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CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Ted Kaufman

Congressional Oversight Panel Hearing on the TARP's Impact on Financial Stability

March 4, 2011

Good morning, Mr. Secretary. We appreciate your willingness to join the Congressional Oversight Panel for our final hearing on the Troubled Asset Relief Program.

There's no question that our economy faces real challenges today – but let's take a moment, at the start of today's hearing, to imagine that these challenges were far, far worse. Let's imagine that the S&P 500, which has risen by nearly 20 percent in the last year, had instead fallen by 30 percent in the last month. Let's imagine that our economy, which has added over a million jobs in the last year, had instead lost nearly that many jobs in just two months. Let's imagine that America's oldest and most highly regarded financial institutions were beginning to topple like dominoes.

I think it's fair to describe this scenario as dire, even apocalyptic. And yet that is precisely the scenario that faced our economy in late 2008, around the time Congress passed the TARP into law.

Today the panic of 2008 is a slowly fading memory, and the TARP played a role in turning the page on that grim chapter in American history. It did not rescue our economy on its own, nor were all of its programs successful – not by a long shot. Even so, I believe that any hearing on the TARP should begin by recognizing its greatest success: that in a moment of financial panic, it helped to pull our markets back from the abyss.

Despite this accomplishment, the TARP remains deeply despised among the American public. Much of that anger is eminently understandable, as the program is viewed as having done far more for Wall Street than for everyday Americans. Yet it is only fair to note that some of the TARP's unpopularity is due to misunderstandings about its track record. A recent Bloomberg poll revealed that 60 percent of Americans believe that most of the TARP money provided to banks will be lost. Only 33 percent believe that most of the money will be recovered.

Many of the TARP's greatest skeptics, I am sure, recall the frightening price tag first associated with the program: $700 billion, the amount that Treasury requested and Congress approved to bail out the financial system. What they might not know is that, today, the Congressional Budget Office estimates that the TARP will lose $25 billion. Let me be clear: $25 billion is a vast sum of money – yet it is far less than anyone expected the TARP to cost when it was created.

Yet the news, unfortunately, is not all good. Most starkly, the TARP has fallen far short in its efforts to help homeowners stay in their homes. The president first announced a goal of leveraging the TARP to prevent three to four million foreclosures; today, the Panel estimates that it will prevent fewer than 800,000. It is no wonder, then, that many Americans view the TARP as a program designed and executed for the benefit of Wall Street CEOs rather than Main Street homeowners.

Further, it would be grossly mistaken to account for the TARP solely by the number of taxpayer dollars lost. The program has a far greater and more noxious cost: moral hazard, that lingering belief that America's biggest banks are "too big to fail" – that the rules that apply to everyone else in America do not apply to them. This belief continues to distort our financial markets, advantaging the largest banks on Wall Street while disadvantaging every other bank in the country. The cost of moral hazard is not easily quantifiable, but it is real, and it is reprehensible.

Today's hearing will consist of three panels of distinguished witnesses. First, we are joined by Acting Assistant Secretary Timothy Massad, who currently manages all TARP programs for the Department of Treasury. Mr. Secretary, I particularly hope that you will share with us your "lessons learned" from more than two years of work on the TARP. If you were creating the TARP today, what would you have done differently? What can our nation learn from this ugly experience, and how can we prevent it from ever happening again?

Our second panel includes witnesses from the FDIC, the FHFA, and the Federal Reserve. These offices played critical roles in responding to the financial crisis, often acting in coordination with or in addition to TARP programs. I hope these witnesses will help us place the TARP in its proper context among the full range of crisis response programs.

Finally, we will be joined by four of this country's leading economists, who bring decades of experience and exceptional credentials to the task of scrutinizing the TARP and its effects. I look forward to hearing their expert views on the financial crisis and its enduring impact.

All of our witnesses' testimony will provide material and support for the Panel's 30th and final oversight report, which we will issue to Congress and the public later this month.

Before we proceed to the testimony, I would like to offer my fellow panelists the opportunity to deliver their own opening remarks.