



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

May 3, 2010

Ms. Elizabeth Warren
Chair
Congressional Oversight Panel
732 North Capitol Street, NW
Room C-320
Washington, DC 20401

Dear Chair Warren:

Thank you for letter of April 13, 2010, which raises questions regarding restructurings of current Capital Purchase Program (CPP) investments.

As you know, CPP was created in October 2008 to help contain one of the most severe financial crises of the past century, and to prevent further deterioration or collapse. Under this program, Treasury consistently followed a strict application process for approval of all CPP investments. Financial institutions submitted applications to their primary federal banking regulator, who reviewed the applications and then provided Treasury with recommendations. Treasury relied on the expertise of the regulators in making investment decisions, and gave considerable weight to their recommendations. Upon receipt of the regulator's recommendation, Treasury staff reviewed it along with the bank's application and presented them to the Office of Financial Stability's Investment Committee for review. The Investment Committee in turn made a funding recommendation to the Assistant Secretary for Financial Stability. Treasury did not fund an applicant unless it was recommended by the regulators as well as our Investment Committee.

In response to your questions about Treasury's current investments through this program, I note that Treasury continues to estimate that the sum of proceeds and revenues from CPP investments will exceed the amount invested under the program. We invested in over 700 institutions. The bulk of the investment decisions for CPP were made in a time of great economic uncertainty, and not all individual investments will earn a profit. While all institutions were deemed viable at the time of Treasury's investment, it is possible that some institutions have since experienced financial difficulties for any number of reasons, including a loss of value in certain asset classes. Treasury continues to work to minimize losses and maximize recovery to the taxpayer.

The U.S. banking system is better capitalized today than it was entering the crisis. Our larger financial institutions that were subject to the stress tests have raised over \$150 billion in high-quality capital and over \$75 billion in non-guaranteed unsecured debt since May 2009, when the

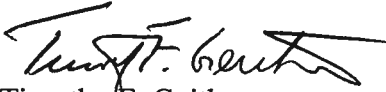
stress test results were announced. But the damage to the U.S. banking system over the past few years has been substantial. There have been 183 bank failures since the crisis began.

Treasury actively monitors all investments made under the Troubled Asset Relief Program, including its investments in CPP recipients. This is done with the assistance of external asset managers, who perform an analysis on each recipient's financial condition using publicly available information. Treasury does not receive confidential supervisory information. In addition, Treasury does not have access to the FDIC's problem institutions list.

In assessing the current CPP portfolio, I refer you to the OFS financial statements, released on December 9, 2009. OFS' equity model draws from 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, the model projected that any portfolio losses will be more than offset by cash inflows, including dividend payments. We will publish an update to this valuation in the near future.

Thank you again for your attention to this important matter; 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