Opening Statement of Damon Silvers

Congressional Oversight Panel

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Good morning. Like my fellow panelists, I am very pleased to welcome Treasury Secretary Timothy Geithner to the Congressional Oversight Panel. This hearing marks the first public appearance of a Treasury official before our panel, and we are honored by the Secretary's presence.

I think every member of the Panel recognizes the gigantic tasks that faced the new team at Treasury upon their arrival in January, and the challenges that the transition represented in terms of staffing changes and policy review and formulation. In that context, this hearing seems to come at the right time.

Our task this morning is to learn where Treasury thinks we stand as a nation in addressing the financial crisis, and in particular what Treasury's strategy is in relation to the job of stabilizing our financial system and reviving the underlying real economy.

The Obama Administration has inherited from the Bush Administration a number of programs under the Emergency Economic Stabilization Act of 2008, and has announced a number of initiatives of its own. We may not be able to cover every aspect of this effort today. We also may not have the opportunity to address the Administration's plans in the area of regulatory reform in sufficient detail so let me just commend the Administration's announced plans for their general direction and urge the Treasury Department to make a close study of this Panel's Regulatory Reform Report.

I would like to use what remains of my time to address those areas where I think the Obama Administration has made significant progress, and then to summarize what I see as the fundamental strategic issue facing the Administration and the nation. I hope to return to this issue in the question period.

First, the Treasury Department's commitment to address the roots of the financial crisis in the fate of American families facing home foreclosure is an extremely positive step. The program could be more robust, particularly around principal reduction. But the basic design is thoughtful, the commitment to getting lender and servicer involvement is real, and the percentage of income targets are the right ones. Mr. Secretary, you deserve real credit for leadership in this area.

Second, when you came into office you told our Panel you were committed to greater transparency. I have been very pleased to see that the Treasury Department has turned a corner under your guidance. I understand that Treasury produced 10,000 documents to the Panel staff yesterday in response to a letter sent to you on March 24, 2009. This progress is certainly encouraging, and I hope it is indicative of a change in the way your Department plans to handle future requests. In the past our document requests have been answered by prolonged silence. Hopefully you can provide some reassurance today that those days are over.

Third, and finally, I view the stress tests and a variety of statements you and your colleagues have made as acknowledgements that not all large banks are healthy. This is a departure from the approach of the prior Administration, which tried to treat all large banks as though they were in the same financial condition, resulting, according to our February report, in a $78 billion taxpayer subsidy to the banks in the course of the Capital Purchase Program transactions. I commend you on that change. Candor is a good thing, and I hope the stress tests are conducted and the results made public in a continuing spirit of candor.

However, now you and your team face a fundamental strategic choice as to how to manage the problem of undercapitalized banks or so called zombie banks. In our April report, we looked at the history of bank crises in the United States and abroad. We found a pattern that started with President Roosevelt's Reconstruction Finance Corporation. Successful policy approaches to bank crises across time and place seem to all have three steps, and order here is important.

Step one is to have bank management that can be trusted to give an honest accounting of

the state of bank balance sheets. In this regard it can be a problem to ask the people who made the mess to tell you how big the mess is.

Step two is to get a realistic measure of the hole in bank balance sheets. This can be done by marking to market, and it can be done by a hard valuation of expected cash flows by experienced and independent financial professionals. It cannot be done by asking the people who invested in the bad assets to tell the government what those assets are worth.

Step three is to restructure bank finances, if possible, by forcing investors in the banks to bear the losses. Who bears the losses and how they are apportioned must be determined carefully, balancing systemic risk considerations with taxpayer protection. Only then, if necessary, should public money be involved. Finally, with public money has to come a proportionate upside for the public -- it is the only way to keep the cost to the taxpayer at the end of the day at a bearable level.

I hope in this hearing we can compare this how-to manual that history provides us with the Treasury Department's thinking and its announced programs.

Again, let me express my gratitude to the Secretary for joining us and my sympathy to him for taking on, on all our behalf, the giant challenge of repairing the damage a mistaken deregulatory philosophy has done to our financial system, our economy, and most of all, to America's working families.