

Secretary Timothy F. Geithner
Opening Statement
Senate Banking Committee Hearing
February 10, 2009

Chairman Dodd, Ranking Member Shelby, and Members of the Committee: thank you for inviting me to be here today.

This morning, as the Senate continues its work on an economic recovery plan to help create jobs and lay a foundation for stronger economic future, I announced our Administration's plan to restart the flow of credit, strengthen our financial system, and provide critical aid for homeowners and for small businesses.

Right now, job losses are accelerating and credit has slowed to a trickle. On top of the financial and economic challenges we face... there is another; a lack of faith.

The American people have lost faith in the leaders of our financial institutions, and are skeptical that their government has – to this point -- used taxpayers' money in ways that will benefit them.

Together we can change this.

To get credit flowing again, to restore confidence in our markets, and restore the faith of the American people, we have proposed a fundamental reshaping of the government's program to repair the financial system.

It all begins with transparency. We propose to establish a new framework of oversight and governance of all aspects of our Financial Stability Plan. The American people will be able to see where their tax dollars are going and the return on their government's investment. They will be able to see whether the conditions placed on banks and institutions are being met and enforced. They will be able to see whether boards of directors are being responsible with taxpayer dollars and how they're compensating their executives. And they will be able to see how these actions are impacting the overall flow of lending and the cost of borrowing.

These new requirements, which will be available on a new website FinancialStability.gov, will give the American people the transparency they deserve.

Second, we are going to bring together the government agencies with authority over our nation's major banks and initiate a more consistent, realistic, and forward looking assessment about the risk on balance sheets. We're calling it a financial "stress test." We want banks' balance sheets cleaner, and stronger. And we are going to help this process by providing a new program of capital support for those institutions that need it.

Institutions that need additional capital will be able to access a new funding mechanism that uses money from the Treasury as a bridge to private capital. The capital will come

with conditions to help ensure that every dollar of assistance is used to generate a level of lending greater than what would have been possible in the absence of government support.

Third, together with the Fed, the FDIC, and the private sector, we propose the establishment of a Public-Private Investment Fund. This program will provide government capital and government financing to help leverage private capital and get private markets working again. This fund will be targeted to the legacy loans and assets that are now burdening many financial institutions.

By providing the financing the private markets cannot now provide, this will help start a market for the real estate-related assets that are at the center of this crisis. Our objective is to use private capital and private asset managers to help provide a market mechanism for valuing the assets.

We are exploring a range of different structures for this program, and will seek input from this Committee as we design it.

Fourth, working jointly with the Federal Reserve, we are prepared to commit up to a trillion dollars to support a Consumer and Business Lending Initiative. This initiative will kick start the secondary lending markets, to bring down borrowing costs, and to help get credit flowing again.

In our financial system, 40 percent of consumer lending has historically been available because people buy loans, put them together and sell them. Because this vital source of lending has frozen up, no financial recovery plan will be successful unless it helps restart securitization markets for sound loans made to consumers and businesses – large and small.

This lending program will be built on the Federal Reserve's Term Asset Backed Securities Loan Facility, announced last November, with capital from the Treasury and financing from the Federal Reserve.

And because small businesses are so important to our economy, we're going to take additional steps to make it easier for them to get credit from community banks and large banks.

Fifth, we will launch a comprehensive housing program. Just as the name of this Committee makes a link between banking and housing, so must our efforts to strengthen the financial system.

The President has asked his economic team to come together with a comprehensive plan to address the housing crisis. We will announce the details of this plan in the next few weeks.

Our focus will be on using the full resources of the government to help prevent avoidable foreclosures and to reduce mortgage interest rates. We will do this with a substantial commitment of resources already authorized by the Congress under the Emergency Economic Stabilization Act. We welcome the ideas and input of this Committee in this important effort.

And finally, President Obama is committed to moving quickly to reform our entire system of financial regulation so that we never again face a crisis of this severity. And, again, that effort can only succeed with the collaboration and support of this Committee and other Members of Congress.

Let me close by saying that our challenges in this financial crisis are more complex than any our financial system has ever faced, requiring new programs and persistent attention to solve. But the President, the Treasury, and the entire Administration are committed to working with you to see it through because we know how directly the future of our economy depends on it.

Thank you, and with that, I'd be happy to take your questions.

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