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Chairman Durbin, Members of the Subcommittee, good morning and thank you for the opportunity to appear before you. I would like to provide an update on the Treasury Department's actions to work through the financial crisis and restore the flow of credit to the economy. We have taken multiple actions with the following three critical objectives: one, to provide stability to financial markets; two, to support the housing market by preventing avoidable foreclosures and supporting the availability of mortgage finance; and three, to protect taxpayers. Before we acted, we were at a tipping point. Credit markets were largely frozen, denying financial institutions, businesses and consumers access to vital funding and credit. Financial institutions were under extreme pressure, and investor confidence in our system was dangerously low.

We have acted quickly and creatively in coordination with the Federal Reserve, the FDIC, OTS, and the OCC to help stabilize the financial system and it is clear that our coordinated actions have made an impact. Our coordinated effort to strengthen our financial institutions so they can support our economy is critical to working through the current economic downturn. Strong financial institutions and a stable financial system will smooth the path to recovery and an eventual return to prosperity.

We believe we have taken the necessary steps to prevent a financial collapse and the authorities and flexibility granted to us by Congress are key to this. I will briefly discuss some of Treasury's policies and priorities today.

Recent Actions

First, I will start by discussing some of our most recent actions. Consistent with our commitment to stabilize the financial system and strengthen our financial institutions, while also protecting U.S. taxpayers, we took two recent actions in coordination with our regulators. On November 9, Treasury announced an investment to support the restructuring of the American Insurance Group (AIG), together with the Federal Reserve Bank of New York. On November 23, the U.S. government – Treasury, the Fed and the FDIC – entered into an agreement with Citigroup to provide a package of guarantees, liquidity and capital. We will continue to take the necessary steps to protect the financial system and believe these actions, together with others we have taken since the onset of the financial crisis, demonstrate a decisive use of tools to strengthen our financial institutions and increase confidence in our system.

EQUITY PROGRAM

Next, I will discuss the Capital Purchase Program, one of the most significant and effective programs we have implemented to stabilize financial markets and improve the flow of credit to businesses and consumers. As the markets rapidly deteriorated in October, it was clear to Secretary Paulson and Chairman Bernanke that the most timely, effective way to improve credit market conditions was to strengthen bank balance sheets quickly through direct purchases of equity. Secretary Paulson announced that we would commit $250 billion of the financial rescue package granted by Congress to purchase equity directly from a range of financial institutions. With a stronger capital base, our banks will be more confident and better positioned to continue lending which, although difficult to achieve during times like this, is essential to economic recovery. Moreover, a stronger capital base also enables banks to take losses as they write down or sell troubled assets.

In just over one month, Treasury has already disbursed an estimated $151 billion to 52 institutions and has pre-approved many additional applications from public depositories across the country. This progress is remarkable not only in its speed and efficacy but also in its scope. We have touched every banking market in the nation already with applications representing small and large banks alike. Taking into account the needs of the range of institutions across the country, on November 17, Treasury released a term sheet for privately-held institutions, and we have provided even more streamlined terms to facilitate capital investment into community development financial institutions. Regulators are already receiving and reviewing many applications from these private depositories, another important source of credit in our economy.

We feel very strongly that healthy banks of all sizes, both public and private, should use this program to continue making credit available in their communities. Therefore, Treasury strongly supports the statement issued by bank regulators on November 12 in support of this goal. The inter-agency statement emphasized that the extraordinary government actions taken to stabilize and strengthen the banking system are not merely one-sided; all banks – not just those participating in the Capital Purchase Program – have benefited from the government's actions to restore confidence in the U.S. banking sector. Banks, in turn have obligations to their communities, particularly in this time of economic disruption. They have an obligation to continue to make credit available to creditworthy borrowers and an obligation to work with borrowers who are struggling to avoid preventable foreclosures.

The statement also urges banks to carefully review their dividend and compensation policies during this time of scarce resources. We fully support this regulatory initiative and believe it is crucial to focus on prudent lending so that institutions do not repeat the poor lending practices that were a root cause of today's problems. Restoring a vibrant economy won't materialize as quickly as all of us would like, but it will happen much quicker as confidence in our financial sector is restored in part due to the TARP

HOUSING/MORTGAGE FINANCE

Our other critical and related objective is to support the housing market and avoid preventable foreclosures. We have worked aggressively to avoid preventable foreclosures, keep mortgage financing available and develop new tools to help homeowners. Here, I will briefly highlight three key accomplishments:

First, in October 2007, Treasury helped establish the HOPE NOW Alliance, a coalition of mortgage servicers, investors and counselors, to help struggling homeowners avoid preventable foreclosures. Through coordinated, industry-wide action, HOPE NOW has significantly increased the outreach and assistance provided to homeowners. HOPE NOW estimates that nearly 2.7 million homeowners have been helped by the industry since July 2007; the industry is now helping about 225,000 homeowners a month avoid foreclosure.

Second, we acted earlier this year before enactment of the EESA to prevent the failure of Fannie Mae and Freddie Mac, the housing GSEs that affect over 70 percent of mortgage originations. These institutions are systemically critical to financial and housing markets, and their failure would have materially exacerbated the recent market turmoil and profoundly impacted household wealth. We have stabilized the GSEs and limited systemic risk.

Third, on November 11, HOPE NOW, FHFA and the GSEs achieved a major industry breakthrough with the announcement of a streamlined loan modification program that builds on the mortgage modification protocol developed by the FDIC for IndyMac. The adoption of this streamlined modification framework is an additional tool that servicers now have to help avoid preventable foreclosures. Potentially hundreds of thousands more struggling borrowers will be enabled to stay in their homes.

An important complement to those guidelines was the GSEs' announcement on November 20th that they will suspend all foreclosures for 90 days. The foreclosure suspension will give homeowners and servicers time to utilize the new streamlined loan modification program and make it possible for more families to work out terms to stay in their homes.

Term Asset Backed Securities Loan Facility

Next, I will discuss our most recent program, the Term Asset Backed Securities Loan Facility (TALF). As Secretary Paulson noted on November 12, support of the consumer finance sector is a high priority for Treasury because of its fundamental role in fueling economic growth. Like other forms of credit, the availability of affordable consumer credit depends on ready access to a liquid and affordable secondary market – in this case, the asset backed credit market. Additionally, consumer finance relies on the non-bank financial sector as a source of finance. However, recent credit market stresses essentially brought this market to a halt in October, resulting in climbing credit card rates. As a result, millions of Americans cannot find affordable financing for their basic credit needs and everyday purchases.

Last week, on November 25, Treasury and the Federal Reserve announced an aggressive program aimed at supporting the normalization of credit markets and making available affordable credit for all consumers. Under the TARP, Treasury will provide $20 billion to invest in a Federal Reserve facility that will provide liquidity to issuers of consumer asset backed paper, enabling a broad range of institutions to step up their lending, and enabling borrowers to have access to lower-cost consumer finance and small business loans. The facility may be expanded over time and eligible asset classes may be expanded later to include other assets, such as commercial mortgage-backed securities, non-agency residential mortgage-backed securities or other asset classes.

PRIORITIES FOR TARP

On December 1, Secretary Paulson underscored the critical priorities for the most effective deployment of remaining TARP funds, foremost of which is to ensure our banking sector has the necessary capital base to continue lending to consumers and businesses and support economic growth, and to help homeowners avoid preventable foreclosures.

I will briefly discuss these priorities:

One, in order to continue their critical role as providers of credit, both banks and non-banks may need more capital given their troubled asset holdings, continued high rates of foreclosures, and stagnant global economic conditions. We continue to look at additional capital strategies and, as we do so, we will assess the impact of the first capital program and also take into consideration existing economic and market conditions.

Two, we continue to aggressively examine strategies to mitigate foreclosures and maximize loan modifications, which are a necessary part of working through the necessary housing correction and maintaining the strength of our communities. The new program which I highlighted above with the FHFA, the GSEs, and HOPE NOW is just one example and we will continue working hard to make progress here.

Finally, as we consider potential new TARP programs, we must also maintain flexibility and firepower for this Administration and the next, to address new challenges as they arise.

Oversight

Concurrently, we recognize that a program as large and important as the TARP demands appropriate oversight and we are committed to transparency and oversight in all aspects of the program. We continue to take necessary measures to ensure compliance with the letter and the spirit of the requirements established by the Congress, including regular briefings with the Government Accountability Office, the Financial Stability Oversight Board, the Inspector General and the Congressional Oversight Panel. We will also continue to meet all of the reporting requirements established by the Congress.

CONCLUSION

Our system is stronger and more stable due to our actions. Although a lot has been accomplished, we have many challenges ahead of us. We will focus on the goals outlined by Secretary Paulson and develop the right strategies to meet those objectives. Thank you and I would be happy to answer your questions.