DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

January 13, 2010

Ms. Elizabeth Warren
Chair
Congressional Oversight Panel
732 North Capitol Street, NW
Washington, D.C. 20401

Dear Chair Warren:

Thank you for your letter of November 25, 2009, which raises many important questions regarding Treasury's assistance to CIT Group, Inc. (CIT). Detailed responses to each of those questions are attached. I appreciate your follow-up letter for January 11, 2010, and please accept my sincere apology for the delayed response.

In late 2008 and early 2009, our nation faced one of the most severe financial crises of the past century, and with a rapidly contracting economy, our financial system was in danger of even further deterioration or collapse. The actions taken by the U.S. Government at the onset of the financial crisis, including the creation of the Capital Purchase Program (CPP), and the comprehensive, forceful, and sustained commitment to fiscal stimulus and financial stability made under the Obama Administration, enabled us to contain the crisis.

As part of that response in December 2008, under CPP, Treasury invested in CIT at the bank holding company level. Treasury's practice in all CPP investments was to rely on the recommendation of the primary federal banking regulator. This particular investment was made following the Federal Reserve's approval of CIT's application to become a bank holding company and the Federal Reserve's decision to recommend the application for funding. Generally, among the factors federal banking regulators examine in making their decisions about whether to recommend CPP applications include ratings of the quality of a bank's financial condition, risk profile, and overall performance. Federal banking regulators also provide a statement of viability of the CPP applicant without Emergency Economic Stabilization Act (EESA) investment.

The overriding objective of EESA was to stabilize the financial system and to do so with as little cost to the taxpayer as possible. It was impossible to guarantee that every investment made under the Troubled Asset Relief Program (TARP) would be successful – including those investments that were critical to breaking the back of the financial panic.

As detailed in the attached responses, Treasury expects to lose its entire investment in CIT. Nonetheless, over two thirds of the $241 billion invested in over 700 banks under EESA has already been repaid. Even with the loss on CIT, Treasury expects to earn a positive return for U.S. taxpayers on those investments overall. I strongly believe that EESA has met its objective of stabilizing the financial system while limiting the cost borne by taxpayers.

Thank you again for your attention to this important matter, and we look forward to working with your office as we continue our efforts to stabilize the financial system. If you have any further questions or concerns, please do not hesitate to contact me or my staff.

Sincerely,

Timothy F. Geithner

Enclosure

1. **How much does the U.S. taxpayer stand to lose due to CIT's bankruptcy, including, separately, the value of all preferred stock, warrants, and projected dividends?**

   The bankruptcy court confirmed CIT's pre-packaged plan of reorganization on December 8, 2009. Under that plan, following CIT's emergence from reorganization, which occurred on December 10, 2009, Treasury received a contingent value right in exchange for its $2.33 billion investment under the CPP (which is $2.396 billion including accumulated and unpaid dividends); this right is unlikely to have any value. No additional consideration was paid for the warrants, and therefore there is no further loss associated with them. Treasury and its outside advisors have taken steps to maximize any potential recovery of the investment. However, as a preferred shareholder, Treasury's position is junior to that of all CIT's creditors. In this bankruptcy as in similar ones in which debtors are required to take significant haircuts on the value of their debt, the Bankruptcy Code operates to restrict repayments of preferred shareholders prior to full recovery by the creditors. As a result, under the plan of reorganization, the U.S. taxpayer will likely lose its entire investment in CIT.

2. **How much, separated into the same categories, has the taxpayer lost due to the failures of other CPP-recipient financial institutions?**

   To date, other than CIT, only two other direct recipients of CPP funds have filed for bankruptcy. These include Treasury UCBH Holdings, Inc (CPP investment of $298.74 million) and Pacific Coast National Bancorp (CPP investment of $4.12 million). At this time, we believe these investments will also be largely or entirely lost.

3. **Treasury has stated that "participation [in CPP] is reserved for healthy, viable institutions," noting that "[h]ealthy banks, not weak banks, lend to their communities, and the CPP is a program for healthy banks." Did Treasury consider CIT to be a healthy bank at the time when CPP assistance was first provided? If so, on what basis did Treasury make this determination? If not, for what reasons did Treasury consider CIT to be eligible for CPP funding? Please provide any due diligence memoranda or other documentation explaining Treasury's decision.**

   Treasury has a strict application process for approval of all CPP investments which it has consistently followed. Under this process, financial institutions submit applications to their primary federal banking regulator, who in turn reviews the application and provides Treasury with a recommendation. Treasury relies on the expertise of the financial regulators, and gives considerable weight to their recommendations. Upon receipt of the regulator's recommendation, Treasury staff reviews it along with the bank's application and presents them to the Office of Financial Stability's ("OFS") Investment Committee for review. The Investment Committee in turn makes a funding recommendation to the Assistant Secretary for Financial Stability. In this case, CIT underwent this application process, was recommended for funding by its primary federal banking regulator, and such recommendation was affirmed by the OFS Investment Committee.

4. **Treasury has explicitly stated that CPP is not a bailout and that it was "designed to generate a positive return over time to the taxpayer." In the case of CIT, however, it appears clear that taxpayers will face significant losses. Regulators have closed United Commerical Bank and Pacific Coast National Bank as well, which also received CPP assistance. Did Treasury's expectation of "a positive return over time" incorporate the possibility of the failure of these or other financial institutions? If so, how has Treasury accounted for these loss projections in estimating the long-term cost or benefit to taxpayers of CPP?**

   In the financial statements for OFS, which were released on December 9, 2009, Treasury assumed that the funds invested in CIT would not be repaid, and United Commercial Bank and Pacific Coast National Bank would repay only a small fraction of the amount of the investments made by OFS. With this assumption, Treasury continues to estimate that the proceeds of its CPP investments will exceed the amount that was invested under the program. We invested in over 700 institutions as part of CPP. As noted above, the bulk of the funding decisions for CPP had to be made during a period of extreme economic uncertainty. Given the program was designed to contribute to the stability of our financial system, we cannot rule out the possibility that not all of the individual investments will earn profits for taxpayers. Treasury continues to work to minimize these losses and maximize recovery to the taxpayer.

5. **How many more failures does Treasury expect among CPP-recipient financial institutions, and what is the estimated cost to taxpayers of these failures? Please provide any memoranda projecting such losses. How is Treasury acting to protect the taxpayers' investments in those institutions?**

   The OFS financial statements, which were released on December 9, 2009, provide the estimated overall net cost/gain information for the CPP. OFS' equity model does not project losses in terms of specific number of institutions; rather, OFS' equity model takes a composite of all CPP institutions and projects the per quarter probability that such institutions will continue to perform, will repurchase, or will fail. The dollar amounts are then summed by event to generate performing, prepay, and default cash flows. As of September 30, 2009, using discount rates that capture market risks, the model projects $11 billion in defaults during the life of the CPP with those losses more than offset by cash inflows, including dividend payments. Once your staff has had an opportunity to review the OFS financial statements, my staff is available to answer any questions. We will work with recipients of EESA funds and their supervisors to accelerate repayment where appropriate.

6. **In particular, how many institutions in the CPP program are now on the list of problem banks maintained by the Federal Deposit Insurance Corporation? What steps [are] Treasury taking to protect the taxpayers' investment in those institutions?**

   Treasury actively monitors all of its investments made under the Troubled Asset Relief Program, including its investments in CPP recipients. In instances in which a CPP recipient appears to be having difficulty, Treasury engages directly with the institution—and on occasion, the primary regulator—to discuss the actions that can be taken to stabilize the institution and preserve the value of Treasury's recovery as a preferred stock holder. However, please note that Treasury does not have access to confidential supervisory information on an ongoing basis.

7. **What is Treasury's projection of the final benefit or cost to taxpayers of the overall CPP program?**

   The OFS financial statements, which were released December 9, 2009, provide the current estimated overall net gain information for the CPP. For the period ending September 30, 2009, Treasury-OFS reported net income of approximately $15 billion for CPP.

8. **Treasury has provided exceptional assistance outside of CPP to several firms that it considers "systemically significant," including Bank of America, Citigroup, and AIG. Did Treasury consider whether CIT's significance to the financial system warranted similar assistance? If Treasury determined that CIT was not systemically significant, on what basis was this determination made? Please provide any memoranda regarding this determination.**

   Even during periods of financial stress, there is a very high threshold for exceptional government assistance to individual companies, and the strong presumption is that private companies should seek private sector solutions. As we have stated previously, Treasury evaluated the potential of providing additional assistance to CIT. Treasury determined that, in this instance, such exceptional assistance was not warranted. This determination was made on the basis of a number of factors, including, among other things: CIT's role in the financial system; the availability of alternative sources of liquidity to CIT; the likelihood that CIT would continue as a going concern in the absence of exceptional assistance; the existence of alternative credit channels for CIT's customers; the condition of the financial system at the time of the determination; and CIT's size and funding structure. It should be noted that less than a week after CIT announced that discussions with Government agencies had ceased, it was able to secure an additional $3 billion loan facility from private sources. Between July 2009 and its bankruptcy filing, CIT was able to raise a total of $8.5 billion in financing from private sources. CIT emerged from bankruptcy on December 10, 2009 as a recapitalized going concern.

Requests for Documents

With respect to your request for documents set forth in this letter, please note that we are in the process of collecting and evaluating materials that may be responsive to your request, and will make any relevant documents available to your staff consistent with our Protocols for the Protection of Potentially Protected Documents.