backed securities, which fund about half of all consumer credit in normal times, has restarted and increased since the Term Asset-Backed Securities Lending Facility began operating in March 2009 with $30 billion in new ABS issuance in 2009. While lending standards remain tight, the largest 21 CPP recipients extended roughly $260 billion on average each month in new loans to consumers and businesses in the first quarter of 2009.

The question of using technology to better track TARP expenditures is an important one and if I am confirmed as Assistant Secretary for Financial Stability, I look forward to familiarizing myself with the issue and then determining whether it may be cost-effective to introduce additional technological mechanisms and processes for depicting the impact of TARP funds on the overall economy.

Q.4. If confirmed, will you work with Congress to institute such a technological system that would not only provide for true transparency, but provide for near real time oversight of how TARP funds are being utilized?

A.4. If confirmed, I will keep uppermost in mind that the ultimate purpose of the Act under which the Office of Financial Stability was created and operates is to benefit the American public by strengthening the financial system so that access to capital and liquidity is restored, confidence of businesses and households is bolstered, homeownership is protected and new jobs are created. If confirmed, I will lead the Office of Financial Stability with constant awareness that the support of Congress and the public for Financial Stability programs depends on trust that taxpayer money is being invested carefully, all activities adhere to the law, and controls and management of risk are rigorous. To merit that trust, I will endeavor to provide full and timely disclosure of the Office of Financial Stability's activities to Congress and the public.