United States Senate
Committee on Banking, Housing, and Urban Affairs
Christopher J. Dodd (D-CT), Chairman

For Immediate Release
May 20, 2009

Contact: Justine Sessions
(202) 224-1088

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD
HEARING ON CONTINUING OVERSIGHT OF THE TROUBLED ASSET RELIEF PROGRAM
WEDNESDAY, MAY 20, 2009

Remarks as Prepared for Delivery:

Good morning. I want to welcome the Treasury Secretary back before the Committee again.

I intend for this to be something of a "regular date." The American people have a lot on the line right now – and it's their money we're talking about. And so, Mr. Secretary, with so much on the line right now, I would like to have you before this Committee on a monthly basis. I know we all have busy schedules – but nothing is more important than letting the public know how we are spending their money and what we're spending it on.

Today, the Committee meets to continue its oversight of the Troubled Asset Relief Program and explore the program's effectiveness in addressing the financial crisis.

When the Secretary was last before this Committee in February, only a few short weeks after President Obama took office, I said that we needed to see a sharp change in direction for the TARP program. In particular, I wanted to see a commitment to three things:

First, extending credit – to families so that families could pay for a home, a car and college tuition for their children, and to businesses, so they could stock inventory and meet payroll.

Second, I wanted to see a commitment to restoring confidence – a clearly articulated plan for the prudent commitment of TARP funds and a renewed focus on lending.

And third, I wanted to see clarity – for the American people who have a right to know where our economy is headed and how government assistance is being used.

Since that time, we have seen several major initiatives – many of which the Secretary played a key role in developing.

To be sure, we have seen progress in certain areas. In February, the Administration unveiled its Homeownership Preservation Program, which consists of two parts.

The first, a refinance program, will help 4 to 5 million homeowners, many of whom owe more on their homes that they are worth, get into stable mortgages.

The second component draws upon $50 billion in TARP funds to help between 3 and 4 million at-risk homeowners modify their home loans.

And I would like to know what additional tools, if any, the Secretary may need to ensure that the program works to the best of its ability. The Center for Responsible Lending projects that some 17,700 homes in my state of Connecticut alone will go into foreclosure in 2009 – nearly 60,000 over the next four years, reminding us that the housing crisis remains at the root of our underlying financial crisis.

We need to get to the bottom of the housing crisis. And I believe this program—supplemented by legislation passed by the Congress just yesterday offering banks a safe harbor to do modifications and refinancing—provides a mechanism by which we can.

But in other respects, it's still too soon to tell whether we are seeing the progress we need.

Much of the mortgage market and our financial system remain dependent on the government to function at all.

Lending remains down—way down—and my hope is that the legislation I just mentioned, which also increases permanent borrowing authority for the FDIC and NCUA and increases in deposit insurance limits, will contribute to the healthier banking system our communities need to thrive.

Along the same lines, I'm pleased your Department recently announced that it will use some $15 billion to free up money for lenders to make new loans to small businesses.

But just yesterday, the Wall Street Journal reminded us again of the trouble the commercial real-estate sector poses to our financial system. The report found that such loans, which fund the construction of shopping malls and hotels, office and apartment buildings, could generate losses of $100 billion by the end of next year at some 940 small and midsize banks.

Indeed, while the results of the stress tests administered to the 19 largest U.S. bank holding companies returned largely encouraging results, in the rush to address concerns facing institutions that are "too big to fail" in this crisis we must not forget about the threat posed by those that may well prove "too small to survive" – the smaller institutions on which families and businesses across the country depend for credit.

Perhaps the biggest step the Secretary has taken is the Public-Private Investment Program the Treasury Department rolled out in March, which I hope will, at long last, put an end to the lurching interventions in the banking system that were part and parcel of the previous Administration's approach.

Drawing upon $75 to $100 billion of TARP funds, the program seeks to engage private investors, in partnership with the FDIC, to purchase from banks and other institutions so-called "legacy assets" which have fallen sharply in value and put an enormous strain on our financial system.

The question now is: Will this program work? Many questions have been raised. The Committee will be monitoring that program carefully. And I am interested to hear how the Secretary believes the results of those stress tests will affect the program – and whether the banks will still be willing to sell these assets at discounted prices given the better-than-expected stress test results.

We have also seen Treasury's continued administration of the Automotive Industry Financing Program under TARP and the Presidential Task Force on the Auto Industry to help stabilize the auto industry upon which 1 in 10 American jobs depend.

The President and the Secretary appreciate the risk that the failure of any one of the Big Three automakers would pose to our economy. Right now, GM is working to meet its June 1st deadline for an agreement with management, the UAW, creditors, and suppliers. Chrysler is in the midst of bankruptcy. Clearly, we are still a ways away from knowing how successful these efforts are at helping these companies achieve long-term viability.

And so, I think the picture remains mixed. After losing some 5.1 million jobs since the recession began in December 2007, with almost two-thirds of those losses occurring in a recent 5 month period, there's no question that the barrage of initiatives undertaken by the Administration and Congress these last several months to aggressively combat this crisis have produced some results. And the TARP has played a critical role in virtually all of those efforts.

Now, having apparently staunched much of the bleeding, the challenge now is to we pump new life into the patient. We hope to explore what further role the TARP can play in this process and what other tools we must provide to help our financial system and the country get back on its feet again.

Those are the questions this Committee seeks to answer today.

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