

**Opening Statement of Herbert M. Allison**  
**Nominee for Assistant Secretary of the Treasury for Financial Stability**  
**Senate Committee on Banking, Housing, and Urban Affairs**  
**June 4, 2009**

*Remarks as Prepared for Delivery*

Chairman Dodd, Ranking Member Shelby, and all of the members of this Committee, I am honored to be before you today. First of all, I want to thank President Obama and Secretary Geithner for the trust they have shown in asking me to serve. I also want to thank you and your staff for the time you have spent with me, helping to move my nomination forward, and working to acquaint me with the concerns you have about the financial crisis and the comprehensive measures needed to address it.

If I am confirmed, I will always keep in mind Congress's directive, that the primary objective of the Assistant Secretary for Financial Stability is to restore liquidity and stability to the financial system of the United States. In doing so, we must never forget that this financial crisis isn't just about banks, credit, and lending – it's about the day-to-day effects the crisis is having on the American people. Millions of people have lost their jobs, numerous families have lost their homes, nearly all working people have lost retirement savings, hundreds of thousands of young people have been forced to postpone college, and countless small businesses have curtailed their activities and laid-off skilled employees, all because of failing credit markets. These real-world harms are the reason Congress has given the Office of Financial Stability the mandate it has, and I will ensure that combating these human costs remains the focus of the office.

Before I briefly review my background and my plans for the Office of Financial Stability, should I be confirmed, I want to express my heartfelt thanks to my wife of thirty five years, Simin, and my sons, John and Andrew, who are with me today and have provided unwavering support over many years.

I began my career in public service, as an officer in the US Navy, serving four years on active duty, including a year in Vietnam, before receiving an honorable discharge in 1969. After attending the business school at Stanford University, I joined Merrill Lynch and spent more than twenty-eight years with that company, leaving as President in 1999. In 1998, I played a central role in devising and negotiating the unwinding of Long Term Capital Management – the hedge fund that a decade ago posed systemic risk to our banking system.

In all of these areas, my experiences taught me lasting lessons about the right ways to do business including the importance of sound corporate governance, independent oversight, tight controls over risk and pay geared to long-term performance. At Merrill Lynch in the 1990s I

contributed to strengthening all of these practices, which were not always popular, but which have proven essential to the long-term viability of any company. If I am fortunate enough to be confirmed, I will bring those principles with me to the Office of Financial Stability.

Since leaving Merrill Lynch, I have led two major financial institutions through transformations necessary to their future success, TIAFF-CREF and Fannie Mae.

In 2002, I became Chairman and CEO of TIAA-CREF, the leading provider of retirement and asset management services in the educational, medical, and cultural fields. To meet the changing needs of its customers, the challenges from increased competition, and the need for more stringent regulation, we transformed operations, controls and product lines. While improving investment performance, we doubled its capital base and established strong, independent risk management. We also upheld TIAA-CREF's leadership in corporate governance, becoming the first Fortune 100 company to allow stakeholders an advisory vote on executive compensation. And we redesigned executive compensation programs to give far greater weight to performance on behalf of clients than to profits. These efforts produced results: TIAA-CREF is one of a select few financial companies in the United States that retains AAA debt ratings, and the company and its clients have avoided the worst effects of this crisis.

In September of 2008, I was named CEO of the Federal National Mortgage Association as the company was placed into government conservatorship. The crisis that devastated Fannie Mae's liquidity and capital base also threatened millions of American homeowners with foreclosure. New management had to quickly transform the company's focus from maximizing profit and market share to helping hard-pressed American families stay in their homes. While much remains to be done, we have laid the groundwork for success. Working closely with the Federal Housing Finance Agency, we began developing foreclosure prevention and mortgage modification programs and the systems to support them. The hard work by the company's employees convinced the government to appoint Fannie Mae as agent for the President's Home Affordable Refinance and Modification programs, which offer financial relief to millions of Americans. We also began reforming aspects of Fannie Mae's operations, controls, and policies that had contributed to the company's excessive risk-taking. We initiated quality-assurance programs covering the company's purchases of mortgages; no longer would Fannie Mae simply take the word of bankers and mortgage brokers for the quality of their loans. And we began to pursue institutions that had not been upfront about the defective loans they were selling the company. Today, although still burdened by credit losses on loans made during the housing bubble, Fannie Mae is performing well on behalf of the American people.

Members of the Committee, if I am confirmed, I will bring the same managerial discipline and drive for results to the important office I will occupy. The Financial Stability Program is essential to President Obama's and Secretary Geithner's plans for recovery. Our economy declined sharply last year in large part because credit stopped flowing. Without access

to credit, small businesses in Connecticut, Alabama, and Colorado cannot buy the new equipment, raw materials, and inventory that they need to expand. And larger businesses, like Boeing, Caterpillar, and United Technologies, need well-functioning credit markets as they adjust to the changing nature of the global marketplace. The Financial Stability Program is designed not only to help companies endure the challenges of the current economic crisis, but also to enable them to compete successfully in the new economy. Strengthening and reforming our financial markets is an essential to furthering those goals and achieving our ultimate ends: putting Americans back to work and resuming strong, sustainable economic growth.

Given the magnitude of the financial crisis, this program must meet the highest standards. Much good work has already been done and for that I am grateful to those that have already served. But with the extraordinary amount of the American people's money with which we have been entrusted, good work is not enough – we must strive to be flawless. Every dollar must be wisely and carefully managed, and we must be constantly accountable to the public which has entrusted us with their money.

To that end, if confirmed, I will work closely with the Special Inspector General, the Government Accountability Office, the Congressional Oversight Panel, the Financial Stability Oversight Board, and the committees of Congress to assure the kind of accountability and oversight the American people deserve. And finally, as Secretary Geithner has directed, I will emphasize transparency so that the Congress and the American people will know what we are doing with their money, why we are doing it, and how it is making a difference in our economy. Openness will be a guiding principle of this office and will help ensure that we remain focused on putting these taxpayer dollars to their highest and best use – rebuilding the American economy.

In closing, I would like to say a few words about public service. My family has always emphasized to importance of serving one's community, whether at the federal or local level. My father spent much of his career as a Special Agent with the FBI. His father worked for years for the United States Department of Agriculture. My Mother's father served as Sheriff of Sioux Falls, South Dakota. And with me today is my brother, George Allison, who retired with the rank of Captain after 28 years in the US Navy. I admire all Americans who devote themselves to serving their communities and their country. Having started my career as an officer in the US Navy, I am honored and inspired by this opportunity to return to public service. Thank you.