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CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Damon Silvers

Congressional Oversight Panel Hearing with Treasury Secretary Timothy Geithner

December 16, 2010

Good morning. I would like to begin by thanking Secretary Geithner for appearing once again before our Panel.

The story of the Troubled Asset Relief Program over the last two years is one that has two faces.

On the one hand, looked at purely from the perspective of how much TARP will cost the American public, the news keeps getting better and better. Recently the Congressional Budget Office estimated the total cost of TARP will be approximately $25 billion, less than a tenth of the original estimates. Certain individual investments which were entered into on terms that were clearly unfavorable to taxpayers in light of the risks involved, such as the preferred stock purchases and asset guarantees at Citigroup, have been skillfully managed by Treasury to produce significant profits. I would like to commend you, Mr. Secretary, and TARP directors Herb Allison and Tim Massad for what you have done to protect and recover the public’s money.

But there is another and frankly more important way of looking at TARP. TARP cannot be held solely accountable for the state of the U.S. or the global economy. But oversight of TARP requires that we look at two critical areas of our economy that TARP was designed to address: the availability of credit to the real economy and the state of the foreclosure crisis. Frankly, on both fronts the news is grim. Witnesses have testified before our panel that between 8 and 13 million families and homes are facing foreclosures, millions more than we have experienced already. Under the pressure of hundreds of thousands of foreclosures a month, housing prices have resumed their downward slide.

On the credit to the real economy side of things, mortgage financing is available today, but entirely through the assistance of government backed vehicles -- like the GSEs. But business lending remains hard to come by. Bank holding companies have over $1 trillion on deposit with the Federal Reserve System, while business lending remains stagnant at crisis levels. Unemployment levels today are above those projected as the worst case scenario in the TARP bank stress tests.

Asset deflation, banks that won't take normal banking risk -- these are the signs of a financial system that remains unhealthy. I continue to believe that we made a fundamental mistake in our management of the financial crisis by not restructuring the major banks. By not following our own nation's approach to similar crises in the past, we started down the path Japan took in the 1990s, and we have reaped the same outcomes: a sluggish and uncertain recovery, banks that can't restructure bad loans and won't lend to business to create jobs. But because our financial crisis involves home mortgages, the decision to make preserving the banks' capital structure our highest policy goal has meant not just a weak economy, but the unprecedented human tragedy of millions of foreclosures. In the end, at worst stockholders got diluted. Millions upon millions of families have been dispossessed. There's a difference.

I hope today we will be able to explore the question of TARP and the mortgage crisis with Secretary Geithner, and the intersection of the mortgage crisis with issues of systemic risk and the overall health of our economy. I look forward to the Secretary's testimony and once again thank him for appearing before us.