PEELING BACK THE TARP: EXPOSING TREASURY'S FAILURE TO MONITOR THE WAYS FINANCIAL INSTITUTIONS ARE USING TAXPAYER FUNDS PROVIDED UNDER THE TROUBLED ASSETS RELIEF PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON DOMESTIC POLICY

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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PEELING BACK THE TARP: EXPOSING TREASURY'S FAILURE TO MONITOR THE WAYS FINANCIAL INSTITUTIONS ARE USING TAXPAYER FUNDS PROVIDED UNDER THE TROUBLED ASSETS RELIEF PROGRAM

WEDNESDAY, March 11, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC POLICY,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Dennis Kucinich (chairman of the subcommittee) presiding.

Present: Representatives Kucinich, Towns, Jordan, Cummings, Tierney, Watson, Kennedy, Welch, Issa, Souder, Burton, Turner, and Fortenberry.

Staff present: Jaron R. Bourke, staff director; Claire Coleman, counsel; Jean Gosa, clerk; Charisma Williams, staff assistant; Ron Stroman, staff director; Leneal Scott, information systems manager; Lawrence Brady, minority staff director; John Cuaderes, minority deputy staff director; Jennifer Safavian, minority chief counsel for oversight and investigations; Charles Phillips, minority chief counsel for policy; Dan Blankenburg, minority director of outreach and senior advisor; Adam Fromm, minority chief clerk and Member liaison; Kurt Bardella, minority press secretary; Seamus Kraft, minority deputy press secretary; Christopher Hixon, minority senior counsel; and Brien Beattie and Alex Cooper, minority professional staff members.

Mr. KUCINICH. Good morning. This is the Domestic Policy Subcommittee of the Oversight and Government Reform Committee. I am Congressman Dennis Kucinich, chairman of the subcommittee.

The subject of today's committee hearing is entitled, "Peeling Back the TARP: Exposing Treasury's Failure to Monitor the Ways Financial Institutions are Using Taxpayer Funds Provided Under the Troubled Asset Relief Program." Our first witness today will be Mr. Neel Kashkari, the Acting Interim Assistant Secretary for Financial Stabilization, the Department of Treasury.

We are joined today by a number of Members of Congress, including the new ranking member, Mr. Jim Jordan of Ohio. I want to welcome Mr. Jordan to this position on the subcommittee and I want to let you know, sir, that I am looking forward to working with you. It is very interesting, in this subcommittee we have an

Ohio connection, not only Mr. Jordan but Mr. Issa is originally from Ohio, Mr. Turner is from Ohio. Ohio is well represented.

Mr. JORDAN. And our witnesses is from Ohio.

Mr. KUCINICH. And our witness is from Ohio. So I suppose this is Buckeye Day on Capitol Hill.

We are going to begin with an opening statement. I want to thank Mr. Cummings for being here as well as the gentleman from Vermont, Mr. Welch. The witness, with unanimous consent, the witness Mr. Kashkari, when we get to his testimony, is going to be given 10 minutes. He may not need it all, but given the gravity of this subject, he is going to be given 10 minutes to make his opening statement, without objection.

The Troubled Assets Relief Program has provided about $200 billion in capital injections to hundreds of banks. The money was provided with virtually no strings attached. Most of the banks didn't even bother to account separately for the Federal moneys. It is debatable whether the efforts of those that did amount to anything meaningful. Treasury does not even ask TARP recipients for a detailed accounting of their use of TARP funds.

Because some of the banks are multinational banks, the kinds of transactions they are doing include billions in loans and investments in other countries at precisely the time that a liquidity shortage has impaired credit markets in the United States, and a recession deeper than anything seen since the great depression is impairing production and employment. Nevertheless, several very large transactions conducted after these banks received billions in a taxpayer-funded bailout include an $8 billion financing arranged by Citigroup for public authorities in Dubai, a $7 billion investment by Bank of America in the China Construction Co., a $1 billion investment by a J.P. Morgan subsidiary in expanding operations in India.

Unfortunately, the legislation Congress passed creating the TARP required very little of the recipients to receive taxpayer-funded subsidies. The Treasury regulations and contracts crafted to implement the TARP did not require much of anything other than someone sign for the money. It may be argued that transactions such as these are beneficial to the balance sheets of the banks that are making them, that they have some indirect benefit to the U.S. financial system as a whole. Really?

If the banking system is in serious enough trouble to require massive amounts of Federal support, shouldn't that Federal support be directed and channeled to the domestic economy? Or are these examples of large investments and loans to foreign entities among the kind of transactions the American taxpayers should be supporting with TARP moneys, when we face significant credit problems here at home?

How does a multi-billion dollar financing deal to Dubai ease the liquidity crisis in the United States of America? What about other kinds of uses of funds, corporate spending on lavish parties? The continuation of contractual agreements to pay for naming rights on professional sports stadiums? Corporate sporting event sponsorships? Is this what the taxpayers expect our Government to do with TARP funds?

Is this what Congress intended? If it was the business judgment of the very same bankers in charge that governed their decision before the financial crisis and arguably helped create the crisis, is it tolerable to continue to defer to that judgment and allow them to spend taxpayers' money with no explanation, little accountability and no questions asked? Under the precedent set by former Secretary Paulson, the Paulson TARP program makes no demand on TARP recipients for detailed information about their spending. Even though the statute obligates Treasury to be able to prevent waste and abuse of TARP moneys, Mr. Paulson's Treasury Department did not even bother to set standards for waste and abuse of TARP funds. "Trust them" is essentially what seems to pass for oversight of the capital purchase plan. Treasury has no concrete idea of how TARP moneys are being used. They don't ask questions of TARP recipients about their use of funds, and don't gather sufficiently detailed information from TARP recipients to know what to ask about.

The problem is not a lack of authority. Under the agreements between Treasury and the TARP recipient financial institutions, Treasury has brought contractual authority to scour company books in search of, among other things, waste and abuse by TARP recipients. But in practice, Treasury is not doing so. The serious shortcomings in the creation and implementation of the Emergency Economic Stabilization Act, namely the absence of definitions of waste and abuse for explicit conditions for the use of TARP funds resulted in the inescapable conclusion that Treasury's oversight will not find waste, fraud or abuse, because it isn't looking for it.

Now, to read Mr. Kashkari's testimony today, we find nothing to contradict that conclusion, with all due respect. In fact, Mr. Kashkari was asked to testify on the steps that Treasury has taken to detect and prevent the waste of TARP moneys. Mr. Kashkari's testimony does not address that question. Rather, he describes Treasury's efforts to do something else, to determine the impact of TARP moneys on the bank's lending activity.

Treasury has submitted 90 pages, 90 pages, of intermediation snapshots from the largest 20 TARP recipients. But what does that prove? Perhaps very little. There are significant shortcomings to Treasury's reliance on the monthly intermediation snapshots. First, only the 20 largest TARP recipients report anything at all. Obviously there can be little monitoring of the impact of TARP moneys on the credit activities of the 297 TARP recipients which do not file monthly intermediation snapshots.

Second, the snapshots do not provide details about any individual transaction, no matter how significant. Third, these snapshots address the lending side, the lending side of the recipient's business. They do not address any other investment or expenditure. And fourth, and importantly, they address only new lending and not the contraction of existing lending in the form of foreclosures and elimination of credit lines.

If the amount of new lending does not more than make up for the amount of lending contracted, and that's through foreclosures, decrease in credit limits, calling back loans, then the net amount of credit in the economy is shrinking. Telling one side of the credit story without telling the other does not give us a fair and balanced view of the realities small businesses and individuals know so well.

At best, the snapshots might serve the purpose of monitoring, at the most general level, some impact TARP funds may be having on certain new lending activities. But they don't reflect the net impact of contracting credit activities on existing borrowers. And they tell us nothing about the use of TARP funds, which is the focus of this hearing.

Unfortunately, Mr. Kashkari's testimony is not responsive to the purpose of this hearing outlined specifically in the letter of invitation sent to him on February 25th. And Mr. Kashkari's silence on the subject of this hearing speaks volumes. The inescapable conclusion is that Treasury is not conducting oversight of the TARP moneys, disbursed through the capital assets purchase program, to prevent wasteful use or abuse of hundreds of billions in taxpayers' funds.

Perks for company management were considered sound business judgment before the financial crisis and taxpayer bailout, and they are considered sound business judgment now, using taxpayers' money. Loans to foreign governmental authorities were considered sound business judgment before the crisis and bailout, and they are supposedly sound business judgment now, using taxpayers' money. Investments in foreign company operations, even if it results in more layoffs in the United States, were sound business judgments before and they are sound business judgments now using taxpayers' money.

In its current form, the capital purchase program of TARP leaves recipient companies free to use Federal funds as they would any other source of income before the crisis and before taxpayers provided the bailout. Treasury's development of the TARP program generally and the capital purchase program specifically has introduced no new transparency or accountability that did not exist before taxpayers were given the bill for cleaning up the mess. It has perpetuated business as usual. It defers to the so-called sound business judgment, judgment of the same corporate management in many cases that led to the crisis we are embroiled in now.

TARP was developed under a previous Secretary of the Treasury. Nearly every observation that will be made today originates on his watch. But if the new administration is to avoid perpetuating the approach of the past, real change is going to have to be necessary. It should start with the collection of detailed information about how TARP recipients are using taxpayer funds and the imposition of conditions and standards for how they may use the moneys taxpayers have provided and may be called upon to provide in the future.

My colleagues on this committee, with news reports projecting that at least another $2 trillion will be requested of taxpayers, it is my hope that this hearing today will help propel the new Department of Treasury to reform the intolerable deficiencies of the TARP program, thereby making recipients accountable to the public for the use of taxpayer funds.

Finally, we owe it to the American taxpayers to provide a complete, comprehensive accounting of all TARP funds that have already been allocated. And after such a thorough accounting is made available, then let the people decide if their hard-earned tax dollars are being spent wisely and in the best interests of the American economy and the best interest of the United States of America.

I yield now to the ranking member, Mr. Jordan of Ohio.

[The prepared statement of Hon. Dennis J. Kucinich follows:]

Opening Statement
Of
Dennis J. Kucinich
Chairman
Domestic Policy Subcommittee
Oversight and Government Reform Committee
March 11, 2009

The Troubled Assets Relief Program has provided about $200 Billion in capital injections to hundreds of banks. The money was provided with virtually no strings attached. Most of the banks didn't even bother to account separately for the federal monies. It is debatable whether the efforts of those that did amount to anything meaningful. Treasury does not even ask TARP recipients for a detailed accounting of their use of TARP funds.

Because some of the banks are multinational banks, the kinds of transactions they are doing include billions in loans and investments in other countries at precisely the time that a liquidity shortage has impaired credit markets in the U.S., and a recession deeper than anything seen since the Great Depression is impairing production and employment.

Nevertheless, several very large transactions conducted since these banks received billions in a taxpayer funded bailout include: an $8 billion of financing arranged by Citigroup for public authorities in Dubai; a $7 billion investment by Bank of America in the China Construction Bank Company; a $1 billion investment by a J.P. Morgan Chase subsidiary in expanding operations in India.

Unfortunately, the legislation Congress passed creating the TARP required very little of the recipients to receive taxpayer funded subsidies. The Treasury regulations and contracts crafted to implement the TARP did not require much of anything other than someone sign for the money. It may be argued that transactions such as these are beneficial to the balance sheets of the banks that are making them. That they have some indirect benefit to the U.S. financial system as a whole. Really?

If the banking system is in serious enough trouble to require massive amounts of federal support, shouldn't that federal support be channeled to the domestic economy? Or are these examples of large investments and loans to foreign entities among the kind of transactions American taxpayers should be supporting with TARP monies when we face significant credit problems here at home? How does a multi-billion financing deal to Dubai ease the liquidity crisis in the U.S.A.? What about other kinds of uses of funds: corporate spending on lavish parties, the continuation of contractual agreements to pay for naming rights on professional sports stadiums, corporate sporting event sponsorships? Is this what the taxpayers expect our government to do with TARP funds? Is this what Congress intended?

If it was the business judgment of the very same bankers in charge that governed their decisions before the financial crisis (and arguably helped cause the crisis), is it tolerable to continue to defer to that judgment and allow them to spend taxpayers money, with no explanation, little accountability, with no questions asked? Under the precedent set by former Secretary Paulson, the Paulson TARP program makes no demands on TARP recipients for detailed information about their spending. Even though the statute obligates Treasury to be able to prevent waste and abuse of TARP monies, Mr. Paulson's Treasury Department did not even bother to set standards for waste and abuse of TARP funds. "Trust them" is essentially what seems to pass for oversight of the Capital Purchase Plan. Treasury has no concrete idea of how TARP monies are being used. They don't ask questions of TARP recipients about their use of funds, and don't gather sufficiently detailed information from TARP recipients to know what to ask about.

The problem is not a lack of authority. Under the agreements between Treasury and TARP recipient financial institutions, Treasury has broad contractual authority to scour company books in search of, among other things, waste and abuse by TARP recipients. But in practice, Treasury is not doing so. The problem is with how Treasury has chosen to implement TARP. The serious shortcomings in the creation and implementation of the Emergency Economic Stabilization Act – namely the absence of definitions of waste and abuse or explicit conditions for use of TARP funds -- resulted in the inescapable conclusion that Treasury's oversight will not find waste, fraud, or abuse because it isn't looking for it. To read Mr. Kashkari's testimony today, we find nothing to contradict that conclusion.

In fact, Mr. Kashkari was asked to testify on the steps Treasury has taken to detect and prevent the waste of TARP monies. Mr. Kashkari's testimony does not address that question. Rather, he describes Treasury's efforts to do something else -- to determine the impact of TARP monies on the banks lending activity. Treasury has submitted 90 pages of Monthly Intermediation

Snapshots from the 20 largest TARP recipients. But what does that prove? Perhaps very little. There are significant shortcomings to Treasury's reliance on the Monthly Intermediation Snapshots. First, only the 20 largest TARP recipients report anything at all. Obviously, there can be little monitoring of the impact of TARP monies on the credit activities of the 297 TARP recipients which do not file Monthly Intermediation Snapshots. Second, the Snapshots do not provide details about any individual transaction, no matter how significant. Third, these Snapshots address the lending side of the recipients' business. They do not address any other investment or expenditure. And fourth, they address only new lending, and not the contraction of existing lending, in the form of foreclosures and elimination of credit lines. At best, the Snapshots might serve the purpose of monitoring at the most general level some impact TARP funds may be having on certain new lending activities, but they don't reflect the NET impact of contracting credit activities on existing borrowers. And they tell us nothing about the use of TARP funds, which is the focus of this hearing.

Mr. Kashkari's silence on the subject of this hearing speaks volumes. The inescapable conclusion is that Treasury is not conducting oversight of TARP monies disbursed through the

Capital Purchase Program to prevent the wasteful or abusive use of funds. Perks for company management were OK before the financial crisis and taxpayer bailout, and they are OK now using taxpayer money. Loans to foreign governmental authorities were OK before the crisis and bailout, and they are OK now using taxpayer money. Investments in foreign company operations, even if it results in more lay-offs in the U.S., were OK before, and are OK now using taxpayer money. In its current form, the Capital Purchase Program of TARP leaves recipient companies free to use federal funds as they would any other source of income before the crisis, and before taxpayers provided a bailout.

Treasury's development of the TARP program generally, and the Capital Purchase Program specifically, has introduced no new transparency or accountability that did not exist before taxpayers were given the bill for cleaning up the mess. It has perpetuated business as usual. It defers to the judgment of the same corporate management in many cases that led to the crisis we are embroiled in now.

TARP was developed under the previous Secretary of the Treasury. Nearly every observation that will be made today originates on his watch. But if the new administration is to avoid perpetuating the approach of the past, real change is going to be necessary. It should start with the collection of detailed information about how TARP recipients are using taxpayer funds, and the imposition of conditions and standards for how they may use the monies taxpayers have provided and may be called upon to provide in the future. It is my hope that this hearing today will help propel the new Department of Treasury to reform the intolerable deficiencies of the TARP program, thereby making recipients accountable to the public for their use of taxpayer funds.

Finally, we owe it to the American taxpayers to provide a complete, comprehensive accounting of all TARP funds that have already been allocated. And after such a thorough accounting is made available, then let the people decide if their hard earned tax dollars are being spent wisely, and in the best interest of the American economy and the best interests of the United States of America.

Mr. JORDAN. I thank the chairman, and I will be brief. Our ranking member, Congressman Issa, will provide our opening statement.

I was in the Judiciary Committee yesterday and I think there were 15 opening statements, so we don't need two from our side. But I did want to say to the chairman, I look forward to working with you and this committee. Since the first time we met, I think at an orientation session at the Ohio General Assembly in 1994, I have always appreciated the chairman's passion and intensity that he brings to the legislative process.

So I do look forward to working with you this Congress and in this committee. With that, I will turn it over to our ranking member.

Mr. Kucinich. I thank the gentleman. I just want to say that Mr. Jordan is a champion wrestler, and I look forward to working with you as well.

Mr. ISSA. Thank you, Mr. Jordan. Thank you, Mr. Chairman, for holding this extremely important hearing.

Mr. Kashkari, welcome. It is not easy for us to hold a hearing on the TARP, the Troubled Assets Relief Program, or as some people think it is called, the Toxic Asset Relief Program, because the TARP suffers from a lack of transparency and accountability. In our previous hearing, we asked questions such as, "how much have you spent," "where is the money," "what is it worth today."

But as of February 6th, the Treasury Department has verified that $300 billion in taxpayers' funds have been provided to our Nation's financial institutions in the form of preferred shares, warrants, loans and insurances against loss. Now, that figure, of course, is outdated today, and we hope to hear an update.

While the Treasury Department currently monitors aggregate monthly levels of some banking activities, it does not require any recipient of TARP funds to disclose the details of any individual transaction that the recipient would not have entered into but for the TARP money. In other words, we do not know if $300 billion of taxpayers' money has changed anyone's behavior. As a result, neither the Treasury Department nor Congress nor the general public truly knows the outcome achieved by injecting taxpayers' money.

Mr. Chairman, this lack of transparency simply is unacceptable. We can certainly make the case that this level of transparency and the need for it may not have been anticipated prior to September of last year. But a government of the future must be designed for transparency. We must ensure that all of our institutions, whether receiving Federal funds or simply operating on an interstate basis be in fact prepared to provide transparency. That means interoperable systems and data bases.

We must understand, however, that true transparency requires attention not only to what information is disclosed but to how the information is disclosed. To illustrate this principle, consider that we receive a deluge of information from the SEC in the form of 10Ks and other documents. As a matter of fact, my understanding is that there are about 15 million pages of text. If that is simply text, and in order to figure out the state of the top 200 or so companies in America, you would have to go through 10 million or more pages of documents, then that information in fact is not information, it's simply pages of text. Good luck sifting through it.

In this day and age, every American understands that if they don't do it themselves, they could download from their bank or other financial institution a monthly statement, receive it online, import it into Quicken, into a spreadsheet, into some other accounting system, home accounting system, so they can quickly look at their financial statements, keep track of them from month to month and do analyses of the trends in their own investments.

So knowing that you can do this on a personal basis, one would ask what can we do on a national basis? The answer is, without a promising technology such as XBRL, that can standardize all financial reporting for easy accessibility, we will not be able to do the same on a global basis. More than 40 countries have already adopted this standard, including China. The United States is currently requiring the disclosure of information to the FDIC in XBRL format. However, the SEC has been slow to act, took most of last year to consider it, and only recently has approved a final rule that will mandate XBRL for all public company reporting, with some companies required to comply starting in June 2009.

Continuing with XBRL technology, it is clear to the public that when we talk about lettered technologies and call them technologies that they may ask, is this difficult. I am going to say here today that although we will receive extensive information later today, it is not difficult. It is simply the Federal Government requiring that financial institutions, those providing mortgages into the public market, those operating with the public trust such as public corporations, and those receiving TARP money provide information in a way that we do not have to re-massage it, that it is transparent to a computer. They still have the right, using this technology, to withhold information or to be assured that the Government will keep confidential information confidential.

But only with this sort of a common format can we in fact begin to separate what is often called toxic assets, which in fact is good assets mixed with bad with no ability to decide which is which. Without it, we are back to where we were before September.

Mr. Chairman, I absolutely look forward to Mr. Kashkari's answers on what he can see today, what he knows today, but more importantly, for both the first and second panel, I am desperate, and America is desperate to ensure that we do not come back to a hearing 3, 4, 5 months from now and find out that we still don't know where the money went, we still cannot quickly decide what assets are good and what assets are bad.

Last, Mr. Chairman, I believe that when we look at the problem, and Mr. Kashkari has been looking at this in a huge way, America had a debt level of about 300 percent of GDP, or about $45 trillion, plus or minus, of debt. Historically, American ran 100 to 120 percent of debt to GDP, meaning $15 trillion, maybe $20 trillion of debt. The unwinding of this debt, even with the trillions of dollars that are either pledged or the hundreds of billions of dollars that have been delivered, still has a long way to go.

I look forward to hearing from Mr. Kashkari how they plan to find the stabilized level of debt that America should be. I believe that whether it is the international institutions that have gone on business as usual, as the chairman said, providing dollars to foreign investors, or it is our domestic spending, that we have to come to grips with how much of the contraction was appropriate because of an excess, an excess that we all found interesting and valuable but in fact didn't realize that when it unwound was inevitably going to give us huge problems.

For example, if in fact our 100 to 120 percent of GDP is not the new norm, but rather 200 percent of GDP is the new norm, we still have a $15 trillion or so contraction of debt that will be permanent. I know that is not the subject for today, but it is a subject that I look forward to people at Treasury and others, working with economists, to discover. Because we have to decide what portion of America's hard-earned money is going to be put into stimuluses, TARPs, and others, and how much in fact is going to have to be written off to, we can't go back to the Roaring Twenties, and we can't go back to the Roaring Oughts, if you will.

Mr. Chairman, thank you for your indulgence. I look forward to this hearing and yield back.

Mr. KUCINICH. I want to thank Mr. Issa, who is the ranking member of the full committee, for his participation. I think that all Members would agree that Mr. Issa's business acumen brings a real strength to our deliberations, not only today but always. So thank you, sir.

It is my honor now to introduce the chairman of the full committee, who is our new chairman and under whose guidance we helped to craft today's hearing and under whose guidance we will go even deeper into the workings of this TARP program, as well as the broad range of Government oversight and reform issues facing the U.S. Congress and America. At this time, it is my honor to introduce the distinguished gentleman from New York, Mr. Towns, the chairman of the full committee.

Chairman TOWNS. Thank you very much, Congressman Kucinich, the Chair of the subcommittee, and of course Ranking Member Jordan, for convening this hearing.

Oversight of the Treasury's TARP program is an important topic for this committee. I am pleased that Mr. Kashkari is here today to update us on the program.

It is quite clear to me at this point that Treasury does not have the information or personnel in place to conduct vigorous oversight of the TARP program. That bothers me. The information we have received about the types of data the Government is tracking are far too vague to develop measures of the program's effectiveness.

I am afraid we are reaching a point where Treasury just does not know what Wall Street is doing with Government funds. In fact, I don't think they even know how much they don't know.

In my view, Congress has been extraordinarily generous in allowing the Treasury Department and the Federal Reserve latitude in dealing with the current financial crisis. However, the Federal Government's unprecedented investment of billions of dollars demands further scrutiny. I am particularly concerned about AIG. To date, the Government has invested $160 billion, that is B as in boy, in AIG, and stated last week that AIG may require further support. It should come as no surprise that Congress has expressed the need to know exactly how this money has been spent, on what basis it has been spent and exactly who are the beneficiaries of this record Federal subsidy.

But we cannot take it on blind faith that Federal financial support of AIG or other firms is being carried out in a sensible manner. We just can't take that. This hearing should tell us what information Treasury is collecting and what information is being shared with the Congress and what information is completely unknown to anyone responsible to the American taxpayers. I hope we can come out of this hearing with a plan for obtaining the information necessary to make responsible decisions about our economy and the burden that the American people are bearing to bail out Wall Street.

Let me just say, this is not a one-shot deal. We are not going to go away. We owe it to the taxpayers.

Mr. Chairman, on that note, I yield back.

[The prepared statement of Hon. Edolphus Towns follows:]

Opening Statement

Edolphus "Ed" Towns, Chairman

Committee on Oversight and Government Reform

"Peeling Back the TARP: Exposing Treasury's Failure to Monitor the Ways Financial Institutions are Using Taxpayer Funds Provided Under the Troubled Asset Relief Program"

Wednesday, March 11, 2009

2154 Rayburn HOB

10:00 A.M/

Thank you Mr. Chairman for convening this important hearing. Oversight of Treasury's TARP program is an important topic for this committee, and I am pleased that Mr. Kashkari is here today to update us on this program.

It is quite clear to me, at this point, that Treasury does not have the information or personnel in place to conduct vigorous oversight of the TARP program. The information we have received about the types of data the government is tracking are far too vague to develop measures of the program effectiveness. I am afraid we are reaching a point where Treasury just does not know what Wall Street is doing with government funds. In fact, I don't think they even know how much they don't know.

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This hearing should tell us what information Treasury is collecting, and what information is being shared with the Congress, and what information is completely unknown to anyone responsible to the American taxpayers. I hope we can come out of this hearing with a plan for obtaining the information necessary to make responsible decisions about our economy and the burden that the American people are bearing to bail out Wall Street.

Mr. KUCINICH. I thank the chairman of the full committee, and it is an honor to serve with you.

At this time, of course, all members of this committee, without objection, are going to have 5 minutes for an opening statement. Any other Member who seeks objection? Mr. Souder of Indiana, do you desire to have any opening statement?

Mr. SOUDER. No, thank you, Mr. Chairman.

Mr. KUCINICH. Mr. Cummings of Maryland.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

I want to thank you and I want to thank our chairman of the full committee and ranking member for making this hearing take place.

I was just sitting here thinking about our last hearing. And during that hearing, Mr. Kashkari presented and there were some issues that we brought up that he did not know about. And I realize that there's a lot to get your arms around, I understand that.

But I want us, the reason why this hearing is so important is that we are in probably one of the worst economic circumstances that we have been in in our lifetimes. I do believe that President Obama is doing everything in his power, along with Treasury Secretary Geithner, to straighten up this mess, and it is just that.

The problem is that unless there is transparency and unless there is accountability, it is going to be impossible to maintain the trust of the public. And we need the public trust. Right now, the people in my district are losing their savings, their homes. As a matter of fact, I was at a town hall meeting the other day, Mr. Chairman, and a gentleman said to me, "You know what, I stopped looking at my statement, because I am afraid to look at it, it will put me in a bad mood for the next month or so, so I don't even look at it any more." And they are losing their jobs.

And at the same time, they turn around and they hear about the AIGs of the world and they hear about the Citigroups, the abuses of this money. And you know what they ask themselves? The question they ask is, "why is my tax dollar being used in this way?" But then the thing I think that really alarms them is when they hear the oversight panel in its recent report say, "The panel still does not know what the banks are doing with the taxpayers' money."

It is going to be very difficult for the President and for Secretary Geithner to turn this ship around unless we have a situation where there is that transparency and the accountability. But if you don't know, if you don't know what's going on, that's a real problem.

So we found out just recently that AIG was given retention payments, these retention payments were supposed to be to retain people, but these were the very people that they were letting go. There is also something else that is happening here, Mr. Chairman, and there is an arrogance on the part of some of these company executives with regard to the American taxpayers' dollars.

So I am hoping, in the words of Mr. Towns, that we will be able to come up with a plan to address this. But the question also becomes, does the Treasury Secretary have enough authority to do the things that he needs to do. And I am hoping that those questions will be answered today.

So I look forward to the testimony of Mr. Kashkari and the other witnesses, and again, I thank you all for calling this hearing.

Mr. KUCINICH. Thank you very much, Mr. Cummings.

The Chair recognizes Mr. Fortenberry of Nebraska.

Mr. FORTENBERRY. Just briefly, Mr. Chairman, let me thank you for the opportunity to join you on the subcommittee. I think it is a critical subcommittee for the well-being of overview of public policy in this country.

Also, I wanted to thank you for picking this particular topic as the one that clearly sets a priority for the tenor and the paradigm of this committee. Clearly, people want to know where their money is going to. Mr. Chairman, if I could offer this, I think it is very important to review back when the taxpayers were asked to bail out financial institutions in the name of resetting the economy, stabilizing the economy. There was a question floating around or the suggestion that these institutions were too big to fail. I think we should be asking, are they too big to succeed.

One of the real problems that we have in this country is financial consolidation, the liberalized credit system that brought about the use of exotic financial instruments, as well as what seems to be reckless behavior. So I am hopeful that this subcommittee and this particular hearing delves deeply into this issue to at least answer one question as to where the money is going, and then second, if this is an appropriate investment.

Mr. KUCINICH. I want to thank our new committee member, Mr. Fortenberry of Nebraska, for his presence on the subcommittee and also for his observation. The question that you pose about whether or not a company is too big to fail, and your further question about the issue of consolidation and the economy and its effect on the economy is something that is a proper subject for this Domestic Policy Subcommittee.

So with the cooperation of our chairman, Mr. Towns, we would look forward to delving deeply into that issue.

Mr. FORTENBERRY. I appreciate your comment, sir, thank you.

Mr. KUCINICH. I thank the gentleman.

The Chair now recognizes Mr. Welch of Vermont for his opening statement.

Mr. WELCH. Thank you, Mr. Chairman.

There does seem to be clear unanimity here about the absolute requirement that there be full accountability. I want to focus attention on one specific area.

We have used a lot of money from TARP and other programs for AIG. And there is going to be another $30 billion that already has been authorized with no additional requirement that AIG disclose to us how specifically that money is used. And this new use of TARP funds is a significant departure from previous TARP assistance to AIG. As long as it continues to be given without requiring AIG to fully disclose how that money is being spent, it is going to thwart our efforts to provide answers to the American taxpayer.

AIG has been unwilling so far to provide significant information on what financial institutions, either domestic or foreign, are counter-parties, the counter-parties to its outstanding credit default swaps. That is why, for example, we still don't know who received much of the money that the Federal Reserve gave to AIG.

I think we are all in agreement the taxpayers are entitled to know how their money is being spent. And what I would like to know, on behalf of the American taxpayer, is basically this: One, does Treasury agree that AIG can use this money to fulfill credit default swap obligations with taxpayer money from TARP? Two, if so, does Treasury have a specific plan to track each and every dollar that AIG uses to pay counter-parties? And three, what plans does Treasury have to compel AIG to release information to Treasury and the American taxpayer on what counter-parties are paid?

Keep in mind, AIG is 80 percent taxpayer-owned. So in a way, AIG is us.

Now, the justification, of course, for giving any aid to AIG is the systemic risk that Treasury and the Fed have concluded exist if we let it go under. It is one thing, however, if that systemic risk and the funds that are transferred are used to protect average Americans who have annuities and insurance policies with AIG. It is quite another if that money is being used basically to hedge the bets and reward speculators, investment banks, hedge funds that simply bet wrong on some of these credit default swaps.

So Mr. Chairman, my question really goes to getting specific information on how money is being used to pay counter-parties, and what counter-parties are on the receiving end of this benefit. I yield back.

[The prepared statement of Hon. Peter Welch follows:]

OPENING STATEMENT

OF

CONGRESSMAN PETER WELCH

DOMESTIC POLICY SUBCOMMITTEE

OVERSIGHT AND GOVERNMENT REFORM COMMITTEE

"Peeling Back the TARP: Exposing Treasury's Failure to Monitor the Ways Financial Institutions are using the Troubled Assets Relief Program"

Wednesday, March 11, 2009

2154 Rayburn HOB

10:00 a.m.

Thank you, Chairman Kucinich and Ranking Member Jordan, for convening the Subcommittee to discuss transparency and accountability in the Troubled Asset Relief Program (TARP). Effective oversight of this program is critical, and the American people need to know that there is a cop on the beat. I look forward to hearing from the various witnesses about the status of the Capital Purchase Program and ways to improve oversight of this program.

I want to use my opening statement, however, to highlight a recent and troublesome development in TARP's oversight capabilities, specifically the announcement that TARP may provide an additional $30 billion to the American International Group (AIG).

Last fall, Treasury used $40 billion in TARP funds to purchase preferred stock in AIG. The goal of this purchase, we were told, was to help return

AIG to stable footing and eliminate the risk that its collapse would pose to the financial system. But as of March 2, 2009, $30 billion in additional TARP funds have been designated to act as a cash reserve for AIG, ostensibly to be used in the event that it should prove unable to fulfill its credit default swap obligations.

This new use of funds is a significant departure from previous TARP assistance to AIG and presents barriers to effective oversight. Thus far, AIG has been unwilling to provide significant information on which financial institutions – either domestic or foreign – are counterparties to its outstanding credit default swaps. This is why, for example, we still do not know who received much of the money that the Federal Reserve gave to AIG.

What I want to know is:

- Does Treasury agree that AIG can fulfill credit default swap obligations with taxpayer money from TARP? If so,

- Does Treasury plan to track what AIG does with this money? If so,

- What plans has Treasury made to compel AIG to release this information to Treasury?

If Treasury must extend the availability of more TARP funds to AIG, I strongly urge that the relevant other oversight bodies do whatever is necessary to track where this money goes. If taxpayers must act as a backstop to AIG's counterparties, then taxpayers have a right to know who those counterparties are.

Again, I thank the Chairman and Ranking Member for convening this Subcommittee hearing and look forward to working with the Subcommittee to address this issue in the future.

Mr. KUCINICH. I want to thank the gentleman for his opening statement, and to complement it, to introduce into the record an article in yesterday's Washington Post by David M. Smick called Tim Geithner's Black Hole, which discusses directly the point you raise about AIG and the credit default swaps. So I thank the gentleman.

[The information referred to follows:]

The Washington Post

Tim Geithner's Black Hole

By David M. Smick
Tuesday, March 10, 2009; A13

Pity Barack Obama's economic advisers. The blogs are now demanding their scalps, and Treasury Secretary Tim Geithner and his colleagues face a nasty dilemma: There are no solutions to the banking crisis without extraordinary political and financial risks. Thus, they have adopted a three-pronged approach, delay, delay, delay, in the hope that somebody comes up with a breakthrough.

Here's the problem: Today's true market value of the U.S. banks' toxic assets (that ugly stuff that needs to be removed from bank balance sheets before the economy can recover) amounts to between 5 and 30 cents on the dollar. To remain solvent, however, the banks say they need a valuation of 50 to 60 cents on the dollar. Translation: as much as another $2 trillion taxpayer bailout.

That kind of expensive solution could send the president's approval rating into a nose dive. Consider: $2 trillion is about two-thirds of the tax revenue the federal government collects each year.

The logical alternative -- talk show hosts' solution du jour -- is to temporarily restructure or nationalize the banks and leave taxpayers alone. Remove the toxic assets, replace management and cut the too-big-to-fail financial dinosaurs into smaller, nimbler entities. Then reprivatize these smaller banks and let the recovery begin.

Oh, if it were that simple. I suspect Obama's advisers would like nothing more than to dismantle an irresponsible firm such as Citigroup. They are afraid to do so, for one reason: All the big banks are connected to a potentially lethal web of paper insurance instruments called credit default swaps. These paper derivatives have become our financial system's new master.

The theory holds that dismantling a big bank could unravel this paper market, with catastrophic global financial consequences. Or not. Nobody knows, because the market for these unregulated financial derivatives, amounting potentially to over $40 trillion (by comparison, global gross domestic product is now not much more than $60 trillion), is the financial equivalent of uncharted waters.

Geithner has reason to be terrified. He was part of the Henry Paulson-led team that underestimated the devastating global-contagion effect of the collapse of Lehman Brothers. Geithner won't make the mistake of underestimation again.

Geithner also knows that the mood in Congress has changed. Were a global financial brush fire to break out as a result of bank restructuring or nationalization, today's populist Congress might just let it burn. Congressional anger is likely to intensify when policymakers realize that credit default swaps demand a stream of premium payments like a life insurance policy, not just a payment due at termination. And recent signs indicate that firms such as Citigroup, in recycling their taxpayer bailout funding, may have helped other financial firms, including some in Europe, meet these payment obligations.

In addition, Geithner worries that because the troubled insurance giant American International Group (AIG) is a conduit for the banks' use of credit default swaps, a collapse of AIG (as an unintended consequence of dismantling the big banks) could be catastrophic. AIG's more than 300 million terrified holders of insurance-related investments and pension funds, who have investments totaling $20 trillion (U.S. GDP is $14 trillion), could suddenly rush for redemptions -- the equivalent of a run on a bank. Geithner would face a worldwide insurance collapse to accompany his global banking collapse.

Or again, maybe not. Nobody knows.

Here's another likely Geithner fear -- that Congress forces the banks' bondholders to take a hit. So far, only stockholders have lost out because of the banking crisis. One reason for the fragility in the credit default swap market of late is that markets fear that bank bondholders, who today are protected even before U.S. taxpayers, could soon see their status change. The worry is that if even bondholders are put at risk, U.S. and foreign investors alike would stop financing all corporate America. The administration says that won't happen, but market participants believe (probably correctly) that this White House can't control Congress.

So our Treasury secretary has no choice but to talk of bank stress-testing and other tactics to buy time before the big bank bailout. Notice that the president's budget already contains a contingency fund of up to $750 billion for a future bank bailout -- a politically shrewd number that roughly matches the size of the Paulson bailout. The true cost is likely to be two or three times as much, unless some last-minute intellectual breakthrough -- a tax holiday for derivatives? -- arises.

The Obama team needs to remember that we got into this mess because of a lack of financial transparency. It's time to tell the American people what the stock market already knows: that the path to recovery will probably be expensive and politically unpopular, perhaps explosively so. This dire situation could take us all down, which is why Obama should name a proven, world-class problem-solver who is not from Wall Street as his bank workout czar. James Baker, the former Republican secretary of state and Treasury secretary, comes to mind. Other possibilities: former Democratic senators Bill Bradley or George Mitchell. Perhaps the White House should name a team.

In the end, at least one thing is certain: Our present position is unsustainable. The longer we delay fixing the banks, the faster the economy deleverages, the more credit dries up, the further the stock market falls, the higher the ultimate bank bailout price tag for the American taxpayer, and the more we risk falling into a financial black hole from which escape could take decades.

David M. Smick is a global financial strategist and the author, most recently, of "The World Is Curved: Hidden Dangers to the Global Economy."

Mr. KUCINICH. The Chair recognizes a former chair of the Government Oversight Committee, Mr. Burton of Indiana. Thank you for being here, Mr. Burton.

Mr. BURTON. Thank you, Mr. Chairman. Thank you for having this hearing.

You look the same in person as you do on TV. [Laughter.]

I will tell you, Mr. Kashkari, I don't think there is a Member of Congress that really knows where all this money has gone. And I think that is one of the biggest problems we have, is we go back to our constituents and they say, "Well, where are you spending all this money?" And we can't give them an answer. And we say, "Well, you just have to trust Mr. Kashkari and the Secretary of the Treasury and it will get done."

Today I see here that $8 billion of the TARP money that was given to Citigroup went to Dubai, a billion by J.P. Morgan Treasury Services was used in development of cash management and trade finance solutions in India, $7 billion investment by Bank of America in China Construction Bank Corp. We need to have a complete run-down, or as complete as possible, so we can explain to our constituents why we are doing this and what the end result is going to be. We can't do that right now. And we are supposed to grant you and other members of the administration the funds that are necessary to get this economy moving. For us to be able to do that, we need to be able to convince our constituents that it is the right thing to do.

And we can't do that right now. The people back home are madder than hell about what is going on, and they need to have the facts.

The other thing is currently only the largest 20 recipients of TARP CP fund are required to file reports of any type with TARP overseers. The other 297 financial institutions do not. I think that should be much broader. I think there should be a report that goes to the TARP overseers, but also to the Congress of the United States. You are going to have a much easier time when you come up here, Mr. Kashkari, if we have the facts so we can go back home and at least make the case that this Government is doing the right thing.

Every time I got home, people say, "Gosh, you spent $700 billion on TARP, you spent $787 billion on the stimulus package, you spent $408 billion or $10 billion yesterday, I mean, we are talking about trillions of dollars." And then Geithner over at Treasury says he's going to have to put $2 trillion or $3 trillion into the financial institutions to get them up and running the way they should.

And we all want the economy to flourish. But we have to have the facts. I really hope you will take this to heart. I know that you hear all this stuff, and you say, "Oh, my gosh, I wish these guys would shut up." But if you want to have the American people to be supportive, we have to have the facts.

With that, Mr. Chairman, I yield back the balance of my time.

Mr. KUCINICH. I want to thank the gentleman from Indiana. I just want to say in support of your statement I have here a news release from Citigroup with a headline, Citi arranges more than $8 billion for Dubai. They received $25 billion in bailout funds on, I believe it was October 26th. And this news release is dated December 14, 2008. Without objection, this will be submitted to the record.

[The information referred to follows:]

citi

For Immediate Release
Citigroup Inc. (NYSE: C)
December 14, 2008

Citi Arranges More Than $8 Billion for Dubai

Dubai – Citi today announced that it has recently arranged more than $8 billion of financing for Dubai public sector entities. "This is in line with our commitment to the UAE market in general, and reflects our positive outlook on Dubai in particular," said Citi's Chairman, Sir Win Bischoff.

"We continue to place the Gulf region among our globally most significant markets, and we certainly see opportunities across all of the UAE's financial sectors. In the last two years, we've participated in most major financing transactions across the region including the UAE," he said.

Present in the UAE since 1964, the firm recently strengthened its regional coverage through important treasury, equity and investment banking appointments in Dubai. It has relocated its global co-head of investment banking to Dubai, and expanded debt markets business in Dubai by transferring from London its co-head of Europe, Middle East and African capital markets to oversee businesses including M&A, leverage and project finance.

Mohammed Al-Shroogi, Managing Director for the Middle East and Chief Executive Officer for Citi in the UAE, said: "We are quite positive about the UAE's prospects and Dubai in particular as one of the world's fastest growing international financial centers, evident in our decision to move our headquarters for the region to Dubai, and to strengthen our regional coverage teams through key appointments based at the DIFC."

"Since commencing our DIFC-based operations in mid 2006, we've seen major expansion in our regional and local business foothold in line with our long term objective of meaningfully contributing to the development of the region's capital markets by utilizing our global platform," continued Al-Shroogi.

Citi has been in the Arab World for nearly 50 years and views the region as critical to its global franchise. It is currently present in ten Arab countries including Egypt, UAE, Lebanon, Jordan, Tunisia, Morocco, Algeria, Bahrain, Qatar and Kuwait. In 2005, Citi joined the Dubai International Financial Exchange (DIFX) as an individual clearing and trading member.

Citi
Citi, the leading global financial services company, has some 200 million customer accounts and does business in more than 100 countries, providing consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, and wealth management. Citi's major brand names include Citibank, CitiFinancial, Primerica, Smith Barney, Banamex, and Nikko. Additional information may be found at www.citigroup.com or www.citi.com.

Mr. KUCINICH. The Chair recognizes, I think Mr. Kennedy is next, Mr. Kennedy from Rhode Island. Thank you for being here. You may proceed.

Mr. KENNEDY. Thank you, Mr. Chairman.

Following up the former chairman from Indiana about Dubai, Bank of America sent $7 billion to China Construction Bank Corp. after it received funds from U.S. tax dollars, Mr. Chairman.

I think the frustration that we all have here, and I heard it from my constituents last week, was that they are prepared, as one of my constituents said, "We are prepared to take our medicine. But we want to make sure we take it the same as everybody else." They don't see themselves as taking their medicine the same as everybody else. They see us aggregating the profits of the very wealthy in this country, and socializing the loss of the middle class in this mess that we have here.

They see their tax dollars going to pay off those who have savings, those who have dividends, those who have made out the best in the 1980's and 1990's during this great wealth that has been made and accrued over the last several decades, while they, the people who are the wage earners in this country, the people who don't have savings, the people who are paying payroll taxes, are bailing out the very wealthiest in this country.

There is something inherently wrong in this picture. And they are not about to have the wealthiest in this country be the only ones with a voice down here. What's inherently wrong here is that we're aggregating the profits and socializing the losses, and we're not making sure that the medicine is shared equally amongst all the American people in terms of how we're making sure that we're all getting back on track evenly here. That, I think, Mr. Chairman, is what we need to get about doing, so that we're not making sure that just a few of the people, the American people are the ones who are left paying the bill here, and left letting all these others get off scot-free.

Mr. KUCINICH. I want to thank the gentleman from Rhode Island and thank him for being on the subcommittee.

The Chair now recognizes the gentlelady from California, Ms. Watson.

Ms. WATSON. I want to join with my colleagues in thanking you for holding today's hearing.

The Emergency Economic Stabilization Act of 2008 authorized the TARP program for the disbursal of $700 billion of taxpayers' money in two tranches to attempt to restore liquidity and stability to the financial system. To date, the Treasury Department has committed approximately $299.6 billion to the TARP funds to participating financial institutions.

With nearly half of the allocated TARP money drawn down, and an economy which continues to shed jobs and capital daily, it is crucial that today's hearing gives us an honest perspective on the Treasury Department's efforts to regulate the use of TARP funds and insight into how to guarantee that these funds are effectively spent in a manner that maximizes the eventual returns to taxpayers.

While increasing liquidity to our banking system is a key consideration for the Treasury Department in orchestrating and distributing the TARP funds, it is also a legally mandated responsibility of the Treasury Department to maintain internal control of these funds to prevent waste and abuse of the taxpayers' money. The current global economy crisis is a result of a systemic unwillingness on behalf of institutions and individuals at all levels to routinely self-examine their financial practices to verify that they are responsible and sustainable in the long run. Now, as we continue to implement an unprecedented reorientation of the relationship between business and government, it is critical that we apply this lesson to the actions of the Treasury Department and to all of the TARP recipient institutions.

Mr. Chairman, I would particularly like to thank each of today's panelists for cooperating with this committee. I sincerely hope that the testimony we hear today will provide us with a detailed assessment of the ways institutions have utilized their TARP funds and the ability of the Treasury Department to oversee the transactions.

When we go home to our districts, as other Members have described, we get inundated with telephone calls and personal visits, "what is going on?" "When can I lower my mortgage payment?" "When can I have the interest lowered?" "What are you doing?" And these angry calls are constant. So I would like to take back information when I go back to the district tomorrow based on what we hear from the witnesses that will address their concerns.

So I thank you very much, Mr. Chairman, for this very significant hearing today. I yield back.

[The prepared statement of Hon. Diane E. Watson follows:]

Opening Statement

Congresswoman Diane E. Watson

"Peeling Back the TARP: Exposing Treasury's Failure to Monitor the Ways Financial Institutions are Using Taxpayer Funds Provided Under the Troubled Asset Relief Program"

Subcommittee on Domestic Policy
Oversight and Government Reform Committee

Wednesday, March 11, 2009
2154 Rayburn HOB
10:00 A.M.

Thank you Mr. Chairman for holding today's important hearing on the Department of Treasury's oversight of the use of funds by Troubled Asset Relief Program recipients. The Emergency Economic Stabilization Act of 2008 authorized the TARP program for the dispersal of $700 billion of taxpayers' money in two tranches to attempt to restore liquidity and stability to the financial system.

To date the Treasury Department has committed approximately $299.6 billion of the TARP funds to participating financial institutions.

With nearly half of the allocated TARP money drawn down and an economy which continues to shed jobs and capital daily, it is crucial that today's hearing gives us an honest perspective on the Treasury Department's efforts to regulate the use of TARP funds, and insight into how to guarantee that these funds are effectively spent in a manner that maximizes the eventual returns to taxpayers.

While increasing liquidity to our banking system is a key consideration for the Treasury Department in orchestrating the distribution of TARP funds, it is also

a legally mandated responsibility of the Treasury Department to maintain internal control of these funds to prevent waste and abuse of taxpayers' money.

The current global economic crisis is a result of a systemic unwillingness on behalf of institutions and individuals at all levels to routinely self-examine their financial practices to verify that they are responsible and sustainable in the long run. Now, as we continue to implement an unprecedented reorientation of the relationship between business and government it is critical that we apply this lesson to the actions of the Treasury Department and to all of the TARP recipient institutions.

Mr. Chairman, I would like to thank each of today's panelists for cooperating with the committee. I sincerely hope that today's testimony will provide us with a detailed assessment of the ways institutions have utilized their TARP funds, and the ability of the Treasury Department to oversee these transactions.

Thank you and I yield back the remainder of my time.

Mr. KUCINICH. I thank the gentlelady for her constant participation in these subcommittee meetings.

The Chair recognizes Mr. Tierney of Massachusetts.

Mr. TIERNEY. Mr. Chairman, I am prepared to go to the witness when we can. Thank you.

Mr. KUCINICH. I thank the gentleman for his presence here.

If there is no other Member of Congress or of this committee who is ready to proceed, we are going to now move to introducing our first panel. Mr. Neel Kashkari was designated as the Acting Interim Assistant Secretary of the Treasury for Financial Stability on October 6, 2008. He was asked by the new administration, the Obama administration, to stay on for the sake of continuity and continues to serve in a difficult role during this transition. In this capacity, Mr. Kashkari heads the Office of Financial Stability, which oversees the Troubled Asset Relief Program.

He is also the Assistant Secretary of the Treasury for International Economics and Development. Mr. Kashkari joined the Treasury Department in July 2006 as senior advisor to U.S. Treasury Secretary Henry Paulson, Jr. In that role, he was responsible for developing and executing the Department's response to the housing crisis, including the formation of the Hope Now Alliance, the development of the Sub-prime Fast Track Load Modification plan, and the Treasury's initiative to kick-start a covered bond market in the United States.

Prior to joining the Treasury Department, Mr. Kashkari was a vice president at Goldman Sachs & Co. in San Francisco.

Mr. Kashkari, I want to thank you for being before this subcommittee today. I know I speak for all the Members in saying that. And we are looking forward to your testimony.

As you know, it is the policy of the Committee on Oversight and Government Reform to swear in all witnesses before they testify. I would ask that you please rise and raise your right hand.

[Witness sworn.]

Mr. KUCINICH. Thank you.

Let the record reflect that the gentleman answered in the affirmative.

We have already, at the beginning of this hearing, I had a unanimous consent for Mr. Kashkari to have 10 minutes if he needs it, 10 minutes, if you need it, sir, so that you will have sufficient time to make your statement.

STATEMENT OF NEEL KASHKARI, ACTING INTERIM ASSISTANT SECRETARY FOR FINANCIAL STABILIZATION, DEPARTMENT OF TREASURY

Mr. KASHKARI. Thank you, Mr. Chairman, good morning. Thank you, Chairman Towns, Ranking Member Jordan, Ranking Member Issa and members of the subcommittee. I appreciate the opportunity to appear before you today.

As you know, I was appointed by the prior administration, and the Obama administration asked me to remain at Treasury for a brief period to help with the transition. I am honored to provide whatever help I can to the new administration.

The American people provided Treasury with broad authorities under the Emergency Economic Stabilization Act to stabilize the financial system. And it is essential we communicate our actions in a clear and transparent manner to maintain their trust. Today I will briefly review the actions Treasury has taken to stabilize the financial system and describe the steps we are taking to monitor the activities of recipients of Government capital.

Many years in the making, the credit crisis erupted during the summer of 2007. Last year, the crisis intensified and our major financial institutions came under severe pressure from deteriorating market conditions and the loss of confidence. In a short period of time, several of our largest financial institutions failed. In March, Bear Stearns. In July, Indy Mac. In September, we witnessed the conservatorship of Fannie Mae and Freddie Mac, the rescue of AIG, the bankruptcy of Lehman Brothers, the distress sale of Wachovia and the failure of Washington Mutual. Eight major U.S. financial institutions effectively failed in 6 months, six of them in September alone.

This stress was reflected in something called the LIBOR-OIS spread. It is a key measure of risk in the financial system. Typically, 5 to 10 basis points. On September 1st, the 1-month spread was 47 basis points. By the 18th, when Treasury and the Fed went to the Congress, the spread had climbed to 135 basis points. By the time the bill passed, just 2 weeks later, the spread had nearly doubled again to 263 basis points. Credit markets continued to deteriorate and the spread, just 1 week later, spiked to 338 basis points, almost 50 times normal levels. Our Nation was faced with the potential imminent collapse of our financial system.

So many people asked me, what if the financial system had collapsed? Businesses of all sizes might not have been able to access funds to pay their employees, who then wouldn't have money to pay their bills. Families might not have been able to access their retirement funds. Basic financial services might have been disrupted. The severe economic contraction and large job losses we are now experiencing were triggered by the credit crisis. However, had the financial system collapsed, this recession, including terrible job losses and numerous foreclosures, could have been far, far more severe.

Now, a program as large and complex as the TARP would normally take many months or even years to establish. But we didn't have months or years. We moved as quickly as possible to implement programs to rapidly stabilize the system and prevent collapse. In the 159 days since Congress passed the law, we have successfully implemented the capital purchase program, having now invested in 489 institutions in 47 States and Puerto Rico, 478 banks in 47 States. With approximately 30 new investments each week, the median investment is $16 million. The vast majority of these institutions are banks in our communities.

Treasury also helped the Federal Reserve establish a lending program to reduce borrowing costs for consumers, including auto loans, student loans, credit cards, and small business loans. And that will begin funding this month. We are planning to expand this lending initiative to include other asset classes, such as commercial mortgage-backed securities.

Under Secretary Geithner's new financial stability plan, Treasury also announced a new capital assistance program and launched a multi-part housing program to reduce borrowing costs and to encourage long-term sustainable loan modifications.

Finally, we are developing a public-private asset fund to purchase illiquid assets from banks, also to support new lending.

Now, during this time, Treasury has unfortunately had to step in to stabilize several large institutions whose failures would pose a systemic risk to our financial system and to our economy. We regretted having to take these actions, to put so many taxpayer dollars at risk to support firms that had made bad decisions. But our choice was clear, when the consequences of inaction so severe, and the potential cost to the taxpayers of inaction so much greater than the cost of intervention.

Today, that LIBOR-OIS spread which had peaked at 338 basis points has now fallen to 34 basis points. We believe the combined actions of Treasury, the Federal Reserve and the FDIC have prevented a financial collapse. But we still have much more work to do to get credit flowing to our communities.

Now, in terms of monitoring. In January, Treasury began collecting data from the 20 largest recipients of capital under the CPP, representing almost 90 percent of the capital deployed under that program.

Mr. KENNEDY. Mr. Chairman, could I just interrupt just for a second here?

Mr. KUCINICH. It is not customary to interrupt a witness. So unless it is something urgent, I would prefer that Mr. Kashkari proceed with his statement.

Mr. KENNEDY. OK. Thank you, Chairman.

Mr. KUCINICH. Thank you.

Mr. KASHKARI. We published our first monthly lending survey in February. This survey shows bank by bank the lending and intermediation activities of institutions by category, such as consumer, commercial and real estate loans. This survey is published monthly on Treasury's Web site.

Now, in recessions, credit levels typically fall, as both borrowers and lenders become more cautious. The first survey shows that lending held up remarkably well despite one of the most severe quarterly economic contractions in recent decades. Without capital from Treasury, those lending levels would likely have been much lower. And we are also developing a narrower survey for smaller institutions that receive Government capital to monitor their lending monthly. So we will be serving all institutions.

And the new CAP program that Secretary Geithner has announced will also require institutions to indicate their expected use of funds and to increase and track lending against a baseline so we can monitor that.

Now, with investments in almost 500 institutions and hundreds more in the pipeline, we must ensure that our investments are targeted at stabilizing the economy. But we must also take great care not to try to micromanage recipient institutions. However well-intended, Government officials are not positioned to make better commercial decisions than lenders in our communities. The Government must not attempt to force banks to make loans they are not comfortable with, nor should we try to direct the lending from Washington. Bad lending practices were at the root cause of this crisis, and returning to those practices will not help end the turmoil.

The EESA was one of several initiatives taken by the Federal Government to stabilize the financial system, an absolutely necessary precondition to economic recovery. We believe the combined actions of Treasury, the Federal Reserve and the FDIC have helped prevent a financial collapse. Nonetheless, the current crisis took years to buildup and will take time to work through. And we still face real economic challenges.

There is no single action the Federal Government can take to end the financial market turmoil and end the economic downturn. But the authorities Congress provided last fall dramatically expanded the tools available to address the needs of our system.

Mr. Chairman, I would just add, I know many members of the subcommittee have many questions. I have cleared my day, I am happy to stay as long as you would like and answer all of your questions in as thorough a manner as possible. Thank you, sir.

[The prepared statement of Mr. Kashkari follows:]

Interim Assistant Secretary for Financial Stability Neel Kashkari

Testimony before the House Committee on Oversight and Government Reform, Subcommittee on Domestic Policy

March 11, 2009

Good morning. Mr. Chairman, Ranking Member Jordan, and Members of the Subcommittee, thank you for asking me to testify before you today. As you know, I was appointed by the prior Administration. The Obama Administration asked me to remain at Treasury for a brief period to help with the transition. I am honored to provide whatever help I can to the new Administration.

The American people provided Treasury with broad authorities under the Emergency Economic Stabilization Act (EESA) to stabilize the financial system and it is essential we communicate our actions in a clear and transparent manner to maintain their trust. Today, I will briefly review the actions Treasury has taken to stabilize the financial system and describe the steps we are taking to monitor the lending activities of the recipients of government capital.

Many years in the making, the credit crisis erupted during the summer of 2007. Last year, the crisis intensified and our major financial institutions came under severe pressure from deteriorating market conditions and the loss of confidence. In a short period of time several of our largest financial institutions failed. In March - Bear Stearns. In July - IndyMac. In September, we witnessed the conservatorship of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, the rescue of AIG, the distressed sale of Wachovia, and the failure of Washington Mutual. Eight major U.S. financial institutions effectively failed in 6 months – six of them in September alone.

This stress is reflected in the LIBOR-OIS spread, which is a key measure of risk in the financial system. Typically, 5 – 10 basis points, on September 1, 2008 the one month spread was 47 basis points. By the 18th, when Treasury and the Fed first went to Congress, the spread had climbed to 135 basis points. By the time the bill passed, just two week later on October 3, the spread had nearly doubled to 263 basis points. Credit markets continued to deteriorate and, just one week later, the spread had spiked to 338 basis points – almost 50 times normal levels. Our Nation was faced with the potential imminent collapse of our financial system.

What if the financial system had collapsed? Businesses of all sizes might not have been able to access funds to pay their employees, who then wouldn't have money to pay their bills. Families might not have been able to access their retirement funds. Basic financial services could have been disrupted. The severe economic contraction and large job losses we are now experiencing were triggered by the credit crisis. However, had the financial system collapsed, this recession, including terrible job losses and numerous foreclosures, could have been far, far more severe.

A program as large and complex as the TARP would normally take many months or years to establish. But, we didn't have months or years. We moved as quickly as possible to implement programs that would rapidly stabilize the system and prevent collapse. In the 159 days since Congress passed the EESA, we have successfully implemented the Capital Purchase Program (CPP), having now invested in 489 banks of all sizes in 47 states and Puerto Rico, with approximately 30 new investments per week. The median investment is $16 million. Treasury also helped the Federal Reserve establish a lending program to reduce borrowing costs for consumers, including auto loans, student loans, small business loans and credit cards, which will begin funding this month. We are planning to expand this lending initiative to include other asset classes, such as commercial mortgage-backed securities. Under the new Financial Stability Plan, Treasury also announced a new Capital Assistance Program (CAP) and launched a multi-part housing program to reduce borrowing costs and encourage long-term sustainable loan modifications. Finally, we are developing a public-private investment fund to purchase illiquid assets from banks to support new lending.

During this time, Treasury has unfortunately had to step in to stabilize several large institutions whose failures would pose a systemic risk to our financial system and economy. We regretted having to take these actions – to put so many taxpayer dollars at risk to support firms that had made bad decisions. But the choice was clear when the consequences of inaction were so severe – and the potential cost to taxpayers of inaction so much greater than the cost of intervention.

Today, the LIBOR-OIS spread has fallen from a peak of 338 basis points to 34 basis points. We believe the combined actions of Treasury, the Federal Reserve and FDIC have prevented a financial collapse, but we still have much more work to do to get credit flowing to our communities.

Monitoring Lending

In January, Treasury began collecting data from the twenty largest recipients of capital under the CPP, representing almost 90% of CPP capital investments. We published our first monthly lending survey in February. This survey shows, bank by bank, the lending and intermediation activities of institutions by category, such as consumer, commercial and real estate loans. This survey is published monthly on Treasury's website. In recessions, credit levels typically fall as both borrowers and lenders become more cautious. The first survey shows that lending held-up remarkably well despite one of the most severe quarterly economic contractions in decades. Without capital from Treasury, lending levels would likely have been much lower. We are also developing a narrower survey for smaller institutions that receive government capital to monitor their lending monthly. And the new CAP program will require institutions to indicate their expected use of funds and to increase and track lending against a baseline.

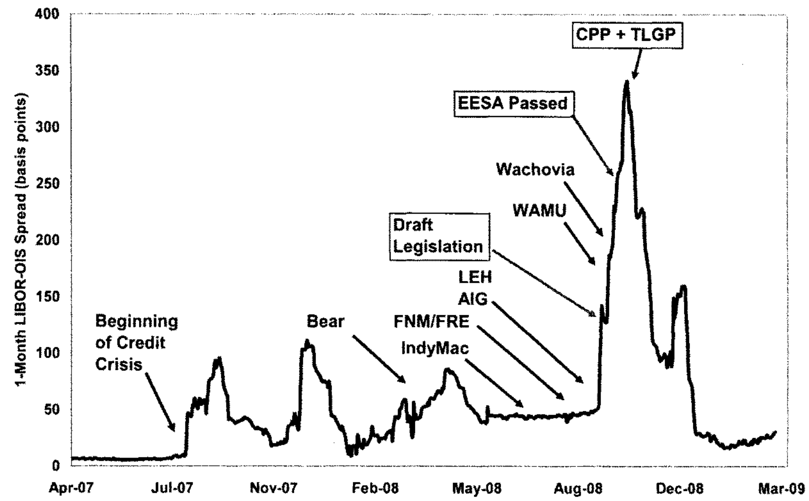
With investments in almost 500 institutions, and hundreds more in the pipeline, we must ensure that our investments are targeted at stabilizing the economy but we must also take great care not to try to micromanage recipient institutions. However well-intended, government officials are not positioned to make better commercial decisions than lenders in our communities. The government must not attempt to force banks to make loans whose risks they are not comfortable with or attempt to direct lending from Washington. Bad lending practices were at the root cause of this crisis. Returning to those practices will not help end this financial turmoil.

Conclusion
The EESA was one of several initiatives taken by the Federal government to stabilize the financial system – a necessary precondition to economic recovery. We believe the combined actions of Treasury, the Federal Reserve and FDIC have helped prevent a financial collapse. Nonetheless, the current crisis took years to build up and will take time to work through, and we still face real economic challenges. There is no single action the Federal government can take to end the financial market turmoil and the economic downturn, but the authorities Congress provided last fall dramatically expanded the tools available to address the needs of our system.

Thank you.

Attachment 1: LIBOR-OIS Chart
Attachment 2: Treasury Lending Snapshot

Attachment 1: LIBOR-OIS Chart



February 17, 2009
TG-30

Treasury Releases First Monthly Bank Lending Survey

Despite Economic Downturn, Top 20 Banks Receiving Government Funds Continued Lending Activities; Survey Reflects Administration's Commitment to Greater Transparency, Communication Around Financial Stability Programs

WASHINGTON-- The U.S. Department of the Treasury released today its first monthly bank lending survey designed to provide new, more frequent and more accessible information on banks' lending activities to help taxpayers easily assess the lending and other activities of banks receiving government investments. Despite the negative effects of the economic downturn and unprecedented financial markets crisis, the first survey of the top 20 recipients of government investment through the Capital Purchase Program (CPP) found that banks continued to originate, refinance and renew loans from the beginning of the program in October through December 2008.

In the face of severe economic deterioration during this period--unemployment rose from 6.5 to 7.2 percent and more than 1.5 million jobs were lost as real GDP decreased by 3.8 percent--lending levels largely held steady and would have likely been lower absent capital provided to banks through CPP. The CPP directly infuses capital into viable banks, stabilizing the financial system and enabling banks to continue to play their vital roles as providers of credit to businesses and consumers. Some 400 banks in 47 states have participated since the program began.

As part of its commitment to greater transparency, Treasury will release a monthly survey summarizing the lending and other activities of the top 20 CPP recipients and post the findings on its web site. Today's survey tracks lending activity through the first three months of the CPP program, and subsequent reports will reflect data from the previous month.

Overall, loan origination and underwriting activities were weak from October to November 2008 but picked up from November through December, fueled by falling mortgage interest rates and the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program.

Over the period, the median change in residential mortgage loan balances was a decrease of 1 percent, while the median change in corporate loan balances was a decrease of 1 percent. Meanwhile, the median percent change in loan balances for U.S. credit cards was an increase of 2 percent, reflecting greater reliance on existing credit lines by consumers.

In commercial real estate, renewals of existing accounts increased significantly, while new commitments decreased. The median percent change in renewals of existing accounts was an increase of 55 percent, and the median percent change in new commitments was a decrease of 19 percent.

In sum, loan activity was resilient in the face of the worst economic downturn in decades.

Treasury launched the monthly bank lending survey as part of its commitment to Congress and the public to greater communication and transparency about its programs to stabilize the financial system. The Financial Stability Plan announced by Secretary Tim Geithner last week will further enhance the public's understanding of banks' lending, requiring companies receiving future government funds to report to Treasury how the money they receive preserves or generates new lending and to explain how they intend to use government assistance to strengthen their lending capacity.

TREASURY DEPARTMENT MONTHLY LENDING AND INTERMEDIATION SNAPSHOT

Summary Analysis for October - December 2008

I. Purpose of the Snapshot

The purpose of the monthly snapshot is to provide the Treasury Department (Treasury) and the public with regular insight into the lending trends and intermediation activities -- including underwriting, buying and selling of securities, and other activities in capital markets -- of the banks that received the most funding via the Capital Purchase Program (CPP).

This snapshot seeks to gather information to help answer the question posed by many during this crisis: "Are banks doing what they are supposed to do, providing credit to borrowers in a safe and sound manner?"

Answering this question is difficult because we are in an economic downturn, during which it is common for lending levels to contract. During the past nine recessions, inflation-adjusted total private sector lending per quarter has contracted on average 30 percent from peak to trough, while real GDP has contracted 2.0 percent.[1] During the last quarter of 2008, unemployment rose from 6.5 to 7.2 percent and more than 1.5 million jobs were lost as real GDP decreased by 3.8 percent. The demand for credit by consumers and businesses typically falls during an economic downturn, reflecting caution by both lenders and borrowers to take on new risk during uncertain economic times. This snapshot cannot, by itself, answer what lending levels would have been without the CPP, but levels would likely have been lower had Treasury not taken actions to stabilize the financial system and provided additional capital to banks through the CPP, enabling banks to continue lending during the financial crisis. These surveys will help Treasury and the public better understand lending activity in our system during this crisis by looking at some key metrics, such as levels, volumes, and drivers of credit.

Why lending? Lending is clearly one of the most important ways CPP recipients can deploy this additional capital, as it affects Americans directly. The CPP was created to stabilize the financial system by directly and quickly infusing capital into viable banks, enabling them to continue to extend credit to businesses and consumers during this unprecedented financial market crisis and economic downturn. The snapshot is designed to complement a separate but related Treasury initiative, whereby Treasury, in collaboration with the four banking agencies, is coordinating a more robust statistical research initiative to analyze quarterly regulatory reporting data to measure the impact of the Capital Purchase Program on the banking sector.

Why monthly? Banks report a significant amount of data to bank regulators every quarter. This information is typically released to the public six weeks after quarter end. The Treasury Department believes it is worthwhile to obtain more frequent and more real-time information in order to assess the impact of the CPP on bank lending and to inform policymaking as market conditions change.

[1] Data derived from the Federal Reserve flow of funding data and from data released by the Commerce Department.

Why only the top banks? The largest recipients of CPP funds represent a significant proportion of the banking system, or roughly 90 percent of deposits. These banks are diverse in terms of size, business focus, customer base, geographic coverage and product and service offerings. Treasury wanted to quickly but effectively provide an objective analysis to the public on this important topic and this targeted survey allows us to do that faster than otherwise possible. In addition, Treasury is in the process of developing a more streamlined snapshot for smaller institutions.

II. Snapshot Design
The snapshot contains quantitative information on three major categories of lending – consumer, commercial, and other activities – based on banks' internal reporting, as well as commentary to explain changes in lending levels for each category. In addition, the snapshot contains a qualitative section that provides market color on lending demand and credit standards generally to help Treasury and the public meaningfully and accurately interpret the quantitative data.

Why base the quantitative data on internal reporting? Treasury believes that it is critical to provide the public and Congress with as much information as possible about the programs we are implementing to stabilize the financial system. In this spirit, the snapshot has been designed to collect new information on a more frequent basis from banks. In order to do this, Treasury must utilize banks' internal reporting. This snapshot complements the detailed quarterly reports provided by banks on activities and financial condition to regulators, which is also publicly available. The Treasury snapshot is focused on lending activities and will be issued on a monthly basis. This information will also help guide policy making going forward as Treasury and the federal regulators continue to coordinate to develop a comprehensive response to the unprecedented financial markets crisis.

Why include both commentary and a qualitative section? Lending levels are a function of credit availability, which is in banks' control, as well as a host of factors outside of banks' control: loan demand, borrower creditworthiness, capital markets liquidity, the macroeconomic environment, etc. The purpose of the commentary and qualitative section is to allow banks to provide color on the interaction of these variables so that readers can put the banks' information in context and draw meaningful conclusions from the quantitative data.

What are the limits of the snapshot? The snapshot's reliance on internal reporting means that aggregation by loan category and comparisons of asset and origination levels across firms may be imperfect. Snapshot readers should focus on trends within a firm across time, particularly in percentage change terms, a fact that is reflected in Treasury's summary analysis.

III. Summary analysis

1 Despite significant headwinds posed by unprecedented financial market crisis and economic turn, banks continued to originate, refinance and renew loans. Significant challenges facing both banks and consumers that impact demand for and extension of credit include the shut down of various credit markets and the process of loan

securitization. In addition, during the last quarter of 2008, unemployment rose from 6.5 to 7.2 percent and more than 1.5 million jobs were lost as real GDP decreased by 3.8 percent, all of which increase the caution of consumers in taking on new loans and typically reduce demand for loans during a downturn. In addition, the crisis has negatively impacted confidence in our financial system, limiting banks' ability to raise private capital that enables them to increase consumer and business lending.

Please see the attached table detailing each bank's loan originations over the period of the survey.

2 <u>Due to decreasing loan demand and tighter underwriting standards, as well as other factors such as charge-offs, or losses written off on loans, banks reported a general trend of modestly declining total loan balances.</u>
   a. *From October to December, total residential mortgage balances across the twenty banks was essentially flat.* The median percent change in total residential mortgage balances was a decrease of 1 percent.
   b. *For the same period, corporate loan balances decreased slightly.* The median percent change in total loan balances across banks was a decrease of 1 percent. Ten banks experienced increases in total loan balances. The driver of the decrease was softening loan demand, particularly by smaller businesses, as noted by several banks.
   c. *Credit card borrowing increased, while available credit decreased.* The median percent change in average total loan balance for U.S. credit cards was an increase of 2 percent. The median percent change in total used and unused commitments for U.S. credit cards was essentially flat. For banks with the largest credit card loan balances, the decrease was more marked.
   d. *In commercial real estate, renewals of existing accounts increased significantly, while new commitments decreased significantly.* The median percent change in renewals of existing accounts was an increase of 55 percent. The median percent change in new commitments was a decrease of 19 percent. Many banks noted challenges in this space, including "negligible" residential home builder loan demand and weaker construction and development activity, softening with regards to retailers, an uncertain outlook with regards to office space, and the continued dislocation of the commercial mortgage backed securities (CMBS) market.

3 <u>Outside factors played a big role in driving month-on-month changes.</u> In general, lending activity decreased from October to November and then picked back up from November to December. Drivers of this phenomenon varied by loan type.
   a. A substantial increase in residential mortgage demand/applications from November to December was largely attributed to falling rates, driven by initiatives by Treasury, the Federal Reserve and other federal regulators.
   b. A similar trend was observed in the area of corporate lending, where the December increase in loan demand was attributed by several banks to diminished borrower access to other debt markets such as the commercial paper market, which effectively shut down in October 2008 due to the credit crisis. This market funds both financial and non-financial companies across the U.S. and its

breakdown forced corporate borrowers to increase their relative use of bank debt as a source of replacement funding.

c. Similarly, the FDIC's Temporary Liquidity Guarantee Program (TLGP) provided a significant boost to debt underwriting which had been quiet for some time. The TLFP was launched in conjunction with the CPP in October 2008 as another measure by the federal government to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt by banks and other institutions. The median percent change across firms from October to November was an increase of 39 percent, and from November to December the median percent change was an increase of was 74 percent.

IV. Process going forward

The Treasury Department will continue to refine this monthly analysis, including potentially other formats for presenting the data. While this initial snapshot included survey data from a three month period extending back to the launch of the CPP, monthly snapshots going forward will reflect data from the prior month only.

In addition, as noted above, Treasury is working with the federal banking agencies (Federal Reserve, FDIC, OCC and OTS) to conduct research on the impact that the Troubled Assets Relief Program and other federal programs have had on banks' health, lending and financial intermediation. Treasury anticipates publishing this analysis as it becomes available.

Loan Originations in Millions (Sum of October, November and December)

Name	First Mortgage	HELOC (Lines and Increases)	US Card (Managed): Initial Line Amount	Other Consumer Lending	C & I: Renewal of Existing Accounts	C & I: New Commitments	CRE: Renewal of Existing Accounts	CRE: New Commitments
Bank of America	$44,611	$5,326	$6,753	$6,986	$52,852	$49,004	$7,985	$7,343
BB&T	$3,682	$694	$401	$1,108	$1,779	$4,399	$3,271	$1,693
Bank of New York Mellon	$212	$34	$0	$17	$802	$1,055	$213	$195
Capital One	$7	$72	$3,671	$2,131	$576	$1,930	$183	$759
CIT	$0	$0	$0	$3	$10,387	$3,341	$0	$0
Citigroup	$16,274	$1,122	$27,121	$4,219	$3,553	$6,470	$955	$378
Comerica	$83	$102	$65	$129	$6,499	$1,255	$1,015	$284
Fifth Third	$2,551	$445	$541	$1,186	$843	$11,833	$1,322	$1,838
Goldman Sachs	$1,086	$150	$0	$203	$571	$3,686	$10	$0
JPMorgan Chase	$28,271	$1,606	$17,900	$6,037	$57,127	$48,533	$2,693	$2,560
KeyCorp	$315	$467	$0	$237	$3,439	$2,375	$2,575	$1,020
Marshall & Ilsley	$411	$130	$16	$155	$1,318	$777	$366	$545
Morgan Stanley	$0	$0	$0	$657	$1,098	$9,504	$0	$0
Northern Trust	$240	$319	$0	$421	$1,082	$2,709	$71	$317
PNC	$20	$766	$200	$551	$15,354	$5,546	$1,309	$1,915
Regions	$1,022	$487	$0	$310	$4,586	$2,627	$5,468	$1,990
State Street	$0	$0	$0	$0	$2,045	$890	$0	$800
SunTrust	$7,205	$440	$53	$1,151	$4,075	$3,628	$1,099	$1,303
U.S. Bancorp	$8,390	$1,427	$2,886	$2,692	$11,513	$9,062	$3,455	$2,452
Wells Fargo	$48,189	$1,736	$3,715	$2,571	$10,915	$17,623	$4,041	$4,415

Loan Category Key*	
First Mortgages	Loans secured by first liens on residential real estate
HELOC	Home equity lines of credit
US Card (Managed)	US credit cards (managed)
C & I	Commercial and industrial
CRE	Commercial real estate

NOTE: Reliance on internal reporting means that aggregation by loan category varies for each reporting bank. Because of the differences in loan category definitions, comparisons of origination levels across firms may be imperfect.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of Institution: Bank of America | **Submission date: January 30, 2009** | **Person to be contacted regarding this report: Craig Rosato**

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	2008 OCT	NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$255,383	$253,344	$251,71[illegible]	Average balance consists of (1-4 family) residential loans held on the balance sheet, whether originated by BAC or purchased from others, but does not include discontinued products (pay option and sub prime).	Average balance decline was due primarily to sales and the conversion of loans to securities that were subsequently retained within the Investment Portfolio. First Mortgage rates to consumers have dropped substantially in December leading to increased application volume. Origination activity during the month of December was 33% higher than November activity. The increase in volume is primarily due to refinancings into conventional products. The level of FHA and VA product activity has remained relatively flat. No changes in credit standards occurred during December that would have impacted originations.
b. Total Originations	$17,608	$13,595	$25,430	Originations include both loans originated for the balance sheet as well as loans originated for sale.	
(1) Refinancings	$7,805	$4,951	$7,732		
(2) New Home Purchases	$9,803	$5,645	$7,678		
2. Home Equity					
a. Average Total Loan Balance	$152,434	$152,904	$130,294	Average balances represent HELOC, HELOAN and Reverse Mortgage, but do not include discontinued products (sub prime).	Average balances declined in December due to additional principal writedowns on loans acquired from Countrywide. October and November average balances were not restated
b. Originations (New Lines+Line increases)	$1,921	$1,686	$1,819	Originations represent HELOC, HELOAN and Reverse Mortgage, but do not include discontinued products (sub prime).	
c. Total Used and Unused Commitments	$263,418	$260,053	$258,986	Total commitments exclude Reverse Mortgage.	
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$161,122	$161,119	$163,348	Average balances represent US Domestic Card and US Small Business Card.	Total commitments decreased during the quarter due to fewer line increases and reducing lines on riskier accounts and inactive accounts. As of December 31, 2008, US Card total commitments included $139.5B of inactive customer accounts.
b. New Account Originations (Initial Line Amt)	$2,290	$2,022	$2,440	Originations represent US Domestic Card and US Small Business Card.	
c. Total Used and Unused Commitments	$411,226	$407,970	$403,085	Commitments represent US Domestic Card and US Small Business Card.	
4. Other Consumer					
a. Average Total Loan Balance	$75,883	$76,364	$76,955	Average balances and Originations represent Dealer Financial Services (organically originated and bulk purchases), Consumer lending and Student Lending.	October and December originations are higher due to bulk auto purchases of $2B in October and $1.1B in December. Auto activity has been robust in December and into January 2009. Inconsistent market participation from the captive finance companies is driving increased volume. Marine & RV volume and bookings slowed significantly throughout 2008 and into 2009.
b. Originations	$3,543	$1,083	$2,329	Average balances and Originations include Foreign Consumer, Banking Center loans, Small Business Lines & Loans and Global Wealth Investment Management non real estate loans and other discontinued businesses.	

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C&I					
a. Average Total Loan and Lease Balance	$263,853	$262,398	$259,479	C&I is non-real estate commercial loans and leases, includes domestic and foreign loans and leases and excludes U.S Small Business Card (which is included in Schedule A above).	Increased bank borrowings occurred in September '08, particularly after the dislocation in the funding markets post Lehman's bankruptcy filing, when companies also increased borrowings as a result of concern around participant lenders' funding capabilities. As the corporate bond and commercial paper markets recovered in 4Q08, our customers were able to return to their traditional funding sources. As a result, corporate clients retired bank borrowings and draws on credit facilities due to market disruptions were down compared to 3Q08.
b. Renewal of Existing Accounts	$24,539	$15,330	$18,023	Renewals represent credit facilities that expired/matured and were renewed during the period; includes funded and unfunded exposure; includes all instrument types (loans held for investment, loans held for sale, LCs, bankers acceptances and derivatives.	
c. New Commitments	$22,036	$13,472	$15,49[illegible]	New commitments represent new credit facilities booked during the period; includes funded and unfunded exposure and includes all instrument types (see 1.b above). October 2008 new commitments are estimates due to legacy LaSalle system conversions.	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$64,892	$64,917	$64,695	Commercial Real Estate includes domestic and foreign loans primarily secured by non owner-occupied real estate which are dependent on the sale or lease of the real estate as the primary source of repayment.	The shut down of the CMBS securitization market during the second half of 2008, coupled with the commercial real estate market has resulted in a reduction in CRE lending activity.
b. Renewal of Existing Accounts	$2,583	$1,964	$3,487	Renewals represent credit facilities that expired/matured and were renewed during the period; includes funded and unfunded exposure; includes all instrument types (see 1.b above).	
c. New Commitments	$4,390	$1,790	$2,428	New commitments represent new credit facilities booked during the period, includes funded and unfunded exposure and includes all instrument types (see 1.b above). October 2008 new commitments are estimates due to legacy LaSalle system conversions.	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$40,596	-$12,012	-$9,764	Mortgage-backed securities net purchases include only activity related to our Asset/liability management process, and excludes those securities related to internally originated loans which have been securitized externally and re-sold to BAC.	Gross purchases for October, November and December were $43,033, $13,679 and $9,080, respectively, while gross sales were $2,437, $25,691 and $17,844, respectively.
b. Asset Backed Securities	$0	$0	$0	Same as 1.a above.	
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	$45,770	$66,387	$34,825	Matched Book Balances represent customer driven Reverse/Repo activity. Monthly fluctuations driven by customer demand, ability to apply FIN41 netting and balance sheet capacity.	
b. Average Total Debit Balances[2]	$240	$296	$84	Margin Loan balances are minimal following sale of prime brokerage on 9/30/08.	
3. Underwriting					
a. Total Equity Underwriting	$5,876	$3,760	$230	Underwriting represents BAC commitment on deals closed in current periods.	
b. Total Debt Underwriting	$9,237	$7,018	$7,474	Same as 3a.	

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

Notes:
* Average Total Loan and Lease Balances include loans held for sale.
* 4Q08 data excludes Merrill Lynch as the acquisition was effective January 1, 2009.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Bank of America**
Reporting Month(s): Oct-Nov-Dec 2008
Submission Date: January 30, 2009
Person to be contacted regarding this report: Craig Rosato

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Bank of America, headquartered in Charlotte, North Carolina, operates in 32 states, the District of Columbia and more than 30 foreign countries. The company provides a diversified range of banking and non-banking financial services and products domestically and internationally through three business segments: Global Consumer and Small Business Banking (GCSBB), Global Corporate and Investment Banking (GCIB), and Global Wealth and Investment Management (GWIM).

At December 31, 2008, Bank of America had $1.8 trillion in assets, nearly $911 billion in loans and $831 billion in deposits.

Economic Environment

2008 was a year in which the U.S. economy moved into an economic recession that deepened severely in the fourth quarter, triggered in part by the intensifying financial crisis. Housing activity and prices declined sharply throughout the year. Consumer spending in inflation-adjusted terms softened in the first half of 2008, and then declined in the second half, weighed down by the spike in energy prices that reduced real purchasing power, weaker trends in employment and personal income and the loss of household wealth resulting from sharp declines in home prices and stock market valuations. Sales of automobiles, household durables and consumer discretionary items were hit the hardest.

The stress consumers experienced from depreciating home prices, rising unemployment and tighter credit conditions resulted in a higher level of bankruptcy filings during the year as well as higher levels of delinquencies and losses in our consumer and small business portfolios. Housing value declines, a slowdown in consumer spending and the turmoil in the global financial markets also impacted our commercial portfolios where we experienced higher levels of losses, particularly in the homebuilder sector of our commercial real estate portfolio.

Credit Markets

First mortgage rates to consumers dropped substantially in December leading to increased application volume. Origination activity during the month of December was 33% higher than November activity. The increase in volume is primarily due to refinancing into conventional products. The level of FHA and VA product activity has remained relatively flat. No changes in credit standards occurred during December that would have impacted originations. The majority of the recent application volume has

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Bank of America**
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been refinance activity. Just over 20% of the volume is related to new purchases. Home equity demand remains sluggish. Auto activity was up in December and into January 2009. Inconsistent market participation from the captive finance companies is driving increased volume. Marine and RV volume and bookings slowed significantly in 2008 and into 2009.

Overall new loan demand for commercial real estate is down due to the lack of new construction activity and the overall condition of the real estate market. The CMBS market remains closed and the lack of permanent financing continues to put pressure on bank deals. Large corporate demand is stable; however there is limited demand for acquisition financing and capital expenditure activity. Middle market demand remains stable.

Bank of America's Response

In response to these changing conditions, Bank of America did the following to help stabilize the U.S. economy:

Bank of America extended more than $115 billion in new credit during the fourth quarter of 2008, of which about $49 billion was in commercial non-real estate; $45 billion was in mortgages; nearly $8 billion was in domestic card and unsecured consumer loans; nearly $7 billion was in commercial real estate; more than $5 billion was in home equity products; and approximately $2 billion was in consumer Dealer Financial Services.

Bank of America lent $45 billion through its mortgage unit ($11.3 billion of that to low- and moderate-income borrowers), helping more than 200,000 Americans purchase a home or save money on the home they already own in the fourth quarter alone.

Bank of America committed to assist as many as 630,000 customers to help them stay in their homes, representing more than $100 billion in mortgage financing. In 2008, the company modified approximately 230,000 home loans - representing more than $44 billion in mortgage financing. Bank of America also modified nearly 700,000 credit card loans for borrowers experiencing financial hardship last year.

In 2008, Bank of America extended almost $4.8 billion in new credit to nearly 250,000 small business customers (defined as businesses with less than $2.5 million in revenues and less than $250,000 in credit exposure). During the fourth quarter alone, nearly $1 billion in new credit was extended to more than 47,000 new small business customers.

Bank of America extended about $49 billion in commercial non-real estate lending credit and nearly $7 billion in real estate lending during the fourth quarter to middle market and large corporate clients as

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well as not-for-profit organizations and governments. In 2008, the company also invested $1 billion in affordable housing development financing by using Low Income Housing Tax Credits.

The secondary market created through mortgage-backed securities provides liquidity in the housing market, enabling lenders to provide credit to homebuyers. In the fourth quarter, Bank of America had net purchases of $20 billion in mortgage-backed securities.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of Institution: Bank of New York Mellon Corporation | Submission date: January 30, 2009 | Person to be contacted regarding this report: Jeffrey D Landau

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	2008 NOV	DEC	Key	Comments
1. First Mortgages					
a. Average Loan Balance (Daily Average Total Outstanding)	$4,632	$4,677	[illegible]	Secured by 1st liens on closed-end loans for 1-4 family residential properties. Includes jumbo mortgages.	
b. Total Originations	[illegible]	$14	[illegible]		
(1) Refinancings	$17	$17	$25		
(2) New Home Purchases	$52	$37	[illegible]		
2. Home Equity					
a. Average Total Loan Balance	$331	$335	$342	Secured by revolving, open-end loans for 1-4 family residential properties extended under lines of credit.	
b. Originations (New Lines+Line Increases)	$12	$12	$20		
c. Total Used and Unused Commitments	$269	$272	$283	Funded end balances plus unused home equity lines of credit.	
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$0	$0	$0		The company does not make credit card loans.
b. New Account Originations (Initial Line Amt)	$0	$0	$0		
c. Total Used and Unused Commitments	$0	$0	$0		
4. Other Consumer					
a. Average Total Loan Balance	$280	$265	$257	Other consumer loans, excluding other revolving credit plans. These loans include single payment loans and loans for household and other personal expenditures.	
b. Originations	$8	$5	$4		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$10,445	$10,309	$10,303	Domestic and foreign loans and leases to manufacturers and other commercial businesses, excluding loans made to finance commercial real estate.	These loans and leases are primarily to investment grade companies. The volume of credit requests declined in the fourth quarter 2008 compared to the third quarter 2008.
b. Renewal of Existing Accounts	[illegible]	$135	[illegible]		
c. New Commitments	[illegible]	[illegible]	[illegible]		
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	[illegible]	$3,100	$3,034	Loans to finance commercial real estate, construction and land development. Includes real estate loans both secured and unsecured.	Loans are secured by residential buildings, office buildings, retail properties and other properties. The unsecured portfolio is primarily allocated to REITs under revolving credit agreements. The volume of credit requests declined in the fourth quarter 2008 compared to the third quarter 2008.
b. Renewal of Existing Accounts	[illegible]	$45	$66		
c. New Commitments	[illegible]	$100	[illegible]		
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$202	$1,453	[illegible]	Reported amounts are amounts paid for the securities. Includes $178 million in Oct and $988 million in Nov of Agency Debentures.	These purchases were made to increase the amount of money available to qualified borrowers in the residential housing market.
b. Asset Backed Securities	$0	$0	$0		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	N/A	N/A	N/A	Activity less than $50 billion.	
b. Average Total Debit Balances[2]	[illegible]	$4,721	$4,3[illegible]		Average total debit balances reflects margin loans recorded by our broker/dealer subsidiary.
3. Underwriting					
a. Total Equity Underwriting	$0	$0	$0	No equity deals in the 4th quarter.	Amounts reported represent our portion of the transactions.
b. Total Debt Underwriting	$125	$305	[illegible]	Represents our portion of the transactions.	

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering [illegible] margin lending [illegible] to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Bank of New York Mellon Corporation**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
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PART II. QUALITATIVE OVERVIEW

The Bank of New York Mellon, a global leader in asset management and securities servicing, also has a significant presence in the areas of wealth management, issuer services, clearing services and treasury services. The company's global client base includes financial institutions, corporations, government agencies, pension funds, endowments and foundations. The company does not have a consumer banking franchise.

With regard to our lending activity, it is paramount to point out that the business model of The Bank of New York Mellon is very different from traditional retail, commercial or investment banks. In contrast to most of the other companies that have received a TARP investment, our business model does not focus on the broad retail market or products such as mortgages, credit cards or auto loans, or on typical lending to corporate businesses.

Our business is dedicated to helping other financial institutions around the world. We help monitor and administer their complex "back-office" processes. The Bank also provides critical infrastructure for the global financial markets by facilitating the movement of money and securities through the markets.

The majority of The Bank of New York Mellon's lending activity relates to extending credit (i.e., overdrafts, loans to broker/dealers, etc.) to its institutional client base. Following the Lehman bankruptcy, we experienced a significant increase in (i) demand for loans from our broker/dealer clients and (ii) overdrafts relating to the clearing and securities processing services we provide to clients. Our willingness and ability to extend credit in this manner provided liquidity to the market and our core financial institution client base at the time it was needed most. During the latter part of the fourth quarter 2008, and into January 2009, client demand for these extensions of credit returned to more normal levels. Loans to broker/dealers and overdrafts are included in the aggregate amount of loans that we publicly report, but are not classified as C&I loans.

In keeping with its role as an institutional provider, The Bank of New York Mellon has used the TARP investment to help address the need to improve liquidity in the U.S. financial system. This has been done through the purchase of securities issued by U.S. government-sponsored agencies. The company has also provided liquidity to other financial institutions in order to increase the amount of funds available in the credit markets.

Specifically, we have purchased mortgage-backed securities and debentures issued by U.S. government-sponsored agencies to support efforts to increase the amount of money available to lend to qualified borrowers in the residential housing market. The company has also purchased debt securities of other financial institutions, which helps increase the amount of funds available to lend to consumers and businesses. In addition, we have used the funds for interbank placements, federal funds sold and other interbank lending. All of these efforts address the need to improve liquidity in the financial system and are consistent with our business model which is focused on institutional clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: BB&T Corporation | **Submission date: January 30, 2009** | **Person to be contacted about this report: Daryl N. Bible, Chief Financial Officer**

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	2008 OCT	2008 NOV	2008 DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$18,677	$18,362	$18,209	Consists of 1-4 family residential loans originated primarily through BB&T's branch network.	Mortgage originations in the fourth quarter of 2008 were down slightly from the third quarter; however, lower interest rates late in the quarter drove a 42% increase in mortgage application volume compared to the third quarter of 2008. Approximately 86% of fourth quarter originations were conforming loans sold to Freddie Mac and Fannie Mae and FHA / VA loans.
b. Total Originations	$1,428	$1,008	$1,268		
(1) Refinancings	$623	$461	$686	Includes loans originated for sale and to be included in the mortgage portfolio.	
(2) New Home Purchases	$754	$547	$582		
2. Home Equity					
a. Average Total Loan Balance	$5,695	$5,718	$5,809	Item 2 includes only home equity lines. All are originated through BB&T's branch network.	Growth in home equity lines continues to be challenged by soft demand.
b. Originations (New Lines+Line Increases)	[illegible]	$217	[illegible]		
c. Total Used and Unused Commitments	$15,765	$15,777	$15,790		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$1,888	$1,934	$1,966	Item 3 balances include bank cards and demand deposit protection lines. Bank cards are primarily originated through the banking network and are positioned as a relationship product.	Revolving credit balances are experiencing strong growth with annualized linked quarter growth of 12% in the fourth quarter of 2008.
b. New Account Originations (Initial Line Amt)	$159	$172	$220		
c. Total Used and Unused Commitments	$9,486	$9,565	$9,638		
4. Other Consumer					
a. Average Total Loan Balance	$18,847	$18,768	$18,593	Item 4 includes non revolving home equity loans, sales finance and other consumer loans.	Weak economy and increasing unemployment have contributed to soft consumer markets.
b. Originations	$462	$357	$358		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C&I					
a. Average Total Loan and Lease Balance	$32,490	$32,042	$33,531	Item 1.a. includes leveraged leases.	C&I lending is experiencing very strong annual growth of 15.3%, accelerating to 17% annualized in the fourth quarter on average. BB&T is focused on diversifying our commercial portfolio via increased C&I lending and continues to capitalize on credit market disruptions and in-market mergers.
b. Renewal of Existing Accounts	$688	$502	$821		
c. New Commitments	$1,473	$1,372	$1,554		
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	[illegible]	$39,383	$39,014		Construction starts have remained at low levels and the inability to sell homes in other parts of the country is having a negative impact on housing sales in the Southeastern U.S. as in-migration of population has slowed. BB&T has seen growth in CRE, primarily due to the collapse of the CMBS market. Point-to-point annualized growth for the fourth quarter was approximately 25%.
b. Renewal of Existing Accounts	$1,142	$911	$1,238		
c. New Commitments	$580	$416	$697		
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	[illegible]	-$3,721	[illegible]	Item 1.a. represents gross purchases, net of gross sales on a trade date basis. Principal paydowns are excluded. All these securities purchases are GSE mortgage-backed securities.	
b. Asset Backed Securities	$0	$0	$0		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	N/A	N/A	N/A		
b. Average Total Debit Balances[2]	$127	$117	$110		
3. Underwriting					
a. Total Equity Underwriting	$0	$0	$0		
b. Total Debt Underwriting	$850	$430	$1,303		

Notes:
1. Not applicable if matched book activity does not exceed $25 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **BB&T Corporation**
Reporting month(s): Oct, Nov, Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Daryl N. Bible, Chief Financial Officer

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Company Description

BB&T Corporation ("BB&T") is a regional financial holding company headquartered in Winston-Salem, North Carolina. BB&T conducts its business operations primarily through its commercial bank subsidiary, Branch Banking and Trust Company, which has banking offices in North Carolina, South Carolina, Virginia, Maryland, Georgia, West Virginia, Tennessee, Kentucky, Alabama, Florida, Indiana and Washington, D.C. In addition, BB&T's operations consist of several nonbank subsidiaries, which offer financial services products. Substantially all of BB&T's loans are made to businesses and individuals in these market areas.

Overall Loan Growth

In the fourth quarter of 2008, BB&T's average loans and leases increased $1.3 billion, or 5.3% on an annualized link basis, and BB&T's end of period loans increased $2.0 billion, or 8.2% on an annualized link basis, compared to the third quarter of 2008. This growth rate includes runoff in home equity lines, which results as many clients are rolling home equity lines into mortgage refinancing, and lower mortgage balances as BB&T is selling a large percentage of loans originated to Fannie Mae and Freddie Mac. Average commercial loans and leases increased 10.7% on an annualized link quarter basis during the fourth quarter, sales finance increased 3.8%, revolving credit increased 11.5% and loans originated by our specialized lending subsidiaries increased 7.0%, all on the same basis. BB&T originated approximately 54,000 commercial loans during the fourth quarter and 161,000 consumer loans. Total loan originations for the fourth quarter of 2008 were approximately $15 billion.

Commercial Loans and Leases

The commercial loan and lease portfolio represents the largest category of BB&T's loans. It is traditionally targeted to serve small to middle market businesses. BB&T is focusing on diversifying the commercial portfolio by growing commercial and industrial loans at a faster rate than commercial real estate loans. We continue to capitalize on in-market mergers, challenged competitors and credit market disruption and have grown end of period C&I loans by approximately 20% on an annualized link quarter basis. We are gaining market share by picking up good credits at reasonable spreads, while guarding against adverse selection. While we have seen recent growth in lending to our Small Commercial and lower Middle Market clients, much of the growth has also come from our larger client segments.

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<u>Commercial real estate</u>

Overall new loan demand for commercial real estate is slower; however, due to the collapse of the CMBS market, BB&T's other CRE portfolio has experienced growth in 2008, particularly in the multifamily, warehouse / light industrial and hotel / motel segments. End of period growth for the fourth quarter was approximately 25%. This growth is in spite of tighter lending standards imposed mid-year 2008 and was primarily a result of bank and non-bank financial institutions curtailing income property lending. BB&T's other CRE portfolio is very granular, with an average loan size of $515,000.

<u>Consumer</u>

New production continues to decline in most consumer portfolios as these markets continue to reflect recession related weakness.

Our Sales Finance portfolio includes the origination of loans for the purchase of new and used automobiles, boats and recreational vehicles through approved dealers within the 11 state BB&T footprint. New loan volume is highly seasonal. The total Sales Finance portfolio grew slightly in the fourth quarter fueled by growth in recreational lending and floor plan portfolios. Auto loans were down in accordance with seasonal trends coupled with a downturn in new car sales. However, the decrease was not as great as expected because we are gaining market share as other lenders withdraw from our footprint.

Our Bankcard product line is positioned as a relationship product offered to prime credit BB&T clients and business loan clients. We continue to see growth in this portfolio, and are maintaining a consistent conservative posture with respect to risk at account origination. Line utilization has remained relatively consistent for both retail and commercial clients.

<u>Mortgage</u>

Mortgage originations totaled $3.7 billion in the fourth quarter, down slightly compared to the third quarter of 2008. However, application volume was up 42% from the third quarter as mortgage rates declined considerably. Many of these applications were received in the month of December. While mortgage balances were down on average 2.9% on an annualized link quarter basis compared to the third quarter, this decrease reflects loan sales to Freddie Mac and Fannie Mae as approximately 86% of originations were sold in the secondary markets. The vast majority of current origination volume is conforming or FHA / VA.

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Name of institution: **BB&T Corporation**
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Capital Purchase Plan Deployment

The U.S. Treasury invested $3.1 billion in BB&T on November 14, 2008. BB&T pursued quality loans and investments throughout 2008, as evidenced by average loan growth of 8.6% through the first nine months of 2008. Following receipt of the CPP funds and in the spirit of the program, BB&T developed an initial deployment strategy, including a number of initiatives, to aggressively make loans across all lending strata. We have made additional loans in areas that have been negatively affected by liquidity and funding challenges, particularly through initiatives in corporate lending, equipment leasing, insurance premium finance and consumer lending. In addition to our normal lending activities, these special lending initiatives have resulted in an additional $1.6 billion in loans and commitments to lend that were made in the six weeks following receipt of the CPP funds through the end of 2008.

BB&T also invested over $10 billion in GSE mortgage-backed securities following receipt of the CPP funds in the fourth quarter to provide liquidity to mortgage markets. Through these lending and investment initiatives, BB&T increased the balance sheet by the maximum amount possible in the fourth quarter consistent with meeting our minimum capital guidelines in an effort to minimize the dilutive impact of the CPP investment. BB&T's current strategy is to re-deploy the cash flow from our securities portfolio into lending over the course of the year, thereby changing the mix of our balance sheet, but holding total asset levels fairly stable throughout the year to maintain our capital levels.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of Institution: Capital One Financial Corp | Submission date: January 30, 2009 | Person to be contacted regarding this report: Kevin Murray

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	2008 NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	[illegible]	$7,255	$7,204	Mortgage and Home Equity numbers are end of month figures rather than averages and include run off portfolio inherited from GreenPoint Mortgage	Capital One has through most of its history not been an originator of, or investor in, residential mortgage loans. GreenPoint Mortgage - a subsidiary of NorthFork Bancorp - was acquired along with NorthFork in December 2006 but its origination business was closed in August 2007. Mortgage loan balances largely reflect assets acquired from NorthFork which are currently in run-off mode
b. Total Originations	$3	$0	$1		
(1) Refinancings	$3	$0	$0		
(2) New Home Purchases	$2	$0	$4		
2. Home Equity					
a. Average Total Loan Balance	$3,476	$3,449	$3,465	Mortgage and Home Equity numbers are end of month figures rather than averages and include run off portfolio inherited from GreenPoint Mortgage	Fluctuations in volume in the measured time period reflect idiosyncratic factors; there have been no changes in credit standards. We continue to originate home equity loans to our customers in our footprint.
b. Originations (New Lines+Line Increases)	$29	$21	$22		
c. Total Used and Unused Commitments	[illegible]	$4,510	$4,456		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$51,984	$52,327	$52,568	US Card reflects only consumer card volumes; All numbers reflect managed portfolio	We tightened credit standards in the fall to reflect continued worsening in the economic outlook triggered by the events in September. The relatively high origination volume in October reflects the last bookings from earlier campaigns prior to the new standards going into effect. The increase in outstandings in December reflects holiday sales. Overall, fourth quarter loan growth in the US Card business was weaker than usual, on the basis of weak holiday spending. Despite weak economic growth, we opened 1 million new consumer credit card accounts in the quarter. We continue to originate new credit card accounts through our direct mail and internet channels.
b. New Account Originations (Initial Line Amt)	$1,238	$981	$800		
c. Total Used and Unused Commitments	$178,120	$178,157	$178,091		
4. Other Consumer					
a. Average Total Loan Balance	$33,781	$33,363	$32,850	Other consumer non-revolving include auto loans, unsecured installment loans and other non-revolving loans secured by boats, RVs, money-market accounts, etc and $200 million of unsecured other consumer revolving lines	We've observed greater increases in the risk of closed-end loan customers in "Boom and Bust" housing markets as compared to the risk of credit card customers in those housing markets. In response to adverse credit trends, we've had to be very disciplined in originating most closed-end loans. Auto Finance trends continue to show the impacts of broad economic worsening, falling auto sales and the impact of sharply falling used card auction prices.
b. Originations	$756	$573	$664	For the small volume of revolving loans, the line extended is included in originations.	

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$23,516	$23,773	$23,951	Small Business credit cards are included in C&I avg balance and new commitments numbers.	Growth in the fourth quarter was moderated by weakening demand which has continued into the first quarter of 2009. Loan demand was moderately weaker for large and middle market firms. For smaller firms, loan demand was substantially weaker. The decrease in demand was attributed to decreasing needs for the financing of plant, equipment, inventory and accounts receivable. Not withstanding deteriorating economic conditions, we continue to make new loans across a variety of industry segments.
b. Renewal of Existing Accounts	$220	$189	$167		
c. New Commitments	$514	$756	$626	Unutilized capacity of both small business cards and more broadly C&I lending is not captured anywhere on the "Snapshot."	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$17,355	$17,421	$17,439		Despite deteriorating economic conditions, we increased our CRE portfolio modestly. The Retail asset class has softened overall as many retailers have cut back expansion plans or gone into bankruptcy. Office space is not yet showing significant deterioration in our markets, although dramatic job losses could impact this segment in '09. We see softness in construction and development activity due to limited demand and excess supply in some markets. We are watching rents and vacancies in retail and office space closely and factoring trends into new lending decisions. In all sectors, we are maintaining strong covenants and coverage ratios. This has translated into significant declines in new construction projects in all of our markets and cautious growth in other segments.
c. Renewal of Existing Accounts	$64	$13	$107		
c. New Commitments	$152	$220	$406		
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$1,802	$1,212	$1,548		Asset Backed Securities are predominantly made up of securities backed by credit card and auto loan receivables
b. Asset Backed Securities	$434	$235	$568		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	n/a	n/a	n/a	Secured Lending and Underwriting not applicable	
b. Average Total Debit Balances[2]	n/a	n/a	n/a	Secured Lending and Underwriting not applicable	
3. Underwriting					
a. Total Equity Underwriting	n/a	n/a	n/a	Secured Lending and Underwriting not applicable	
b. Total Debt Underwriting	n/a	n/a	n/a	Secured Lending and Underwriting not applicable	

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Capital One Financial Corporation**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Kevin Murray

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Capital One is a "main street" bank that serves consumers and small-to-medium sized businesses locally in New York, Louisiana and Texas and that serves credit card and auto loan customers nationally, in Canada and in the UK. Capital One and its subsidiaries collectively had $109 billion in deposits and $147 billion in managed loans outstanding as of December 31, 2008. Headquartered in McLean, VA, Capital One has 738 locations, primarily in New York, New Jersey, Texas and Louisiana. Capital One offers a broad spectrum of financial products and services to consumers, small business and commercial clients.

Consumer Lending

In the fourth quarter, we extended billions of dollars in new credit to both new and existing customers across our lending businesses. For example, our consumer credit card customers have access to more than $170 billion in credit lines on their cards to use to make transactions and to finance those purchases as they choose. We continue to originate new credit card accounts through our direct mail and internet channels and opened 1 million new credit card accounts in the fourth quarter. We extended those new customers more than $3 billion in new credit line in the fourth quarter.

While we originated billions of dollars of new loans in the fourth quarter, ending loan balances for the total company did not grow in the quarter, and declined modestly from the prior year. Several factors had a negative impact on ending loan balances in the fourth quarter of 2008. These factors include: rising charge-offs; normal amortization and attrition; declining purchase volumes; and tightened underwriting in the midst of the economic downturn. Together, these factors offset loan originations in the fourth quarter. Of particular note is that total purchase volume on our US Consumer Credit Cards dropped 11% in the Fourth Quarter of 2008 and purchases per active account dropped 6%, which was roughly in-line with the decline in national retail sales figures. In general, the mix of purchases on our cards has mirrored what we're seeing in the broader economy, with consumers reining in discretionary purchases.

As is well documented, economic deterioration accelerated during the fourth quarter and economic worsening is widely projected to continue. We must maintain prudent risk management standards in the face of a worsening economy in order to protect the U.S. taxpayers' investment in us and ensure an

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

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Submission date: January 30, 2009
Person to be contacted regarding this report: Kevin Murray

appropriate return. Also, we must adapt to an environment in which consumers with strong credit are borrowing less while consumers with weak credit are becoming riskier. Under these conditions, we expect that loan balances will decline going forward even though we remain an active lender across our businesses. For example, auto sales declined significantly in 2008 compared to last year due to weakened consumer confidence, tight credit and rising unemployment. New car sales dropped approximately 18% from 16.2 million in 2007 to 13.3 million in 2008. In Q4 2008, car sales dropped by over 30% compared to the previous year. Despite these headwinds, Capital One originated more than $1.4 billion in auto loans in the Fourth Quarter of 2008.

Commercial and Small Business Lending and Commercial Real Estate Lending

Growth in commercial and Industrial lending in the fourth quarter was moderated by weakening demand which has continued into the first quarter of 2009. C&I loan demand was moderately weaker for large and middle market firms. For smaller firms, loan demand was substantially weaker. The decrease in demand was attributed to decreasing needs for the financing of plant, equipment, inventory and accounts receivable.

Notwithstanding deteriorating economic conditions, we continue to make new loans across a variety of industry segments as evidenced by our more than $2.5 billion in new loan commitments and renewals of existing accounts in the fourth quarter.

Despite deteriorating economic conditions, we increased our CRE portfolio modestly. The Retail asset class has softened overall as many retailers have cut back expansion plans or gone into bankruptcy. Office space is not yet showing significant deterioration in our markets, although dramatic job losses could impact this segment in 2009. We see softness in construction and development activity due to limited demand and excess supply in some markets. We are watching rents and vacancies in retail and office space closely and factoring trends into new lending decisions. In all sectors, we are maintaining strong covenants and coverage ratios. This has translated into significant declines in new construction projects in all of our markets and cautious growth in other segments.

We continue to make new loans across a variety of industry segments, as well as lending in new markets, which contributed to the more than $900 million dollars in new commitments and renewals of existing accounts in the fourth quarter.

Finally, we would note that consistent with our strong commitment to support all sectors of our local communities, Capital One originated more than $440 million in loans and investments in Q4 2008 to support activities such as community development and affordable housing.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Capital One Financial Corporation**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Kevin Murray

Investment Activity in Support of Consumer Lending

To the extent that falling loan demand limits the extension of new credit directly to our customers, we put our funds to work by purchasing high quality securities backed by consumer loans. Most often, these loans were originated to help consumers to buy homes, autos and a range of discretionary items. In the fourth quarter, we purchased $6 billion of high quality investment securities backed by mortgage and consumer loans. In the current economic and market environment, investing in high-quality, short-duration securities provides appropriate risk-adjusted returns for our shareholders, and supports the recovery and stabilization of secondary markets that are critical to consumer lending and the economy.

Capital One believes that this disciplined stance is in the best interests of both our customers and investors, including the U.S. taxpayer. Although growth in loan balances has slowed in response to rising charge-offs, run-offs in businesses we've exited and reduced consumer spending, we are actively originating billions of dollars of good loans on good terms with our consumer, commercial and small business customers.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of Institution: CIT Group Inc. Submission date: 01/30/2009

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	2008 OCT	2008 NOV	2008 DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)					We closed the home lending origination platform in August 2007 and sold the remaining assets in July, 2008.
b. Total Originations					
(1) Refinancings					
(2) New Home Purchases					
2. Home Equity					
a. Average Total Loan Balance					We are currently not engaged in any of these activities.
b. Originations (New Lines+Line Increases)					
c. Total Used and Unused Commitments					
3. US Card - Managed					
a. Average Total Loan Balance - Managed					We are currently not engaged in any of these activities.
b. New Account Originations (Initial Line Amt)					
c. Total Used and Unused Commitments					
4. Other Consumer					
a. Average Total Loan Balance	$ [illegible]	$ 17,692	$ [illegible]	Consumer Lending assets consist primarily of our Student Lending business, which is approximately 95% government guaranteed.	CIT ceased underwriting new student lending business in the second quarter of 2008.
b. Originations	$ 2	$ 3	$ 4		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$ [illegible]	$ 56,274	$ [illegible]	Included in the C & I asset balances is approximately $13 Billion of operating leases.	Our commercial and industrial business consists of Corporate Finance, Transportation Finance, Trade Finance and Vendor Finance segments.
b. Renewal of Existing Accounts	$ [illegible]	$ 3,344	$ [illegible]	The Renewal of Existing Accounts is predominately from our Trade Finance business.	
c. New Commitments	$ 1,238	$ 887	$ [illegible]		
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$ 882	$ 880	$ 865	Some of our other businesses, such as our Small Business Administration lending, and Energy financing, may also have some of their loans secured by real estate. These businesses are included in the reported C&I numbers.	CIT's Commercial Real Estate business ceased underwriting new business in the first half of 2008.
b. Renewal of Existing Accounts					
c. New Commitments					
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities					We are currently not engaged in any of these activities.
b. Asset Backed Securities					
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]					We are currently not engaged in any of these activities.
b. Average Total Debit Balances[2]					
3. Underwriting					
a. Total Equity Underwriting					We are currently not engaged in any of these activities.
b. Total Debt Underwriting					

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **CIT Group Inc.**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 01/30/2009
Person to be contacted regarding this report: Ken Reynolds

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Founded in 1908, CIT Group Inc. provides financing and leasing products and services to clients in over 30 industries and 50 countries. The majority of our business focuses on commercial clients with a particular focus on middle-market companies. Our largest industries include transportation, particularly aerospace and rail, and a broad range of manufacturing and retailing. We also serve the wholesaling, healthcare, communications, media and entertainment and various service-related industries.

The TARP money was received by CIT on December 31, 2008. The reporting information is based on CIT's internal reporting on the related lending activity. Overall, commercial financing demand has declined due to current economic conditions. Origination volume in our commercial businesses, excluding factoring, was $3.3 billion for the fourth quarter 2008, down from $3.9 billion in the prior quarter, due primarily to economic conditions and balancing of liquidity with customer needs. Fourth quarter business activity by segment is discussed below:

Corporate Finance – Fourth quarter volume was $834 million. Fourth quarter origination was down 44% from the prior quarter and was across each of our industry groups, most notably in the Syndicated Loan, Commercial and Industrial, Energy and Infrastructure and Healthcare units. This trend reflected the continuation of the Company's liquidity management and tighter underwriting in light of the soft market conditions

Transportation Finance – Fourth quarter volume was $722 million. Fourth quarter origination increased 21% from the prior quarter, with the increase largely in the commercial aerospace unit, as we accepted delivery of additional aircraft and leased them to customers.

Trade Finance – Fourth quarter volume was $10.3 billion. Renewal volume declined 6% from prior quarter consistent with seasonal trends as volume generally peaks in advance of the holiday season. Volume declined 14% from the prior year, reflecting the weak retail environment.

Vendor Finance – Fourth quarter volume was $1.8 billion. Fourth quarter origination was essentially flat with prior quarter as a modest increase in U.S. volume offset reductions in international units. Volume was down 33% from prior year, reflecting continued focus on strategic vendor relationships and tighter underwriting standards.

Consumer – We ceased origination of student loans in the second quarter of 2008 and sold our home lending business in the third quarter of 2008.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: Citigroup | **Submission date: January 30, 2009** | **Person to be contacted regarding this report: Carol Hayles or Peter Biezzard**

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	2008 NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$159,562	$155,438	$152,3[illegible]		First mortgage balances declined from October through December, reflecting increased sales of mortgages and higher repayments, due to refinancing as mortgage interest rates declined. Origination volume was significantly lower than in the prior year, reflecting a decline in mortgage applications, tightened credit standards, declines in purchases from third party originators, and a focus on origination for sale to government-sponsored enterprises. Quantitative data do not include modifications to existing mortgage loans and other mitigation efforts which usually involve a restructuring of terms rather than a new extension of credit.
b. Total Originations	$8,932	$3,788	$5,5[illegible]	Originations includes new loans whether for refinance of an existing home or the purchase of a home. It does not include troubled debt restructurings which usually includes a restructuring of terms and not additional extensions of credit.	
(1) Refinancings	$7,653	$764	$5[illegible]	If on a refinancing, amounts were added to the existing loan balance, the total amount of the new loan is reported.	
(2) New Home Purchases	$1,138	$551	$489		
2. Home Equity					
a. Average Total Loan Balance	$68,985	$68,87[illegible]	$68,71[illegible]	Includes HELOC and 2nd mortgages.	Home Equity balances have remained fairly constant during the period despite significantly declines in new home equity originations during the period. While new home equity originations are down significantly year over year, existing customers continue to draw on their home equity on a regular basis. However, lower housing prices have curbed the consumers ability to take out new home equity loans for debt consolidation or home improvement. Citi no longer purchases home equity loans from third party originators or Wall Street firms.
b. Originations (New Lines+Line Increases)	$369	$362	$350	If a line is increased, the total amount of the new line was included not just the increase. If the line was increased without a simultaneous draw, then you would see an origination amount for the total increase in the line, but no change in the balances.	
c. Total Used and Unused Commitments	$87,406	$85,113	$85,354	If the customer both increased a line and simultaneously drew on the line, then you would see an origination amount for the total increase in the line, and a change in the balances for the drawn amount.	
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$105,344	$347,440	$109,138	Balances do not include commercial card activity.	Increasing balances during the quarter reflect seasonal spending and slower payment rates, however year-over-year sales declined 15% reflecting the current economic environment. In addition, the managed portfolio is experiencing higher loss rates of 8.04% in Q408 vs. 5.1% in the same quarter of the prior year.
b. New Account Originations (Initial Line Amt)	$2,828	$8,413	$10,370		
c. Total Used and Unused Commitments	$2,980,761	$1,073,560	$2,90[illegible]		
4. Other Consumer					
a. Average Total Loan Balance	$62,515	$62,741	$61,883	Includes Auto, student and personal loans. Student loans includes related deferred fees and lines of credit with schools (which are secured by student loans).	Minimal auto lending activity relative to prior year with originations down approximately 80% reflecting business consolidation and tighter credit standards; 4th quarter Student Loan originations declined 19% reflecting the Company's temporary withdrawal from the Federal Loan Consolidation market, partially offset by increases in new FFELP volume reflecting increased loan limits and higher penetration at the educational institutions.
b. Originations	$3,042	$1,944	$1,323		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C&I					
a. Average Total Loan and Lease Balance	$43,740	$42,820	$42,306	Renewals and new commitments are on a facility basis. Facilities include L/Cs. If a loan is rolled over at a higher amount, the total amount of the rollover is reported.	C&I balances were relatively flat in the quarter, the market evidenced a decline in business investment, M&A activity and investment property purchases in response to the economic outlook for 2009. Small business credit balances remained relatively strong on previously approved credit facilities, although demand for new facilities was low.
b. Renewal of Existing Accounts	$1,160	$1,344	$1,030		
c. New Commitments	$1,282	$1,892	$1,345		
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$22,162	$21,320	$21,369	Renewals and new commitments are on a facility basis. Facilities include L/Cs. If a loan is rolled over at a higher amount, the total amount of the rollover is reported.	Overall, new loan demand and origination for commercial real estate were down, due to the economic environment and uncertainties in the market, which have resulted in a significant slowdown in transaction activity. Our investor portfolio in Citi's Global Wealth Management business has historically focused on short- to medium- term lending on existing commercial real estate assets, and many clients sought short-term bridge financing of completed projects in the absence of a permanent or commercial mortgage-backed securities market. Our Institutional Client Group is rolling over and extending loans in its existing customer base where it is comfortable with the counterparty and the underlying assets.
b. Renewal of Existing Accounts	$134	$55	$766		
c. New Commitments	$128	$156	$96		
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$10,982	$5,180	$1,421	Does not include maturities and pay downs. Net Purchased Volume is reported using cost basis.	MBS purchases and sales activity was higher in Dec due primarily to increased agency pass-through pool settlements with both customers and dealers, however sales activity was slightly higher than purchases, resulting in a lower net balance in the month. In addition, $6B of MBS purchases were made to manage liquidity and maintain targeted levels of secured funding. ABS activity was primarily customer trading and purchases of collateralized financing notes issued by the big three auto financing companies.
b. Asset Backed Securities	$4,508	$384	$1,061		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	$126,382	$123,197	$102,415	Average Total Matched Book (Repo/Reverse Repo) is before FIN 41 netting. Includes security lending activity.	Matchbook Secured lending declined from October to December due to reduced customer collateralized financing activity.
b. Average Total Debit Balances[2]	$22,457	$22,099	$20,838		
3. Underwriting					
a. Total Equity Underwriting	$81	$6	$15	Equity Underwriting represents Citi's portion of underwritten issue.	Spreads on corporate bonds rose substantially in October and November and new issuance declined markedly. Credit markets recovered somewhat in December increasing debt market activity after a number of the Federal Reserve initiatives started to take effect and improve the day-to-day functioning of the capital markets.
b. Total Debt Underwriting	$4,095	$4,706	$22,357	Debt underwriting represents Citi's portion of underwritten issue and extensions of credit to finance specific individual CRE projects that are in bond form.	

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Citigroup Inc.**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Carol Hayles or Peter Bieszard

PART II. QUALITATIVE OVERVIEW

Company description: Citigroup Inc. ("Citi") does business in the United States through Citibank, Citi Institutional Clients Group, The Citi Private Bank, Smith Barney, Primerica, Diners Club, CitiFinancial, CitiMortgage and Citi Cards. Average loans in North America in the fourth quarter of 2008 were $532.6 billion. Average deposits and other customer liability balances were $279.9 billion.

Consumer Lending: New U.S. consumer lending in the fourth quarter totaled approximately $48.7 billion despite a decline in consumer spending, tighter underwriting standards across the U.S. banking industry in light of the deteriorating credit environment and capital considerations.

First mortgage balances declined from October through December, reflecting increased sales of mortgages and higher repayments, due to refinancing as mortgage interest rates declined. Origination volume was significantly lower than in the prior year, reflecting a decline in mortgage applications, tightened credit standards, declines in purchases from third party originators, and a focus on origination for sale to government-sponsored enterprises. Quantitative data do not include modifications to existing mortgage loans and other mitigation efforts which usually involve a restructuring of terms rather than a new extension of credit.

Average consumer credit card total loan balances increased during the quarter, reflecting seasonal spending and slower payment rates; however, year-over-year sales declined consistent with the current economic environment. Citi's managed net credit loss rate was 8.04 percent in the quarter against 5.1 percent in the prior year, a further sign of the financial strains on U.S. consumers. More than 360,000 card members entered Citi's forbearance programs in the fourth quarter as the Company introduced new programs with broadened eligibility criteria that benefit accounts in earlier stages of delinquency.

Average total balances on other consumer loans, which include auto, student and personal loans, were largely stable over the quarter, while originations declined, reflecting, among other things, a significant decline in personal loan applications. Minimal auto lending activity reflected business consolidation and tighter credit standards, again consistent with the economic environment. Fourth quarter student loans declined over the prior year, reflecting Citi's temporary withdrawal from the Federal Loan Consolidation market. This was partially offset by increases in new Federal Family Loan Education Program (FFLEP) volume. Higher FFELP volume reflected increased loan limits and higher penetration at educational institutions.

Commercial Lending: New U.S. commercial lending (including Commercial Real Estate) of approximately $11.4 billion during the quarter reflects new transactions in support of corporate acquisitions, as well as general corporate financing. While C&I balances were relatively flat in the quarter, the market evidenced a decline in business investment, M&A activity and investment property purchases in response to the economic outlook for 2009. We expect increased renewal activity in 2009, as existing facilities are refinanced and/or restructured.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Citigroup Inc.**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Carol Hayles or Peter Bieszard

Demand for small business credit remained relatively strong on previously approved credit facilities, although demand for new facilities was low.

Overall, new loan demand and origination for commercial real estate were down, due to the economic environment and uncertainties in the market, which have resulted in a significant slowdown in transaction activity. Our investor portfolio in Citi's Global Wealth Management business has historically focused on short- to medium- term lending on existing commercial real estate assets, and many clients sought short-term bridge financing of completed projects in the absence of a permanent or commercial mortgage-backed securities market. Our Institutional Client Group is rolling over and extending loans in its existing customer base where it is comfortable with the counterparty and the underlying assets.

Other Intermediation Activities: Citi effected net purchases of approximately $28.0 billion of mortgage- and asset-backed securities (MBS/ABS) during the quarter, in a market that was characterized by sharp sell-offs and weak investor demand.

Gross MBS purchases and sales activity jumped in December, due primarily to increased agency pass-through pool settlements with both customers and dealers, however sales activity was slightly higher than purchases, resulting in a lower net balance in the month. In addition, Citi made $6 billion of MBS purchases to maintain targeted levels of secured funding. ABS activity was primarily customer trading and purchases of collateralized financing notes issued by the "Big Three" auto financing companies

Matched Book secured lending declined from October to December, due to reduced customer collateralized financing activity.

Spreads on corporate bonds rose substantially in October and November, and new issuance declined markedly. Credit markets recovered somewhat in December, increasing debt market activity after a number of the Federal Reserve initiatives started to take effect and improve the day-to-day functioning of the capital markets.

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TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: COMERICA INCORPORATED | Submission date: 1/30/2009 | Person to be contacted regarding this report: Darlene Persons

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	2008 OCT	NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$1,858	$1,853	$1,843	Consists of 1st lien 1-4 family residential mortgage and construction loans originated by Comerica Bank.	First mortgage originations include loans originated and sold to our mortgage partner ($11 million Oct/$9 million Nov/$9 million Dec).
b. Total Originations	$36	$26	$21	Consists of loans funded during the period, including those originated for sale.	Total 4th quarter refinancings by market were $20 million, $23 million and $1 million in Midwest, Western and Texas, respectively.
(1) Refinancings	$16	$13	$25		Total 4th quarter new home purchases by market were $21 million, $13 million and $5 million in Midwest, Western and Texas, respectively.
(2) New Home Purchases	$20	$13	$6		
2. Home Equity					
a. Average Total Loan Balance	$1,719	$1,749	$1,778	Consists of both fixed and revolving home equity (2nd lien) loans.	Total 4th quarter Home Equity originations by market were $46 million, $49 million, $15 million and $2 million in Midwest, Western, Texas and Florida, respectively.
b. Originations (New Loan+Line Increases)	$36	$32	$31	Excludes commitments/originations where home equity collateral is provided for multiple purposes (personal and business), which are included in Commercial Lending commitments (Schedule B).	
c. Total Used and Unused Commitments	$3,930	$3,344	$3,398		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$81	$59	$58	Consists primarily of commercial bankcard loans.	New account originations include referrals to our consumer card partner ($19 million Oct/$13 million Nov/$23 million Dec).
b. New Account Originations (Initial Line Amt)	$74	$14	$22	Includes new card loans funded during the period and new referrals to our consumer card partner.	
c. Total Used and Unused Commitments	$480	$459	$418		
4. Other Consumer					
a. Average Total Loan Balance	$878	$830	$865	Consists of consumer installment loans (both secured and unsecured) and student loans.	Total 4th quarter Other Consumer originations by market were $104 million, $8 million, $2 million, $14 million and $1 million in Midwest, Western, Texas, Florida and National, respectively.
b. Originations	$49	$23	$37		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$32,028	$32,697	$32,378	Consists of loans for commercial and industrial purposes to both domestic and international borrowers, lease financing and other non-consumer, non-real estate loans.	New 4th quarter C & I commitments by market were $354 million, $381 million, $233 million, $25 million and $262 million in Midwest, Western, Texas, Florida and National/International, respectively.
b. Renewal of Existing Accounts	$2,786	$1,517	$2,278	Includes renewals of and increases to lines with existing customers.	
c. New Commitments	$878	$304	$395	Consists of binding commitments to new customers and new lines to existing customers, net of participations sold. Includes commitments/originations where home equity collateral is provided for multiple purposes (personal and business).	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$15,261	$15,160	$15,085	Consists of loans made to businesses where 50% or more of the collateral is real estate (primarily owner-occupied) and loans made to businesses or developers for building construction.	New 4th quarter Commercial Real Estate commitments by market were $76 million, $82 million, $66 million, $21 million and $19 million in Midwest, Western, Texas, Florida and National, respectively.
b. Renewal of Existing Accounts	$198	$250	$172	Includes renewals of and increases to lines with existing customers.	
c. New Commitments	$102	$44	$103	Consists of binding commitments to new customers and new lines to existing customers, net of participations sold.	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$0	$0	$0	Represents purchases (net of sales, if any) of mortgage-backed securities (AAA rated agency securities) for investment portfolio available-for-sale on a trade date basis. Excludes principal paydowns.	Does not include commitments to purchase $2 billion of mortgage-backed securities to be delivered between Jan-Mar of 2009.
b. Asset Backed Securities	$447	$664	$27	Represents purchases (net of sales) of asset-backed auction-rate securities purchased as an accommodation to customers from October through December 2008 for investment portfolio available-for-sale, on a trade date basis.	Asset-backed net purchases represent purchases of student loan auction-rate securities and auction-rate preferred stocks.
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	n/a	n/a	n/a		
b. Average Total Debit Balances[2]	n/a	n/a	n/a		
3. Underwriting					
a. Total Equity Underwriting	$2	$3	$0	Amount of equity securities underwritten where the Corporation is manager or co-manager of the issue. All done on "best efforts" basis.	
b. Total Debt Underwriting	$3,930	$20	$2,020	Amount of debt securities underwritten where the Corporation is manager or co-manager of the issue. All done on "best efforts" basis.	

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **COMERICA INCORPORATED**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Darlene Persons

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Comerica Incorporated is a financial services company headquartered in Dallas, Texas; strategically aligned into three major business segments: the Business Bank, the Retail Bank and Wealth & Institutional Management, and operates in four primary markets: Texas, the Midwest (primarily Michigan), Western (primarily California and Arizona) and Florida.

The principal focus of Comerica Incorporated is to meet the needs of small and medium-sized businesses, multinational corporations and governmental entities through various products and services including loans and lines of credit, letters of credit, deposits, international trade finance and other services. The Business Bank, which includes all business customers except for small business, traditionally accounts for at least two-thirds of net interest income. In addition to serving the needs of businesses, Comerica Incorporated also offers a variety of consumer products, including deposit accounts, installment loans, credit cards, home equity lines of credit and residential mortgage loans. Fiduciary services, private banking, retirement services and other wealth management services are also provided.

National growth has been hampered by turmoil in the financial markets, declining home values and rising unemployment rates. California lagged national growth primarily due to continued problems in the state's real estate sector. Michigan continued to contract for a fifth consecutive year. The sharp decline in car sales nationally, the restructuring in the auto sector and the recession nationally were major factors holding back the Michigan economy. A wide variety of economic reports consistently showed that Texas continued to outperform the nation in 2008, though growth clearly slowed from the rapid pace seen in 2007. Texas continued to benefit from its energy sector and a much more modest retrenchment in homebuilding than in most other states.

Due to the above economic conditions in our markets in the spring of 2008, especially in California and Michigan, Management began a process intended to reduce business loans and commitments to preserve capital and generate appropriate loan pricing for current risks. This was done as loans were renewed. The process took a few months to implement and was in full effect beginning in the summer of 2008. As a result, loans were expected to decline $2-3 billion from June 2008 to June 2009. In the fourth quarter 2008, with the receipt of TARP proceeds, Management's focus moved toward establishing new and expanding existing relationships, particularly in Small Business, Middle Market and Wealth Management in Texas and California, with appropriate pricing and credit standards. The change in Management focus is evidenced by a fourth quarter 2008 annualized decline in average loans of 1 percent, significantly lower than the third quarter annualized decline of 7 percent.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **COMERICA INCORPORATED**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Darlene Persons

Overall, loan demand declined in the fourth quarter 2008, as business customers continued to be cautious due to the deteriorating economic conditions in our markets. Commercial lending renewals and new commitments were $7.5 billion and $1.5 billion, respectively, both lower than the third quarter 2008. New commitments and renewals were lower in the three largest markets (Midwest, Western and Texas), although new commitments declined the least in Texas, a less weak economy. There were $380 million of new commitments in consumer lending in the fourth quarter.

Residential mortgage lending was facilitated through purchases of mortgage-backed securities and through lending to customers in our Mortgage Banker (part of Commercial Real Estate) and Financial Services Divisions. Since receiving TARP proceeds, $2 billion of mortgage-backed securities were purchased for delivery in the first quarter of 2009. In addition, during October through December, 2008, $808 million of renewals were booked in the Mortgage Banker and Financial Services Divisions.

Debt underwriting through our broker/dealer subsidiary during the fourth quarter of 2008 of $7.0 billion provided access to liquidity for corporate customers.

During the fourth quarter 2008, $1.3 billion of auction-rate securities were purchased from customers, assisting with customer liquidity.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: Fifth Third Bancorp | **Submission date: 1/30/09** | **Person to be contacted regarding this report: Diane Starberry**

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	2008 NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$12,998	$12,347	$12,232	Average loan balances are based upon classifications consistent with the Y9C Report, Call Report and FR 2416 Report.	In the fourth quarter of 2008, Fifth Third's average consumer loans and leases were flat from the third quarter. This result was primarily driven by the first mortgage portfolio where the majority of originations are sold in to the secondary market. Mortgage applications increased sequentially driven by attractive interest rates within the agency conforming categories. During the fourth quarter, Fifth Third continued to make prudent adjustments to consumer lending standards, consistent with peer institutions as reported by the Federal Reserve and as observed in the market. Fifth Third focused on tightening loan to value requirements within real estate backed products, given an outlook for further U.S. home price depreciation.
b. Total Originations	$875	$622	$964		
(1) Refinancings	$428	$376	$606		
(2) New Home Purchases	$437	$295	$359		
2. Home Equity					
a. Average Total Loan Balance	$12,502	$12,434	$12,062	Average loan balances are based upon classifications consistent with the Y9C Report, Call Report and FR 2416 Report.	Fourth quarter overall loan demand for non-mortgage consumer credit (home equity, credit card, auto) compared to third quarter was slightly weaker, as expected, particularly given seasonality trends. During the fourth quarter, Fifth Third continued to make prudent adjustments to consumer lending standards, consistent with peer institutions as reported by the Federal Reserve and as observed in the market. Fifth Third focused on tightening loan to value requirements within real estate backed products, given an outlook for further U.S. home price depreciation.
b. Originations (New Lines+Line Increases)	$178	$117	$150		
c. Total Used and Unused Commitments	$23,394	$22,159	$21,137		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$1,995	$2,041	$2,081	Average loan balances are based upon classifications consistent with the Y9C Report, Call Report and FR 2416 Report.	Fourth quarter overall loan demand for non-mortgage consumer credit (home equity, credit card, auto) compared to third quarter was slightly weaker, as expected, particularly given seasonality trends.
b. New Account Originations (Initial Line Amt)	$155	$139	$247		
c. Total Used and Unused Commitments	$14,199	$14,360	$14,579		
4. Other Consumer					
a. Average Total Loan Balance	$9,826	$9,364	$9,447	Average loan balances are based upon classifications consistent with the Y9C Report, Call Report and FR 2416 Report.	Fourth quarter overall loan demand for non-mortgage consumer credit (home equity, credit card, auto) compared to third quarter was slightly weaker, as expected, particularly given seasonality trends.
b. Originations	$364	$328	$316		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$31,355	$31,312	$30,906	Average loan balances are based upon classifications consistent with the Y9C Report, Call Report and FR 2416 Report.	Lending in the Commercial, Business Banking and Private Banking segments continues to qualified borrowers exhibiting average risk or better. Continued emphasis is placed on prudent underwriting and demonstrated ability to repay as we are seeing certain borrowers' sales weaken, profit margins narrow and the number of business bankruptcies rise. Overall, loan demand is down as we are seeing reduced confidence in the economy from our C&I borrowers, which varies by geography. Customers are deleveraging and increasing liquidity through asset sales and reduced inventories versus expanding operations and purchasing equipment.
b. Renewal of Existing Accounts	$930	$213	$308	The renewal of existing accounts (a) only includes the renewal of loans. The renewal of existing commitments is captured in the New Commitments (c) for C&I and Commercial Real Estate.	
c. New Commitments	$3,870	$4,500	$5,465		
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$20,882	$20,372	$19,923	Average loan balances are based upon classifications consistent with the Y9C Report, Call Report and FR 2416 Report.	Average CRE balances decreased slightly, down $200 million in the fourth quarter compared with the third quarter. Fifth Third continues to engage in lending on owner occupied properties. Fifth Third continues to suspend lending to new non-owner occupied properties and non new homebuilders and developer projects in order to manage existing portfolio positions. We believe this is prudent given that we do not believe added exposure in those sectors is warranted and given our expectations for continued negative trends in the performance of those portfolios. Existing construction borrowers are taking advantage of mini-perm options as their options for longer term financing in the market has diminished.
b. Renewal of Existing Accounts	$911	$220	$791		
c. New Commitments	$982	$275	$701		
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$165	-$213	-$709	The amounts reported are the net securities purchased less securities sold for the reporting period.	MBS volume in the 4th quarter was largely a function of managing the hedge for the Mortgage Servicing Rights (MSR) asset. We, from time to time, use MBS to hedge the basis exposure we have in the MSR asset. We were fairly active in selling MBS and buying Agency debt for the hedge during the 4th quarter as rates declined. The ABS decline in the 4th quarter was due to a reduction in the amount of asset backed commercial paper (ABCP) held in the investment portfolio. During the 4th quarter, $300 million of the CP was placed into the Federal Reserves' new financing program (CPFF).
b. Asset Backed Securities	-$501	-$83	-$204		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	$0	$0	$0		
b. Average Total Debit Balances[2]	$0	$0	$0		
3. Underwriting					
a. Total Equity Underwriting	$0	$0	$0		
b. Total Debt Underwriting	$786	$204	$463		

Notes:
1. Not applicable if matched book activity does not exceed $[illegible] billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Fifth Third Bancorp**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Blane Scarberry

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Company description: Fifth Third Bancorp is a diversified financial services company headquartered in Cincinnati, Ohio. As of December 31, 2008, the Company had $120 billion in assets, operated 18 affiliates with 1,307 full-service Banking Centers, including 92 Bank Mart locations open seven days a week inside select grocery stores and 2,341 ATM's in Ohio, Kentucky, Indiana, Michigan, Illinois, Florida, Tennessee, West Virginia, Pennsylvania, Missouri, Georgia and North Carolina. Fifth Third operates five main businesses: Commercial Banking, Branch Banking, Consumer Lending, Investment Advisors and Fifth Third Processing Solutions. Fifth Third is among the largest money managers in the Midwest and, as of December 31, 2008, had $179 billion in assets under care, of which it managed $25 billion for individuals, corporations and not-for-profit organizations.

The Treasury's preferred stock investment in Fifth Third was made on December 31, 2008. As a result, fourth quarter results discussed below did not include the effect or benefit of the presence of those funds or capital.

Consumer: Fourth quarter overall loan demand for non-mortgage consumer credit (home equity, credit card and auto) compared to third quarter was slightly weaker, as expected, particularly given seasonality trends. Mortgage applications increased sequentially driven by attractive interest rates within the agency conforming product categories.

During the fourth quarter, Fifth Third continued to make prudent adjustments to consumer lending standards, consistent with peer institutions as reported by the Federal Reserve and as observed in the market. Fifth Third focused on tightening loan to value requirements within real estate backed products, given an outlook for further U.S. home price depreciation. Fifth Third also enhanced our credit requirements for non real estate lending due to projected further stress within the U.S. economy.

Fifth Third continues to lend to qualified borrowers. In the month of December 2008, we originated more than 4,400 mortgages, nearly 3,500 equity loans and over 23,200 auto loans.

In the fourth quarter of 2008, Fifth Third's average consumer loans and leases were flat from the third quarter. This result was primarily driven by the first mortgage portfolio where the majority of originations are sold into the secondary market.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Fifth Third Bancorp**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Blane Scarberry

CRE: Average CRE balances decreased slightly, down $200 million in the fourth quarter compared with the third quarter. Fifth Third continues to engage in lending on owner occupied properties. Fifth Third continues to suspend lending on new non-owner occupied properties and on new homebuilders and developer projects in order to manage existing portfolio positions. We believe this is prudent given that we do not believe added exposure in those sectors is warranted and given our expectations for continued negative trends in the performance of those portfolios. Existing construction borrowers are taking advantage of mini-perm options as their options for longer term financing in the market has diminished.

C&I: Lending in the Commercial, Business Banking and Private Banking segments continues to qualified borrowers exhibiting average risk or better. Continued emphasis is placed on prudent underwriting and demonstrated ability to repay as we are seeing certain borrowers' sales weaken, profit margins narrow and the number of business bankruptcies rise. Overall, loan demand is down as we are seeing reduced confidence in the economy from our C&I borrowers, which varies by geography. Customers are deleveraging and increasing liquidity through asset sales and reduced inventories versus expanding operations and purchasing equipment.

Demand for Small Business credit is still relatively stable but showing signs of weakening as application volume is starting to slow. Business Banking loan originations continue to be made using prudent underwriting standards. In the fourth quarter of 2008, we originated or renewed over $800 million of loan balances representing over 3,000 loans. Nearly half of those balances were originated or renewed in the month of December.

The primary market for syndicated credit and large corporate deals has slowed in the fourth quarter as demand has decreased. Given the outlook for the economy, many companies have scaled back plans for capital expenditures and inventory build, which in turn has reduced the need for financing. Merger and acquisition activity has also slowed significantly. Terms and covenants have tightened somewhat and spreads have widened, which has also served to reduce demand.

Average total commercial loan and lease balances grew 3 percent for the fourth quarter compared with the third quarter. During the fourth quarter, commercial loan and lease average loans grew by approximately $1.7 billion primarily due to the use of contingent liquidity facilities related to certain off-balance sheet programs. Excluding these items, commercial loan balances in the fourth quarter were consistent with third quarter balances. During the fourth quarter, $1.3 billion in commercial loans were either sold or transferred to held-for-sale, but there was minimal impact to average loan balances due to the timing of these actions.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT					
Name of Institution: The Goldman Sachs Group, Inc.			Submission date: January 30, 2009		Person to be contacted regarding this report: David A. Viniar
PART I. QUANTITATIVE OVERVIEW					
		2008			
SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$4,445	$4,831	$5,046	Amounts, reflected as principal balances, include whole loans secured by 1-4 family residential properties originated or purchased by Goldman Sachs and purchased portfolios of distressed loans.	The residential mortgage market remains challenging as mortgage spreads continue to widen, liquidity continues to decline and investors de-lever. There was no new issuance in the non-agency mortgage securitization market as banks extending jumbo loans are holding the loans on their books. In November, Goldman Sachs closed on the $1.2 billion purchase of loans and mortgage servicing assets from Popular, Inc., helping to provide additional liquidity to the mortgage market.
b. Total Originations	$214	$782	$92	Primarily reflects loans purchased.	
(1) Refinancings	$113	$719	$46		
(2) New Home Purchases	$101	$65	$46		
2. Home Equity					
a. Average Total Loan Balance	$0	$75	$151	Amounts, reflected as principal balances, include purchased home equity lines of credit.	Goldman Sachs is largely a wholesale institution with no meaningful business lines engaged in direct consumer lending through retail channels (including home equity, credit card and other consumer).
b. Originations (New Lines+Line Increases)	$0	$350	$0		
c. Total Used and Unused Commitments	$0	$37	$38		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$0	$0	$0		Goldman Sachs is largely a wholesale institution with no meaningful business lines engaged in direct consumer lending through retail channels (including home equity, credit card and other consumer).
b. New Account Originations (Initial Line Amt)	$0	$0	$0		
c. Total Used and Unused Commitments	$0	$0	$0		
4. Other Consumer					
a. Average Total Loan Balance	$1,498	$1,531	$1,583	Amounts, reflected as principal balances, include secured mixed use consumer loans.	Goldman Sachs is largely a wholesale institution with no meaningful business lines engaged in direct consumer lending through retail channels (including home equity, credit card and other consumer).
b. Originations	$0	$303	$0		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	[illegible]	$51,618	[illegible]	Amounts reflect principal balances and include purchased and originated loans, purchased portfolios of distressed loans and the aggregate carrying value of investments in certain merchant banking funds that invest in corporate mezzanine debt.	For most of the calendar fourth quarter, constrained credit markets caused a difficult operating environment, including declining asset prices, wider corporate credit spreads, higher levels of volatility and reduced levels of liquidity. However, in the middle of December, the lending environment in some markets eased to a degree, though conditions remain in flux. Investment grade credit spreads tightened in early December with a dramatic increase toward the end of the year. The primary market for high yield issuance gradually reopened for seasoned names in defensive sectors. There were no primary issues in the high yield market in November 2008, the first month without new issuance since March 1991. In December 2008, there were two high yield transactions that came to market.
b. Renewal of Existing Accounts	$268	$153	$150		
c. New Commitments	[illegible]	$367	[illegible]		
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	[illegible]	$28,735	[illegible]	Amounts reflect principal balances and include purchased and originated loans, purchased portfolios of distressed loans and the aggregate carrying value of investments in certain merchant banking funds that invest in real estate debt.	Commercial real estate assets were under particular pressure with virtually no new issuance during the end of 2008 due to limited syndicated financing opportunities. Over the calendar fourth quarter, the IYR (US Real Estate ETF) declined 42 percent and CMBX AA Index widened by nearly 60 percent. Higher cap rates, weaker cash flows and continued weakening in the gaming and lodging sectors due to decreased consumer spending further impacted this market. Also, the continuing weakness in residential home prices negatively impacted the land development sector.
b. Renewal of Existing Accounts	$1	$10	$0		
c. New Commitments	[illegible]	$0	[illegible]		
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	[illegible]	$2,995	[illegible]	Volumes reflect net settled proceeds on purchases and sales.	Despite world-wide government programs which have started to improve credit markets, uncertainty over the potential for bankruptcy cram-downs resulted in deterioration of liquidity in the non-agency secondary market. In December, however, pricing began to stabilize, volumes began to marginally increase, and agency debenture spreads tightened with the implementation of the Fed's purchase program. The large increase in volumes reflected in December is driven by agency mortgage dollar roll short term financing trades.
b. Asset Backed Securities	[illegible]	-$355	[illegible]	Volumes reflect net settled proceeds on purchases and sales.	
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	[illegible]	$205,294	[illegible]	Balances are presented prior to netting by counterparty under FIN 41 and FIN 39. In addition to resale and repurchase agreements, balances include securities borrowed of $171B, $109B and $108B for Oct, Nov and Dec respectively.	Securities lending and financing, including match book, stock borrow, and margin debits experienced declines consistent with broader global markets and client de-leveraging trends. Overall, balances tended to stabilize in December.
b. Average Total Debit Balances[2]	[illegible]	$78,754	[illegible]	Debit balances are reflected on a gross basis prior to any FIN 39 netting.	
3. Underwriting					
a. Total Equity Underwriting	[illegible]	$5,089	[illegible]	Total equity underwriting volumes were sourced from Thomson Reuters.	Although, Goldman Sachs has participated in several noteworthy transactions including GE's $12.2B common share offering and Ecolab's $1.3B common share offering, weak new issuance and significant credit market dislocation have resulted in a decrease in debt and equity underwriting issuances.
b. Total Debt Underwriting	[illegible]	$198,162	[illegible]	Debt issuances include commercial paper, agency debt issuances, and corporate debt underwriting. Total debt underwriting volumes (excluding commercial paper and tax exempt municipals) were sourced from Thomson Reuters.	

Notes:
1. Not applicable / matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **The Goldman Sachs Group, Inc.**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: David A. Viniar

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Goldman Sachs serves a number of important roles for our clients, including that of advisor, financier, market maker, risk manager and co-investor. Our business is institutionally dominated, with the vast majority of our capital commitments made on behalf of corporations, governments, institutional investors, like mutual funds and pension funds and investing clients like hedge funds and private equity firms. We do not have significant exposure to consumer lending and retail commercial banking.

The investment-grade new issue market remained essentially closed through early October and only reopened at mid month when IBM came to market. Conditions continued to be fragile, however, with the market only open to bellwether names. November was not a strong month for issuance though Altria's transaction marked the first BBB issue since the summer. Credit spreads began to tighten in early December with a dramatic increase toward the end of the year and into the first half of January.

While the primary market for high yield issuance has gradually reopened thus far in 2009 for seasoned names in defensive sectors, looking back to late 2008, issuance was minimal. In October, there was only one primary issue – a $750mm notional senior secured offering for MGM Mirage. There were no primary issues in the high yield market in November 2008, the first month without new issuance since March 1991. Two high yield transactions came to market in December 2008.

The high-yield CDX index reached an all-time wide level at the end of November, as the secondary market continued to trade off amidst continued credit and macroeconomic concerns. Secondary market levels improved into the end of December. Demand for defensive names improved, however all other names continued to remain under pressure.

The primary market for corporate bank loans was essentially closed during the calendar fourth quarter of 2008. The non-agency mortgage securitization market remains essentially closed to new issuance. To the extent banks are making jumbo loans, they are keeping these loans on their books. Non-agency secondary market liquidity has deteriorated due to uncertainty over the potential for bankruptcy cram-downs, though liquidity is better than it was at its worst. Agency debenture spreads have tightened with the implementation of the Fed's purchase program.

Municipal new issuance activity in the fourth quarter was impacted by the turmoil in the broader credit markets. In particular, institutional demand for municipal securities was crimped by deleveraging and credit-related losses sustained by institutional investors. The primary source of

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **The Goldman Sachs Group, Inc.**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: David A. Viniar

demand for municipal credits was retail related. There was negligible issuance in October though activity picked up somewhat toward the end of the quarter. Municipalities were hesitant to raise fresh funds due to higher borrowing costs.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of Institution: JPMorgan Chase & Co | **Submission date:** 1/30/09 | **Person to be contacted regarding this report:** Adam Gilbert

PART I. QUANTITATIVE OVERVIEW[1,2]

SCHEDULE A: CONSUMER LENDING (Millions $)	2008 OCT	NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$55,297?	$54,969	[illegible]	Consists of residential whole loans. Excludes assets classified as trading assets and other warehouse loan balances that are not part of the core mortgage portfolio.	Originations were down in the quarter reflecting significant overall decline in real estate market activity. More recently refinancing applications increased due to lower rates as a result of Federal Reserve actions. Approval rates for mortgages remained fairly consistent throughout the fourth quarter 2008.
b. Total Originations	$10,738?	$8,989?	$8,558?	Includes both loans originated for the balance sheet as well as loans originated for sale.	
(1) Refinancings	$5,349?	$4,570	$4,298		
(2) New Home Purchases	$5,391?	$4,369	$4,260		
2. Home Equity					
a. Average Total Loan Balance	$94,713?	$94,553	$94,480?	First and second lien home equity loan and line balances.	Home equity applications declined in the fourth quarter as a result of macroeconomic factors such as home price depreciation.
b. Originations (New Lines+Line Increases)	$728?	$455	$422?	Home equity loans funded, new lines committed, and increases to existing lines committed.	
c. Total Used and Unused Commitments	$153,820?	$152,016?	$150,069?	Outstanding balances plus undrawn home equity line commitments.	
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$150,454?	$156,419?	$158,928?	Credit card includes consumer and small business credit cards. Excludes international balances.	Credit card balances were up slightly (2% higher in December vs. October). Overall approval rates remained flat. Total commitments decreased 2% during the quarter (October to December).
b. New Account Originations (Initial Line Amt)	$4,808?	$5,900?	$5,780?	Originations include initial line amounts for new cards but not line increases for existing customers.	
c. Total Used and Unused Commitments	$749,866?	$736,792?	$730,227?	Ending balance for Total Used and ending extended for Unused Commitments. Excludes accounts with zero balances that were closed during the quarter, the vast majority of which had been inactive for 24 months or more.[3]	
4. Other Consumer					
a. Average Total Loan Balance	$48,847?	$78,739?	[illegible]	Consists of small business loans and lines; auto loans, leases, and lines; student loans; and other consumer loans and lines.	Applications declined in the fourth quarter.
b. Originations	$2,485?	$1,802?	$2,260?	Includes small business loans funded, lines committed, increases to existing lines committed, and renewals of existing commitments; auto loans originated, leases and lines funded or committed, and increases to existing lines; student loans funded; and other consumer loans funded and new lines committed	

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$173,865	$173,019	$167,795	Loans and Leases comprise of retained loans, which primarily exclude Loans Held For Sale (HFS) and are calculated using the simple monthly average of the spot balances. Loans and Leases also exclude $52B in interbank lending balances.	Wholesale balances declined 3% between October and December. Originations volume trended lower during the quarter, affected by the decline of wholesale business activity. For Large and Mid corporates, the decrease was primarily driven by lower demand in the secondary markets for loan products in the syndication and trade finance businesses. In addition, customer de-leveraging in line with higher market pricing of credit risk has contributed to lower balances. For middle market companies, loan demand slowed, as evidenced by the declining number of proposals submitted (credit applications among middle market customers dropped by more than 50% in the last two months of the year) and low utilization in the fourth quarter. Companies across the spectrum are borrowing less due to lower working capital and fixed asset spending requirements. Lower mergers and acquisition activity also dampened bank loan demand. Fourth quarter seasonal loan demand was driven down further by weak retail sales and reduced consumer spending.
b. Renewal of Existing Accounts	$15,606	$17,704	$22,310	Renewals consist of any increases to existing facilities and extensions of maturities. Renewals and New Commitments include funded and unfunded exposure.	
c. New Commitments	$16,013	$15,797	$12,773		
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$23,148	$22,955	$22,584	Commercial Real Estate is defined by the NAICS Industry Code for Commercial Real Estate. All Other exposures roll into C&I.	
b. Renewal of Existing Accounts	$481	$787	$1,425		
c. New Commitments	$1,397	$519	$632		
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$15,446	$2,987	$25,945	Only includes securities in the firm's investment portfolio. Balances are mostly agency MBS. Represents gross purchases, net of gross sales on a trade date basis. Principal paydowns are excluded.	During the fourth quarter, JPMC purchased $60 billion of mortgage-backed and asset-backed securities.
b. Asset Backed Securities	$3,704	$1,175	$1,208	Only includes securities in the firm's investment portfolio.	
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	$160,850	$118,950	$118,500	Includes Reverse Repo/Sec Borrowing (after FIN41 netting) less related short bond and equity liabilities.	The Matched Book business saw a broad based decline as clients deleveraged and required less secured financing.
b. Average Total Debit Balances[2]	$21,178	$19,849	$15,891	Reflects Net Debit Balances of margin loans included in customer receivables.	
3. Underwriting					
a. Total Equity Underwriting	$12,927	$14,786	$1,241	Includes Bookrunner and Co-manager transactions.	Activity in the equity markets was limited in the fourth quarter due to market volatility and lack of investor confidence, causing both the IPO and convertibles markets to effectively close and limiting volume in follow-on issues for the quarter. On the debt side, the High Yield origination market was also effectively closed due to continued market volatility. Many High Grade new issues remained on hold until late in the quarter. Commercial debt issuances under the FDIC Temporary Liquidity Guarantee Program contributed significant volumes in December.
b. Total Debt Underwriting	$7,850	$23,550	$62,470	Represents issue size where JPM was a lead, co-lead or joint books.	

Notes:
1. All numbers exclude acquired Washington Mutual balances.
2. Excludes overnight activity and balances.
3. Commitments were restated to exclude zero balance inactive accounts that were closed during the quarter. Zero balance inactive accounts that were closed totaled $[illegible] billion in November and $[illegible] billion in December.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **JPMorgan Chase & Co**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Adam Gilbert

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

A. Consumer lending

Overall consumer balances were little changed during the 4th quarter. In general, consumer and small business applications for credit decreased. Approval rates for consumer loans remained fairly constant throughout the quarter (slightly declining).

- First mortgage originations were down in the quarter reflecting significant overall decline in real estate market activity. More recently, refinancing applications increased due to lower rates as a result of Federal Reserve actions. Home equity applications declined in the fourth quarter as a result of macroeconomic factors including home price depreciation. Approval rates for mortgages remained fairly constant throughout the fourth quarter. During the quarter JPMC approved more than 60,000 mortgages and home equity loans and lines.

- Credit card balances were up slightly (2% higher in December vs. October). Overall approval rates remained flat. Total commitments decreased 2% from October to December. During the quarter JPMC approved more than 3.5 million new credit card applications and more than 1 million credit card line increases.

- Applications for other consumer loans (small business, auto loans and education) declined in the fourth quarter. During the quarter, JPMC approved 470,000 auto loans and 5,000 small business loans and lines.

- Approval rates declined slightly during the quarter for most products. Consumer underwriting standards are regularly adjusted based on changes in consumer behavior, portfolio performance and the external environment, including home prices and unemployment. Thus, over the last 18 months, continuing into the fourth quarter, lending standards were generally tightened across most consumer products.

B. Commercial Lending (C&I and CRE)

Wholesale balances declined 3% between October and December. Including interbank lending, wholesale balances were 20% *higher* in December compared to October.

While there were no material changes in underwriting standards during the 4th quarter, pricing and structure were adjusted somewhat to reflect the changing environment.

Wholesale balances and originations volume trended lower during the quarter, affected by the decline of wholesale business activity.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **JPMorgan Chase & Co**
Reporting month(s): Oct-Nov-Dec 2008
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- For Large and Mid corporates, the decrease was primarily driven by lower demand in the secondary markets for loan products in the syndication and trade finance businesses. In addition, customer de-leveraging in line with higher market pricing of credit risk has contributed to lower balances.
- For middle market companies, loan demand slowed, as evidenced by the declining number of proposals submitted (credit applications among middle market customers dropped by more than 50% in the last two months of the year) and low utilization in the fourth quarter (i.e., clients were generally not drawing additional credit on lines that were available to them).
- Companies across the spectrum are borrowing less due to lower working capital and fixed asset spending requirements. Lower mergers and acquisition activity also dampened bank loan demand. Fourth quarter seasonal loan demand was driven down further by weak retail sales and reduced consumer spending.

Declines in wholesale balances are typical in a recession. For example, during the 2001-2002 recession, JPMC wholesale balances decreased by more than 10% between 3Q and 4Q01.

C. Other intermediation activities

The Matched Book business saw a broad-based decline as clients deleveraged and required less secured financing.

Activity in the equity markets was limited in the fourth quarter due to market volatility and lack of investor confidence, causing both the IPO and convertibles markets to effectively close and limiting volume in follow-on issues for the quarter.

On the debt side, the High Yield origination market was also effectively closed due to continued market volatility. Many High Grade new issues remained on hold until late in the quarter. Commercial debt issuances under the FDIC Temporary Liquidity Guarantee Program contributed significant volumes in December.

E. Overall lending summary

Given this background, JPMC maintained a significant level of lending activity in the 4th quarter, extending over $150 billion in new loans and lines to retail and wholesale clients, including:

- More than $50 billion in new consumer originations, in the form of credit cards, mortgages, home equity loans and lines, student loans and auto loans – representing over 5 million new loans and lines[1] to consumers.
- More than $20 billion in new credit extended to 5,000 small businesses[2] and 3,000 mid-sized businesses,

[1] Includes ~1 million credit card line increases extended during the time period
[2] Small business originations include new and renewed loans and lines and are included as part of "Consumer Lending Other" (Schedule A, 4b)

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **JPMorgan Chase & Co**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Adam Gilbert

governments and non-profits[3].

- Approximately $90 billion in new and renewed commitments to Large Corporates and JPMC's full range of Treasury and Security Services and Asset Management clients.

JPMC also lent an average of $50 billion to other banks through the interbank market – providing additional liquidity to the system. Finally, during the 4th quarter, JPMC purchased almost $60 billion of mortgage-backed and asset-backed securities.

In addition, during the 4th quarter, JPMC:

- Took a number of significant steps to help more homeowners stay in their homes.
    - On October 31st, Chase announced significant enhancements to its mortgage modification program, including: a systematic review of its entire portfolio to identify homeowners most likely to require help; proactive modification offers in writing; 24 new Chase Homeownership Centers in areas with high mortgage delinquencies; and the addition of new loan counselors to provide better help to troubled borrowers, bringing the total number of counselors to more than 2,500. This effort is expected to help 400,000 homeowners with a total of $70 billion worth of Chase-owned mortgages.
    - More recently, Chase announced that it would extend its mortgage modification efforts to include $1.1 trillion of investor-owned mortgages it services (including those in securitizations).
- Committed to extend an incremental $5 billion in lending to the state and local government and non-profit sector in the U.S. over the next year
- Purchased the entire amount of a $1.4 billion bond offering to help the state of Illinois after it previously failed to clear the markets.

[3] New commitments and renewal of existing accounts. Included as part of Commercial Lending (Schedule B)

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: KeyCorp | Submission date: 1/30/09 | Person to be contacted regarding this report: Robert L. Morris

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	2008 OCT	NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$3,063	$3,667	$3,590	First Mortgage includes loans secured by 1-4 family residential properties including home equity loans secured by first liens.	Residential mortgage demand was comparable to third quarter levels with a spike in refinance applications beginning in December. Prime residential mortgage credit standards remained unchanged during fourth quarter, after considerable tightening in previous quarters.
b. Total Originations	$109	$114	$92	Total Originations include both portfolio and held-for-sale loan originations.	
(1) Refinancings	$54	$51	$44		
(2) New Home Purchases	$55	$63	$48		
2. Home Equity					
a. Average Total Loan Balance	$7,773	$7,852	$7,904	Home Equity includes home equity lines of credit only (Home equity loans secured by first liens are included with First Mortgages above).	Application volume decreased throughout the fourth quarter as consumer confidence appears to have impacted demand.
b. Originations (New Lines+Line Increases)	$168	$151	$151		
c. Total Used and Unused Commitments	$10,298	$10,399	$10,411		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$6	$6	$6	US Card - Managed includes Credit Card loans.	Key does not originate new credit card receivables for its own portfolio. The existing portfolio was acquired through a bank acquisition.
b. New Account Originations (Initial Line Amt)	$0	$0	$0		
c. Total Used and Unused Commitments	$48	$48	$49		
4. Other Consumer					
a. Average Total Loan Balance	$8,390	$8,354	$8,323	Other Consumer includes all other non-revolving consumer loans.	Key discontinued several higher risk, nonrelationship loan programs in 2008 including indirect Marine, RV and non-guaranteed student loans. The volatility of originations during the fourth quarter is typically heavily impacted by guaranteed student loan funding schedules.
b. Originations	$72	$54	$140		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C&I					
a. Average Total Loan and Lease Balance	[illegible]	$37,100	[illegible]	C & I includes lease financing receivables, commercial and industrial loans, agricultural loans, loans to depository institutions and other nonconsumer loans.	Borrower credit inquiries decreased moderately during the fourth quarter. Loan demand was moderately weaker for large and middle market firms. For smaller firms, loan demand was substantially weaker. The decrease in demand was attributed to decreasing needs for the financing of plant, equipment, inventory and accounts receivable.
b. Renewal of Existing Accounts	$900	$853	[illegible]	Renewals of existing accounts include outstanding balances and unused commitments for which the terms were extended or changed. A renewed commitment may or may not have an active draw.	
c. New Commitments	$285	$636	$804	New commitments include outstanding balances and unused commitments. Commitment amounts exclude standby letters of credit.	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$19,332	$19,359	[illegible]	Commercial Real Estate includes construction and land loans, loans secured by multi-family residential properties and by other nonresidential properties.	CRE loan demand, already very weak, was even weaker during the fourth quarter. The collapse of the CMBS securitization market during the second half of 2008, coupled with the economic conditions and Commercial Real Estate market outlook, contributed to a considerable reduction in CRE lending activities. Refinancing activity was up in the fourth quarter as alternative and permanent financing markets, such as CMBS and Life Companies, have been weak. Primary refinancing activity has been in the multi-family space with Fannie Mae, Freddie Mac, and FHA agencies.
b. Renewal of Existing Accounts	$723	$569	$1,269	Renewals of existing accounts include outstanding balances and unused commitments for which the terms were extended or changed. A renewed commitment may or may not have an active draw.	
c. New Commitments	$517	$273	$720	New commitments include outstanding balances and unused commitments. Commitment amounts exclude standby letters of credit.	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	-$27	-$120	$146	Oct. MBS includes $82.8 MM in purchases offset by $109.2 MM in paydowns, calls and maturities. Nov. MBS includes $119.5 million in paydowns, calls and maturities. Dec. MBS includes $246.5 MM in purchases offset by $100.5 MM in paydowns, calls and maturities.	Purchases of GSE-guaranteed MBS and CMO security types are targeted to replace maturing or prepaying volumes.
b. Asset Backed Securities	$8	$0	$0		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	N/A	N/A	N/A		
b. Average Total Debit Balances[2]	N/A	N/A	N/A		
3. Underwriting					
a. Total Equity Underwriting	$8	$4	$0		Equity underwriting activity was low industry-wide during the quarter due to extreme market volatility and pressure on valuations. Investor interest in the investment grade bond market picked up in late November with the success of the FDIC's Temporary Liquidity Guarantee Program.
b. Total Debt Underwriting	$106	$362	$319		

Notes:
1. Not applicable if matched book activity does not exceed $10 billion
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **KeyCorp**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Robert L. Morris

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Cleveland-based KeyCorp is one of the nation's largest bank-based financial services companies with assets of approximately $105 billion at December 31, 2008. Through KeyBank and certain other subsidiaries, KeyCorp provides a wide range of retail and commercial banking, commercial leasing, investment management, consumer finance, and investment banking products and services to individual, corporate and institutional clients through two major business groups, Community Banking and National Banking. Community Banking includes the consumer and business banking organizations associated with the company's 14-state branch network. The branch network is organized into four geographic regions: Northwest, Rocky Mountains, Great Lakes and Northeast. National Banking includes those corporate and consumer business units that operate from offices within and outside Key's 14-state branch network. Its reach extends across the U.S. and to 26 countries.

General

Overall, loan balances trended lower at year-end 2008. The fourth quarter of 2008 was characterized by the continued general weakening of credit demand across all client segments. Key tightened some additional credit standards during the fourth quarter, subsequent to the tightening of credit standards during the third quarter.

Key's lending strategies focus on serving the needs of existing and new relationship clients while being mindful of risk-reward and strategic capital allocation.

Consumer

Overall loan demand for consumer credit (excluding residential first mortgage and credit card) was weaker as is typically the case for Consumer in the fourth quarter compared to the third quarter, since the fourth quarter generally marks a seasonal low point for the year. Based on the number of applications received by Key, the demand for consumer credit during the fourth quarter of 2008 was moderately weaker than that experienced during the fourth quarter of 2007.

During the fourth quarter there was modest tightening of Key's consumer credit standards, especially pricing-related changes as performance-based pricing necessitated increases in practically all products. This tightening of credit also reflects the elevated cost of funds that Key and others in the banking industry continued to experience as the availability of long-term funding remained restricted.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **KeyCorp**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Robert L. Morris

Residential mortgage demand was comparable to third quarter levels with a spike in refinance applications beginning in December. Prime residential mortgage credit standards remained unchanged during fourth quarter, after considerable tightening in previous quarters.

C & I

Borrower credit inquiries decreased moderately during the fourth quarter. Loan demand was moderately weaker for large and middle market firms. For smaller firms, loan demand was substantially weaker. The decrease in demand was attributed to decreasing needs for the financing of plant, equipment, inventory and accounts receivable. Also contributing to the decrease in Key's average C & I loans during the fourth quarter were client paydowns made on previous draws as a result of improved liquidity conditions in the commercial paper markets. Loan demand declined with all borrowers including those with desirable risk profiles.

Key had previously taken action to limit and/or manage its exposure to higher risk industries. During the fourth quarter, an even more cautious approach was taken to lending to these industries. These changes were prompted by the unfavorable economic outlook, worsening of industry-specific problems, decreased liquidity in the secondary market, and business decisions regarding the strategic use of capital.

Considerable focus was placed on pricing for risk during the third quarter. Continuing into the fourth quarter, credit line costs increased and premiums were charged on riskier deals. The use of interest rate floors in commercial credit agreements also became much more prevalent during the fourth quarter given trends in overnight and 30-day LIBOR, and the increased cost associated with term liquidity, including customer deposits.

Commercial Real Estate

CRE loan demand, already very weak, was even weaker during the fourth quarter. The collapse of the CMBS securitization market during the second half of 2008, coupled with the economic conditions and Commercial Real Estate market outlook, contributed to a considerable reduction in CRE lending activities.

During the fourth quarter, Key continued to tighten CRE credit standards and price for risk. Refinancing activity was up in the fourth quarter as alternative and permanent financing markets, such as CMBS and Life Companies, have been weak. Primary refinancing activity has been in the multi-family space with Fannie Mae, Freddie Mac, and FHA agencies.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **KeyCorp**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Robert L. Morris

Underwriting

Equity underwriting activity was low industry-wide during the quarter due to extreme market volatility and pressure on valuations. Overall, only 32 transactions came to market during the quarter, with Key being involved in two, versus the 177 transactions per quarter pace seen between 2000 and 2008.

Investor interest in the investment grade bond market picked up in late November with the success of the FDIC's Temporary Liquidity Guarantee Program. The modest rally in credit spreads opened the window for large, well-known, issuers of investment grade bonds, however poor economic data and expectations for weak fourth quarter earnings left some potential issuers of debt, including high yield, unable to attract investors.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: Marshall & Ilsley Corporation | Submission date: 1/30/09 | Person to be contacted regarding this report: Gregory A. Smith

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	2008 OCT	2008 NOV	2008 DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$8,111	$8,083	[illegible]	Includes all closed end residential RE: First Mortgages and Home Equity Loans (Approximately 80% of Home Equity Loans are held in first position). This excludes construction and vacant land loans which are included in the Commercial Real Estate section as average loan balances.	• November unemployment rates for all M&I Bank regions increased or remained the same month over month. While most M&I regions remain below the U.S. national average, three M&I regions, St. Louis, Orlando and Tampa have unemployment rates exceeding the U.S. national average • 1-4 family residential real estate applications have experienced a significant increase in refinance activity at the end of the 4Q'08 which is expected to impact closings in 1Q'09.
b. Total Originations	[illegible]	$88	[illegible]	1-4 Family Residential Mortgage Originations - Includes loans held by M&I Portfolio and loans originated to be sold into the secondary market. This excludes construction and vacant land loans which are included in the Commercial Real Estate section as new commitments.	
(1) Refinancings	$76	$39	$124		
(2) New Home Purchases	$65	$48	$59		
2. Home Equity					
a. Average Total Loan Balance	$2,658	$2,648	$2,682	Includes Home Equity Lines only	• Macroeconomic factors continue to create headwinds in Home Equity lending as depreciating home prices negatively impact loan levels and decreased consumer sentiment has impacted demand.
b. Originations (New Lines+Line Increases)	[illegible]	$38	[illegible]		
c. Total Used and Unused Commitments	[illegible]	$5,166	[illegible]		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	[illegible]	$266	$275	Includes Consumer Card only	
b. New Account Originations (Initial Line Amt)	$8	$9	$8		
c. Total Used and Unused Commitments	$1,339	$1,367	[illegible]		
4. Other Consumer					
a. Average Total Loan Balance	$1,794	$1,819	$1,847	Includes consumer PRA & LOCs. Subcategories include Auto Leases, Dealer Finance, Personal, Securities Loans, and Student Loans	• Auto Lending has experienced growth despite macroeconomic conditions and decrease in overall automobile sales due to decreased lending by the captives.
b. Originations	[illegible]	$45	[illegible]	Includes Additional Notes and Refinances to existing customers and notes to new customers	

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$15,466	$15,359	[illegible]	Includes A/R and Inventory, Dealer Commercial, Agricultural, IRB's and Muni, and Commercial Leases.	• The aggregate decline in commercial loans during the 4th Quarter was largely a result of customer seasonal borrowing patterns. Large pay downs from customers in the retail and agriculture sectors offset the increases from new borrowers and growth in existing customers. • Declining economic conditions have resulted in borrowers reducing expenses and paying down debt, delaying capital expenditure programs, experiencing declines in working capital assets, and not engaging in acquisition activity, all of which reduces customer borrowing activity. Competition for credit business from other financial institutions still exists, particularly for traditional commercial & industrial companies.
b. Renewal of Existing Accounts	[illegible]	$529	[illegible]		
c. New Commitments	[illegible]	$215	$199	Includes New Loans to New Customers and Unused Commitments to C&I (Also includes Unused Commitments for Finance Agricultural Production and Other)	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$21,938	$22,009	$22,020	Includes Business Purpose 1-4 and Construction, Development, & Vacant Land (Commercial and Residential)	• Commercial Real Estate average loan balances have remained flat during the past three months. Retail space has softened as many retailers have cut back expansion plans or gone into bankruptcy. Office space is in "relative" balance in most of our markets, although dramatic job losses could impact this segment in '09. • Multi-family, medical office building, and warehousing segments continue to offer opportunities, but we do see softness in construction and development activity. This has translated into significant declines in new construction in all of our markets, with our Arizona and Florida markets impacted the most.
b. Renewal of Existing Accounts	$110	$130	$12[illegible]		
c. New Commitments	$2[illegible]	$139	$153	Includes New Loans to New Customers and Unused Commitments for CRE (Also includes Unused Commitments for New Construction, Land Development and Other Land; Farmland; 1-4 Family Residential Properties; Multi-Family (5 or more) Residential Properties)	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$3	$0	$394		• Acquisition activity for investment portfolio. December volumes were mostly comprised of agency mortgage backed securities.
b. Asset Backed Securities	$0	$0	$0		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]					N/A
b. Average Total Debit Balances[2]					
3. Underwriting					
a. Total Equity Underwriting					N/A
b. Total Debt Underwriting					

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Marshall & Ilsley Corporation**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Gregory A. Smith

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Marshall & Ilsley Corporation is a diversified financial services corporation headquartered in Milwaukee, Wis., with $63.8 billion in assets, $50.2 billion in loans and leases, and $7.7 B in shareholder equity. M&I Marshall & Ilsley Bank is the largest Wisconsin-based bank, with 193 offices throughout the state. In addition, M&I has 53 locations throughout Arizona; 32 offices in Indianapolis and nearby communities; 34 offices along Florida's west coast and in central Florida; 15 offices in Kansas City and nearby communities; 25 offices in metropolitan Minneapolis/St. Paul, and one in Duluth, Minn.; and one office in Las Vegas, Nev. M&I's Southwest Bank subsidiary has 17 offices in the greater St. Louis area.

The communities and customers M&I serves continue to face impacts from current recessionary conditions of the economy. Nonetheless, M&I has increased lending in the markets we serve and has effectively grown the balance sheet gross of 4th quarter chargeoffs and loan sales for a net gain of $437 million in the 4th quarter of 2008.

We are aggressively addressing our housing-related construction issues in Florida and Arizona; and during 2008 we sold approximately $780 million in problem loans. We expect that the bulk of our Florida challenges are now behind us, and we continue to devote extraordinary resources to address our Arizona construction challenges.

In Commercial Real Estate, we continue to see less investor activity in new construction projects, with multi-family and medical office being least impacted. Long term fixed rate non recourse loans reflect the lack of liquidity in the CMBS/Conduit market. As a result, some maturing Bank CRE financing which would have paid off upon completion of construction and lease-up will have to be extended to provide an interim solution.

We expect softness to continue throughout 2009 in C&I lending. Declining economic conditions have resulted in borrowers reducing expenses and paying down debt, delaying capital expenditure programs, experiencing declines in working capital assets, and not engaging in acquisition activities. All of these factors reduce customer borrowing activity. Additionally, existing customers that have historically been large seasonal borrowers, such as contractors, agriculture based companies, and retailers have reduced borrowing levels as a result of softness in their own markets. Competition for credit business from other financial institution still exists, particularly for traditional commercial & industrial companies.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Marshall & Ilsley Corporation**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Gregory A. Smith

Consumer businesses have also been impacted by the economic downturn. Consumers are experiencing reduced capacity to borrow as a result of lower household income due to lower wages and/or the loss of two income earners, resulting in lower credit scores as income has been tighter (higher credit line usage and payment issues). Loss of home equity and tighter industry underwriting has also reduced the consumer's ability to borrow. M&I has focused on transitioning the residential mortgage originations from balance sheet to secondary market lending.

Our Wealth Management business, with assets under management of $30.4 billion and assets under administration $104.4 billion, has faced headwinds in the fourth quarter. The primary issues were overall equity market declines and the shifting of higher fee assets into cash equivalents. Looking at the components, our Trust businesses are reflective of general market conditions. Sales activities slowed; however, pipelines remained at levels comparable to the prior quarter. Outsourcing revenues continued to grow with the addition of new clients, and pipeline opportunities remain strong for 2009.

M&I has also worked to provide intermediary activities for our clients and the financial markets as a whole.

- M&I has provided liquidity for investment customers who were holding securities, but because of recent market disruptions, were unable to sell these securities.
- M&I has proactively supported the issuers of variable-rate-demand notes (VRDN) backed by the bank's LC. This includes providing liquidity to the market by purchasing notes that were "put" or tendered. Additionally, borrowings tied to the disruption in the VRDN market were paid off in October, 2008, as the VRDN market stabilized and trading normalized.
- M&I has implemented a franchise-wide foreclosure abatement program designed to keep families in their homes, including a 90-day foreclosure moratorium on certain owner-occupied residential loans.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: Morgan Stanley | Submission date: 1/30/2009 | Person to be contacted regarding this report: Fred Gonfiantini

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	2008 OCT	NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	[illegible]	$4,692	[illegible]	Consists of (1-4 family) residential whole loans originated by or purchased from third party mortgage brokers. Note: amounts are month-end balances.	While our consumer lending business is on a much smaller scale than our capital markets and commercial lending businesses, we increased credit facilities in Other Consumer Loan Originations of approximately $550MM during the period as a result of Morgan Stanley's continuing effort to expand our retail banking product solutions for our clients.
b. Total Originations	$0	$0	$0		
(1) Refinancings	$0	$0	$0		
(2) New Home Purchases	$0	$0	$0		
2. Home Equity					
a. Average Total Loan Balance	$2,625	$2,601	$2,560	Home Equity Lines Of Credit, consisting of loans originated by or purchased from third party mortgage brokers. Note: amounts are month-end balances.	
b. Originations (New Lines+Line Increases)	$0	$0	$0		
c. Total Used and Unused Commitments	$0	$0	$0		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$0	$0	$0		
b. New Account Originations (Initial Line Amt)	$0	$0	$0		
c. Total Used and Unused Commitments	$0	$0	$0		
4. Other Consumer					
a. Average Total Loan Balance	$5,861	$5,845	$5,878	Consists of Non Purpose Loans (loans excluding Margin lending), and Small Business Lending. Note: amounts are month-end balances.	
b. Originations	$185	$235	$257		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$71,031	$75,287	$73,078	Includes Corporate and Industrial loans that are: Closed, Under Client Consideration, Accepted Not Closed. Also, includes other Warehouse loans (non-Commercial Real Estate). Note: amounts are month-end balances.	Morgan Stanley approved $10.6Bn in new loans for the quarter, although demand from clients remained below prior years. We received a total of 41 lending commitment requests (totaling $12.7Bn) of which 36 of these requests ($10.6Bn) were approved.
b. Renewal of Existing Accounts	$535	$105	$58		
c. New Commitments	$607	$5,063	$2,875		
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$13,280	$13,205	$12,958	Includes Commercial Real Estate Whole Loans and Warehouse Loans. Note: amounts are month-end balances.	Balances remained relatively flat as demand was limited.
b. Renewal of Existing Accounts	$0	$0	$0		
c. New Commitments	$0	$0	$0		
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	-$8,556	-$3,102	-$660	MBS includes agency and non agency residential and commercial mortgage backed securities, Interest Only (IO), and residual securities at market value.	As a result of Morgan Stanley becoming a Financial Holding Company in September, and the attendant regulatory leverage ratio requirements, we began reducing our balance sheet by deleveraging liquid, self financing assets which is reflected in the net change in MBS volume for October.
b. Asset Backed Securities	-$978	-$537	-$150	Automobile, Consumer Credit Cards, and Student Loans, Interest Only (IO), and residual securities at market value.	
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	$126,300	$124,343	$106,858	Matched book represents the weekly average gross assets before any counterparty netting under FIN39 & FIN41. Included in the balances are securities borrowed of $61Bn, $62Bn, and $60Bn for the months ending Oct, Nov, and Dec respectively.	The Matched Book business saw a broad-based decline (Oct-Dec) as clients deleveraged and required less secured financing.
b. Average Total Debit Balances[2]	$44,343	$33,836	$28,095	Debit balances are reflected on a gross basis prior to any netting. Margin lending includes both Prime Brokerage and Retail. Note: amounts are month-end balances.	Morgan Stanley's Prime Brokerage clients reduced leverage during this period due to the extreme volatility and sharp declines in the equity markets.
3. Underwriting					
a. Total Equity Underwriting	$2,812	$3,176	$2,730	Amounts are Fair Values	Participated in equity transactions that raised $40Bn for clients (Oct-Dec).
b. Total Debt Underwriting	$4,816	$9,483	$16,824		Participated in debt transactions that raised $56Bn for clients and $10Bn for Morgan Stanley (Oct-Dec).

Notes:
1. Not applicable if matched book activity does not exceed $5 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.
Amounts are in $ millions / computed as month-end except where noted

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Morgan Stanley**
Reporting Month(s): Oct-Nov-Dec 2008
Submission date: 01/30/2009
Person to be contacted regarding this report: Fred Gonfiantini

PART II. QUALITATIVE OVERVIEW
Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activities (such as asset purchases).

COMMENTARY:

- During 2008, a severe downturn in the economy led to price declines and a period of unprecedented volatility across various asset classes. Losses that began in 2007 with the subprime mortgage sector, spread in 2008 to the residential and commercial mortgage markets and the credit markets in general. The magnitude of these declines led to a crisis of confidence in the financial sector as a result of concerns about the capital base and viability of certain financial institutions. During this period, interbank lending and commercial paper borrowing fell sharply, precipitating a credit freeze for both institutional and individual borrowers.
- The landscape of the U.S. financial services industry changed dramatically, especially during the fourth quarter of 2008. In the U.S., credit conditions worsened considerably over the course of the year, and the U.S. entered into a recession and the credit crisis assumed global proportions. Concerns about future economic growth, lower levels of consumer spending, a high rate of unemployment and lower corporate earnings continued to challenge the U.S. economy and the equity markets.
- Overall, our capital position has allowed Morgan Stanley to participate in debt transactions that raised a total of $56Bn for clients and an additional $10Bn for Morgan Stanley in the quarter and equity transactions that raised a total of $40Bn in the quarter. It also allowed us to approve $10.6Bn in new loans during the quarter. However, demand from clients and investors for credit and equity is still down significantly from prior years. The following qualitative analysis is provided to better describe Morgan Stanley's role in and assessment of the financial and lending markets for the fourth quarter of 2008:

DEBT UNDERWRITING:
October 2008

- October issuances were relatively light; market volumes were down 21% from September and the number of issuances was down 23% from September.
- Morgan Stanley underwrote approximately 10% of U.S. dollar denominated debt raised (an increase of 274% from the prior month) predominately as a result of our role in major issuances for Pepsi/Pepsi Bottling ($3.3Bn), and Verizon Communications ($3.3Bn).
- There were no financial issuances as issuers did not begin using the FDIC's Temporary Liquidity Guarantee Program (TLGP) until November. New issue premiums remained relatively elevated (in the 75-100 bps range).

November 2008

- New issue activity picked up in November, primarily due to the addition of TLGP supply. Goldman Sachs ($5Bn) was the first to tap the government guaranteed market on

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Morgan Stanley**
Reporting Month(s): Oct-Nov-Dec 2008
Submission date: 01/30/2009
Person to be contacted regarding this report: Fred Gonfiantini

November 25, followed by Morgan Stanley ($5.8Bn), and JPMorgan ($6.5Bn). Market volumes were up 23%.

- Morgan Stanley participated in several large corporate issuances. Morgan Stanley underwrote approximately 16% of U.S. dollar denominated debt raised (an increase of 62% from the prior month) including $2Bn for Time Warner Cable, $3.5Bn for Verizon Wireless and $3Bn for BP Capital Markets. New issue premiums remained elevated (in the 75 bps range).

December 2008

- The breadth of new issue business in December was strong. TLGP issuances were active and new corporate issue premiums came down significantly (40-50 bps). Market volumes were up 155% and the number of issuances completed was up 33%.
- Morgan Stanley underwrote approximately 10% of U.S. dollar denominated debt raised. Morgan Stanley was able to underwrite issuances for clients in both the high-yield debt and emerging market debt markets – effectively opening these markets to the issuers. On December 9, we priced a $500MM offering for El Paso Corp (rated Ba3/BB-) and on December 15, we priced $190MM for Kansas City Southern Railway (rated B2/BB-).

EQUITY UNDERWRITING:

October 2008

- Morgan Stanley assisted clients in raising nearly $17Bn in equity capital in October. Morgan Stanley underwrote approximately 11% of all equity capital raised globally in October. This included the largest transaction of the month, a $12Bn issuance by General Electric.
- Equity issuances in the market were weighted towards the beginning of the month of October, dominated by General Electric (which included an additional $3Bn preferred stock investment by Berkshire Hathaway) and Bank of America's $10Bn in self-issuance.
- Pricing discounts were deep with Bank of America and MetLife both pricing down approximately 30% from announcement of the transactions.

November 2008

- Morgan Stanley assisted clients raise $13.5 billion in equity in November.
- Morgan Stanley underwrote approximately 7% of all equity raised globally – a lower level than in October because we did not participate in two large European rights issuances totaling nearly $20Bn. We did act as joint lead underwriter in the largest offering of the month, a $13Bn follow-on for Wells Fargo, and as lead underwriter on the only two utility offerings in the month.
- Demand for equity issuance in the market saw a slight improvement as Wells Fargo was able to secure nearly $13Bn in financing at a modest discount, Anheuser-Busch InBev raised $9.9Bn through a rights offering, and Henkel was able to sell nearly $2Bn of Ecolab. Grand Canyon Education raised $145MM in the last US IPO of the year though at nearly a 40% discount to the original filing range.
- Equity indices continued their decline to lose 11% on the month, hindering widespread access to the primary equity markets.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Morgan Stanley**
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December 2008

- Morgan Stanley served as lead underwriter for 10 transactions helping clients raise over $10Bn in equity. Morgan Stanley underwrote approximately 9% of all equity raised globally.
- Equity issuance across the global markets gained 20% by number of issuances while the average size decreased as issuers of varying sizes and industries launched offerings into a rising market. The S&P 500 gained 11.5% in the first two weeks of December providing a strengthening backdrop for equity issuers.

SECURED LENDING:

- As part of the Firm's institutional business, Morgan Stanley enters into secured lending/financing transactions where it loans cash or securities and receives securities or cash as collateral for loans. In general, secured lending does not require a large need for funding as the collateral received in the lending transaction is used to finance the loan.
- Morgan Stanley's secured lending is generally performed as part of its 'Matched Book' and Prime Brokerage businesses. The Matched Book business saw a broad based decline in the fourth quarter of 2008 as clients deleveraged and required less secured financing. Similarly, Morgan Stanley's Prime Brokerage clients (primarily hedge funds) reduced leverage during this period due to the extreme volatility and sharp declines in the equity markets.

MBS/ABS:

- Morgan Stanley supports the Mortgage Backed Securities markets by providing liquidity in the secondary trading markets which benefits issuers of mortgages. As a result of Morgan Stanley becoming a Financial Holding Company in September, and the attendant regulatory leverage ratio requirements, we began reducing our balance sheet by deleveraging liquid, self financing assets which is reflected in the net change in MBS volume for October.

COMMERCIAL LENDING C&I:

- Overall syndicated market loan volume dropped 55% in 2008. The non-investment grade market was extremely challenging in 2008 with new issue leveraged loan volume down 61% and secondary spreads which widened to all time levels. New deals for investment grade loans are being syndicated primarily for 364-day tenors, with few multi-year facilities coming to market.
- Morgan Stanley approved $10.6Bn in new loans for the quarter, although demand from clients remained below prior years.
- We received a total of 41 lending commitment requests (totaling $12.7Bn) that were reviewed by our capital commitment committee and 36 of these requests ($10.6Bn) were approved.
- Our total loan and lease balance increased by $1.2Bn from $71.9Bn at the end of September 2008 to $73.1Bn at the end of December 2008.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Morgan Stanley**
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- Our lending commitment pipeline, which is included in our total loan and lease balance, increased by $700MM for this same period to $2.9Bn as of December 2008. During the fourth quarter, the requests for lending commitments declined in December.

CONSUMER LENDING:

- While our consumer lending business is on a much smaller scale than our capital markets and commercial lending businesses, we increased credit facilities during the period as a result of Morgan Stanley's continuing effort to expand our retail banking product solutions for our clients. The majority of the lending requests during the period were to offer loans to clients seeking financing or re-financing of residential and commercial real estate and capital for small businesses - at a time, when traditional sources of capital were difficult and/or expensive to secure.
- We made approximately $650MM of new loans in this area. A no-cost application process, competitive pricing and expedited cycles times have contributed to the growth of these loan portfolios.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of Institution: Northern Trust Corporation | **Submission date: January 30, 2009** | **Person to be contacted regarding this report: Patricia K. Bartler**

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	2008 NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	[illegible]	$8,354	[illegible]	All information is domestic and estimated based on a combination of internal and regulatory reporting data.	Residential real estate loans totaled $10.4 billion as of 12/31/08; a 13% increase from the prior year and a 4% increase from the prior quarter.
b. Total Originations	[illegible]	$85	[illegible]	All information is domestic and estimated based on a combination of internal and regulatory reporting data. Purchased first mortgages have been included as a source supporting mortgage availability.	
(1) Refinancings	[illegible]	$19	$21		
(2) New Home Purchases	[illegible]	$66	[illegible]	CRA purchases are not separately classified as refinancings and new home purchases; CRA purchases are included in the new home purchases figures.	
2. Home Equity					
a. Average Total Loan Balance	[illegible]	$2,238	$2,315	All information is domestic and estimated based on a combination of internal and regulatory reporting data.	
b. Originations (New Lines+Line Increases)	$120	$61	[illegible]	All information is domestic and estimated based on a combination of internal and regulatory reporting data. Renewals are included.	
c. Total Used and Unused Commitments	$4,278	$4,393	$4,413	All information is domestic and estimated based on a combination of internal and regulatory reporting data.	Approximately 50% of total commitments were used during the reporting period.
3. US Card - Managed					
a. Average Total Loan Balance - Managed	N/A	N/A	N/A		Northern Trust does not have a managed credit card portfolio.
b. New Account Originations (Initial Line Amt)	N/A	N/A	N/A		
c. Total Used and Unused Commitments	N/A	N/A	N/A		
4. Other Consumer					
a. Average Total Loan Balance	$2,212	$2,161	[illegible]	All information is domestic and estimated based on a combination of internal and regulatory reporting data. Includes revolving and non-revolving, loans to purchase/carry securities and overdraft protection on consumer accounts	Other Consumer includes revolving and non-revolving loans; over 90% is revolving (i.e., personal lines of credit).
b. Originations	$156	$147	$219	All information is domestic and estimated based on a combination of internal and regulatory reporting data. Renewals are included.	

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$12,611	$12,449	$12,756	All information is domestic and estimated based on a combination of internal and regulatory reporting data. Includes agricultural loans, loans to purchase/carry securities, and other/trust advances.	
b. Renewal of Existing Accounts	$283	$512	[illegible]	All information is domestic and estimated based on a combination of internal and regulatory reporting data.	
c. New Commitments	$1,182	$235	$990	All information is domestic and estimated based on a combination of internal and regulatory reporting data.	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$2,979	$3,072	$3,040	All information is domestic and estimated based on a combination of internal and regulatory reporting data.	Commercial real estate loans totaled $3 billion as of 12/31/08; a 28% increase from the prior year and a 2.5% increase from the prior quarter.
b. Renewal of Existing Accounts	$72	$8	$42	All information is domestic and estimated based on a combination of internal and regulatory reporting data.	
c. New Commitments	$128	$15	$169	All information is domestic and estimated based on a combination of internal and regulatory reporting data.	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$0	$479	$28	All information is domestic and estimated based on internal reporting data.	Northern Trust purchases, on a regular basis, debt securities of Government Sponsored Enterprises and US Financial Institutions that are participating in the FDIC Guarantee Debt Program.
b. Asset Backed Securities	$0	$0	$0	All information is domestic and estimated based on internal reporting data.	
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	N/A	N/A	N/A		Secured lending is not separated from our other lending.
b. Average Total Debit Balances[1]	N/A	N/A	N/A		
3. Underwriting					
a. Total Equity Underwriting	N/A	N/A	N/A		Northern Trust does not engage in equity underwriting.
b. Total Debt Underwriting	$0	$0	$0	All information is domestic and estimated based on internal reporting data.	

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Northern Trust Corporation**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 01.30.09
Person to be contacted regarding this report: Patricia K. Bartler

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Company Description: Northern Trust Corporation (NTC) provides investment management, asset and fund administration, fiduciary and banking services for corporations, institutions and successful individuals worldwide. As of December 31, 2008, our loans and leases totaled $30.8 billion, a 21% increase from 12/31/07 and a 3% increase from 9/30/08. Assets under custody totaled $3 trillion, and assets under management totaled $575 billion.

In our institutional business, Northern Trust clients include non-profit foundations, college and university endowments, and retirement plans for corporations, unions, and local, state and national governmental agencies. In our personal business, Northern Trust clients include individuals and families, primarily in the United States. We provide mortgages and other personal loans to our clients, in addition to a breadth of financial planning services.

Northern Trust has consistently adhered to prudent and conservative management practices, which include: strong capital levels; a high-quality balance sheet; and a focused business model thereby providing stability to our clients through various business and interest rate cycles. Businesses in which we have actively chosen to not participate include sub-prime mortgage underwriting, asset backed commercial paper conduits, credit cards, auto loans, and investment banking. Although our focus is principally on investment management and administration, we continue to use our balance sheet to provide loan and deposit services to our clients.

Residential Lending and Deposit Growth: Northern Trust's mortgage portfolio includes only traditional mortgage origination. Northern Trust has never been in the sub-prime market; does not routinely use mortgage brokers; and has no payment option adjustable rate mortgages. Moreover, Northern Trust does not sell or securitize pools of mortgages, so we are in a position to work directly with our clients on any payment problems.

We are aware of growing stresses for some of our borrowers. We are endeavoring to provide tools for borrowers with short-term payment issues, and a willingness and ability to pay in the long term that might allow them to stay in their homes. Options we have utilized include: past due payment postponements; modifications; forbearance agreements; short sales; and deed-in-lieu of foreclosure. In addition, we have established a Homeownership Retention Program. As part of this Program, a committee will review all home mortgages with payment problems in order to avoid preventable

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Northern Trust Corporation**
Reporting month(s): Oct-Nov-Dec 2008
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foreclosures. These efforts provide for consistent and equitable treatment with regard to modifications, extensions, or foreclosure (if deemed appropriate).

We have a very small number of foreclosures in progress nationally -- currently less than one quarter of one percent of the total number of mortgage loans outstanding. We have examined each situation closely to confirm that appropriate options have been considered.

While early in the process, we have seen a substantive increase in mortgage applications mainly consisting of the refinance of existing mortgages. Applicants are finding appraisal values have decreased making qualification more difficult to obtain.

Our deposit business continues to be strong with depositors of all types seeking confidence through strength of the institution in addition to the guarantees of FDIC. Our domestic deposits were $24.3 billion at 12/31/08, a 53% increase from 12/31/07 and a 36% increase from 9/30/08.

Corporate & Institutional: In the large corporate market, we have seen more companies lose access to public funding sources (commercial paper and long-term public debt), and are thus relying primarily on their bank credit facilities. In the middle market segment, we continue to see opportunities to add new clients due to apparent capital constraints faced by other banks who have traditionally supported this segment. In addition, commercial loan growth has been helped by increased utilization of existing facilities. This growth has been offset by a slow down in lending in the Commercial Real Estate segment.

The public finance (health care, not-for-profit, municipal, etc.) market has returned to bank borrowing due to the demise of the auction rate securities market and a subdued market for variable rate demand bonds. In addition, foundations and endowments have become more aware of the need for liquidity lines of credit, particularly due to the illiquidity of some of their alternative investments. Utilization of facilities continues to be stronger than prior year.

Intermediation Activity: Northern Trust continues to use its capital to support high quality loan growth, benefiting consumers and institutions. Northern Trust has also taken these further actions on a voluntary basis to support clients, including consumers, businesses, and investors, to preserve assets and enhance liquidity:

- Allocated up to $550 million to provide capital support for certain cash investment funds, thereby providing financial protection and confidence for consumers, businesses and others who invested retirement, pension and other assets in those funds;
- Provided $167.6 million to support securities lending clients, including many that are pension funds, retirement funds, endowments and other entities that represent US consumers; and
- Established a program to purchase up to $600 million illiquid auction rate securities from consumers, thereby restoring purchasing power and liquidity to many of our personal clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Northern Trust Corporation**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 01.30.09
Person to be contacted regarding this report: Patricia K. Bartler

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: PNC Financial Services Group — Submission date: 1/30/09 — Person to be contacted regarding this report: Quantitative - Pat Jablonski; Qualitative - Shaheen Dil

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	OCT (2008)	NOV (2008)	DEC (2008)	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	[illegible]	$9,616	[illegible]	A significant portion of PNC's First Mortgage Loan Portfolio is comprised of first mortgages, which were purchased in the national market as part of PNC's asset and liability management activities. The remaining portfolio was acquired in acquisitions or originated.	PNC acquired National City Corp. ("NCC") after close of business on 12/31/08 and their numbers are therefore not included in the data. Loans Held for Sale are excluded from all catergories.
b. Total Originations	[illegible]	$8	[illegible]	First Mortgage originations in the table represent PNC purchases of loans originated by PNC Mortgage, LLC, a 49.9% PNC owned joint venture with Wells Fargo.	
(1) Refinancings	[illegible]	$3	[illegible]	PNC Mortgage, LLC, which is not consolidated by PNC, had total new loan originations of $237.5 mm in October, $160.1 mm in November, and $130.1 mm in December.	
(2) New Home Purchases	[illegible]	$5	[illegible]		
2. Home Equity					
a. Average Total Loan Balance	[illegible]	$14,955	[illegible]	These loans are concentrated in PNC's primary geographic markets.	This was evident by our lending activity within our home equity, education lending, credit card, auto, and unsecured product lines. This lending activity was consistent throughout the markets in which we operate.
b. Originations (New Lines+Line Increases)	[illegible]	$240	[illegible]	Home Equity loan originations include new installment loans as well as new and increased lines of credit. These loans are concentrated in PNC's primary geographic markets.	
c. Total Used and Unused Commitments	[illegible]	$16,494	[illegible]		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	[illegible]	$931	[illegible]	PNC Card data includes consumer and business card balances and originations to PNC's customer base.	
b. New Account Originations (Initial Line Amt)	[illegible]	$96	[illegible]		
c. Total Used and Unused Commitments	[illegible]	$1,787	[illegible]		
4. Other Consumer					
a. Average Total Loan Balance	[illegible]	$6,444	[illegible]	PNC's other consumer loans include indirect and direct auto, education loans and other direct unsecured installment loans.	
b. Originations	[illegible]	$136	[illegible]	Originations include new loans and a small amount of new direct unsecured installment lines.	

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of Institution: PNC Financial Services Group — Submission date: 1/30/09 — Person to be contacted regarding this report: Quantitative - Pat Jablonski; Qualitative - Shaheen Dil

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C&I					
a. Average Total Loan and Lease Balance	$35,262	$35,356	$36,429	PNC's C&I loan portfolio includes loans to the following types of entities: [illegible], Wholesale, Manufacturing, Other service providers, Real estate related (customers in the real estate and construction industries but not secured by real estate), Financial services, Health care, [illegible]	C&I - Highlights include: 1) a significant increase in utilization by our large corporate clients who have been impacted by declines in the commercial paper and other public debt markets (although recent signs suggest utilization rates are now leveling off), and 2) a strong increase in asset-based lending opportunities with companies whose financial performance may have declined but who remain viable and have asset values that support secured lending structures. Business Banking - Application volume from our retail distribution system in the 4th quarter was down 5% from the same period one year earlier. In addition to new loan activity, PNC Business Banking reaffirmed and renewed in excess of 15,000 loans and lines of credit in the 4th quarter, continuing to make funds available to small businesses.
b. Renewal of Existing Accounts	$8,840	$7,561	$4,553	The portfolio includes loans to small businesses, middle market and large corporate customers.	
c. New Commitments	$3,523	$1,779	$3,202	New commitments include both new loans and new unfunded commitments.	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$9,603	$9,503	$9,538	PNC's loans include real estate projects and mortgages held in the loan portfolio and include loans held for sale (including CMBS).	The dramatic slowdown in the overall market, coupled with the substantial combined exposure of PNC and National City (acquired 12/31/08), suggests that aggregate loan balances will be flat at best for some time. Also, as loans made in prior periods mature but cannot be paid off because of the lack of a viable refinancing market, PNC continues to work with borrowers to restructure and modify their loans.
b. Renewal of Existing Accounts	$440	$350	$510		
c. New Commitments	$160	$1,144	$411	New commitments include loans originated and booked in [illegible] for sale and portfolio loans, as well as new unused commitments.	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$263	$9	$103	Trade Date was used to determine the month in which the purchase occurred. The Mortgage Backed Securities included MBS, CMBS and CMOs (both agency and non-agency). The Net Purchased amount consists of Purchases less sale for the month.	
b. Asset Backed Securities	$0	$5	$44		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	N/A	N/A	N/A		
b. Average Total Debit Balances[2]	N/A	N/A	N/A		
3. Underwriting					
a. Total Equity Underwriting	N/A	N/A	N/A		PNC remains active in underwriting Economic Development Bonds, many of which require letters of credit provided by PNC. PNC provided $287 mm in Letters of Credit in conjunction with Bonds underwritten in the 4th quarter.
b. Total Debt Underwriting	$171	$353	$228	Data includes PNC's share of loan syndications, [illegible] Bond Underwritings and [illegible] Underwritings. In addition to the loans underwritten, loan syndications arranged for middle market borrowers [illegible]	

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **PNC Financial Services Group, Inc.**
Reporting month(s): **Oct-Nov-Dec 2008**
Submission date: **January 30, 2009**
Person to be contacted regarding this report: **Shaheen Dil**

PART II. QUALITATIVE OVERVIEW

The PNC Financial Services Group, Inc. (www.pnc.com) is one of the nation's largest diversified financial services organizations providing retail and business banking; specialized services for corporations and government entities, including corporate banking, real estate finance and asset-based lending; wealth management; asset management and global fund services. As of December 31, 2008, our average loans and leases totaled $72 billion, assets under custody and other nondiscretionary assets totaled $466 billion, and assets under management totaled $57 billion. On that same day, we acquired National City Corporation (NCC). This raised our spot loans and leases to $175 billion, assets under custody and other nondiscretionary assets to $504 billion, and assets under management to $110 billion. The NCC acquisition makes PNC the 5th largest deposit taking institution in the country, and expands our market presence from the East Coast to the Midwest and Florida. The quantitative snapshot provides average numbers on legacy PNC, while the qualitative snapshot includes commentary on the combined portfolios.

First Mortgage*

New loan demand increased dramatically as a result of government intervention and the resulting drop in interest rates beginning in late November. December production of $1.36 billion was 82% higher than November levels. Refinances accounted for 64% of the total compared to 42% in November.

Macroeconomic trends coupled with troubled housing markets require continued focus on expanding homeownership preservation programs. Loss mitigation in-flows have increased 380% over 2007 levels. New loss mitigation cases initiated in December 2008 increased over November by 40%. Foreclosure referrals have increased 106% over 2007 levels. December 2008 foreclosure referrals spiked to 4,633 units. Foreclosure referrals averaged 2,400 units for the previous three months. NCM has been and continues to deploy aggressive and streamlined efforts to prevent as many avoidable foreclosures as possible, including implementation of the HOPE NOW alliance programs and the GSE Streamlined Modification Program (SMP). NCM mailed 8,856 HOPE NOW solicitation letters in December 2008. During December 2008, NCM's Borrower Outreach Team attended foreclosure prevention events sponsored by Hope Now Alliance and Helping Hands Community Outreach in Sacramento, Los Angeles, CA and Dayton Ohio. Seventy-seven troubled borrowers met face to face with homeownership preservation representatives. Loss mitigation options were reviewed. NCM achieved a 2008 Tier 1 rating from HUD in December for loss mitigation efforts. NCM's homeownership preservation ratio for 2008 was 60.1%.

Consumer Lending

Consumer loan demand is down due to current recessionary economic conditions. However, PNC Bank continued to provide qualified customers access to credit. This was evident by our lending activity within our home equity, education lending, credit card, auto, and unsecured product lines. This lending activity was consistent throughout the markets in which we operate.

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* *Since PNC did not own a mortgage company prior to 12/31/08, the "First Mortgage" section relates to the former National City Mortgage Corporation (NCM).*

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **PNC Financial Services Group, Inc.**
Reporting month(s): **Oct-Nov-Dec 2008**
Submission date: **January 30, 2009**
Person to be contacted regarding this report: **Shaheen Dil**

PNC Bank continues to pursue loss mitigation activities and tools that assist home owners who are experiencing financial hardship. To that end, we have significantly increased staff in the Loss Mitigation Group. We work closely with the customer to set up new repayment schedules, loan modifications and/or forbearance programs. Where appropriate, short sales and other more aggressive methods are employed as well. Our programs have a cash flow analysis completed to determine if a customer's cash flow at the reduced payment and/or term can service the new debt. In addition, where the need is to refinance/consolidate debt, those accounts will be viewed by the underwriting group, where a more extensive cash flow analysis and credit evaluation is conducted.

We have been actively training our collection groups to ask the proper questions to determine the needs of the customer and will transfer calls immediately to trained Loss Mitigation specialists for resolution. The main focus is to help the customer stay in their homes if they qualify for one of the programs available.

Business Banking

Demand to borrow is down due to economic conditions. Application volume from our retail distribution system in the 4th quarter was down 39% from the same period one year earlier. Much of the softening demand is from the micro-business segment (those that borrow less than $100,000) during all of 2008. Even so, PNC approved over 1,500 loans in amounts less than $100,000 each during the 4Q '08. In addition to new loan activity, PNC Business Banking reaffirmed and renewed in excess of 15,000 loans and lines of credit in the 4th quarter, continuing to make funds available to small businesses.

In the 4th quarter, Business Banking generated $569 million in new loan volume. The average loan generated from our retail system was $115,000, ensuring money is getting to the smallest borrowers.

To stimulate demand, PNC offered a special promotion to new borrowers. Rates were discounted below market rates on lines of credit and term loans for equipment, expansion and commercial owner-occupied real estate. Additionally, PNC offers special financing rates on 'Green' purpose loans, loans to businesses in Low- or Moderate-Income areas, and where new branches have been opened. PNC continues to offer these promotions in the 1st quarter of 2009 and is working with former National City distribution system to leverage the same.

Former National City Business Banking distribution received access to PNC's liquidity and capital as of Dec. 31, 2008, which allowed PNC to make more credit available at lower rates. This was evidenced by a reduction in published rates as soon as the acquisition was finalized.

C&I

The continued economic slowdown is affecting all aspects of the US economy. In our calling efforts, we continue to hear from many C&I clients and prospects that they are being very cautious in their own planning, choosing to protect their existing capital and to maintain existing credit facilities in order to avoid the new realities of today's market pricing and structure requirements. Nevertheless, PNC's commercial banking businesses continue to actively call in all of our target markets and have set 2009 sales goals that meet and, in many cases, exceed 2008 sales goals. We remain keenly focused on providing credit to credit-worthy companies.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **PNC Financial Services Group, Inc.**
Reporting month(s): **Oct-Nov-Dec 2008**
Submission date: **January 30, 2009**
Person to be contacted regarding this report: **Shaheen Dil**

In National City's legacy markets, our primary focus for 2009 is on client retention during the integration and conversion process. Our recent goal in most of these markets has been to call on every client in the first month after the closing and to reassure them that PNC is "open for business". We have also been focused on recovering corporate deposits that were lost over the past 12 months and we have now successfully recovered nearly $1 billion in the month of January alone. In PNC's legacy markets, which are not significantly impacted by the acquisition, we remain highly focused in 2009 on generating new sales across our product and service set. To help reinforce our strategy, we are implementing a specific sales incentive program that will reward those markets that most exceed their goals in 2009.

We have seen a significant increase in utilization by our large corporate clients who have been impacted by declines in the commercial paper and other public debt markets (although recent signs suggest utilization rates are now leveling off), and a strong increase in asset-based lending opportunities with companies whose financial performance may have declined but who remain viable and have asset values that support secured lending structures. Some of this opportunity will be offset by a drop in loan balances associated with lower inventory and receivables levels, both of which are related to lower sales levels and the declining value of many commodity assets. We should also recognize that loan growth may be impacted in 2009 by the need to reduce credit exposure to some companies where PNC and National City have historically both provided credit and where the combined loan levels are now in excess of established risk tolerance limits.

Commercial Real Estate

The dramatic slowdown in the overall Commercial Real Estate market, coupled with the substantial combined exposure of PNC and National City, suggests that aggregate loan balances will be flat at best for some time. Also, as loans made in prior periods mature but cannot be paid off because of the lack of a viable refinancing market, PNC continues to work with borrowers to restructure and modify their loans. In many cases, this results in loans remaining on our books and consuming capital that would have otherwise become available to make new loans. PNC remains very active in commercial real estate lending to multifamily owners and operators with whom we are leveraging our strong relationships with agency lenders such as Fannie Mae and Freddie Mac. While most of these programs do not result in loans on our balance sheet, many do require substantial use of our capital to support loss sharing arrangements.

PNC also remains active in underwriting Economic Development Bonds, many of which require letters of credit provided by PNC. These transactions support investments in buildings and equipment and stimulate manufacturing employment. PNC also continues to purchase Low Income Housing Tax Credits that provide equity for the construction of low income housing projects. Once again, neither of these activities results in loans on our balance sheet. However, they do inject growth capital into the economy and they do require substantial use of our own capital base.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: Regions Financial Corp.	Submission date: 1/30/09	Person to be contacted regarding this report: Irene Esteves

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	2008 NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	[illegible]	$16,374	$16,357	First and second residential 1-4 family mortgages, including residential mortgages held for sale.	During 4th quarter, secondary market production increased significantly relative to the portfolio. December 2008 Mortgage volume increase is driven by U.S. Treasury drop in conforming mortgage rates in mid December.
b. Total Originations	$339	$223	$450	Loans originations designated for the secondary market and those to be held in portfolio on Regions' balance sheet.	
(1) Refinancings	$143	$83	$274	Total originations designated as refinance status.	
(2) New Home Purchases	$202	$140	$176	Total originations designated as new purchase status.	
2. Home Equity					
a. Average Total Loan Balance	[illegible]	$16,345	$16,328	Average balances include Home Equity loans and HELOCs.	Home Equity loan balances and portfolio commitments remain relatively consistent in 4th quarter 2008.
b. Originations (New Lines+Line increases)	$225	$137	$126	New Home Equity loans, lines and line increases.	
c. Total Used and Unused Commitments	$27,881	$27,782	[illegible]	Total portfolio of Home Equity loans and funded and unfunded HELOCs. Funded portion included in average balance above.	
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$0	$0	$0	NA - Regions Financial Corp. is an Agent Bank.	
b. New Account Originations (Initial Line Amt)	$0	$0	$0		
c. Total Used and Unused Commitments	$0	$0	$0		
4. Other Consumer					
a. Average Total Loan Balance	$6,243	$5,596	[illegible]	Includes consumer direct, indirect, over revolving (i.e., overdraft lines) and student loans held for sale.	Other Consumer primarily reflects direct, indirect and student lending. During the 4th quarter, student loan sales in the normal course of business totaled $600 million.
b. Originations	$300	$75	[illegible]	Includes direct, indirect and student lending origination activity. Indirect originations included in October only as we ceased originations during the month of October.	

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C&I					
a. Average Total Loan and Lease Balance	$24,655	$24,065	[illegible]	Average outstanding funded balances (net of deferred fees and costs) for non-real estate, commercial related loans and leases.	Loan fundings related to Variable Rate Demand Note letters of credit peaked in October. While Variable Rate Demand Note remarketings resulted in lower November and December balances, the number of new and renewal C&I commitments totaled 6,469 for the quarter (2,052 in December).
b. Renewal of Existing Accounts	[illegible]	$1,537	[illegible]	Renewal of existing funded and unfunded commitments for non-real estate, commercial related loans based upon posting date of renewal. Also includes letters of credit.	
c. New Commitments	[illegible]	$572	[illegible]	New funded and unfunded commitments for non-real estate, commercial related loans based upon posting date of commitment. Also includes letters of credit and leases. Variable Rate Demand Note (VRDN) fundings are excluded from new commitment activity.	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	[illegible]	$37,638	[illegible]	Average outstanding funded balances (net of deferred fees and costs) for commercial related loans secured by real estate. Also includes Commercial loans held for sale.	Residential homebuilder and condominium exposure continues to decline as a result of property dispositions and paydowns.
b. Renewal of Existing Accounts	[illegible]	$1,520	[illegible]	Renewal of existing funded and unfunded commitments for commercial related loans secured by real estate based upon posting date of renewal. Also includes letters of credit.	
c. New Commitments	[illegible]	$601	[illegible]	New funded and unfunded commitments for commercial related loans secured by real estate based upon posting date of the commitment. Also includes letters of credit. VRDN fundings are excluded from commercial real estate new commitment activity.	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$0	$902	[illegible]	Net purchase volume as captured in bond accounting system. Reflects settlement date.	MBS consists of 30 year agency fixed-rate mortgage backed passthroughs.
b. Asset Backed Securities					
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	NA	NA	NA		
b. Average Total Debit Balances[2]	[illegible]	$638	[illegible]	Reflects average margin receivables as recorded on the general ledger.	
3. Underwriting					
a. Total Equity Underwriting	$10	$0	$0	Total equity underwriting activity - represents Regions' participation percentage.	Increase in December debt underwriting is primarily due to commercial debt issuances related to the FDIC's recently established Temporary Liquidity Guarantee Program.
b. Total Debt Underwriting	$284	$705	[illegible]	Debt issuances delivered monthly. Represents Regions' participation percentage.	Gross debt issuance size for October, November and December was $935 million, $2.4 billion and $22.3 billion respectively. Gross equity issuance for October was $194 million.

Notes:
1. Not applicable if matched book activity does not exceed $10 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Regions Financial Corporation**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Irene Esteves

PART II. QUALITATIVE OVERVIEW
Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

I. Company Description

Regions Financial Corporation ("Regions" or the "Company") is a financial holding company headquartered in Birmingham, Alabama, which operates throughout the South, Midwest and Texas. Regions provides traditional commercial, retail and mortgage banking services, as well as other financial services in the fields of investment banking, asset management, trust, securities brokerage, insurance and other specialty financing. At December 31, 2008, Regions had total consolidated assets of approximately $146.2 billion, total loans of $97.4 billion, total deposits of approximately $90.9 billion and total consolidated stockholders' equity of approximately $16.8 billion.

Regions conducts its banking operations through Regions Bank, its brokerage and investment banking business through Morgan Keegan & Company, Inc. ("Morgan Keegan"), and its insurance brokerage business through Regions Insurance Group, Inc.

II. Consumer Lending

A. Mortgage Lending

The mortgage division originated mortgage loans totaling $1.0 billion during the fourth quarter of 2008. Production was down the first part of the quarter due to a challenging rate environment and general stresses in the housing sector; however, December production improved significantly due primarily to the U.S. Treasury influencing a drop in conforming mortgage rates in mid December and a dramatic increase in refinance activity over the prior two months. Consistent with the increase in December production, Regions experienced an increase in demand for new loans as evidenced by an almost two-fold increase in the number of new loan applications in the final month of the quarter.

B. Home Equity Lending

Home Equity Lending is a key component of the Consumer product offering and includes equity loans and equity lines of credit. The Bank approaches this business from a long-term perspective, and did not participate in broker or correspondent generated Home Equity or Sub-Prime Lending. Lending

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Regions Financial Corporation**
Reporting month(s): Oct-Nov-Dec 2008
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production is down because of declining home sales and values (especially in the Florida markets). Specifically, during the fourth quarter of 2008 the Bank experienced a decline in new production resulting from fewer loan applications as well as lower approval rates. Even though production declined, average equity line balances were up compared to the third quarter, which led to combined equity loan and line balances increasing during fourth quarter of 2008. The favorable balance sheet growth trend is due largely to reductions in the pace of customers paying down existing balances and continued account utilization.

Given the economic slowdown and the necessary emphasis on lending to creditworthy borrowers, Regions enacted a range of policies to address changing economic conditions during the second half of 2008. Regions has seen an increase in the number of customers having difficulty making home equity payments, and this difficulty usually stems from debt service increases. These increases are often tied to the higher rates on adjustable rate mortgages where Regions home equity may be in second position. To help customers who are having difficulty making their loan payments, we are offering flexible repayment programs on second mortgages that can be used while customers restructure their first mortgage. We also offer a fixed payment option to our customers with home equity lines that are based on a variable rate.

C. Other Consumer Lending

While we did not have significant changes to credit underwriting or pricing, Regions other consumer lending demand declined in the fourth quarter compared to the third quarter (as is typical). Demand in the fourth quarter of 2008 was weaker than experienced in the fourth quarter of 2007 as individuals deleveraged given the economic slowdown. Additionally, Regions made the decision to cease originations in the Dealer Retail Indirect business in October 2008 which caused a decline in production for this product in the fourth quarter.

D. Customer Assistance Program

Regions launched an extensive Customer Assistance Program (CAP) for troubled borrowers in late 2007, well before the full effects of the credit crisis were realized by most consumers and businesses. During the first year of the CAP, Regions was able to contact upward of 125,000 residential first mortgage and home equity customers.

As a result, Regions has taken steps including renegotiating the terms of mortgages, keeping families in their homes and allowing Regions to maintain a foreclosure rate well below industry average for residential first mortgages. As of the fourth quarter, Regions has restructured more than $400 million in mortgages.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Regions Financial Corporation**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Irene Esteves

III. Commercial Lending

A. C & I Lending

Borrowing for working capital increased, but this has been partially offset by reduced expansion and capital expenditure needs. Line utilization in middle market and large commercial edged up slightly in the fourth quarter of 2008. Credit quality requirements have become more conservative and the retail syndication market is very tight.

In the middle market we are seeing some decline in clients' appetite for additional debt and utilization of cash to pay down debt. The slower economy is driving more conservative leverage positions; however, the large commercial market remains active. Continued tightness in the bond markets has resulted in senior bank debt frequently being the only alternative for clients. Loan pipelines continue to decline, down 15% - 20% from September to December 2008.

In the small business market there is a clear weakening in loan demand, with the loan pipeline at half of its peak in the spring of 2008. This decline is attributed to weakness in business conditions, creditworthiness and general reluctance to make business investments in this environment.

B. CRE Lending

New loan demand has continued to slow as developers are reluctant to begin new projects or purchase existing projects under current economic conditions. The lack of permanent financing from CMBS and insurance companies has also slowed the refinancing of construction and bridge loans. Our focus has been on renewing and restructuring these loans to provide clients additional time to wait for the markets to recover. Our underwriting criteria have been adjusted to account for the risk of declining property prices and stressed cash flows for both developers and individual projects.

IV. Treasury Activities

Management of interest rate risk is among the most fundamental tenets in banking. Banking institutions utilize the Available for Sale investment portfolio as a primary tool to balance the inherent interest rate risk arising from core banking activities.

The third and fourth quarters of 2008 were characterized by unprecedented levels of interest rate volatility, credit market dislocation, and pervasive illiquidity. These factors led to an increasingly asset sensitive profile for Regions. Agency Mortgage-Backed securities provided an efficient means to offset asset sensitivity and maintain the desired liquidity profile, while offering a compelling risk adjusted return on the use of capital.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Regions Financial Corporation**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Irene Esteves

V. Equity and Debt Activities at Morgan Keegan

During the fourth quarter, the capital markets continued to be frozen with very few deals. The company's broker dealer subsidiary Morgan Keegan participated in one underwriting during the fourth quarter as a co-manager. Municipal underwritings were very slow in the fourth quarter as markets and liquidity were in question. When stability returned, November and December were stronger months for debt underwritings and Morgan Keegan was involved in a large number of them. About half of the December underwriting volume involves three FDIC guarantee deals.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of Institution: STATE STREET CORPORATION | Submission date: Jan. 30, 2009 | Person to be contacted regarding this report: James Malerba

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	2008 NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$0	$0	$0	Schedule A is not applicable	State Street is a Trust bank and as such, does not directly provide retail banking services including mortgage, credit card or other consumer credit activities
b. Total Originations	$0	$0	$0		
(1) Refinancings	$0	$0	$0		
(2) New Home Purchases	$0	$0	$0		
2. Home Equity					
a. Average Total Loan Balance	$0	$0	$0	Schedule A is not applicable	State Street is a Trust bank and as such, does not directly provide retail banking services including mortgage, credit card or other consumer credit activities
b. Originations (New Lines+Line Increases)	$0	$0	$0		
c. Total Used and Unused Commitments	$0	$0	$0		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$0	$0	$0	Schedule A is not applicable	State Street is a Trust bank and as such, does not directly provide retail banking services including mortgage, credit card or other consumer credit activities
b. New Account Originations (Initial Line Amt)	$0	$0	$0		
c. Total Used and Unused Commitments	$0	$0	$0		
4. Other Consumer					
a. Average Total Loan Balance	$0	$0	$0	Schedule A is not applicable	State Street is a Trust bank and as such, does not directly provide retail banking services including mortgage, credit card or other consumer credit activities
b. Originations	$0	$0	$0		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$15,199	$10,873	$10,538	Includes Fund facilities, overdraft lines, leases and lines of credit to insurance and other corporate borrowers	Following the bankruptcy filing of Lehman Brothers, demand for short term extensions of credit rose to record levels due to extrodinarily high redemption requests in money market and equity mutual funds. Demand for these extensions returned to more normal levels as market conditions stabilized. During the quarter, we set a target to increase new commitments by $2 billion, and closed $820 million of new facilities and approved an additional $630 million of lines of credit which are in process of being finalized. In addition, we renewed $2.045 billion of loan commitments to current customers, providing consistent credit support for our existing customer base.
b. Renewal of Existing Accounts	$364	$604	$1,077	Primarily renewal of credit facilities to Fund clients	
c. New Commitments	$740	$192	$458	Consist primarily of credit facility commitments to Fund clients	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$757	$800	$800		State Street had indemnification obligations with respect to customer repurchase agreements with Lehman Brothers Inc. or certain of its affiliates ("Lehman"). In the case of some of our customers that entered into repurchase agreements with Lehman, we indemnified obligations totaling approximately $1 billion and, following the bankruptcy of Lehman, paid this amount to our customers and took possession of the collateral, consisting of commercial real estate obligations. We recorded the commercial real estate at estimated fair market value of $800 million. The commercial real estate acquired, is reflected as New Commitments made in October, 2008.
b. Renewal of Existing Accounts	$0	$0	$0		
c. New Commitments	$800	$0	$0		

SCHEDULE C. OTHER INTERMEDIATION ACTIVITIES (Millions $)	OCT	NOV	DEC	Key	Comments
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$3,085	-$268	$324	The number reported for C.1. represents gross purchases, net of gross sales on a settlement date basis. Principal paydowns are included.	During October, November and December we purchased approximately $2.49 billion, $70 million, and $52 million, respectively, of mortgage-backed and asset-backed securities. We experienced maturities and run-off in our mortgage-backed and asset-backed securities portfolio of $535 million, $536 million and $534 million in October, November and December, respectively.
b. Asset Backed Securities	$370	-$198	$226		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]					
b. Average Total Debit Balances[2]					
3. Underwriting					
a. Total Equity Underwriting					
b. Total Debt Underwriting					

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **STATE STREET CORPORATION**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: James Malerba

PART II. QUALITATIVE OVERVIEW
Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

State Street Corporation ("State Street") provides investment servicing and investment management services to institutional investors, including pension funds, mutual funds, and other collective investment pools. Unlike more traditional banks, we do not directly provide ordinary retail banking services, including mortgages, credit cards, or other consumer credit, nor do we engage in investment banking activities. Our loan activity primarily relates to provision of credit to our core customer base of institutional investors. While we do not service retail customers, we take in deposits for our institutional clients as part of their investing activities, we provide lines of credit and overdrafts that help smooth the operation of the financial markets, and provide custody services to institutional investors. As a bank, we also have access to the payment systems and the Fed window, enabling us to do what we do for our customers.

Our two primary lines of business, Investment Servicing and Investment Management, provide products and services including custody, recordkeeping, daily pricing and administration, shareholder services, foreign exchange, brokerage and other agency trading services, securities finance, deposit and short-term investment facilities, loan and lease financing, investment manager and hedge fund manager operations outsourcing, performance, risk, and compliance analytics, investment research and investment management, including passive and active U.S. and non-U.S. equity and fixed-income strategies. Our core business can generally be described as "back-office" or "middle-office" in nature, and gives us a risk-profile that is generally lower than that of investment or commercial banks.

As of December 31, 2008, we had consolidated total assets of $174 billion, loans (which include overdrafts) and leases of $9.1 billion, assets under custody of $12.0 trillion and assets under management of $1.4 trillion.

While our customer relationships are with institutional investors, our services indirectly benefit retirees, mutual fund investors and other individuals participating in these collective investments. Our role enables the investment process to run smoothly and as intended, and ultimately, to help our customers'

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **STATE STREET CORPORATION**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: James Malerba

customers -- citizens with savings -- to be able to access their investments when they need to. Since our business model and client base differ significantly from traditional commercial and investment banks, our use of the capital that we received under the TARP Capital Purchase Program ("CPP") is necessarily different. Accordingly, much of our application of the additional funding capacity created by the CPP capital is directed at maintaining the functioning of the securities settlement process, in which we play a central role due to our custodial services, and providing short and long term funding when necessary to our customers, which is the focus of our business in managing and servicing cash pools, including money market funds, collateral pools or similar mandates.

Since the collapse of Lehman Brothers, in mid-September, we have increased our credit commitments and provision of liquidity to our core customer base of institutional investors. After we received the CPP investment, we determined the use of the funding that most directly reflected our role in the financial markets was to increase the level of available credit and liquidity that we are providing to our mutual fund, pension fund and other institutional investor customers. In November, State Street's Asset and Liability Committee set a target to increase new commitments by $2 billion to these clients. During the fourth quarter of 2008, $820 million of facilities were approved and closed, supplemented by an additional $630 million of lines of credit which received internal credit approval and await completion of documentation. Equally important is the $2.045 billion of loan commitment renewals that have been approved by State Street since mid-October providing consistent credit support for our existing customer base.

In some cases, these credit facilities replace sources of liquidity made unavailable to these clients by the recent market crisis. The combination of a dysfunctional credit market and unprecedented redemption requests has placed considerable liquidity strains on these clients. For example, mutual funds have faced unprecedented demands for liquidity from investors. By increasing our committed lines of credit, and providing short-term liquidity to support settlement and redemption activity, the funds received under the CPP support our efforts to help protect investors in difficult and volatile markets. While the specific amount of credit extended will vary with market conditions and the unique circumstances of these institutional investors, State Street's provision of credit enhances their ability to adopt a more normalized investment policy despite unexpected levels of cash demands for redemption or settlement purposes.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **STATE STREET CORPORATION**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: James Malerba

Our average total lending for the reported three month period was higher than the previous quarter, driven primarily by extraordinary high peak demand for short-term credit facilities by mutual funds and other funds due to fund redemption activity following the collapse of Lehman Brothers. Overdrafts to customers peaked at $19.6 billion during the period and ended the year at $4.6 billion. Overall loan demand trended towards more normal levels at year-end, as fund managers adjusted portfolios, redemptions declined and markets became more stabilized.

During October, we purchased approximately $2.5 billion of mortgage-and asset-backed securities. We experienced maturities and run-off of approximately $500 to $600 million per month in each of the three months. Future purchases of securities will depend on market conditions, target capital rations, and other factors. We continued to provide liquidity to the inter-bank and Fed Funds markets, though demand varied depending on market conditions and the availability of alternative sources of liquidity by central banks.

The CPP investment also provides us potential additional capacity for other activities consistent with the goals of the EESA, including new commitments and funding in low-income housing investments, energy investments and municipal bond liquidity and credit enhancements. During the quarter, our new commitments in these areas totaled $287 million.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of Institution: SunTrust Banks, Inc. | **Submission date: 1/30/09** | **Person to be contacted regarding this report: Barry Koling**

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	2008 NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$34,040	$33,317	$32,703	Consists of (1-4 family) residential whole loans and closed end loans secured by junior liens originated as part of a home purchase or refinance transaction. Includes loans retained in SunTrust's loan portfolio and loans currently recorded in loans held for sale.	Originations totaled $7.2 billion during the fourth quarter of 2008. This figure represents a decline from previous quarters, driven by weak application volume throughout most of 2008 associated with housing market conditions and the interest rate environment. Home mortgage applications increased sharply in December, as rates declined. Increased activity is driven by strong refinancing demand, while applications related to new home purchases remain weak.
b. Total Originations	$2,703	$1,873	$3,620	Includes all loans originated or purchased by SunTrust through the Retail and Wholesale channels. Volumes include all activity regardless of whether the loans are retained in the loan portfolio, or recorded in loans held for sale and ultimately sold to a third party.	
(1) Refinancings	$1,106	$709	$2,259		
(2) New Home Purchases	$1,597	$1,164	$1,361		
2. Home Equity					
a. Average Total Loan Balance	$18,708	$18,767	$18,778	Average balance, originations, and commitments include both Home Equity Lines and Home Equity Loans.	Market conditions and consumer sentiment had a negative impact on home equity originations during the fourth quarter.
b. Originations (New Lines+Line Increases)	$284	$327	$325		
c. Total Used and Unused Commitments	$34,339	$33,818	$33,350		
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$995	$1,007	$998	SunTrust originates commercial credit cards and carries them in the loan portfolio. Consumer credit cards are originated through a third party service provider. Consumer portfolios are periodically purchased from the partner and booked to the loan portfolio.	New account origination volumes are dependent on the timing of large commercial card program implementations and result in origination volume fluctuations on a month to month basis. SunTrust did not purchase any consumer portfolios during the fourth quarter. Total used and unused commitments generally decrease over a quarter as consumer accounts purchased from a third party service provider naturally attrite. Total used and unused commitments increase when consumer accounts are purchased from the third party service provider.
b. New Account Originations (Initial Line Amt)	$37	$25	$31	Originations may include both commercial and consumer credit cards. Commercial cards are reflected upon origination, while consumer cards are reflected when portfolios are purchased from the third party service provider.	
c. Total Used and Unused Commitments	$3,768	$3,765	$3,745	Commitments include both commercial and consumer credit cards. Consumer commitments are reflected in total commitments, upon purchase from the third party service provider.	
4. Other Consumer					
a. Average Total Loan Balance	$12,656	$12,612	$12,633	Average balances and originations include student loans, direct installment loans (auto and non-auto), indirect installment loans (auto and marine), and unsecured personal credit lines.	Student lending originations, which represent approximately 50% of the loans in this category, have remained very strong despite overall economic conditions. Consumer demand for other consumer lending products has softened.
b. Originations	$390	$374	$305		

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$40,423	$40,707	$41,477	Includes average outstandings for Commercial & Industrial loans and leases extended to small business, commercial, middle market, and large corporate clients.	The reduction in economic activity has resulted in lower customer demand for working capital, inventory and new equipment loans. Overall loan volume remained stable from month to month due to the increase in advances under existing lines of credit to large corporate customers.
b. Renewal of Existing Accounts	$2,730	$1,014	$6,390	Renewals represent credit facilities and stand-alone notes that matured and were renewed during the reporting period. Includes funded loans and unfunded commitments, but does not include letters of credit or derivatives.	
c. New Commitments	$1,848	$837	$1,352	Includes new facilities, stand-alone notes, and leases extended to new or existing clients. Reflects both funded loans and unfunded commitments. Does not include takedowns under existing commitments, letters of credit, or derivatives.	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$25,522	$25,279	$25,355	Includes commercial loans secured by owner occupied or non owner occupied real estate. Includes loans extended for real estate financing as well as loans made for other purposes and collateralized by real estate.	New residential home builder loan demand is negligible and we are seeing fewer commercial transaction opportunities. Non-investor commercial loans secured by real estate have remained fairly stable.
b. Renewal of Existing Accounts	$354	$278	$462	Renewals represent credit facilities and stand-alone notes that matured and were renewed during the reporting period. Includes funded loans and unfunded commitments, but does not include letters of credit or derivatives.	
c. New Commitments	$573	$325	$407	Includes new facilities and stand-alone notes extended to new or existing clients. Reflects both funded loans and unfunded commitments. Does not include takedowns under existing commitments, letters of credit, or derivatives.	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$66	$3,369	$2,046	The numbers represent net purchase volume within the reporting period. These securities are reported in SunTrust's available-for-sale portfolio.	SunTrust purchased $5.4 billion of mortgage backed securities during the fourth quarter. The majority of these securities were purchased after SunTrust received proceeds from the sale of preferred securities through the Capital Purchase Program.
b. Asset Backed Securities	$8	$15	$4	The numbers represent net purchase volume within the reporting period. These figures include securities reported through SunTrust's available-for-sale and trading portfolios.	
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	n/a	n/a	n/a	SunTrust Bank has less than $50 billion in matched book repos. SunTrust Robinson Humphrey "STRH", an institutional broker dealer, is fully disclosed on the equity side through a third party service provider and does not hold customer accounts.	
b. Average Total Debit Balances[2]	n/a	n/a	n/a	Although STRH self-clears institutional fixed income transactions, STRH does not carry customer accounts.	
3. Underwriting					
a. Total Equity Underwriting	$0	$2	$80	Includes total dollars allocated to STRH in equity underwriting transactions that settled within the reporting period.	The equity underwriting market was very soft during the fourth quarter. The debt underwriting markets were also weak, although the investment grade fixed income market strengthened during the quarter as a result of the FDIC's Temporary Liquidity Guarantee Program. SunTrust's results were consistent with the market environment.
b. Total Debt Underwriting	$390	$505	$592	Includes total dollars allocated to STRH in investment grade fixed income, high yield fixed income, and municipal debt underwriting transactions that settled within the reporting period.	

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **SunTrust Banks, Inc.**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Barry Koling

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

SunTrust Banks, Inc., with total assets of $189 billion on December 31, 2008, is one of the nation's largest financial holding companies. Through its banking subsidiaries, the company provides deposit, credit, trust, and investment services to a broad range of retail, business, and institutional clients. Other subsidiaries provide mortgage banking, brokerage, investment management, equipment leasing, and capital market services. SunTrust operates 1,692 retail branches in Alabama, Arkansas, Florida, Georgia, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia, and the District of Columbia. In addition, SunTrust services clients in select markets nationally.

The Company's December average loan balances, including loans held for sale, totaled $130.6 billion. These outstandings are evenly split between consumer portfolios ($65 billion) and the commercial portfolios ($65.6 billion). These balances do not include loans extended to customers that were sold to third parties. This fact is particularly relevant when considering the mortgage portfolio, since a significant majority of new originations and refinancings are sold to third parties. New originations and renewals extended to consumers and businesses during the fourth quarter totaled almost $19 billion.

Mortgage originations totaled $7.2 billion during the fourth quarter of 2008. This figure represents a decrease from the fourth quarter of 2007. While housing market conditions and the lack of a secondary market for non-agency product contributed to lower application volumes for the quarter, SunTrust experienced a sharp increase in applications in December, as rates declined in response to Federal Reserve and US Treasury efforts. Increased application volume was driven by strong refinancing demand. Applications related to new home purchases remain weak.

Market conditions and consumer sentiment had a negative impact on home equity originations during the fourth quarter. The significant depreciation in home values in Florida (historically the source of 1/3 of SunTrust's home equity volume) has severely diminished the population of borrowers with equity available to support lending. During the fourth quarter, new line and loan production continued the steady downward trend that SunTrust has experienced all year. Both application volume and loan closings were down more than 60% compared to fourth quarter 2007.

Credit cards represent a small percentage of SunTrust's loan portfolio and drive a relatively immaterial percentage of the Bank's new credit originations. A third-party service provider originates consumer card accounts for SunTrust. Consumer portfolios are acquired and originations recognized, only when large pools of accounts are accumulated. Additionally, new account originations for commercial and

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **SunTrust Banks, Inc.**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Barry Koling

purchase cards are dependent on the timing of large program implementations. Both of these factors cause origination volume to fluctuate significantly from month to month. Average loan balance trends during the fourth quarter were driven by slowing purchase volume (account usage) and balance attrition related to newer consumer accounts as special interest rate offers expired.

Other consumer loans are primarily composed of Student and Auto Loans. Student lending originations have remained very strong despite overall economic conditions. Consumer demand for automobile loans has softened; however, auto loan volume in December was 90% of same month volume in 2007.

Commercial & Industrial loan balances remained stable during the quarter. New extensions of credit have been offset by reduced borrowings under existing credit arrangements due to decreased economic activity. Commercial clients have reduced working capital assets (receivables and inventory), thereby reducing the need to borrow.

Commercial Real Estate loans remained relatively stable during the quarter. New residential home builder loan demand is negligible and demand is lower for commercial transactions. Cap rates are rising and property prices have started to fall, resulting in fewer sellers and cautious buyers. Owner occupied commercial loans secured by real estate have remained fairly stable.

Beyond lending to consumers and businesses, SunTrust participates in various additional intermediation activities. During the fourth quarter, SunTrust recorded net purchases of $5.4 billion of mortgage backed securities. The majority of these securities were purchased after SunTrust received proceeds from the sale of preferred securities though the Capital Purchase Program. Net purchase volume for asset backed securities was minimal during the fourth quarter.

The investment grade fixed income market was very weak in October, but the market strengthened throughout the quarter and finished strong. SunTrust's investment grade fixed income activity was consistent with market conditions. SunTrust underwrote 25 deals representing $701.7 million. The traditional high yield primary market saw little activity during the fourth quarter and SunTrust participated in one of three deals in the market, underwriting $7.6 million of the transaction. The municipal market was also weak during the fourth quarter. SunTrust participated in 53 deals, underwriting $692.3 million for municipal clients.

Equity underwriting issuance activity softened in the fourth quarter, reflecting weakness driven by ongoing economic uncertainty and investor instability. Consistent with this environment, SunTrust priced two transactions during the fourth quarter, underwriting $32 million.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT					
Name of institution: U.S. Bancorp				Submission date: 1/30/09	Person to be contacted regarding this report: Anthony D. Kelley
PART I. QUANTITATIVE OVERVIEW					
		2008			
SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$25,337	$29,480	$30,066	Residential Real Estate includes loans held for sale and all 1-4 family secured by closed end first liens. Average balances include the acquisition of Downey and PFF. 90% of originations are held for sale.	Residential Mortgage (1-4 family) originations were high due to lower interest rates and an increase in the demand for refinancing.
b. Total Originations	$2,873	$2,532	$2,985	Includes both loans originated for the balance sheet as well as loans originated for sale.	
(1) Refinancings	$1,158	$990	[illegible]	Of the originations during the month, the amount that were for the refinance of current mortgage.	
(2) New Home Purchases	$1,715	$1,542	$1,618	Of the originations during the month, the amount that was for new home purchases.	
2. Home Equity					
a. Average Total Loan Balance	$18,332	$18,640	$19,105	Home equity includes all 1-4 family open end revolving and closed end junior liens.	Overall demand for home equity decreased during the quarter given the continued decline in home values.
b. Originations (New Lines+Line Increases)	$598	$410	$415	Originations include the loan amount for closed end junior liens and the line amount for open-end revolving.	
c. Total Used and Unused Commitments	$34,229	$34,760	[illegible]	Ending balance for Total Used and Ending unfunded for Unused Commitments.	
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$12,674	$12,849	$13,499	Credit card includes consumer credit cards only.	Credit Card balances and commitments increased during the fourth quarter primarily due to higher utilization of existing accounts and new account originations.
b. New Account Originations (Initial Line Amt)	$612	$829	$1,125	Originations include initial line amounts for new cards but not line increases for existing customers.	
c. Total Used and Unused Commitments	$69,674	$70,105	$72,139	Ending balance for Total Used and Ending unfunded for Unused Commitments.	
4. Other Consumer					
a. Average Total Loan Balance	$28,528	$28,435	$28,633	Other consumer includes consumer installment loans, other revolving (i.e. overdraft lines and unsecured lines of credit), consumer leases, student loans, and consumer loans secured by securities.	Demand for auto loans and leases remains high due to fewer lending programs being offered by competitors.
b. Originations	$599	$760	$1,030	Originations during the month of the above mentioned products.	

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$52,987	$54,057	[illegible]	Commercial loans include loans to depository institutions, agricultural loans to others than farmers, commercial and industrial loans, leases, loans to finance RE not secured by RE, and all other loans (i.e. State and Political and tax exempt.)	Many borrowers are increasing line usage to offset reductions in operating cash flow. Demand to finance expansion or growth initiatives is weak.
b. Renewal of Existing Accounts	$3,032	$4,050	$4,851	Renewal of existing accounts represents the commitment balance.	
c. New Commitments	$2,093	$2,087	$4,227	New commitments issued during the month for either new or existing customers	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$35,282	$35,649	[illegible]	Commercial RE loans include construction loans, land development loans, secured by farmland, secured by multifamily, and other commercial RE loans.	Increased activity due to the lack of a CMBS market for short term bridge financing to complete projects. New loan demand on construction lending is down due to current market conditions and the decrease in construction activity.
b. Renewal of Existing Accounts	$758	$991	$1,302	Renewal of existing accounts represents the commitment balance.	
c. New Commitments	$944	$568	[illegible]	New commitments issued during the month for either new or existing customers	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$0	$1	$631	MBS/ABS includes net securities acquired during the quarter. Activity in the fourth quarter was all MBS.	Activity represents replacing attrition and the expectation of increased prepayment speeds.
b. Asset Backed Securities	$0	$0	$0		
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	$0	$0	$0		Not applicable
b. Average Total Debit Balances[2]	$0	$0	$0		
3. Underwriting					
a. Total Equity Underwriting	$0	$0	$0		Not applicable
b. Total Debt Underwriting	$0	$0	$0		

Notes:
1. Not applicable if matched book activity does not exceed $500 billion.
2. Applicable only for the Submitter offering prime brokerage or other margin lending services to clients.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **U.S. Bancorp**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Anthony D. Kelley

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Company Description: Minneapolis-based U.S. Bancorp ("USB"), with $266 billion in assets, is the parent company of U.S. Bank. The Company operates 2,791 banking offices and 4,897 ATMs in 24 states, and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions.

Total Average Loans and Leases: In the fourth quarter of 2008, U.S. Bancorp's average loans and leases increased 6.4 percent (3.1 percent excluding acquisitions, 12.4 percent annualized) over the third quarter of 2008. Total commercial loans grew 4.3 percent, driven primarily by new account originations and the utilization of credit lines. Total commercial real estate grew 2.9 percent. Consumer Loans increased 3.6 percent as credit card balances and home equity and second mortgages increased during the quarter.

C&I: Loan demand related to business investment and growth initiatives (e.g. expansion capex and/or acquisitions) is weak, but many customers have increased borrowing in order to offset reduced operating cash flow and/or to finance operating activities that would have normally been executed in the public markets or the private non-bank markets. Generally, the Bank's underwriting standards have not changed, however, new transactions are being underwritten with financing structures and leverage levels that consider risks that reflect the current state of market conditions. We are benefiting from a flight-to-quality, as we continue to see new lending opportunities and actively work with existing customers on new money requests, extensions, amendments and waivers.

Demand for Small Business credit is still relatively strong, evidenced by new application volume. This application volume reflects the flight-to-quality effect to banks with liquidity and strong capital levels. Approval rates are generally lower than prior year, due to weakening performance of borrowers in higher risk segments (e.g., contractors). Common metrics of origination quality, such as booked credit scores and proportion of high risk industries, are similar or better than they were a year ago.

CRE: Overall new loan demand for commercial real estate is down due to the lack of new construction activity and the condition of the real estate markets. Our investor and developer portfolio has historically focused on construction lending, so new deal requests have decreased, but bridge or short term financing is experiencing demand. The lack of a permanent or CMBS market has brought many clients to the Bank to seek short term financing of completed projects. In general, our underwriting standards tightened somewhat to reflect the uncertainties in the market.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **U.S. Bancorp**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: 1/30/09
Person to be contacted regarding this report: Anthony D. Kelley

First Mortgage: Overall demand for residential mortgages continues to remain high. With the current turmoil in the industry, U.S. Bank continues to experience strong levels of mortgage applications driven by customer concern regarding with whom they conduct business and the Bank's ability to fund qualifying customers. Over ninety percent of the originations are approved under government agency programs and are underwritten based on standards for approval under those programs. For mortgage loans retained in the Bank's portfolio, loan-to-value standards have changed to reflect the current real estate market conditions and continued decline in home prices, however, several program enhancements were implemented in an effort to offer credit to more qualified customers based on regional market conditions.

Credit Card: Overall demand for credit card balances remains strong. The Bank's portfolio is primarily a prime portfolio and lending criteria for new accounts has remained consistent with that standard. Payment rates (payments/balances) have decreased, revolve rates (percent of accounts revolving) have increased, and average balances have increased. This is partially offset by a reduction in the average transaction volume per account which is a reflection of the slowing economy and lower consumer spending. During the fourth quarter of 2008, the Bank experienced seasonally higher application volume and origination of new accounts.

Consumer Loans: Overall demand for new loans remains high in the consumer loan portfolio as competitors continue to exit some of these lending programs. Specifically, within the auto loan and lease portfolio, demand remains strong as other lenders have either reduced their programs or eliminated them entirely. Over the last twelve months, changes in underwriting standards have been made to respond to the changing market conditions for new and used auto values and changing residual values for auto leases. Also, demand for revolving credit and student loans remains strong, while home equity demand has declined.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: Wells Fargo & Company | **Submission date: 1/30/09** | **Person to be contacted regarding this report: Karen B Nelson**

PART I. QUANTITATIVE OVERVIEW

SCHEDULE A: CONSUMER LENDING (Millions $)	OCT	2008 NOV	DEC	Key	Comments
1. First Mortgage					
a. Average Loan Balance (Daily Average Total Outstanding)	$90,444	$93,629	[illegible]	Reflects average balance of closed-end loans secured by 1-4 family residential properties, consistent with line 1.c.(2)(a) on Form FR Y-9C.	The Company's residential real estate originations were $50 billion in fourth quarter 2008. Home mortgage applications were $116 billion in fourth quarter 2008, up 40% from third quarter 2008, as rates declined significantly in response to actions by the Federal Reserve to lower interest rates. The low rate environment contributed to strong refinancing demand. Applications of $63 billion in December 2008 were the fourth highest month on record for the Company in what is traditionally a seasonally slow period. At the end of 2008, the Company's mortgage application pipeline was $71 billion, including $5 billion from Wachovia.
b. Total Originations	$19,009	$13,860	$15,920		
(1) Refinancings	$7,789	$5,562	[illegible]	Reflects portion of loan originations to refinance existing mortgage loans.	
(2) New Home Purchases	$11,220	$8,318	$8,355	Reflects portion of loan originations used for new home purchases.	
2. Home Equity					
a. Average Total Loan Balance	$85,523	$85,791	$86,921	Reflects average balance of loans secured by 1-4 family residential properties, including revolving, open-end loans and extended under lines of credit and closed-end loans secured by junior liens, consistent with lines 1.c.(1) and line 1.c.(2)(b) on Form FR Y-9C.	
b. Originations (New Lines+Line increases)	$593	$516	$627	Reflects combination of newly established lines and line increases and funding of newly originated closed-end loans secured by junior liens during the period.	
c. Total Used and Unused Commitments	$135,970	$134,159	[illegible]	Reflects aggregate funded and unfunded loan commitments at the end of the period.	
3. US Card - Managed					
a. Average Total Loan Balance - Managed	$20,400	$20,541	$20,834	Reflects average balance of domestic credit card loans consistent with line 6.a. on Form FR Y-9C.	Credit card average balances continued to increase during the quarter due to higher utilization rates as consumers continue to use credit cards as a payment mechanism.
b. New Account Originations (Initial Line Amt)	$1,262	$1,245	[illegible]	Reflects newly established accounts and line increases.	
c. Total Used and Unused Commitments	$95,406	$93,417	[illegible]	Reflects aggregate funded and unfunded loan commitments at the end of the period.	
4. Other Consumer					
a. Average Total Loan Balance	$48,151	$47,589	$46,508	Reflects average balance of other domestic consumer loans (single payment, installment and student loans) consistent with line 6.c. on Form FR Y-9C.	Other consumer loan originations include Wells Fargo Education Financial Services. Education loan demand remains strong, and fourth quarter 2008 originations increased 21% over the same period a year ago.
b. Originations	$1,006	$715	$853	Reflects newly funded other consumer loans (non-revolving) during the period.	

SCHEDULE B: COMMERCIAL LENDING (Millions $)	OCT	NOV	DEC	Key	Comments
1. C & I					
a. Average Total Loan and Lease Balance	$99,293	$100,570	$99,839	Reflects average balance of domestic commercial and industrial loans consistent with line 4.a. on Form FR Y-9C and domestic leases consistent with line 10.b. on Form FR Y-9C.	The Company's Wholesale and Commercial Banking Business, which serves primarily middle market customers and select niches in the large corporate market, continued to have solid loan demand during a period where others have pulled back from commercial lending. Loan growth in fourth quarter 2008 was broad based across many of the commercial businesses including double-digit growth in asset-based lending, middle market lending, commercial real estate and specialized financial services. Loans to small businesses (loans primarily less than $100,000 on the Company's Business Direct platform) for 2008 were up 8% from the prior year.
b. Renewal of Existing Accounts	$4,092	$3,319	$4,104	Reflects renewal of commercial and industrial loans and commitments to current customers during the period.	
c. New Commitments	$6,766	$4,687	$6,641	Reflects new commercial and industrial loans and commitments during the period.	
2. Commercial Real Estate					
a. Average Total Loan and Lease Balance	$62,868	$63,127	$63,984	Reflects average balance of construction loans, multifamily residential, and nonfarm nonresidential real estate loans consistent with lines 1.a.(1), 1.a.(2), 1.d, 1.e.(1) and 1.e(2) on Form FR Y-9C.	The commercial real estate loans added to the Company's portfolio during the quarter were largely with customers we have done business with over many years and many cycles.
b. Renewal of Existing Accounts	$891	$1,385	$2,789	Reflects renewal of loans and commitments to current customers during the period.	
c. New Commitments	$1,926	$1,746	$1,263	Reflects new loans and commitments during the period.	
SCHEDULE C: OTHER INTERMEDIATION ACTIVITIES (Millions $)					
1. MBS/ABS Net Purchased Volume					
a. Mortgage Backed Securities	$18,106	-$9,508	$4,823	Reflects purchases of mortgage backed securities, net of sales activity.	Net purchased volume of MBS/ABS reflects purchases of securities in the quarter, offset by sales, including sales of securities associated with Wells Fargo Home Mortgage operations.
b. Asset Backed Securities	$3,773	$599	$167	Reflects purchases of asset backed securities, net of sales activity.	
2. Secured Lending (Repo, PB, Margin Lending)					
a. Average Total Matched Book (Repo/Reverse Repo)[1]	N/A	N/A	N/A	Not applicable as matched book activity does not exceed $50 billion.	
b. Average Total Debit Balances[2]	$338	$296	$260	Reflects average balance of brokerage margin loans included in line 9.a. of Form FR Y-9C, and also reflected on Schedule A, line 4(a) above.	
3. Underwriting					
a. Total Equity Underwriting	N/A	N/A	N/A	Not applicable.	
b. Total Debt Underwriting	N/A	N/A	N/A	Not applicable.	

Notes:
1. Not applicable if matched book activity does not exceed $50 billion.
2. Applicable only for institutions offering some brokerage or other margin lending services products.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Wells Fargo & Company**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Karen B Nelson

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Effective December 31, 2008, Wells Fargo & Company acquired Wachovia Corporation. The amounts reflected for line items included in the accompanying Snapshot such as average loans, loan originations and new and renewed commitments do not reflect balances for Wachovia because the acquisition was completed at the end of 2008.

Approximately 18 months ago—in mid 2007—the U.S. economy began to soften, credit began to tighten and capital market liquidity began to contract. These trends continued into the fourth quarter of 2008 and were coupled with an abrupt contraction in the U.S. economy late in the quarter. Short-term interest rates declined significantly as the Federal Reserve eased monetary policy. Aggregate credit demand softened somewhat in Q4 2008 but credit spreads other than mortgage spreads continued to widen throughout the quarter as many lenders tightened underwriting and /or retreated from the lending markets.

Throughout the current credit crisis, Wells Fargo has continued to extend credit to its consumer, small business and commercial customers. Despite the weak economy and difficult market conditions in many secondary markets, Wells Fargo extended over one-half trillion dollars in new loan commitments and mortgage originations in the last 18 months. Despite the further deceleration of the economy and associated moderation in credit demand in Q4 2008, Wells Fargo extended $22 billion in new loan commitments, $50 billion in new home first mortgage originations, and took $116 billion in new mortgage applications in the three month period of October, November and December 2008, up 40% from the third quarter of 2008. December 2008 mortgage applications of $63 billion were the fourth highest month in the Company's history. Lower mortgage rates in Q4 helped stimulate mortgage refinance activity. About 2/3 of mortgage applications in Q4 were for refis but about $40 billion of the applications we took were for home purchases, a relatively solid increase in a typically seasonally soft quarter. In total, Wells Fargo extended over $75 billion in new credit in the fourth quarter of 2008, more than three times the amount of capital it received from the U.S. Treasury.

Average consumer loans increased 4% in Q4 2008 from a year ago. The growth Wells Fargo achieved in consumer credit extension was broad based including growth in first mortgages, credit cards, education loans, and unsecured personal credit. Growth in home equity lending and auto finance were more moderate with increases in credit extended in these products through the Bank's direct to consumer (retail) networks moderated reduced lending through higher risk indirect channels. Wells Fargo maintained in Q4 2008 its longstanding policy of not originating interest only, stated income, option ARM or negative amortizing mortgage loans.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: **Wells Fargo & Company**
Reporting month(s): Oct-Nov-Dec 2008
Submission date: January 30, 2009
Person to be contacted regarding this report: Karen B Nelson

Reflective of on-going stress in the housing market and upward pressure on foreclosure rates in the industry, Wells Fargo has continued to work closely with customers who face potential financial difficulties. Wells Fargo has taken a lead role in developing repayment plans, modifications, and other loss mitigation options to help homeowners avoid foreclosure. During the last year, Wells Fargo provided about 500,000 solutions to its homeowners to modify loans; in the Q4 about 165,000 solutions were provided. The main driver of these solutions is Wells Fargo's outreach programs. Wells Fargo has reached 94% of its customers whose mortgages are two or more payments past due. For every 10 of these customers, we have worked with seven on a solution. Of those who received a loan modification, one year later, approximately 70% were either current or less than 90 days past due.

Commercial loan growth at Wells Fargo increased 11% in Q4 2008 from a year ago and 10% annualized linked quarter, reflecting the Company's commitment to extend credit to all of its creditworthy customers at a time when many of Wells Fargo's competitors have retracted from commercial lending. Commercial loan growth at Wells Fargo in Q4 2008 continued to be broad-based by geography and by product type with growth for example in small business lending (up 8%), asset based lending, middle market commercial lending, commercial real estate (largely owner-occupied financing) and selected niches in large corporate lending.

Wells Fargo increased total loans outstanding (consumer and commercial) by approximately $10 billion in Q4, a 10% (annualized) linked quarter growth rate. This occurred at a time when aggregate loans among large U.S. banks grew less than 10%; i.e. Wells Fargo's commitment to extending credit resulted in an increased market share of lending in Q4 2008. Virtually all of Wells Fargo's lending to both consumers and businesses is originated by Wells Fargo relationship officers through our direct origination channels. Wells Fargo has either never participated in certain third party, indirect, or brokered channels or eliminated such origination channels over a year ago. As a result, the principal driver of Wells Fargo loan growth has been needs-based selling to existing customers as well as growth in new customers. Wells Fargo added over 400,000 new household customers in the last year.

Mr. KUCINICH. We all appreciate your presence here, Mr. Kashkari. Thank you for your testimony.

We are now going to proceed with questions. Members will have 5 minutes each for the purpose of asking questions. I am going to begin and then I will go to our ranking member, Mr. Jordan. I would ask all Members to please, try to observe the 5-minute rule, because as Mr. Kashkari said, he will stick around. So we are open to having several rounds of questions.

I would like to begin, Mr. Kashkari, with questions about the foreign uses of TARP funds. When Congress created the TARP, it was responding to a crisis in this country. U.S. businesses couldn't get a loan, American consumers couldn't get a loan. TARP was supposed to restore liquidity in the functioning of the credit market for them.

So how do you justify to the American taxpayers a bank's decision, made after receiving tens of billions of dollars in TARP moneys, to make a $7 billion investment in a Chinese construction company?

Mr. KASHKARI. Mr. Chairman, thank you, sir. I will offer two comments to answer your question. First, we must remember that many of these financial institutions are global institutions, and they take deposits from savers all around the world and they make loans all around the world. While we may isolate and identify one transaction here or one transaction there, it is impossible, because money is fungible, I know you have all heard this comment before, to track, did that money come from U.S. deposits, did that money come from foreign deposits.

We also have to be careful that if we set hard rules, not letting our largest institutions do business abroad, other countries may say, "OK, they are going to reciprocate and not let foreign banks then lend in America." So I understand your concern. I absolutely do. But we also walk a fine line, let the businesses make commercial decisions, support the system as a whole, to get lending flowing.

Mr. KUCINICH. Now, isn't it true that this loan was made after Citigroup received TARP funds? Isn't that true?

Mr. KASHKARI. I don't know the details of it, but it appears to be the timing as such, yes, sir.

Mr. KUCINICH. Excuse me, I want to go back to that, I want to restate the question.

Isn't it true that this decision to make this purchase happened after Bank of America made this purchase of stock?

Mr. KASHKARI. Sir, I do not know.

Mr. KUCINICH. And after they received the TARP funds?

Mr. KASHKARI. Congressman, Mr. Chairman, I don't know when Bank of America made various investment decisions. I do know the dates of the announcements. And it appears the announcement was after the TARP investment.

Mr. KUCINICH. Right. I have here, for the record, the Bank of America to exercise remainder of China Construction bank option, and it is November 17th, they received the TARP funds in October, Mr. Kashkari. When it is hard to get a loan in this country, is it Treasury's opinion that a bank that received TARP money is justified to arrange financing for an $8 billion loan to the Government of Dubai?

[The information referred to follows:]

Bank of America to Exercise Remainder of China Construction Bank Option

CHARLOTTE, N.C., Nov. 17 /PRNewswire/ -- Bank of America Corporation has given notice of its plan to exercise the remainder of its option to purchase ordinary shares of China Construction Bank Corporation from China SAFE Investments Limited (Huijin). Bank of America acquired the option from Huijin in connection with its investment in CCB in June 2005. Bank of America expects the purchase of the option shares will be completed by the end of November. Immediately following the purchase, Bank of America would hold about 44.7 billion H-shares of CCB, representing about 19.1 percent of CCB's issued shares.

(Logo: http://www.newscom.com/cgi-bin/prnh/20050720/CLW086LOGO-b)

Bank of America currently holds approximately 10.75 percent of the issued shares. The shares being acquired under the option may not be sold until August 29, 2011 without CCB's consent. Bank of America intends to remain a long-term and significant strategic investor in CCB. In addition, both companies intend to further their mutual cooperation and other initiatives under the 2005 Strategic Assistance Agreement.

Bank of America

Bank of America is one of the world's largest financial institutions, serving individual consumers, small and middle market businesses and large corporations with a full range of banking, investing, asset management and other financial and risk-management products and services. The company provides unmatched convenience in the United States, serving more than 59 million consumer and small business relationships with more than 6,100 retail banking offices, more than 18,000 ATMs and award-winning online banking with more than 25 million active users. Bank of America offers industry leading support to more than 4 million small business owners through a suite of innovative, easy-to-use online products and services. The company serves clients in more than 150 countries and has relationships with 99 percent of the U.S. Fortune 500 companies and 83 percent of the Fortune Global 500. Bank of America Corporation stock (NYSE: BAC) is a component of the Dow Jones Industrial Average and is listed on the New York Stock Exchange.

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Most Recent Press Release

Bank of America Helps Consumers Stretch Their Dollars with the Launch of Add It Up™
Mar 10, 2009

Mr. KASHKARI. Sir, again, I want to provide a thorough answer to you, Mr. Chairman. Our highest priorities are two-fold. No. 1, stabilizing the financial system, and No. 2, making sure these banks can pay the taxpayers back. And so we have taken great care to not try to micromanage institutions, to encourage them to use the capital in commercially reasonable ways. We put specific protections in. We prohibited them from buying back stock. We prohibited them from increasing their dividends to create economic incentives for them to want to lend the money and want to earn a return on that money.

Mr. KUCINICH. But people back home, as Mr. Cummings always likes to ask, people back home want to know, how does arranging an $8 billion loan to Dubai, after someone gets TARP funds, how does that benefit the U.S. taxpayers whose money is being used? How does helping a construction company in China get $7 billion after this Bank of America received TARP money, how does that help the U.S. taxpayers? Could you explain this?

Mr. KASHKARI. Sure, thank you, sir. When our global firms do business abroad, and if they can make money and earn money abroad, that makes those institutions stronger. It puts those institutions in a better position to pay back the taxpayers, because they are earning money, they are raising deposits around the world.

Mr. KUCINICH. So are these investments better, are you telling the American people that it is better to invest in another country than it is for these banks who have TARP money to invest in our own country?

Mr. KASHKARI. Absolutely not, Mr. Chairman. We absolutely want our banks investing in the United States, lending in our communities.

Mr. KUCINICH. Did you know they were investing in China and India and Dubai and God knows where else? Did you know that?

Mr. KASHKARI. Well, I know that our large global financial institutions do business around the world.

Mr. KUCINICH. But do you know specifically that companies got TARP funds, there was a credit freeze in this country, they get the TARP funds and then instead of investing in American businesses, many of whom are starved for investment capital, they then export American taxpayers' dollars that were given under emergency circumstances? Did you know that?

Mr. KASHKARI. Again, Mr. Chairman, this comes back to one of the hardest problems we have had, honestly, I have had in my seat, is communicating this concept of tracking the dollars and where did taxpayer dollars go versus other dollars they got from deposits abroad, as an example. It is this fungibility question that we keep coming back to.

Mr. KUCINICH. Right.

Mr. KASHKARI. So, Mr. Chairman, it has been very hard for us to say, well, this dollar went for this purpose, the tax dollars went for another purpose. We want our banks to be healthy, we want them to lend in our communities. We want them to use the capital appropriately. We want them to show judgment in light of the economic crisis that we are facing. These are tough issues, Mr. Chairman.

Mr. KUCINICH. I thank the gentleman. My time has expired, I am going to go now to the ranking member, Mr. Jordan. You may proceed, Mr. Jordan. We will come back, there will be another round of questions.

Mr. JORDAN. Thank you, Mr. Chairman.

Mr. Kashkari, we appreciate your being here. I want to attempt to, at least in my mind, cut to the chase. At the end of your final sentence in paragraph six, you say, "Finally, we are developing a public-private investment fund to purchase illiquid assets from banks to support new lending." I mean, that in fact, wouldn't you agree, was the whole motive for doing the bailout in the first place? As I said to a group of farmers in my office this morning, I said, the $64,000 question, or more appropriately, the $700 billion question, is when are we going to be able to go after these assets, these mortgage-backed securities that caused the problem? That is how it was packaged to Congress. That is why Members of both parties voted for it and supported the plan.

And that was on October 3, 2008. To date, am I correct in saying that not one mortgage-backed security has been purchased?

Mr. KASHKARI. Yes, sir.

Mr. JORDAN. And so I want you to take as much time as you possibly can to talk about this developing program to do exactly what was supposed to happen 5 months ago. I think that in my mind is the key question, the key focus, and what has to take place if this is going to work. So take as much time as I have left on my 5 minutes and walk me through that.

Mr. KASHKARI. Absolutely, sir. This is a program that Secretary Geithner is working on right now. We have teams at Treasury working with the regulators to finalize the program. It will combine private sector capital with Government capital to go after and buy up these assets, sir.

Mr. JORDAN. If I could just interject here. And we have had Secretary Geithner in front of the Budget Committee, and he said basically the same sentences you just said right there. Can you give us an idea how quickly that is going to happen, and, as the chairman alluded to, I believe, in his opening comments, or someone on the panel did, is it a staffing concern that is prolonging this decision or this program getting off the ground? Talk about that as well.

Mr. KASHKARI. I expect, I believe Secretary Geithner has said he expects it to come out very quickly, as early as within a few weeks. Again, people are doing a lot of work on that right now, around the clock. It is not a staffing issue. These are complex issues that involve not just Treasury, not just the Federal Reserve, but the banking regulators. These are complex issues that we need to make sure we get right.

Mr. JORDAN. The public-private partnership you are talking about, what kinds of encouraging statements, comments, what kinds of comments are you getting from the private sector side? Are they buying into this approach that you are floating out there and talking about right now?

Mr. KASHKARI. We believe they are. In fact, we had received inbound unsolicited proposals from people in the private sector saying, we have capital on the sidelines, we want to go after these assets. One of the key challenges right now is, there is no financing available for the private sector investors. So by marrying Government capital, taxpayer capital, with the private sector capital and providing financing, you can enable those investors to then go after those assets at a price that makes sense for the investors and a price that makes sense for the banks. Because if the private sector capital doesn't have any financing behind it, the returns they need will result in prices that are too low and the banks won't want to sell.

So providing the financing is a key component, and it is something that Treasury has to do with the regulators. It is complex, but the right people are focused on it.

Mr. JORDAN. OK, thank you. I yield to the gentleman from California.

Mr. ISSA. Mr. Kashkari, I wanted to followup on something that Chairman Kucinich had gotten into. Yesterday it was widely reported that Citibank had, I understand, 2 months in a row of making positive money. If they cased overseas loans, my understanding is, it is more than half of their total business, what would have happened to those profits? In other words, as much as we here on the dais want American taxpayer dollars to go to American investment, if in fact we limited them from continuing their overseas operations, what would be the effects on the profitability of companies like even Bank of America, but certainly Citibank?

Mr. KASHKARI. I expect the profits would fall dramatically, and they may in fact then need even more taxpayer dollars to support them.

Mr. ISSA. Thank you.

Mr. JORDAN. Thank you, Mr. Chairman.

Mr. KUCINICH. I thank the gentleman, and we will come back on the Republican side to Mr. Issa. I am going to ask unanimous consent, in connection with your line of questioning, to introduce an article from the Washington Post on Friday, March 6th, relating to this public-private partnership, "U.S. to invite the wealthy to invest in a bailout" by David Cho, Consumer Lending, it discusses this very matter.

[The information referred to follows:]

The Washington Post

U.S. to Invite The Wealthy To Invest in The Bailout

By David Cho
Washington Post Staff Writer
Friday, March 6, 2009; A01

The government is seeking to resuscitate the nation's crippled financial system by forging an alliance with the very outfits that most benefited from the bonanza preceding the collapse of the credit markets: hedge funds and private-equity firms.

The initiative to revive the consumer lending business, outlined by officials this week, offers these wealthy investors a new chance to make sizable profits -- but, thanks to the government, without the risk of massive losses.

The idea is to entice them to put their huge cash piles to work to stimulate the financial system. They would be invited to buy up recently issued, highly rated securities. These securities finance consumer lending, such as credit cards and student and auto loans.

The program, which could involve the government lending nearly $1 trillion to these investors, exceeds the size of every other federal effort to address the crisis so far. The initiative's approach could be the model for future federal efforts to aid the credit markets, sources familiar with government planning said. Officials call this strategy a "public-private partnership," but in essence the government is offering good deals to private investors to draw them into its rescue efforts.

Architects of this initiative have long been sensitive to the political challenges of teaming up with hedge fund managers and private-equity firms. But officials see these private investors as among the few who have ample cash available. In public statements, officials have sought to focus attention on the ultimate goal of freeing up credit for consumers.

The Treasury Department and Federal Reserve will continue to lean on these private investors as officials expand their aid to more segments of the lending markets each month, moving from consumer credit possibly on to commercial mortgages and financial derivatives, the sources said. But there is vigorous debate between the Treasury and the Fed and within them over how the program should evolve and at what speed.

This approach will culminate in a separate program that aims to relieve banks of toxic assets, backed by distressed loans, that are clogging the firms' balance sheets, sources said. This second initiative, which officials are hoping to unveil in the coming weeks, is also expected to reach at least $1 trillion. It may create multiple investment funds, financed by wealthy investors with matching dollars from the Treasury and loans from the Fed, to buy toxic assets, sources said.

These two programs, focused on reviving consumer credit and clearing troubled assets, each exceed the size of the other elements in the financial rescue package being developed by Treasury Secretary

Timothy F. Geithner. These also include a $75 billion effort to aid homeowners and an effort to inject capital into banks, which has already involved hundreds of billions of dollars in public funds.

In the past, hedge funds and private-equity firms have not been major buyers of the securities that provide financing for credit cards and other consumer loans.

But the government is turning to these investors in part because traditional buyers, such as retirement funds, mutual funds and university endowments, have fled the markets. Many are deep in the red and reeling from past forays into buying complicated debt securities. Moreover, many pension funds have rules that ban them from borrowing money to make investments, which is an essential ingredient in the government's program. So many pension funds will not be able to participate.

Federal officials, however, have not given up on the traditional investors and are considering setting up investment entities that would allow pension funds to get a piece of the profits. Officials said pension officials have expressed strong interest in this idea.

The consumer credit revival program, formally known as the Term Asset-Backed Securities Loan Facility, or TALF, has been welcomed by a range of hedge funds and private-equity firms as well as some lenders who issue assets that finance consumer loans.

"Our members have significant interest," said Richard Baker, president of the Managed Funds Association, the leading association for hedge funds. "The plan recognizes that our industry can bring significant resources to bear."

Here's how a typical TALF deal would work: A hedge fund uses $1 million of its own money and gets a $9 million loan from the Fed, payable after three years, to buy a $10 million asset-backed security, which finances consumer loans. Hoping that the market for these assets recovers, the hedge fund would hold the asset for three years.

If the security rises in value to $11 million, the investor would keep the profit, essentially doubling the initial investment. The government, meanwhile, would consider the deal a success because consumer lending was spurred.

If the value fell below $9 million, the hedge fund would lose its down payment but nothing more. The Treasury, using bailout funds approved by Congress, would cover the next set of losses, with the Fed ultimately on the hook for anything more.

Steven Schwartzman, chief executive of private-equity giant Blackstone, said the program is "highly attractive" because of the government financing.

The TALF's primary aim is to get the "shadow banking system" running again. A vast portion of the financing for loans issued in the United States comes not from traditional banks but from other enterprises.

Some firms that issue consumer credit questioned the program's limitations. Executives at one leading bank said restricting the program to securities backed by only the highest-quality loans would be too constraining.

For example, many loans taken out by auto dealerships to stock their inventory do not have the highest ratings. Government officials, who want to make sure dealers can get these loans, are considering expanding the TALF to slightly lower-quality assets, sources said.

Some officials are concerned there may not be enough highly rated loans that can be combined into securities to sell to investors.

Another matter of discussion among federal officials is whether to lengthen the term of the financing extended by the government to investors, sources said. With securities backed by auto loans, for example, a relatively short period was deemed appropriate because these loans mostly carry three-year terms. But when the TALF expands in the coming months to aid other segments of the credit market, such as commercial real estate loans, the Fed may have to lengthen the time because such loans carry 10-year terms or longer.

If Fed and Treasury officials decide to extend the TALF model to the purchase of toxic assets, this would require expanding the approach from recently issued loans to those that are years old.

Each step away from the original target of the TALF -- recently issued, highest-quality assets -- may force the government to protect itself, which would involve offering less to private investors, officials said. But if the government goes too far in shielding itself, it may fail to generate interest by private investors. Striking the right balance -- among lenders who issue loans, investors who buy them and taxpayers who are facilitating the transactions -- has been one of the greatest challenges in developing the program, officials said.

Staff writers Neil Irwin and Binyamin Appelbaum contributed to this report.

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Mr. KUCINICH. Mr. Cummings, you are recognized for 5 minutes. You may proceed.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. Kashkari, I just want to talk about AIG for a moment. You realize they have these what they call retention payments, are you familiar with that?

Mr. KASHKARI. Yes, sir.

Mr. CUMMINGS. And one of the disturbing things about these retention payments was that they were supposed to, I mean, I understood it at first that they wanted to retain key people for certain units because it added value to those units. And if they were to sell them, they would sell for less if those people were to leave. But then the financial products division, they were giving, they gave over $400 million worth of bonuses. And this is the very unit that everybody admits pretty much caused a lot of the problems for AIG.

Then later on they talked about, in SEC filing, recent filing, they say they were giving retention payments for people that were going to be terminated. Now, are you familiar with that?

Mr. KASHKARI. No, actually when you mentioned it earlier, that was the first I had heard about it.

Mr. CUMMINGS. That is shocking to the conscience, isn't it?

Mr. KASHKARI. It sure is.

Mr. CUMMINGS. See, that is the kind of thing. And when I talked earlier about the public being concerned, this is bigger than you. This is bigger than the Treasury. And the reason why I say that is because when people begin to hear these kinds of stories and they hear about retention payments being paid for people who are leaving, for people who brought down the company, what it does, and they are at the same time, they see the moving van coming up to their house, taking their stuff away. And they are afraid, like the man said in my district the other day, to even look at their statement. Or they are getting a pink slip. In some kind of way, we have to get around that.

And then you said something that I hadn't heard before, when you talked about how, in your statement, you said we should not, you said the Government must not attempt to force banks to make loans whose risks they are not comfortable with or attempt to direct lending from Washington. Bad lending practices were the root cause. And I understand all that.

But there has to be, No. 1, transparency. And the American people have to see that they are getting something out of the deal. That is the problem. And they are upset about that. They don't understand it. I know the President is doing a lot of great things, and I believe that we are going to, I know we are going to get through this, we have to get through it.

But the question then becomes, while the President and all of you all are going in one direction trying to uplift the American people and get this economy right, is it that, I mean, it is already like going uphill. But I am wondering if you don't see the problem that the transparency has, the lack of transparency and accountability, what it does is it puts ice on that hill that you are trying to get up. And what does that mean? It means that it is going to take a longer time and it is going to mean that a lot of people are not going to have the trust.

We need to get out of this mess as fast as we can. I just don't think a slippery slope helps it. You got me?

Mr. KASHKARI. I do, Congressman. I couldn't agree more that the communication challenge that we faced has been enormous. If you look at what the President has done and what Secretary Geithner has done around some of the new programs, they have put in place requirements that the banks specify, here is exactly how we are going to use the new funds, we are going to track that, we are going to measure and increase our lending relative to a baseline of what it would have been otherwise.

And so there will be increased transparency. As the President said before the Joint Address to Congress, he gets it. The challenge that we all face is how do we get these programs to work, make sure we provide the right transparency, strike the right balance.

Mr. CUMMINGS. Listen to my question. At what point do we say to the banks, "We are giving you a billion, bank, why don't you loan back a fourth of that or do something to help?" In other words, you act like we have to sit by and say, "Oh, bank, here is our money, stay afloat," and while our people can't get the kinds of loans that they want, and I know you are doing some things with regard to loans, but I am just saying, these are the banks that are getting the big bucks.

Mr. KASHKARI. Well, Mr. Cummings, I am glad you raised this. This is a really fundamental point that I think we don't talk about enough, which is, the banks are a big part of the story. Banks typically provide 60 percent of credit in our economy. The non-banks, the securitization market provides the other 40 percent. The banks are lending, not as much as we would all like, but they are lending. The securitization market is gone right now. It is completely frozen.

So we have now launched this new consumer business lending initiative with the Federal Reserve specifically to get loans to people buying cars, small businesses, credit cards, etc., to get the lending going again. So part of it is the banks, part of it is transparency for the banks. But a big part of it is the non-bank market. And we have now launched a whole separate program to get at that problem.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. KUCINICH. I thank the gentleman.

The Chair recognizes Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. Kashkari, there are so many questions, and I appreciate your willingness to stay for a very long day. First of all, you don't know a lot about me, and people come in my office, they see a bunch of patents and they think that means technology. Long before I was fortunate enough to be in electronics, the Army paid for me to go to deck school, as it was called back then in Massachusetts. And I got to see early on how computers were not interoperable but how they could be, and how, when you needed to do big projects, you made them interoperable.

When we look at XBRL, you are very familiar with that technology. In a nutshell, if everyone were reporting in an XBRL-complaint fashion, so that various companies that are developing software to read and to analyze were able to see with that common set of, if you were reporting, would your transparency that you don't have enough of today be virtually absolute? This is assuming that mortgages were put in that format, that credit cards were in that format, obviously that 10Ks and 10Qs were all in that format, something that is coming. And of course, the FDIC, all the material that is already in that format, in addition to the 40 countries or more that are already reporting. If you had all that today here in Washington, would you have the transparency you need to do your job and do it well?

Mr. KASHKARI. Congressman, I think it would definitely help to provide common data formats and a seamless way to flow all that data up to one interface that the American people could look at easily. The only caution I will offer is, as a businessman, you know, you are hesitant, business people are hesitant to provide some of their details to their competitors. So it may still not answer, well, how many individual loans or to whom did this individual loan get. But it would certainly help the transparency.

Mr. ISSA. Assuming for a moment that where information goes is separate from whether or not it is in that format, if every one that you had or were willing to loan money to or were part of the stabilization already had the data in that format and could deliver it on your request, would you then have the transparency you want?

Mr. KASHKARI. I believe it would help. I don't know enough about it to know if it would be perfect, but I believe it would help.

Mr. ISSA. Can I have your commitment today, you know, the second panel, which we may not get to if we keep you all day, includes the president of that organization.

Mr. KUCINICH. If the gentleman will yield, we will get to them.

Mr. ISSA. OK. I am willing to stay into the night, too.

But the second panel includes the president of that non-profit organization. And I am not touting any one format for data, but I am concerned that unless we both go forward with a common interface that you can at least avail yourself of, and obviously find out, and I think we are going to hear that retrospectively, they can in fact analyze many of the things you are not analyzing, if we don't do both of those, you are going to be back here in 2 or 3 months, not having yet skied, and we are going to be asking you some of these same questions about transparency.

Mr. KASHKARI. I would be very happy to look into it, sir.

Mr. ISSA. Thank you.

For the record, because I know it is not a fair question to hit you with today, I would appreciate this committee getting an understanding of where Treasury believes that if the figure is correct that I have read, that we are at about 300 percent of GDP in debt, historically, long-term historically, 100 to 120, where you believe we are going to settle out in sort of the post-euphoria period, so that this committee could begin understanding how much contraction you are not trying to fight and how much contraction you are trying to fight in the loan market.

Mr. KASHKARI. Absolutely. I will work with our economist to look at that. You are completely correct, de-leveraging is taking place, it is necessary. We don't want it to over-correct, and we don't want the adjustment to be too rapid or disorderly.

Mr. ISSA. I have one tough question, and I want to be fair, I hope we are not blind-siding you, but you are familiar with the Wall Street Journal report of the January 22, 2009 that talked about political influence?

Mr. KASHKARI. I am.

Mr. ISSA. You are. I would like to give you a full opportunity to talk in terms of the pressures that you or others have been under, what effect they are having, whether they provide guidance or whether that pressure is undue, coming from Congress. The Journal talked both about Ohio, potential influence, and it talked about Massachusetts influence. But I would like you to talk more broadly, not necessarily just that article, tell me what it is like when, for you, with various groups, including perhaps some of us on the dais, being concerned about our individual banks off of the dais.

Mr. KASHKARI. Thank you very much for asking me that, because that is a very important topic and I appreciate the chance to set the record straight.

We have built a very robust process at Treasury for the banks that are applying for TARP funds. They send an application to the regulator, the regulatory submits a recommendation to Treasury. We have a formal process of reviewing that, getting more data if we need it, and then making decisions.

I have certified, part of the Obama administration's transparency initiative has begun, having the head of the office, so I have certified to Congress now in January and at the end of February, that all of our investment decisions from the beginning October 3rd, through the current period, have been made purely on the merits of the case, the economic merits, and not due to any undue influence. And I feel completely confident that we have a great track record of that.

Now, we do get calls from Members, we do get calls from Governors who are concerned about their districts or their businesses, etc. It is important for us to get that feedback of what is happening around the country. Most of the time we just refer people who call to the regulators, because the bank regulators regulate these institutions. So I feel very confident in saying there is no undue influence at Treasury. I am the person who signs each of these, and I am positive of that.

Having said that, I am concerned that these stories have been out there because they serve to undermine confidence. So if you would like to ask further questions about that, I would love to go into it in more detail.

Mr. ISSA. Perhaps on the second round. Thank you, Mr. Chairman.

Mr. KUCINICH. The gentleman's time has expired. I appreciate his questioning.

The Chair recognizes Mr. Tierney from Massachusetts.

Mr. TIERNEY. Thank you, Mr. Chairman. Thank you for having this hearing, as well.

Mr. Kashkari, thank you for being with us here today. May I ask you a question that I think our constituents have raised? We have extensive taxpayer money invested into these banks now. Their feeling is that we are investing in banks that are operated by individuals who were complicit in getting us into this financial situation. Why are we not using the leverage of our investment to change some of the boards of directors and some of the principal officers of these corporations to get them out and get other people in?

Mr. KASHKARI. Thank you. Sir, we must segment our broadly available programs. I mentioned we have 489 banks we have invested in. The vast majority of those are healthy banks, lending in their communities. There is no reason for us to go in there and try to make any management changes there.

We also have these one-off institutions where we have had to intervene to stabilize them. In the case of AIG, as an example, we fired the management, brought in new management. And we are trying to help them have enough time to pay back the taxpayers.

In the case of Citigroup, our recent agreement with Citigroup, they have agreed to change their board of directors so that a majority of the board is made up of independent outside directors. So we hear you, we agree with that perspective. When we have to take extraordinary action, we are coming in to make sure that these businesses are well managed and that we do not reward failure.

Mr. TIERNEY. Is there an action that the Treasury can take to amend the agreements, to define waste, fraud and abuse, and then to put a provision in there that when we see it, and I assume at some point you are going to send people out to these banks as well as the surveys and things, when we see it, we can take action, whether it is to reverse that expenditure or not? People look, and they hear stories of money being invested in conferences and sporting events and endorsements, things of that nature, and perks and bonuses to people that ought not to be getting them.

When we are going to have the position as investors here to be able to just take those out, set them aside and recapture that money, if it is happening?

Mr. KASHKARI. Congressman, in the new program that the administration has announced, we are going to make sure that boards of directors adopt very clear and published expense policies on things like airplane flights and conferences and perks, etc., and then certify that they are meeting their standards. The standards will be public for the world to see and for the world to judge. We can offer our opinion on what those standards look like, as well, when we see them, No. 1. No. 2, remember in terms of fraud, there are very strong laws in place for fraud already. And if anybody tries to defraud the Treasury or the taxpayer, we are going to bring the full arsenal of tools we have available to us to go after them.

Then third, Congress has provided four bodies of oversight for the TARP: special inspector general, GAO, congressional oversight panel, financial stability oversight board. Later this afternoon, you are going to hear from the special inspector general whose very mission is to go after waste, fraud and abuse. So we are looking at it and there are independent oversight bodies looking at it as well.

Mr. TIERNEY. And I think people do think that some of those conferences, jets, perks and bonuses get to be waste, fraud and abuse. As the definition of them is something, whether we will term them in those words of not, that money can be prohibited from being spent in that way during this interim period, or at least reclaimed if it was. It would be very important for people, I think Patrick made some good comments on that, about the way people are feeling.

Let me ask you this as well. On the asset purchase program that you are planning to do, Secretary Geithner is planning to do, what will be the taxpayer assurance or protection for their money on this? Will they form a partnership with these hedge fund or other investment groups? How will they get their money back? What will be the collateral in the interim? Because the general impression of that now is going to be, here are these people, the hedge fund people or like that benefited most from a broken system that people think they are complicit in breaking. And now they are going to be partners, using taxpayer money to come in and get a tremendous profit, potentially, on the other end. How do we tell people that is a good concept, if you think it is? And tell people why that is being done, as opposed to some alternative method, and what is their protection that they will get their tax money back?

Mr. KASHKARI. Congressman, as I indicated earlier, the details are being finalized now. But one way of doing that, because I don't want to commit to this, but one way of doing that is if the taxpayer dollars are side by side, meaning exact economic terms with the private sector dollars. So if the private sector wins, the taxpayer wins. If the taxpayer loses, the private sector loses. By perfectly aligning our interests, we think that may be the best way to protect taxpayers.

At the end of the day, there is an aversion to taking risk right now, because the markets are nervous. So we as the U.S. Government, as the taxpayers, have to now step in and be willing to take some risks.

Mr. TIERNEY. They are no less nervous. They are more nervous, particularly playing what they think is a cast of characters, if I can use that loosely, that may or may not even be applicable or fair, but they perceive these people as being part of the problem who are now going to benefit. Would you just comment to that? And in the remaining time, what should you tell people, that these are the people we are dealing with now, they profited during the time that this was all being driven into crisis, and they may have been responsible for some of that, and now they are going to be our partners going forward, and they are going to benefit greatly from that.

Mr. KUCINICH. The gentleman's time has expired, but Mr. Kashkari, please answer the question.

Mr. TIERNEY. Thank you, Mr. Chairman.

Mr. KASHKARI. Thank you, Mr. Chairman.

We do not yet know which investors will come to the partnership. But my expectation is you will see pension plans coming, you will see people's retirement funds through mutual fund type organizations that will be investing. So there may be some well-known investors that people recognize. My assumption is that most of the capital is going to come from the savings of the American people.

Mr. KUCINICH. I thank the gentleman, and we are going to get more into that in the next round.

Mr. Souder of Indiana, you may proceed with your questioning. Thank you.

Mr. SOUDER. Thank you, Mr. Chairman.

Mr. Kashkari, my district needs credit. It is the No. 1 manufacturing district in the United States. Elkhart County has the RVs, we are at 18.3 percent unemployment there, LaGrange is at 18. Typically 13 to 17 percent throughout all my 8 counties.

I have a couple of fundamental questions. It was a tremendous insight, not very understood in Congress, that only 60 percent of the credit comes from banks. You said the securitization group is 40 percent, that it has zero right now. In the banks, do you know how much of that is going to refinancing in the loans, as opposed to actual new purchases?

Mr. KASHKARI. Congressman, I don't have that at my fingertips. I believe some of that is included in our survey. I can go back and find those numbers and get them to you.

Mr. SOUDER. As a fundamental question, because Congress and the general public wants more transparency. Do you feel your problem is transparency right now?

Mr. KASHKARI. Forgive me, sir, which problem?

Mr. SOUDER. We are talking about us being able to see, and transparency as we do oversight, building trust in the American people. Do you feel that you don't know what is going on? In other words, do you need more transparency?

Mr. KASHKARI. I don't believe so. I think the challenges that we are facing, this credit crisis has been unpredictable, and it has gotten deeper along the way. So the challenges we have are striking the right balance of taking aggressive action that we know is going to work, but also protecting the taxpayers.

It would be easy, if we were willing to just throw money out the window and not care about protecting the taxpayers, we could probably clean this up. But it would cost the taxpayers a lot of money. Striking that balance is hard.

Mr. SOUDER. Following up with that, as you have heard several times, we were told from the beginning that we were going to get the toxic mortgages. Yet every person who comes in, every angle that comes in, different Presidents say they are going to do toxic mortgages and they didn't. When you got into this, how much of this was actually toxic mortgages as opposed to toxic credit cards, toxic student loans, toxic car loans? And in the Troubled Asset, if you purchase this, is that really going to fix the problem?

Mr. KASHKARI. That is a good question. There is no question the start of this was about mortgages. But the crisis in the mortgage market, residential plus commercial mortgages is a $14 trillion market. So the crisis in the mortgage market put a huge burden on the financial system, which made the financial system pull back from all of these other markets.

So when we're doing things on student loans or credit cards or auto loans, that is not to try to solve the root cause of the problem. That is frankly dealing with the symptom to help the American people get through this while we stabilize the root cause, the mortgage market, the financial system. Does that make sense?

Mr. SOUDER. Yes, because it would be much harder to take an L.L. Bean sweater back as an asset that has been securitized through a credit card than a mortgage. And that is why it is important to know what is in what, that many of us believe that, well, I want to ask the question about mark to market. Because that is partly under your assumption that you needed to get into the banking to provide capital when part of, at least in the banking sector, it is not clear in the securitization sector, that having a declining economy is turning things toxic that weren't toxic. And the banks don't know where their bottom is.

In my area, where the unemployment is accelerating, where among the people who are employed are still the biggest GM pickup plant in the world, 50 percent of the GM suppliers are in my district, so if you are a lender right now, you don't know where the bottom is. You don't know whose house is where. And the mark to market has exacerbated that problem.

Now, it also started some of the problem by not having real market values. And I understand that. But isn't there some way that in today's accounting era, and computers, that there could be some kind of a blending? Because a lot of these assets aren't going to be sold. In Indiana, many people don't move all that much. Yet the housing has just gone to nothing. So the bank assets are declining.

What is going to happen to agricultural land if we don't support the ethanol as that market changes? And the assets don't have any value, so they don't know how to make a loan for a pickup or an RV or the various things that we make. Until we get that credit market, they don't even know how to do a credit evaluation on an individual.

So why aren't we looking at some of this mark to market to stabilize their asset valuation? Because how can they make a loan when they don't know what their assets are?

Mr. KASHKARI. Congressman, this is a very important point. A lot of people have asked us about it. The challenge is, and there is no question, mark to market is what we call pro-cyclical. So it exaggerates the swings in both directions.

The challenge is right now, investors don't have confidence in the statements that they are seeing, even with the mark to market. So they are cautious. For us to go, in the middle of a crisis and to change the accounting rules, it is not going to increase confidence.

Mr. SOUDER. Let me interrupt you for just a second here, because I have run out of time. Mr. Chairman, since I didn't do an opening statement, can I have just a followup to this?

Mr. KUCINICH. The gentleman's time has expired, but if you have a quick question, you can respond.

Mr. SOUDER. In this challenge, it has been clearly documented even from the transference that there is, that there is really a small number of counties that got inflated from where these toxic mortgages are, that when you have only had 2 percent inflation in your assets, the argument that they don't know what the value is is just not there. That is why, 80/20 rule, 20 does 80 percent of your sales, that is clearly true here in these mortgages. Why can't that be applied in some way to these assets? It is not like there isn't a historical tracking, that these things aren't computerized. I don't understand why there is lack of confidence in everything all over the United States, when in fact it tends to be localized inflated markets.

Mr. KUCINICH. If you could respond briefly.

Mr. KASHKARI. Thank you. There is no question the housing market is very regional. There are regions where the maximum run-up and now the maximum run-down. But the crisis is so large and so severe, it has affected the confidence of the American people and investors. So they are all nervous right now. So again, it is hard for us in the Government to say, you shouldn't be nervous, go ahead and make that loan. What we need to do is attack the root cause of the problem, get credit flowing until confidence can return and then the system can start functioning as it should.

Mr. KUCINICH. I thank the gentleman.

The Chair recognizes the gentlelady from California, Ms. Watson.

Ms. WATSON. Thank you so much.

Mr. Kashkari, you might have answered this, but I am still confused. And to quote your words again, you are saying to us that we should not be involved in micromanaging recipient institutions, you know, where did the money go. And you said, however well-intended, Government officials are not positioned to make better commercial decisions than lenders in their community. Bad lending practices were at the root of the cause of this crisis.

What would be your definitions of waste, fraud and abuse? How do you determine that there were bad practices? How did we get into this mess? And what are you going to do about it? Would you try to clarify for me what you define as abuse and fraud?

Mr. KASHKARI. Absolutely. What got us into this mess were banks making loans to borrowers who could not afford to pay. Also, homeowners have responsibility as well, for taking on loans that they couldn't afford to pay. Regulators had a role to play, because they are the supervisors of these institutions, allowing the banks to make bad loans.

And so those are the bad lending practices that I was talking about. In a time when people are nervous, ordering a bank to make a loan that they think is too risky is a dangerous place to go.

Now, in terms of waste, fraud and abuse, I think fraud is clear, especially when it relates to either banks lying to borrowers or borrowers lying to banks, or banks lying to Treasury and the U.S. Government. Again, we are going to come down on them very, very hard.

In terms of waste, the administration has put out some specifications around when we have our new capital program up and running. The banks are going to have to define a very clear expense policy on what they think is appropriate and what is not appropriate. They are going to have to certify that they are meeting that policy, and that policy will be available for the American people to see.

Ms. WATSON. If I write you a letter in regard to what I just inquired about, would you respond, and can I put that up on my Web site for my constituents to refer to?

Mr. KASHKARI. Absolutely.

Ms. WATSON. We are trying to get to the bottom of this risky business. I am going to now give some of my time to my colleague, because there was a question that he had.

Mr. TIERNEY. Thank you for yielding on that.

Just to followup on that, you talked about this is what you are going to do on the next program. What about the money that is already out there? That is a substantial amount of money. How are we going to track that money and stop that practice from either continuing or being started with the funds that are already out there?

Mr. KASHKARI. Congressman, again, we have to, I segment those firms receiving exceptional assistance from the broadly available programs. We have, and we can debate this, we have a view that when we are lending to a small community bank that wasn't part of the problem.

Mr. TIERNEY. Well, let's take them out of this.

Mr. KASHKARI. OK, I'll take them out.

Mr. TIERNEY. Let's talk about the ones that are in the news every day that grate at you and me and our constituents on that. They are large firms, they have a big chunk of dough, they continue to have a conference in a very fancy place, they continue to fly like they are zillionaires, they continue to sponsor sporting events in these big boxes, corporate boxes or whatever. What about them?

Mr. KASHKARI. Absolutely. And we have been pretty vocal that we want the institutions to take prudent action and reflect on the kind of economic environment we are in and the help that they have already received.

Mr. TIERNEY. But other than reflection, is there any enforcement mechanism? That's precatory language. I wish you would do better. And that would be great, we all wish that. Can we enforce them into doing better or has that train left the station?

Mr. KASHKARI. Well, I think we can. We have in many cases, for the exceptional cases, we have asked banks to put together expense policies that we are able to review, and that if they want to make any changes to their expense policies, they have to get Treasury's approval.

Mr. TIERNEY. That is all going forward, that is policy.

Mr. KASHKARI. Some of that is going back as well.

Mr. TIERNEY. So you are telling me that we can't do anything about the money that is out the door, that it can't be recaptured and that people cannot be—if those are the people that made those decisions and they have our money, maybe we should have some impact on having that money invested and get rid of them. These aren't the small community bankers, they are not the problem. We are all comfortable with that. But these fat cats that are running around and still wasting money in that sense, and not listening to the precatory language about what we wish they would do, why not use some leverage of us being the investors to just off with those people, and in with people that understand the gravity of the situation?

Mr. KASHKARI. I will say that when we have seen things that we thought were over the top and just really grated on us the way it is grating on you and grating on your constituents, we have let the banks know. And whether we have a legal ability to force them to do something, they generally get the message and say, "we got it, sorry, it is not going to happen again."

Now, the fine line we all have to walk, I mentioned two objectives. There are many objectives, but our two biggest objectives are stabilizing the system and having the taxpayers paid back. So banks do need to market themselves. They unfortunately do need to have sales conferences, so people want to come in, learn their products, sell their products. Some of the press stories that have really inflamed people, when we have looked into them, they have been more ordinary core sales conferences that actually didn't cost the banks much money.

I am not defending it. I am just saying, we have to walk a fine line and allow the banks to run their business and compete so that they can pay the taxpayers back.

Mr. KUCINICH. I don't believe we disagree with that, sir. I think we are talking about the ones that don't, the ones that go over the line and getting back the money that they wasted on that, and leaning on them legally or not to say, show good faith, and to get any future assistance from us, you had better find a way to get that money back into the till that the taxpayers have invested.

The time is expired. I thank the gentlelady and the gentleman.

The Chair recognizes Mr. Burton of Indiana. You may proceed.

Mr. BURTON. Thank you, Mr. Chairman.

When you first started dispensing the TARP funds, did you have oversight procedures, definitions and allowable and prohibited uses of TARP funds, and uniform disclosure and reporting standards when you first started dispensing those? Or did you just start saying, "oh, my gosh, we have to get money to this bank or this institution because it is about to go under?" I just wonder how prepared you were to start loaning that money or putting that money out there?

Mr. KASHKARI. Congressman, we, as you remember, when we started out with asset purchases, then as the data that I reflected in my testimony, conditions deteriorated very rapidly, much more quickly than we had expected. So we moved as fast as possible to put capital into the system.

One minor comment there is, remember, we are buying shares in these companies, preferred stock, getting warrants. So it is not literally giving cash, we are getting securities back, and the banks are paying dividends. We have received over $2 billion in dividends in the first quarter.

Mr. BURTON. If you bought Citigroup, so far you have lost a ton. But the point I am trying to make is, did you have the time or the inclination to put these procedures in place before you started putting that money out there?

Mr. KASHKARI. We did not put specific tracking procedures in places in terms of——

Mr. BURTON. So you were trying to find out as quickly as possible and flying by the seat of your pants, so to speak?

Mr. KASHKARI. Moving as quickly as possible.

Mr. BURTON. Well, that is an old Hoosierism, flying by the seat of your pants.

You were hesitant when Mr. Souder asked you the question about did you know really what is going on. And my question is, do you have the manpower over there? I have been told that Mr. Geithner, Secretary of the Treasury Geithner doesn't have an awful lot of the staff people in place or assistance in place so that he can really start completing his task as quickly as possible, because he doesn't have adequate staff. Do you have adequate staff and does Mr. Geithner have adequate staff? And if not, how long is it going to take?

Mr. KASHKARI. Congressman, I do. The Office of Financial Stability had zero people on October 2nd. We have more than 100 full-time employees and we are growing every day. The staff is fully operational. It was one of our highest priorities, to make sure that the program could run well and we would have a smooth transition.

In terms of Secretary Geithner, he has a very strong team of political appointees around him. And the Senate-confirmed appointees, the White House is moving as fast as possible and are making real progress, from what I understand.

Mr. BURTON. Well, it was reported in, I think the Wall Street Journal, that several of those slots that were very important had not been filled, and with the seriousness of the situation, I was wondering if you were up to speed. And you say you are?

Mr. KASHKARI. I am. Especially I can speak in great detail to my office, the Office of Financial Stability. We have a wonderful career staff of people who are passionate about these issues and are working around the clock.

Mr. BURTON. I have one last question. We have dispensed total, I don't know how much of that you have already put into the system, but $700 billion in TARP funds. How much more are you going to need? This is very important.

Mr. KASHKARI. I know it is.

Mr. BURTON. Because every time we talk to anybody about what is going on, we get kind of an ambiguous answer. When Secretary Geithner was testifying on how much in funds he was going to need to prop up the financial institutions, he said, well, $1 trillion or $2 trillion, maybe $3 trillion. I mean, you know, we are not talking about dollars here, we are talking about trillions.

So what is the formula for letting us know how much more you are going to need, and can you give us that?

Mr. KASHKARI. We have enough. My staff just said that we have deployed about $325 billion cash dollars out the door, more than that has been obligated at this point.

Mr. BURTON. Is that the second tranche or the first?

Mr. KASHKARI. No, that is within the first tranche still. Actual cash dollars that have left Treasury. Again, more than that has been allocated to various programs. We have enough to get Secretary Geithner's new programs up and running and working. And as we get them up and running, we get them working, when the banks capital, they are under this capital assessment right now where the regulators are analyzing the bank's capital positions under various economic scenarios, that will give us a lot more information about how much more is needed. And as we see our programs get up and running, we are going to learn a lot. So Congressman, I cannot give you a number today, nor can I give you a date. But we will let you know.

Mr. BURTON. As soon as you can get that, we would like to have it.

One more question. Do you think if we had across the board tax cuts plus capital gains tax cuts it would assist in stimulating the economy and helping you out?

Mr. KASHKARI. Congressman, I must respectfully defer to my colleagues who focus on tax and budget issues. I am solely focused on financial stability, sir.

Mr. KUCINICH. The Chair thanks Mr. Burton. Mr. Burton, I just want to let you know that at the beginning of the hearing, we introduced into the record an article from the Washington Post dated Tuesday, March 10, 2009, by David Smick that predicts that the bailouts will run another, as much as another $2 trillion. Here is a marked-up copy of it. We can go back to that in the next round.

The Chair recognizes the gentleman from Rhode Island, Mr. Kennedy. Thank you for being here, sir.

Mr. KENNEDY. Thank you, Mr. Chairman. I appreciate your holding these hearings.

Just to followup with my colleague from Indiana about the staffing issues, if I could, could you answer for me what the staff is at the Inspector General's office for rooting out fraud and waste at the IG's office or Treasury's office for this TARP program?

Mr. KASHKARI. You will hear from Mr. Barofsky, I believe his staff is on the order of 20 people or so right now. I'm sorry, could you hear me? Mr. Barofsky, the Special Inspector General, you will hear from him later today. He can give you an updated number. My understanding is he has about 20 people in his office right now, and is growing quickly as well.

Mr. KUCINICH. If the gentleman would yield briefly, Mr. Barofsky is on the third panel.

Mr. KENNEDY. So 20 people for 8,000 banks in this country, or how many banks have——

Mr. KASHKARI. We have invested in 489 institutions through the capital program.

Mr. KENNEDY. And how many more banks are——

Mr. KASHKARI. Several hundred, maybe 500 to 1,000 more are in the pipeline.

Mr. KENNEDY. But we are talking about banks also, top several banks with assets, 75 percent of our Nation's assets are in the top several banks, and we have 20 people? Twenty people doing the audits of those things?

Mr. KASHKARI. Well, again, sir, I will respectfully defer to Mr. Barofsky. I know that he is growing his staff quickly and is leveraging the resources of the other law enforcement agencies.

Mr. KENNEDY. See, I think that is where concerns come in, because before we are going to be able to pass another nickel in this Congress, we are going to have to get the due diligence on these things. Because our constituents are going to demand it.

The foreign entities that have received dollars, I asked my first question, my Bank of America in Rhode Island received $45 billion from the capital purchasing program. And Ken Lewis, the CEO of Bank of America, said taxpayers want to see how this money is used to restart the economy. And then they went around and laid off 121 employees at a facility in my district in Rhode Island.

Then after they received $7 billion in TARP funds, they went ahead and loaned it overseas to China. So we have questions. And we want to know, where are these dollars going? Are they going to foreign entities? What dividends are they paying and to whom? I mean, are they going to paying little old grandmas' annuities? Are they going to be paying those bondholders? And what are the salaries that are being paid?

There is a lot of the culture on Wall Street, people have gotten so accustomed to saying, they are worth $2 million a year. And I don't know, but when people are earning on average $40,000 a year in my district, and that is median wage, they just don't get people in Wall Street asking for hundreds of thousands of dollars, let alone millions. Yet that is the culture in Wall Street, to just ask for these sums of money.

So I can tell you, we have to have a new kind of salary type compensation system. I know some firms have put new executive compensation systems in place. But that has to be done, because, and we need to insist on it in terms of our conditions in loaning these dollars, for no other reason than, they are not going to receive any more dollars. Because once our constituents learn that any one of these folks are earning these kinds of salaries in the wake of our constituents earning just what they are earning, they are just not going to be satisfied with the way this is going.

So I might ask you to comment on that.

Mr. KASHKARI. Thank you, Congressman. This is an area we have done a lot of work on, beginning with imposing the executive compensation requirements that were specified in the EESA. We imposed those from day 1 in the program.

The Obama administration has now, in early February the Treasury Department came out with new, tighter executive compensation policies. And then in the stimulus bill, there is an amendment that also has executive compensation policies. So we have taken this issue very seriously. There is a team right now at Treasury working on the stimulus, the new law, putting that together with the administration's new policy to come out with a robust set of new regulations that are going to govern the banks that are taking the TARP funds and covering many of their top executives on how much they can earn and what form that compensation is.

So we heard it, we got the message, we are working hard on it.

Mr. KENNEDY. I understand it is a lot of mid-level management, too. We are not just talking to be talking.

Mr. KUCINICH. The gentleman's time is expired. I thank the gentleman.

The Chair recognizes Mr. Turner of Ohio.

Mr. TURNER. Thank you, Mr. Chairman.

Thank you, Mr. Kashkari. Appreciate your being here.

I will tell you up front, I voted against this program. I voted against this program because of basically four reasons. One, I didn't believe there was a very good definition or focus on what the program was to do. We were first told it was toxic assets, now it has not been. Two, I think there was a lack of understanding of the process, what happens after the moneys are made available, that process. Third, I didn't think it addressed the practices that got us here to begin with, it didn't stop the practices that were occurring. And four, it was unclear as to where the money was needed and how much was needed.

Now, you have been very forthcoming. I want to congratulate you, you are doing a very good job in answering our questions. But no one can still answer those four questions. We are now several billion dollars, hundreds of billions of dollars into this. And we are still where we don't have a clear focus of what we are going to be doing with these funds, we are not certain as to what the process is going to be. We have not addressed at all any of the practices that got us in this place. And still, you are unable to tell us how much money this is going to take.

Now, I wanted to comment on one thing that you had said. You had said, when someone asked you how did we get in this situation, you said that banks loaned borrowers money that they couldn't pay, homeowners have responsibility and regulators have responsibility. I want to tell you that I come from Ohio. Montgomery County, OH, is the place where I live, it is in the center of my district. And we have the foreclosure crisis, and we have had it for over a decade.

About 27,000 foreclosures have occurred in my county since the 6½ years that I have been here in Congress, of a county that has a population of around 500,000. Unbelievable numbers of foreclosure. I believe that it is not just that banks loaned money to people who couldn't pay. I believe, from the experience that we have seen in our county of people who have tried to address this issue that it is an actual structural issue, it is a leverage ratio that predatory lenders and sub-prime lenders were actually targeting homeowners and loaning them money that was in excess of the value of the home, which of course results structurally in a situation where, when there is financial stress, that you have to go to foreclosure. If you have no equity, you have no option other than to go to foreclosure.

And the big banks initially would say, well, we are not really part of that. But they were. Because what was happening is, I believe, the structural aspect of loaning greater than the value of the property, people didn't care because they were selling these things as securities on down the stream. So they didn't care if it was a workable loan or if the asset was over-valued, because in the end, they weren't going to get stuck in the musical chairs of these assets.

I think in the end, when we get these evaluated, we are going to find that this is somewhat the largest theft in history that has occurred, of people who over-valued assets, sold them down the stream and the American taxpayers are stepping in, unfortunately, with their own dollars to try to make up the gap.

Here is my concern specifically about an issue that was alluded to in the beginning of this discussion. Some of the moneys that are being provided appear to assist in transactions where the money is leaving the country. Now, I think everybody up here understands that there are international practices of the flows of capital, and that needs to happen for our economy to be successful also. But the Fed chairman yesterday, Bernanke stated this, asking about the crisis itself. He said, "In my view, however, it is impossible to understand this crisis without reference to the global imbalance in trade and capital flows that began in the latter half of the 1990's."

Well, back to my concern about the practices haven't changed. One of my concerns is that the manner in which this is occurring does not have any protections or requirements that the dollars address the issues of our economy and that large portions of these dollars are leaving our economy. That would put us on the wrong side of a ledger, and in the same types of practices that Bernanke just said are underlining this.

We know that you can't, in providing dollars, stop international flows of capital. We don't want that. But I am concerned that what you are doing might facilitate or incent additional dollars leaving our economy that are specifically intended to prop up our economy. Could you please comment?

Mr. KASHKARI. Sure, Congressman. Thank you. I didn't catch all of Chairman Bernanke's remarks, but I believe he is referring to, many economists think that there has been a glut of savings around the world in developing countries that has been coming into our capital markets. So the cash has actually been flowing the opposite, it has been flowing to America, which has given us very low borrowing rates and encouraged us, some would say, to take on more debt, maybe more debt than we can afford.

So I think we have to be careful, especially right now. We want all the capital we can get to get through this crisis. And we need to let the global economy restabilize to a new equilibrium, where savings and all of these things are balanced.

So I take your point, I hear it, and I agree with the spirit of it. I am just offering a word of caution about saying, let's stop money flowing in this one direction, because it will end up stopping it coming back the way that we want it.

Mr. KUCINICH. The gentleman's time has expired, but I do want to say, we are going, I have two more Members to ask questions, and then we will take a brief recess.

I also want to tell the gentleman from Ohio that since you raised the question about Montgomery County, and of course Dayton, and since my own community in Cleveland was the subject of a New York Times Magazine article this past week, we are going to go back to Ohio and we will come to your community as well. Maybe we can get the hearings on the same day in Cleveland and in Dayton.

So I just wanted to let you know that this committee is going to be going deeply into these affected areas. I thank the gentleman for raising the question, and the Chair recognizes Mr. Welch.

Mr. WELCH. Thank you, Mr. Chairman, thank you, Mr. Kashkari.

Just a few things to establish where we agree. You would agree, obviously, that the taxpayer is entitled to know how taxpayer money is spent.

Mr. KASHKARI. Yes.

Mr. WELCH. And I assume you would agree that shareholders would be entitled to know how shareholder money is spent.

Mr. KASHKARI. Yes.

Mr. WELCH. And of course, the biggest recipient of taxpayer money to date, or one of the biggest, is AIG. And that is where the taxpayer is fronting money and the taxpayer, in fact, is an 80 percent owner, correct?

Mr. KASHKARI. Yes.

Mr. WELCH. And we are providing that money in order to avert a conclusion that has been reached at Treasury and the Fed that to let AIG go down would cause systemic failure, correct?

Mr. KASHKARI. Yes.

Mr. WELCH. Donald Kohn, who is the Vice Chair, as you know, of the Federal Reserve, says that AIG has no obligation to name the counter-parties who have been paid via taxpayer money that has been transferred to AIG. Correct?

Mr. KASHKARI. I read Vice Chair Kohn's testimony, but I don't remember that exact quote. But I defer to you, sir.

Mr. WELCH. Do you agree with him?

Mr. KASHKARI. I believe institutions such as AIG that receive extraordinary assistance have a moral obligation to disclose as much as possible to the American people. If you will permit me to give you a thorough answer, the challenge here is as I indicated earlier, we want to prevent a financial collapse, to stabilize the system, and we want to pay back the taxpayers. So we have to be careful that, just as any business, if you put, if you force businesses to expose all of their business decisions, all of who their customers are, all of who their counter-parties are, that may actually put them at a competitive disadvantage and it makes it harder to pay back the taxpayers.

Mr. WELCH. I get it. So then you agree with Governor Kohn, we will leave it to AIG to decide what information they will disclose and they won't disclose, with them making the final decision on whether that is a business interest or not, correct?

Mr. KASHKARI. No, I believe we can work with the Fed to work with AIG and figure out, take a look from Treasury's perspective and see what is appropriate to disclose.

Mr. WELCH. Let me ask you this. Some of that AIG money that is to avert the systemic failure is to make certain that average Americans who have AIG insurance policies, AIG annuities and AIG financial products in pensions don't get hammered, correct?

Mr. KASHKARI. Yes, correct.

Mr. WELCH. But some of the counter-parties are eyes wide open investors, some of the largest investment banks that we used to have in this country, hedge funds and speculators who made bets that turned out sour. Do you believe that it would be of interest to the American taxpayer to know whether their money is being used to protect those annuity holders, those insurance policy holders, those pensioners on the one hand versus the hedge fund speculators, investment banks on the other? Just yes or no.

Mr. KASHKARI. Congressman, I would like to provide you a thorough answer, because it is important.

Mr. WELCH. No, the question is a simple one. In your opinion, do you think it would be of interest to taxpayers to know whether it is the hedge funds, investment banks, speculators, being assisted with their money, or annuity holders, pensioners and insurance contract holders?

Mr. KASHKARI. And the answer is, they are all being benefited. Because unfortunately, there is no way we can go in to stabilize an institution and say, just the policy holders are stabilized.

Mr. WELCH. Why not?

Mr. KASHKARI. Because if we did that, the other counter-parties would put the firm into bankruptcy and that would cause the whole firm to fail. That is the unfortunate choice we don't have. If we step in to support a systemic institution, all of their customers, all of their counter-parties benefit, whether we like it or not.

Mr. WELCH. So if the taxpayer, it is their taxpayer money, it is the shareholder money, and you believe they have a right to know how taxpayer and shareholder money is being used. Nevertheless, you are accepting allowing AIG to decide what we will know, when we will know it, and under what terms?

Mr. KASHKARI. Forgive me, sir, as I mentioned, I think that Treasury can work with the Federal Reserve, work with the company.

Mr. WELCH. Well, why haven't they done it? There is a lot of money out the door, a lot of time has passed. If they are going to do it, why wouldn't they have done it before the money is out the door, rather than after the fact?

Mr. KASHKARI. Congressman, it is a good question. I think that we are fighting a lot of fires at the same time and this is a very important issue and I hear the feedback.

Mr. WELCH. With all due respect, there is unanimous agreement, I think, on both sides of the aisle that we want to know how the money is being spent. There is an acknowledgement on your part that will give the taxpayer some basis to have confidence that we are doing something that really is a pretty bitter pill to swallow, but we are doing it for a good reason.

Mr. KUCINICH. The gentleman's time is expired.

Mr. WELCH. I yield back, thank you.

Mr. KUCINICH. Mr. Kashkari, if you want to respond briefly, then we are going to go to Mr. Fortenberry.

Mr. KASHKARI. Again, Congressman, thank you for the comment. We got the message. We will look into it, sir.

Mr. KUCINICH. Let me say to Mr. Welch, we are going to, on the second panel, we are going to get into some specifics about how the money has actually been spent. So just keep that in mind.

We will go to Mr. Fortenberry for his 5 minutes and then we will recess.

Mr. FORTENBERRY. Thank you, Mr. Secretary for appearing today. I am sure there are other ways and easier ways you can make a living. So I do want to say from the outset, I appreciate your professionalism and dedication to public service during these difficult times, and in spite of the tensions around these policies.

Mr. KASHKARI. Thank you.

Mr. FORTENBERRY. There is an article in today's Omaha World Herald, it is basically the headline, it says "Banks Remain Strong," referring to our local banks, "Despite Profit Decline." And the director of our banking system in Nebraska says on average, they are very soundly operated. Now, these are fundamentally local banks, not the outside banks that are there.

But an editorial comment before I start the questioning, I believe it is these local institutions mainly owned by local families that have proximity to their portfolio obligations which by their very nature then are more transparent as well as accountable. I think that is a lesson that we need to think through as we look at the entire systemic crises, difficulty, however you want to term it.

In that regard, as I said in my earlier statement, and I appreciate the chairman's intent to unpack this further, perhaps later, and maybe we will see you again, is our financial system, are our financial institutions too consolidated? You have nine banks now with approximately 50 percent of all deposited assets in this country. Five banks, if I recall correctly hold about 37 percent. Are we vulnerable because of that reason?

Mr. KASHKARI. I think we clearly are. Look where we are today. Look at the action we have had to take to support systemic institutions.

There is no question that we must undergo as a country very thoughtful regulatory reform to look at what our financial system should look like in the future, to make sure that we are not here again.

There is no question. There are benefits to scale. But when the costs, because these institutions get to be so big, are then going to be borne by the taxpayers, that is a real problem.

Mr. FORTENBERRY. I appreciate that insight. Now let me move to a second, more specific question. It is my understanding that Goldman Sachs, the recipient of about $10 billion in TARP funds, actually repurchased their own stock to the tune of $2 billion last December. Now, earlier you had said this is a prohibited activity. Can you explain?

Mr. KASHKARI. Sure. I don't have the details of the Goldman transaction. My understanding of it, because I think the chairman put out some data on this in the last few days, is that in the case of Goldman, my understanding is those were stocks that were repurchased over the course of a year, but reported at the end of the year, is my understanding. We have put in place restrictions, they cannot buy back their stock.

The only way they can buy back their stock is if it is part of a normal, ongoing share plan for their employees. So if they want to incentivize, some of these banks incentivize their employees with, let's say, restricted stock, and they want to maintain their share account, we enabled that one carve-out. So if you want to incentivize your employees over the long term, then you can buy back the shares that are, only those shares that are associated with the long-term compensation agreements. That is the only place where firms under the capital purchase program are able to buy back their stock.

Mr. FORTENBERRY. Is that exception consistent with what happened with Goldman Sachs?

Mr. KASHKARI. In that case, I don't know. Because my understanding of that, and I haven't looked at it in detail, but I can, my understanding is the bulk of those share repurchases were done before Treasury became an investor in Goldman Sachs. And so because it happened before we went in, it would not be subject to our agreements.

Mr. KUCINICH. If the gentleman would yield, that is my understanding, too.

Mr. FORTENBERRY. Is that right? OK, thank you.

The third question is related to Mr. Welch's question as well. Please explain how extensively you actually review the books of these companies receiving TARP funds.

Mr. KASHKARI. We review applications as they apply to the TARP. So they have an application that they submit to their regulator. The regulator in many cases has been regulating these institutions for many years. For the large institutions, the regulators are physically onsite. The regulators look at all of the data they have on these institutions and prepare a recommendation to Treasury. We then review that recommendation from the regulator and the data they provide us and we review the application in making our decision on whether or not to invest.

I can walk you through that decision process if you are interested.

Mr. FORTENBERRY. Ongoing review.

Mr. KASHKARI. For the vast majority of banks, I mentioned we have invested in 489 banks so far, 30 more or 40 more each week. We do not go in and do ongoing, going through their books. Again, we have taken a policy perspective that the vast majority of these are healthy, well-run institutions. We just want them to make good commercial decisions and extend loans in their communities.

It is the one-off cases that we have had to go in and look at a lot of detailed analytics around their financial position, their balance sheet, etc., when determining, are they systemic, do we need to step in, how much do we need to step in.

Mr. FORTENBERRY. Can you name those institutions and then how frequently you are doing this review?

Mr. KASHKARI. Well, in the one-off cases, it has been the auto companies, the auto finance companies, AIG, Citigroup, Bank of America are the one-off cases that we have done something extraordinary. In each case, we have gone in in a lot of detail, remember, with the regulators, the regulators are onsite. They are the ones sending us regular updates on what is happening at the banks, what is happening with their portfolios, etc.

Mr. FORTENBERRY. So they are embedded. Thank you, Mr. Chairman.

Mr. TIERNEY. Mr. Chairman, may I ask unanimous consent to ask Mr. Kashkari just two questions, not to be answered right now, but since you have the whole day, can Mr. Kashkari come back?

Mr. KUCINICH. Mr. Kashkari has agreed to come back. The Chair is declaring a recess for one half hour. I would remind you, we have two more panels [remarks off microphone].

In the next panel, we are going to hear from some specifics on the use of TARP funds. And we are going to hear, on the third panel, from the Inspector General for the Troubled Assets Relief Program. So stay tuned. Recess for one half hour. Thank you.

[Recess.]

Mr. KUCINICH. The committee will come to order. We will begin a second round of questioning of Mr. Kashkari. Thank you for remaining here. If necessary, we will have a third round.

We will soon be going to the second and third panels, and I appreciate the patience of all of the witnesses. And I appreciate the continued presence of all Members. The House is just finishing up on votes, I expect we will have some more questions.

I would like to begin, Mr. Kashkari, and point out that you are familiar that GAO has testified and will testify today that they are still concerned about the TARP's inability to track the use of TARP funds and that the challenges are going to grow as the TARP programs grow. The Special Inspector General will testify today that, "If by percentage terms some of the estimates of fraud in recent Government programs apply to the TARP programs, we are looking at the potential exposure of hundreds of billions of dollars of taxpayer money lost to fraud." That is a direct quote.

Can you, Mr. Kashkari, point to anything Treasury is currently doing to prevent waste, fraud and abuse of funds from the CPP program?

Mr. KASHKARI. Thank you, Mr. Chairman. First, as I mentioned previously, we rely very heavily on the regulators when assessing banks who have applied to invest for funds. So the banks apply to the regulators, the regulators make a recommendation to Treasury. The regulators have been regulating these institutions in most cases for years, in some cases they have people onsite.

Mr. KUCINICH. Isn't it true that regulators look for fraud, they don't look for waste and abuse?

Mr. KASHKARI. I think the regulators look at the entire business operations, to look at how well managed the banks are.

Mr. KUCINICH. But you are saying TARP doesn't look at it, you defer to the regulators?

Mr. KASHKARI. We work closely with the regulators, sir.

Mr. KUCINICH. You work closely with it, but your mission as you see it isn't to look for this, is that right?

Mr. KASHKARI. Our mission is to look for waste, fraud and abuse. We want to use the taxpayers' dollars efficiently and protect the taxpayers. And so we do it a number of different ways. In part, we do it in concert with the regulators, in part we put contractual provisions in governing what banks can do and cannot do.

Mr. KUCINICH. But you don't look at uses. That is what I am trying to get to. I really am looking at the function of the TARP here. We understand that you have taken this responsibility on and that you have agreed to stay to help with the transition. I understand that. We are trying to understand the systemic situation here, because if we don't know that Treasury is currently doing something to prevent waste, fraud and abuse from funds from the CPP program and we don't know for sure that your operation is looking at it, then the question comes, how can you find fraud if you don't know how they are using the money? Is that a fair question?

Mr. KASHKARI. Of course it is a fair question, Mr. Chairman. Let me just give an example of some of the compliance procedures we have built in. We have procedures that we are putting in place where CEOs must certify to Treasury that the statements they make to Treasury are correct, that they are meeting——

Mr. KUCINICH. I got the procedures. And excuse me for interrupting you, but I have 2 minutes left. I understand that Treasury is doing its best to understand impact. And I am sure you are aware of GAO's skepticism whether or not you are going to be able to do it. But as you know, promoting financial stabilization is only one of two goals of the Emergency Economic Stabilization Act. The other is public accountability.

I would like to read from a legal memo prepared by the Congressional Research Service for this hearing. I call my colleagues' attention to this. And I move to put the entire memorandum in the record of this hearing.

According to this memorandum from the Congressional Research Service, "Given the objective of ensuring that the authorities and facilities provided to the secretary of Treasury, that is the TARP funds, are used in a manner that 'maximizes overall returns to taxpayer' and provides 'public accountability' the internal control system that TARP is required to establish arguably should include monitoring how those funds are being used by recipients."

It goes on to say, "Therefore, it appears that TARP overseers will need to gather information on at least those recipients' major financial transactions, particularly in those areas that have been the primary areas of concern, executive compensation, payment of dividends, purchase of other banks and certain types of marketing promotions." This of course means naming rights, for instance, which is mentioned in a memo. At this time, does Treasury at least gather information on recipients' major financial transactions on an individually identifiable basis?

[The information referred to follows:]

Congressional Research Service

MEMORANDUM March 9, 2009

To: The Honorable Dennis J. Kucinich, Chairman, Subcommittee on Domestic Policy, House Committee on Oversight and Government Reform
Attention: Jaron R. Bourke

From: Curtis W. Copeland, Specialist in American National Government, (202) 707-0632

Subject: **Oversight of the Troubled Asset Relief Program**

This memorandum responds to your request that CRS discuss two questions related to the Troubled Asset Relief Program (TARP): (1) whether the internal control system that the TARP is required to establish and maintain should address how TARP recipients used those funds; and (2) given the fungible nature of money, whether the Department of the Treasury should review all major financial transactions of TARP recipients as part of its oversight plan.

The TARP and Internal Control

Section 101(a) of the Emergency Economic Stabilization Act (EESA, P.L. 110-343) authorized the Secretary of the Treasury to establish the TARP to "purchase and to make and fund commitments to purchase troubled assets from any financial institution, on such terms and conditions as are determined by the Secretary, and in accordance with this Act, and the policies and procedures developed and published by the Secretary." Section 116(c) of EESA requires the TARP to:

> establish and maintain an effective system of internal control, consistent with the standards prescribed under section 3512(c) of title 31, United States Code, that provides reasonable assurance of (A) the effectiveness and efficiency of operations, including the use of the resources of the TARP; (B) the reliability of financial reporting, including financial statements and other reports for internal and external use; and (C) compliance with applicable laws and regulations.

Section 3512(c) of Title 31 requires the head of each agency to establish internal accounting and administrative controls that reasonably ensure that "(A) obligations and costs comply with applicable law; (B) all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and (C) revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained."[1] Of these provisions, the second one (i.e., preventing "waste, loss, unauthorized use, and misappropriation" of assets) appears most relevant to the question of whether the TARP's internal control system should address how TARP funds were used. Arguably, the TARP cannot know whether the

[1] Provisions at Section 3512 of Title 31 are sometimes referred to as the Federal Managers' Financial Integrity Act.

recipients are using the funds in a wasteful or an unauthorized manner unless it at least asks the recipients how the funds were used.

Section 3512(c) also says that an effective system of internal control should be consistent with standards prescribed by the Comptroller General of the United States, who is the head of the Government Accountability Office (GAO). In its *Standards for Internal Control in the Federal Government*, GAO presents five standards that it describes as the "minimum level of quality acceptable for internal control in government." GAO also said the standards "provide the basis against which internal control is to be evaluated."[2] In brief, those standards are:

- a control environment that sets a positive and supportive attitude toward internal control and conscientious management;
- an assessment of risks the agency faces from both external and internal sources;
- control activities (e.g., policies and procedures) that ensure management's directives are being carried out;
- timely communication of information to management; and
- ongoing monitoring to assess the quality of performance and that audit findings are resolved promptly.

Of these standards, the "monitoring" element appears to be most relevant to the question of whether the TARP's internal controls should address how TARP funds were used. GAO said that such monitoring "is performed continually and is ingrained in the agency's operations," and that it includes "regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties." GAO also indicated that the scope and frequency of any additional evaluations "should depend primarily on the assessment of risks and the effectiveness of ongoing monitoring operations."[3] Given the risks associated with the distribution of hundreds of billions of dollars in TARP funds (and to the extent that ongoing monitoring does not include how those funds are being used), some level of additional monitoring may arguably be necessary as part of the TARP's system of internal control.

In describing what is meant by the term "internal control," GAO said that it "comprises the plans, methods, and procedures used to meet missions, goals, and objectives." GAO also said that internal control "helps government program managers achieve results through effective stewardship of public resources" and "should provide reasonable assurance that the objectives of the agency are being achieved." Therefore, the appropriateness of any particular element of internal control monitoring depends on the objectives of the agency or program to which the monitoring is associated.

Section 2 of EESA describes the purposes of the act as follows:

> (1) to immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States; and
>
> (2) to ensure that such authority and such facilities are used in a manner that (A) protects home values, college funds, retirement accounts, and life savings; (B) preserves homeownership and promotes jobs

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[2] U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, November 1999, p. 7. The General Accounting Office was renamed the Government Accountability Office in 2004.

[3] Ibid., p. 20.

> and economic growth; (C) maximizes overall returns to the taxpayers of the United States; and (D) provides public accountability for the exercise of such authority.

Given these purposes, particularly the objective of ensuring that the authorities and facilities provided to the Secretary of the Treasury (i.e., the TARP funds) are used in a manner that "maximizes overall returns to the taxpayers" and provides "public accountability," the internal control system that the TARP is required to establish arguably should include monitoring how those funds are being used by the recipients.

Oversight of TARP Funds Recipients

As of March 5, 2009, the Department of the Treasury's transactions reports indicated that more than 350 banks and other financial institutions had received about $300 billion in TARP funds, most of which was disbursed under the Capital Purchase Program.[4] Press reports indicate that some of the recipients of TARP funds have provided millions of dollars in executive compensation, financed meetings at expensive resorts, paid millions for stadium naming rights, or provided expensive gifts at golf tournaments that they sponsored.[5] Some Members of Congress have introduced legislation limiting expenditures by TARP recipients.[6] In response, some of the TARP recipients have said that these expenditures are necessary to remain competitive in today's business environment,[7] and that the expenditures were made with the institutions' own funds, not TARP funds.[8]

TARP recipients may have placed TARP funds in separate financial accounts, or they may have comingled TARP funds with other operating funds of the recipients. However, because money is fungible, even if TARP funds are kept in a separate account, the TARP funds can "free up" recipients' other funds for uses that might not have otherwise been spent.[9] Therefore, when a TARP recipient engages in spending that the public perceives as lavish or otherwise inappropriate, it can create the impression that either TARP funds are being used for those expenditures, or that the expenditures are being enabled by the presence of TARP funds.

To assess whether either of these impressions are accurate, TARP overseers must ultimately determine whether those expenditures would have occurred in the absence of TARP funds. This is a difficult task given that there is no true "counterfactual" (i.e., what a TARP recipient would have done had it *not* received the funds). Even knowing what expenditures a recipient engaged in prior to the receipt of TARP funds may not be determinative, as the financial context for those expenditures is quite different now than it was even one year ago. Also, TARP recipients may be able to demonstrate that these expenditures

[4] See http://www.treasury.gov/initiatives/eesa/transactions.shtml for these transactions reports.

[5] See, for example, Ben White, "Bonuses Flow on Wall Street Despite Awful Year," *International Herald Tribune*, January 30, 2009, p. 15; Becky Yerak, "Northern Trust Defends Wining, Dining After TARP Money," *McClatchy-Tribune News Service*, February 24, 2009; and Robert Trigaux, "Party's Over for Bailed-Out Banks," *St. Petersburg Times*, February 26, 2009, p. B4.

[6] For example, on February 24, 2009, Senator John Kerry introduced S. 463, which would generally prohibit any TARP recipient from sponsoring, hosting, or paying for entertainment or holiday events during the calendar year in which such assistance is received, or the next calendar year.

[7] Drew Carter, "Talent Could Bypass TARP Recipients," *Pensions & Investments*, vol. 37 (February 23, 2009), p. 2

[8] See, for example, Tom Shean, "Bank: Executive Bonuses Weren't TARP-funded," *Virginian-Pilot*, January 25, 2009, p. D1.

[9] The issue of the fungibility of money is recognized in a number of settings. In tax policy, the interest allocation rules generally distribute tax deductions across all of the firm's business activities because money is fungible. (See CRS Report RL34494, *The Foreign Tax Credit's Interest Allocation Rules*, by Jane G. Gravelle and Donald J. Marples.) Similar reasoning applies to investigations of terrorist financing in which organizations with ties to terrorism and legitimate social activities try to create "firewalls" between the accounts.

would have occurred in the absence of TARP funds, or that the expenditures are in the best interests of the financial institution. For example, even direct use of TARP funds could potentially be justified if a TARP recipient can show that sponsorship of a golf tournament or a stadium naming can improve the financial condition of the institution. Similarly, the recipient may be able to demonstrate that substantial bonuses need to be provided to key personnel in order to retain necessary expertise.

First, however, TARP overseers must be aware of such expenditures by TARP recipients. Therefore, it appears that TARP overseers will need to gather information on at least those recipients' major financial transactions, particularly in those areas that have been the primary areas of concern (e.g., executive compensation, payment of dividends, purchases of other banks, and certain types of marketing promotions). Some of this information is already available in the financial reports of TARP recipients (e.g., quarterly call reports, formally known as *Report of Condition and Income*, that collect basic financial data of commercial banks). Other, more detailed information may be collected as a supplement to these existing sources. Some oversight bodies have already begun such efforts. For example, the Special Inspector General for the TARP (SIGTARP) has sent letter requests to each of the TARP recipients asking them how they have used TARP funds and how they plan to use the funds that have been received but not spent. The SIGTARP has also asked the fund recipients to provide details on their executive compensation practices.[10]

I trust that this information is helpful. Please call me if you need other information.

[10] Statement of Neil Barofsky, Special Inspector General, Troubled Asset Relief Program, before the Subcommittee on Oversight and Investigations, House Committee on Financial Services, February 24, 2009, available at http://www.house.gov/apps/list/hearing/financialsvcs_dem/sig_testimony_2 24 09.pdf.

Mr. KASHKARI. Chairman, may I provide a thorough answer, sir?

Mr. KUCINICH. Can you give me a yes or no, though?

Mr. KASHKARI. We do not ask for transaction by transaction data.

Mr. KUCINICH. OK, so the answer is no.

Mr. KASHKARI. But if I may, sir, I would like to provide a thorough response.

Mr. KUCINICH. OK, you can respond, and my time has expired, and then we will go to Mr. Jordan. But we are going to come back on this question.

Mr. KASHKARI. Thank you, sir.

The internal control provision that you are referring to in the law, I have it in front of me, specifies that Treasury shall establish an effective system of internal controls. We have Price Waterhouse Coopers working with us developing the internal controls within Treasury. We have spoken with both the GAO, the Special IG and Treasury's own analysis. This provision about the use of TARP resources is about Treasury's use of TARP resources. The law does not direct us to impose internal controls over the 500 banks that we have invested in, just to be precise.

Mr. KUCINICH. OK, thank you. I will come back to that in the next round of questioning.

We are going to go to Mr. Jordan. Mr. Jordan, you are recognized for 5 minutes.

Mr. JORDAN. Mr. Kashkari, I want to go back to where I was about an hour and a half ago with this whole concept. And again, I was one of the individuals who did not vote for the TARP program back last fall. But here is what I am trying to understand. You are a sharp guy. Tim Geithner is a sharp guy. Hank Paulson is a sharp guy. Ben Bernanke is a smart guy.

How was it that back in October, October 3rd, that all of you were convinced, and the package was sold to the Congress that you were going to be able to, what did you think then that was going to allow you to go after the toxic assets, the troubled assets, that since then you haven't been able to do? It was this assurance that Members got, the public got, taxpayers got, that you could in fact clear the bad stuff out and things would get moving back toward normal. And yet now, 5 months later, still not there.

So tell me what you thought you knew but yet found out you didn't really know. Walk me through that if you can.

Mr. KASHKARI. Thank you. I would be happy to.

When we went to the Congress, you are right, we talked about, and the plan was to purchase mortgage-related assets in large volumes to get those markets moving again. The crisis intensified so much just in the 2-weeks we were negotiating with Congress and the 1 or 2 weeks that followed, that we had to move even faster. Dollar for dollar of putting a dollar of capital in goes much further, as I am sure you understand, with leverage, than just buying a dollar of assets. So we had to take the most aggressive action we could to stabilize the system. So that is why we ended up leading with capital.

Now, for an asset purchase program to work, it must be done in very, very large scale. Once we concluded in the fall that we had to allocate almost half the money for a capital program, and we had these one-off contingencies that we had to deal with, we were left with fewer resources. And the question was, if we only spent half the money on asset purchases, would it be big enough in light of the $14 trillion residential and commercial mortgage market.

What Secretary Geithner has done is say, look, let's take the available resources, let's combine it with the private sector and leverage it up so we can increase our purchasing power and go make a big dent on a very big market. So it is about speed of implementation, it is about impact, and it is about scale with which to go at the problem.

Mr. JORDAN. Let me ask you another question. In talking with some folks, reading about this phenomenon, would you agree that the mark to market concept is good in the framework of disclosure, but not so good in the context of, in the regulatory context? And if so, are there some reforms we can do that kind of fit that statement that are going to help us as we move forward?

Mr. KASHKARI. I think the mark to market issue has a lot of benefits. And I think it is good in terms of disclosure for investors. But keep in mind, right now we have an environment where investors are questioning the value and the meaning of regulatory capital standards. So if we said, well, there is going to be one set of standards for the books that the investors get to see, but don't worry, there is a different set of standards for regulators to use, that may not support more confidence for investors as they look at the institutions.

I think mark to market is a very important issue. I know the SEC has recently done a study on it. And I think we need to look at it as we go after regulatory reform.

Mr. JORDAN. You personally, what do you think, if any, changes can be made to that, to the market to market rule that can be positive? Do you agree that there is some potential with what I just described, mark to market in a disclosure sense but some amending in the regulatory context?

Mr. KASHKARI. I think that is something that is worth looking at. I will tell you, I am probably not the best, there are better experts than me on the accounting treatment of mark to market versus accrual accounting, for example, and in the regulatory context. I think that these are things that we should look at. But especially in the middle of the crisis that we are in, I think we should be cautious about making changes that seem like a good idea at the time. I think we need to get through this crisis, we need to have a thoughtful discussion, analyze these issues and then make the long-term changes that we need to make.

Mr. JORDAN. OK. Thank you, Mr. Chairman.

Mr. KUCINICH. I thank the gentleman.

The Chair recognizes Mr. Tierney.

Mr. TIERNEY. Thank you.

Thanks for coming back, Mr. Kashkari. We appreciate it.

Earlier we talked about the fact that you are going to have these partnerships that are going to be partly with taxpayer money and partly with other investors going out and getting the bad assets. I mentioned that some of them might be hedge fund people, that taxpayers might think we are getting benefited after already doing things that caused part of the problem.

You said that you thought instead that most of the money would come from pensions or other investors. So given the fiduciary responsibilities of people that run these pension funds, and given the stressed nature of these troubled assets, what is the sales pitch that you are going to make to them to think that they can invest in them and still meet their fiduciary responsibility? Because now I know there are a lot of people that have an interest in those pensions, because they are sitting out there going, "oh, my God, that is where our money is going to go?"

Mr. KASHKARI. Thanks for providing me the opportunity to followup. If you look at pension plans, big pension plans and retirement programs for teachers or Government workers or employees, they allocate different parts of that money to different classes of investments. They will allocate some to Government securities, some to equities, some to alternative asset classes, such as private equity or even hedge funds. Those are typically much smaller asset classes, much smaller segments.

So it would not surprise me to see major pension funds saying, OK, we are going to put a small slice of this toward real estate assets, or mortgage-related assets, because we think the prices for the long term are attractive. So I don't want to give anybody the impression that huge pockets of people's pension plans are going to be put at this. But I think if you look at the amount of savings we have as a country, retirement savings, small slices can add up to big dollars.

Mr. TIERNEY. So you are basically saying then that it will be a good investment for that small slice to go in and buy these toxic assets, so that with your other investments, one little slice of it ought to go toward really troubled assets?

Mr. KASHKARI. I think that is a reasonable position that portfolio managers are going to be looking at and analyzing as they make their decisions.

Mr. TIERNEY. I would think that you might get some of the hedge funds to do it, but I think people, unless they can see a bigger up side on that, it is going to be a stretch for them to do that.

Just following up on another question you were asked earlier about AIG, Mr. Welch had asked about, can we favor those people that AIG is dealing with as co-partners or whatever over certain other group that maybe ought not to be favored as much. You said, if we do that, if we discriminate with one set of people against another, then the remaining people can bring the company into bankruptcy.

Can you explain to us how it is that they are able to do that, and second, what would be the consequences of AIG's bankruptcy?

Mr. KASHKARI. Thank you. If I have a contract with a financial institution and that financial institution just decides not to honor my contract, I have recourse. I can sue them, as a creditor, I don't know the different legal requirements, a group of creditors could come together and say, "OK, you haven't honored your obligation to me. You may have paid off your policy holders, but you haven't honored your commitments to me. I am going to go to the courts to try to get my money," which may end up pushing the company into bankruptcy.

So again, this is something that, as I indicated earlier, nobody wanted to do. But the unfortunate consequence of bailing out an institution is you help everybody in the institution. You really don't get to pick or choose.

Now, if we had allowed AIG to go into bankruptcy, not only would potentially, AIG has 30 million policy holders in the United States; 30 million. Not only could those policy holders be put at risk, but all of the businesses that AIG provides insurance for, all of their business customers around the world, I think they operate in more than 100 countries, could all be exposed to some type of financial risk. There could be various collateral calls from other institutions.

So the judgment was not, we like AIG or we want to help AIG, it was, the system as a whole could be put at risk if this were allowed to go into bankruptcy, especially at a time when the financial markets are still in a state of low confidence.

Mr. TIERNEY. Your feeling is that all 30 million of those people would lose their policies and the businesses would all go under? That this whole thing would be such a tragedy you couldn't risk it? Or did you just have an uncertainty that nobody wants to risk?

Mr. KASHKARI. I think that there is a large uncertainty. And the down side, the risks of the down side are much larger than even the large dollars that we are having to spend to support the institution. I don't want to suggest that everybody's policies would be gone. I think that is an overstatement. But I think that is a lot of risk for everybody, that is a customer or a counter-party or a partner of AIG in any respect.

Mr. TIERNEY. Thank you. I yield back, Mr. Chairman, thank you.

Mr. KUCINICH. I thank the gentleman.

Mr. Souder, you may proceed for 5 minutes.

Mr. SOUDER. I wanted to followup again on some credit questions. I have 58 percent of the RV market in the country in my district. I have the Silverado and Sierra, biggest GM pickup plant. And I need the credit opened up. And I wanted to illustrate a couple of different things. Congressmen Donnelly, DeFazio and I had an amendment to the Car, Truck, Motorcycle that included RVs, on retail floor plan financing. Because part of the problem in retail floor plan financing, and let me deal with the RV, the auto has a similar, is that there were basically three major companies that did it, Textron, GE Capital. They pulled out. You can't sell anything if you can't get it to the dealer. These are fairly large purchases, particularly for motor homes, and nobody would take the market.

So we tried to get a trans-set, it didn't pass the Senate, it was a House advisory. And the similar, one of the problems there is is that in American manufacturing, because of legacy class, because of health and pension and our wage rate, we make bigger vehicles. The smaller stuff tends not to be American-made. So they require bigger and longer term investments.

Let me give you one illustration. In one lot in a major city in the south, they tried to clear their lot of some of the RVs and motor homes. They sold eight, which was not a good sale day. On those eight, two were in the $350,000 to $500,000 range, four were in the $100,000 to $250,000 range, and two were used towables under

$25,000. All had credit scores, the buyers, of over 700. Only one was actually financed, and it was a $15,000 used towable.

The reason is that nobody wants to take a 15-year, $500,000 mortgage right now, partly going back to the mark to market question, which I need to point out, assumes that you are going to liquidate, the premise underneath it. So the combination of the retail floor financing and the lack for bigger purchases is hammering the car, auto, truck, RV markets. Unless we can figure out how to get some liquidity into that system, Fleetwood declared bankruptcy this morning. They are going all over the place, it is spilling into manufactured housing. And we tried to address a little of the housing, with housing credits.

But this is a huge double problem, compounded by, and one other thing I wanted to raise to you as you look at how to handle this is that there are buybacks, which the auto companies are starting to get into, but the RV industry, that aren't on the books. They have never had a problem before, because when one dealer can't sell it, they move it to another dealer. But if they can't get retail floor plan, all of a sudden this stuff is coming back. Out they go, thousands of people being laid off when in fact, there appears to be some market.

How do we open that credit market up if they don't know in the lending institutions what their assets are? That is why we keep bringing up a variation of mark to market.

Mr. KASHKARI. Congressman, thank you. This is a huge issue. It is a huge issue that we have teams of people working on. This goes back to the new facility under the consumer and business lending initiative, it is called the TALF program that the Federal Reserve has set up. It is going to start funding in a couple of weeks, it is ready now, it is finally launched. It is going to specifically bring down costs of borrowing for auto loans, for credit cards, for student loans, for small business loans.

Right now as a starting point, it is a $200 billion facility. We have a plan to increase it to a trillion dollar facility and to add other asset classes. So we are looking at all different sorts of asset classes to see what else we can put in there to get liquidity to the markets so that people can buy motor homes and RVs and cars and trucks, etc., until we get through this crisis.

So I assure you, Congressman, we are focused on this too. We get the same calls that you get. Not as many as you get, because it is your district. But we get the same calls you get. We know it is a real problem, and we think we are on the right track to bring down these borrowing costs. Because who can afford today to go and buy a car and pay a 14 or 15 percent loan? No one is going to do it. We need to bring these rates down so that our businesses can continue to do business.

Mr. JORDAN. And there needs to be some kind of addressing of this. Size, volume of loan and length of loan question, some of the RV people had talked to me initially about, could they pool with a fee such to help share if some went bad. There has to be some kind of risk-sharing on the longer term and sizable loans, or that market will not free up. Those tend to be our American manufacturers, because we are skewed to the higher value ends. And those big areas, construction and auto truck, I believe, are close to 50 percent of much of our American economy. Retail sales, if you take a manufacturing job, or value-added, which could be software or whatever, is going to circulate at a different rate in a productivity multiplier effect than a service job or a labor-intensive job. And that sector is overwhelmingly tied to construction and auto. And it tends to go boom-bust.

The way the financial markets have collapsed so deeply, it is not clear how we get it restarted, especially if the debt that the Government is taking on starts to crowd out private borrowing and private equity, and mark to market is chewing them up, which was a change, it is not, when you say it is a problem changing back, it was a change to it that partly triggered this, that it is not clear how we reopen the credit market. Because capital is going to be so tight.

Mr. KASHKARI. Congressman, we think the new facility that the Fed has set up is going to help restart not just the market and get rates down, but bring private capital back. Because the way it is designed, it is designed that the private sector puts in capital, the Government lends to it, gets the markets going again. And then our hope is, as the credit markets heal themselves that the private sector will be able to go back and then the Government can step away. So we are focused on this.

The other thing I would add, don't forget the administration has an auto task force, a whole team of people focused just on the autos, to try to get them to a place of long-term viability. And so there is a team working there, Treasury, it is an inter-agency program, looking at autos, looking at auto suppliers, looking at some of their financing constraints as well. So we are coming at it from both directions.

Mr. KUCINICH. I thank the gentleman.

The Chair recognizes Mr. Cummings.

Mr. CUMMINGS. Mr. Kashkari, there are a lot of banks that are returning their money, is that right, they want to return the money?

Mr. KASHKARI. Yes.

Mr. CUMMINGS. And they apparently want to return this TARP money because of restrictions and the things that you talked about a little bit earlier that the Obama administration is demanding, and the public is demanding. How do you feel about that? I am just curious, just in a few words, because I have some other things I want to ask you.

Mr. KASHKARI. I am concerned, because in many cases the banks that want to return the money, well, we have 200 banks that we have approved that have said, "no, thank you." And in most cases, the ones who are saying, "no, thank you," or who expressed an interest to return are the strongest, healthiest of our institutions. Those are the very ones we want to take more capital, because they are in the best position to extend credit.

So I understand, well, in any case——

Mr. CUMMINGS. Well, that leads me to something else, then. So they are the stronger banks, they want to give the money back, because they don't want to abide by the Obama rules, President Obama's rules. And it seems like then they should be in a better position, particularly if they had the money, to make the loans. So it sounds like they are more, they might be more interested in continuing to operate as usual, as opposed to seeing our economy come out of this great slump that we are in. I am just curious.

Mr. KASHKARI. It is a tough problem to answer with precision, because as I indicated earlier, 60 percent of our credit is from banks, 40 percent is non-banks. I know the 40 percent is not working right now. We are trying to get that going. If you look at the lending survey that we did do, which covers the majority of the banks in the country in terms of dollars, lending has held up remarkably well.

A lot of banks, especially the smaller banks, will say they are just scared, because they are hearing so much noise out of Washington, they are saying, "do I really need the headache of taking this additional money? I know if I took additional money, I could put it to work." But there is so much coming out of Washington right now, they are calling us and saying, "you know what? No, thank you. I don't know what is coming, so no, thank you." We are disappointed by that, because we want the strongest banks to take more money, because they can turn around and extend credit.

Mr. CUMMINGS. So you already said in your statement that you didn't feel that public officials like you have any business telling banks how to lend, because they are in a better position to do it, to make those determinations. And I don't know how you can say that with a straight face. After all, a lot of these banks did some poor decisionmaking and got us into this mess.

So I am just wondering, and I know about that latitude that you talked about. But I am wondering, the new program that you are talking about with regard to the auto loans and freeing up the money, how does that work? And how might that have an affect on banks, negatively or positively?

Mr. KASHKARI. This program is a Federal Reserve, we call it a facility, where the Fed says they will lend money to people who buy securities. So new securities, a bunch of auto loans are packaged together, they meet certain standards, an investor wants to buy those securities, they can get a loan from the Federal Reserve to buy those securities. The investor has to put in some of their own money. And then they will have that for up to 3 years.

So it enables private capital to come off the sideline to get money into these markets with the Federal Government providing some of the lending to those investors. So it is complicated. But the market, the investors have said they really want it. The car companies and the student loan companies and the small business companies have all said, this should really help them by bringing down rates for borrowers.

At the end of the day, this program is all about bringing down rates for our consumers.

Mr. CUMMINGS. And how does that affect the banks?

Mr. KASHKARI. Well, the banks, in this case——

Mr. CUMMINGS. What is your hope?

Mr. KASHKARI. The banks in this case, it is not the main priority of this program. This program is about getting lending to consumers. The banks have a role to play, because they are the ones who buy all these auto loans, package them up and then sell them to investors. So the banks have a role, but this is not about the banks extending credit. This is about getting credit going from the non-banking market to the consumers and to the car buyers.

Mr. CUMMINGS. I got you. But I was just wondering if this then establishes some kind of competition. In other words, these are people who are borrowing money from a non-bank?

Mr. KASHKARI. Correct.

Mr. CUMMINGS. So I was just wondering how much competition that gives to the banks and whether that spurs any activity?

Mr. KASHKARI. I think it a good thing.

Mr. KUCINICH. You may respond, and then the gentleman's time is expired, but please respond.

Mr. CUMMINGS. Thank you, Mr. Chairman.

Mr. KASHKARI. Thank you, Chairman. I think the more diverse sources we have of credit in our economy, the better we are going to be. So we need to get the non-banking market going. We need the banks to do more. But we really need to get the non-banking market going. That is where the big hole is right now. We need all of it.

Mr. KUCINICH. Thank you.

We are going to go to round three. Mr. Kashkari, picking up where we left off, you said that Treasury's internal controls need apply only to Treasury and not to the banks that have sold equity to Treasury.

Mr. KASHKARI. Yes, Congressman. I am referring to the internal control provision in the EESA.

Mr. KUCINICH. I understand, but I would gently remind you that view is somewhat extreme, that is at odds with legal analysis of our duties to monitor the use of TARP funds by the banks that got them. CRS has spoken to this directly. And it is not alone. The GAO is also of the opinion that your legal duty is to monitor the use of TARP funds by the banks which receive them. It seems to me that you may be alone in the view that Congress didn't mean what it said in Section 116 of the EESA. We told you in there that we wanted Treasury to safeguard the TARP moneys from waste and abuse. That is the meaning of the incorporation of the Federal Managers Financial Integrity Act, Title 31, Section 3512(c).

I think that you are taking a position that is not tenable and one that is pointedly lacking in responsibility for the office that you hold. And that is that you just say it is not your job. Now, granted, you have come in under extraordinary circumstances. But we have a new administration coming in. And I am hopeful they are going to take a fresh look at this law. If you want to comment on what I said, feel free to, and then I have some followup.

Mr. KASHKARI. Thank you, Mr. Chairman.

We take protecting taxpayers' money extraordinarily seriously. Extraordinarily seriously. What I was referring to was the section you are referring to, the internal control provision of the EESA. I personally spoke with the GAO and the Special Inspector General about their interpretation of this. And they agreed with me, you will hear from them on the third panel, they agreed with our assessment that this internal control provision is talking about Treasury's own internal controls, within Treasury, and we are working, we have made a lot of progress on our own internal controls.

Mr. KUCINICH. You are saying that you publicly acknowledge that you have a responsibility for the internal controls of the TARP funds once they go to the banks.

Mr. KASHKARI. No, I am saying we have a responsibility for internal controls within the Treasury organization and we have responsibilities to the taxpayers to make sure the money is used appropriately and in the best policy interests of the control. The internal control provision is very narrowly focused. That doesn't mean we don't have to protect the taxpayers. We have other mechanisms for protecting the taxpayers.

Mr. KUCINICH. Are you saying Congress was not specific enough in its charge to you?

Mr. KASHKARI. I have been advised, Mr. Chairman, forgive me, I am not an attorney, I have been advised by our lawyers at Treasury that Section 3512(c) of Title 31, United States Code, is specifically about internal procedures within Federal Government agencies. And that is what we are referring to. That is what the law refers to right here on line 16.

Mr. KUCINICH. We are going to hear more about this point in the third panel. We don't think it is arcane, we think it relates directly to your responsibilities. When we began this day talking about how banks who got TARP funds are moving the money out of the country, it is my opinion, and apparently the opinion of some members of this panel, that there should be accountability from the Treasury Department as to U.S. taxpayers' funds being spent by TARP recipients in other countries, especially when we have such dire straits here.

Now, in the time that I have remaining on this particular round, I want to talk about the impact of the TARP funds. Congress has heard repeatedly the representations of large TARP recipients about the billions of dollars of new credit they are creating. They are eager to tell the side of the story you repeated today. You stated on page 10 of your testimony that all loan amounts appear to be going up.

But the lending is much reduced compared to the period before the crisis. Isn't that so?

Mr. KASHKARI. Yes, as I indicated.

Mr. KUCINICH. But then what about the other side of the picture? Are you collecting data from the banks on the contraction of existing credit that is occurring? Now, this goes to some of the questions Mr. Souder has raised. Where have you shown the decline in credit due to foreclosures and the suspension of credit lines that our constituents are experiencing? How do those numbers compare to past periods? And Mr. Kashkari, if the new credit doesn't more than offset the extinction of existing credit, does the economy experience a net positive effect from credit activities, or a net negative effect? If you can respond to that, and my time is expired.

Mr. KASHKARI. Thank you, Mr. Chairman. There is no question that in recessions, credit levels fall. Because both lenders and borrowers are nervous about taking on new obligations and extending credit. There is no question about that. When we look at the lending levels that we are seeing, we know that they are higher than they would have been absent the TARP funds. We think they have held up remarkably well in light of the severe economic contraction we had in Q4. But again, as I look at the broader credit problem, the banking sector is part of it. A much bigger problem at this point is the securitization market, the non-banking sector.

So banking is not as high as we would like it to be, securitization is zero. And it was 40 percent before this started. So we need to get that going, too.

Mr. KUCINICH. My time is expired, I just want to comment that at no time in the history of this country have we ever had a period where we were in a recession and there is massive amounts of Federal dollars, by the time this thing is through, maybe trillions of Federal dollars going in to prop up the economy, and where is the money going in terms of a net new credit to report to us?

Mr. Souder.

Mr. SOUDER. I want to continue along this a little bit. Clearly, because of Enron, we had to look at what I guess is called fair value measurements, which is mark to market. The challenge here that we have, because that went in in November 2007.

So to talk about a change, it appears to be one of the changes that helped trigger the credit crisis, with all due respect. Because it exposed those who were not fair marketed value and then caused a panic beyond that, because it was a broad swipe at everybody's valuation, when in fact, in areas of the country like mine, we had been having 2, 3 percent growth, not 100 percent growth in housing. The national went up 200 percent while the economy was growing at about 3. It doesn't take a rocket scientist, it takes Business 101 to see you have a mismatch.

But that mismatch was not universal. So we did a universal solution that in particular, and I am fascinated, because the more you read, the more you study about this, there has been a major changing in finances in the country in securitization and moving outside the Fed regulated and into this 40 percent other sector that you are talking about. Yet the banks are tightly regulated and we slam fair market measurements on them.

Now, if we fund the securitization group, getting to Mr. Cummings' question, are they going to have to play by the same rules as banks, and then if they have to do fair market measurements, we are right back to where we were. There has to be some kind of addressing an underlying concern.

But let me first ask, in this trying to get the 40 percent securitization, that was where the biggest problem was, if they are going to compete on loans, are they going to come in under similar banking rules? Some of them are converting to banks.

Mr. KASHKARI. Correct.

Mr. SOUDER. Is this going to be a mandatory thing? Is there going to be a supervisory? This is where transparency starts to become a huge deal. Because if the problem sector, really for the most part, it was not a bank, it was a division of a bank to compete with this 40 percent.

Mr. KASHKARI. The 40 percent part is made up of a lot of different types of institutions. So you have big banks, like CIT, nonbanks, excuse me, like CIT or GE Capital, etc. You have pension plans, insurance companies who need to buy assets to match their liabilities, you have various kinds of funds all around the world. So it is hard to define them as one category, because there are all sorts of dogs and cats investing in the non-bank market and buying these securities.

Most of them, to my understanding, are, in many cases, they are marking those securities to market. And so they do see the asset prices go up and down. So I think your points have a lot of merit.

I would say the one other point, in terms of accounting and transparency, that has been at the root cause of this problem is it has been almost impossible to peer into these mortgage-backed securities to figure out which loans are in there, who wrote the loans, how are they doing. And because investors had a hard time peering into the mortgage-backed securities, let alone the CDOs, when they were bundled together, they didn't know which mortgages were good, which securities were bad. So they pulled back from all of them. And that is an example where, like in your district, where their home prices didn't take off, they are suffering.

Mr. SOUDER. It doesn't take too much time, we have had multiple hearings here, reading about Countrywide and so on, that basically, if you were paying 6 percent, there was less risk than if you were paying 14. When you start to see the high rates of return beyond the normal rates of return, I think it is Eric Paulson who made the $3.7 billion.

Mr. KASHKARI. John Paulson.

Mr. SOUDER. When he was here and I asked him a similar question, he said, "how do you think I made my money?" He could see this, anybody who was studying it could figure out which ones were inflated and which ones weren't. It wasn't like that confused. It was sloppiness, people wanted the high returns. You had to either be in pharmaceutical speculation, energy speculation or housing speculation if you are getting higher than 6 or 8 percent. And the pension funds may have done that.

I am not very tolerant of the people who say, "oh, we couldn't figure out was going on, we need more transparency." But they weren't paying close enough attention.

In this non-bank financial sector, in trying to monitor how they are doing, I have Lincoln Financial in my district, the center of annuities in the country. They bought a bank because they are now applying for TARP funds. And we saw a number of others convert to banks. But you suggested that the Federal Reserve is setting up a separate fund that won't require them to be like a bank.

Mr. KASHKARI. Correct, so that the new program that the Fed has set up, that Treasury is supporting to get lending going, many, many financial participants can use it.

Mr. SOUDER. And who is going to regulate them, and what guidelines are they going to have, and are there going to be similar regulations? Because while we are all in Congress obsessed about the banking sector, you are telling us that there is a 40 percent and the Fed is floating out $2 trillion, while we are dealing with $700 billion in your funding.

Mr. KASHKARI. The Fed and Treasury designed very important procedures and restrictions to make sure we know the quality of the collateral that we are going to be getting. Because when the Fed loans in this new program, they are going to get the securities as collateral. So it is only going to be new loans, new securitizations in this current program. And very strict guidelines in terms of what is eligible to make sure that we protect the taxpayers. There is not with it, per se, going to be new regulations that go for the people who are lending money into that system, but we are making sure the taxpayers are protected.

Mr. SOUDER. Thank you.

Mr. KUCINICH. Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman.

You have painted for us a very stark picture in terms of what we have in front of us, and that is, we have the uncertainty of the markets, and yet we have the necessity to act quickly. We are going to be confronted with the choice as to how to put an end to this uncertainty by putting up however many more billions of dollars to stave off continued decline in the markets and continued recession that is going to lead to further dislocation of our workers in this country. And the President spoke very clearly of the need to act now or act later.

The question I have for you is, given the fungibility that you say these financial institutions are involved with respect to the world markets, how can we be certain that the dollars that are going to be going into this public-private fund are dollars that are going to absolutely mean the end of the uncertainty with respect to those toxic assets, when we are part of an international world economy now? And we want to make sure that whatever final package is the final package and that there isn't going to be another shoe to drop, so to speak.

That is what my constituents want to know. We want closure just as much as the President does. We want to be able to move on. We don't want this recession to drag on any further. And we also don't want to overpay for these toxic assets any more than they have to be. But we understand that if we let this recession drag on, it is going to cost us a great deal. I would ask you to comment on this, because I think this is a fundamental point that most economists have been talking about, what is it that we have to put the staunch to, wrap the tourniquet around? How do we wrap a tourniquet around something that is involved in a global economy in terms of assets?

Mr. KASHKARI. Thank you, Congressman. I will answer your question in two parts. The first part, the global nature. We cannot act alone. So we have our programs. We are consulting closely with our counter-parties in other countries who are taking similar measures that are tailor-made for their system. The world leading economies all need to act. I think that they are acting with different speeds, but they are acting, and we are going to continue to have an active dialog to encourage all of us to move in a coordinated fashion, No. 1.

No. 2, Secretary Geithner's financial stability plan has laid out a broad framework to do this. There is not one piece of it that by itself will solve everything. We have the capital program that he has laid out to make sure our banks have enough capital, even in a worse economic environment, that they can continue to lend. That is very important. That is underway, the details are out there.

No. 2 is the lending program that we talked about, scaling up from $200 billion to $1 trillion, to make sure our consumers and our small businesses can get the credit that they need right now. That is underway. It is going to start funding in a couple of weeks. And then third is the public-private partnership that we just talked about to go after the bad assets. Not one of these tools by itself will be the final solution. We believe these three tools, combined with the other tools that the Fed and other regulators have done, will get at this.

Fundamentally, we have a credit crisis that has hurt our economy. And now the economy is looping back. It is a vicious cycle, and it is hurting the financial system again. So we have to go at it from the financial perspective, and then the stimulus bill that the Congress passed and the President signed is also going to be very important to getting the economy going. We need to go at it from both directions.

Mr. KENNEDY. I would say that obviously, as we have heard this morning, transparency. We need to be able to show the American public just how this links to them. And I understand the college loans, I understand the making payroll in businesses, I understand people's vested pensions and annuities. But we need to make that even clearer to people, because right now, that case has not been fully made. And until it is fully made, we are not going to be able to come back to the American people and say to them, "this is in your interest." Because right now, they don't see it as in their interest.

And there is only one person who can really make that argument, that is the President of the United States. You can't have 535 Members of Congress out there trying to explain to the American people how getting this financial system back on track by infusing it with more dollars is going to do this for them, when all they're seeing is that, you know, kind of trickle down. They have to understand that this is part of the lifeblood of the economy, and the lifeblood of our financial system is one and the same.

Right now, that is not becoming very transparent, as you have seen from this hearing. Until that becomes transparent, it is going to be very hard for the people's representatives, us, to be able to give the President what he needs in order to infuse any more assets into this kind of recovery. So we certainly want to get out of this situation, but we need really clear leadership and explanation from the top, in the only way the President can deliver it.

Mr. KASHKARI. Thank you.

Mr. KUCINICH. The gentleman's time is expired.

Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. Kashkari, you have been as good as your word, it has been quite an afternoon, and I appreciate your time. One question I have for you. Earlier I asked about, if you will, pushback or influence or advocacy by Members of Congress. But now let's switch to the other side. Tell me about the pushback you inherently get or you are getting or resistance you are getting from the mortgage industry, from the banking industry, on giving you the facts and figures you might need in order to better analyze the underlying assets that we so often call toxic.

Mr. KASHKARI. So far, Congressman, every time we have asked for data from any recipient banks, they have all complied with us, because they know they need to. It is in the country's interest and their interest to comply. And that is really focused on lending levels, which many people ask us about. As I said, we are going out to all the institutions to collect the data, not just the top 20. We have not gone out and done a survey of so-called toxic assets per se. I think if we asked them for the data, they would provide it to us.

Again, we work closely with the regulators who have a lot of this data already. I know that the OCC, the OTS and the FDIC, for example, collect loan level data from all of their banks and roll that out to look at what is happening in mortgages around the country. So we get the data from different places, partly from the banks, partly from the regulators. As yet, we haven't had any pushback to the data that we have asked for.

Mr. ISSA. Earlier today, there was some talk about loans going to Dubai and China and other places. Isn't it true that the United States is a net debtor around the world?

Mr. KASHKARI. Yes.

Mr. ISSA. So if we wanted back all the money that, if you will, we have loaned and invested in other places, and the rest of the world did the same in return, wouldn't we suddenly have trillions of dollars of shortfall far beyond what we are putting in with TARP?

Mr. KASHKARI. I believe so, yes.

Mr. ISSA. I had that impression, from a little CNBC and Fox Business News, it seemed it was that way.

Congressman Kennedy has left, but he talked about certainty, one-time, etc. From your standpoint, having lived with multiple tranches of different solutions, TARP being one of them, do you think we are well-served by having one more, this is it, it encompasses everything, we will never come back, or should we look at smaller steps with more congressional oversight? In other words, do what you think is right, come back to us and tell us what you have done, rather than the $700 billion which, by your own admission, really never got used in the original way and will be probably gone before we begin buying those assets in any great numbers.

So I don't want to say that he was wrong, but wouldn't you say that the opposite is true, that we should ask for careful and deliberate actions, even if they are not complete, agree to those, authorize you and then have you come back when you learn more?

Mr. KASHKARI. I think that there is merit in that. But I am cautions, because sometimes we have to take action that is so unpleasant, but it is so urgent, we just have to move.

Mr. ISSA. Sure. And I am not suggesting little teeny sizes. But the $700 billion which was $350, $350, represented by your own statement, at least 489 different transactions. So going forward, you don't need a trillion all at once next time, that in fact, although we may authorize and anticipate a trillion, the periodic reporting that we could expect in a TARP II, the updates and the increments could in fact be more manageable, because we are not dealing with an overnight crisis in which you don't know how much you need to put out, but you might need to put it all out in 1 day, so to speak?

Mr. KASHKARI. I think it could be, and I think that this is consistent with the way Secretary Geithner is thinking about it. Because of his new programs, we can get going with the available capital we have. We can assess that they are having the desired effect and then come back and ask, if and when he decides to ask for more, do so then.

Mr. ISSA. Now, I have kind of a long-arm question for you, and it is a big one. It is a little outside yours, so if you feel uncomfortable completely answering it today, I hope you would come back with your thoughts. Up until now, Members of Congress have been saying, we have to put, and the administration, too, saying we have to put money in in order to free up mortgages. And I am not dissuading anyone today from that view.

But another scenario, if we hadn't put a penny into the back end, the banks, and instead, we put a hypothetically sufficient amount, whatever it was, into the refinancing of new mortgages, so that if a bank said, "look, I am calling the loan, here is the foreclosure," because you know, they are not doing foreclosures right now in many cases, people are staying in their homes months and months and months, waiting to see what happens.

If they had done all the foreclosures and people who could make a monthly payment on a future mortgage had available mortgages, if we facilitated the front end of the new mortgage with trillions of dollars of capability, wouldn't we in some ways have mark to market, refinanced, found the good people, renegotiated in much less time than now we are putting money in, the chairman and others have made the point that it doesn't necessarily seem to be trickling down. We are pushing it on this end, asking it to end up here, rather than saying, do what you think is right and we will take care of people who are creditworthy, whether they are existing homeowners or future for homeowners on those foreclosed properties.

Mr. KUCINICH. The gentleman's time is expired, but I would ask if you would answer his question.

Mr. KASHKARI. Thank you.

Congressman, I think we are doing both. So I think the actions taken to stabilize Fannie and Freddie, to make sure that mortgages were still available in FHA is very important. I don't think we could just say, forget the banks, we are just going to startup all new lending programs, because we would have no way of administering that. The banks, for all our frustrations, they have thousands of branch offices in all of our communities. And they are the tentacles out into getting credit out there.

So I think we need to do both, providing the Government support for the lending like the new program that I talked about, as well as helping the banks get through this time.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. KUCINICH. I thank the gentleman.

We are going to go to a fourth round with Mr. Kashkari. One of the things that I am concerned about, the Washington Post reports on a public-private partnership, they say last week, the Government is seeking to resuscitate the Nation's crippled financial system by forging an alliance with the very outfits that most benefited from the bonanza preceding the collapse of the credit markets, hedge funds and private equity firms. The article goes on to say that they would be invited to buy up recently issued highly rated securities. These securities finance consumer lending, such as credit cards and student and auto loans. The program would involve the Government lending nearly $1 trillion.

Is this the public-private partnership you are talking about?

Mr. KASHKARI. Yes.

Mr. KUCINICH. OK. So in this graph that the, some art work that the Post puts out, they say that with Government assistance to stimulate purchases of the securities investors borrow from the Fed, for $10 million worth an investor might put up $1 million and borrow $9 million. Then it says, the second part, the public part, the Government offers to cover losses if consumers default and the asset-backed security declines in value. Then it goes on to say that if the asset-backed security's value falls, an investor may lose only his original $1 million and the Treasury and the Fed would absorb additional losses, which means that the exposure under this, according to this report, the exposure of the Treasury and the Fed could be as much as 90 percent.

Now, here is my question. The Obama budget says that he has put a marker, placeholder of $250 billion anticipating that would be the losses if the Government goes forward with this $750 billion TARP II. We see that there is a discussion among more money going to the FDIC. We know that the amount of losses, according to the President's new budget, is 33 percent, estimate. We know that the amount of loss that you had before is around 30 percent, that is the number that is being thrown about.

Is it possible that if we go forward with a total of what could be about $3 trillion in TARP funds, rough figure, if the estimated loss would be 30 to 33 percent, we are looking at taxpayers being stuck with $900 billion to $1 trillion. Now, think about this. Every, you know, if you use $3 trillion and somebody else can do the math here, but you have 300 million Americans, is that like $10,000 per capita? Is that like $30,000 or more a family that we are into this already?

And then you get to this, check this out. Today's headline, Washington Post, Rays of Hope for Big Banks Spur Rally on Wall Street. Citigroup apparently is doing some recovery. And the article says, and this goes to what Mr. Kennedy raised and what I want to laser focus on right now. Investors were being dealt more signs yesterday that corporations were shedding more jobs. Seen by many as a way for companies to steady themselves during a deepening recession, United Technologies, a large industrial company, said it expects to lay off 11,600 employees. AOL said it is executing a second major round of layoffs, shedding 10 percent of its work force.

I am from Cleveland. Our economy has been falling apart. We have foreclosures everywhere. The sub-prime loan bandits have capitalized in my city and crushed neighborhoods in my city. Our steel mills are in trouble, we have auto plants that are in trouble. And the banks are doing, are starting to come back, according to this. But we don't see any evidence that we are going to come back.

What can you tell the people in neighborhoods across this country, that they should go ahead and put trillions of dollars of their money at risk when we are reading these reports that they could, it looks like huge losses are in the offing under the best of circumstances? Why aren't we taking a controlling interest in mortgage-backed securities and the Government directing loan modifications to lower principal, lower interest instead of leaving it up to people who are still freezing credit here in the States, while they are shipping jobs and money overseas?

This to me is a textbook definition of political insanity. And I would just like, do you ever think about these things, about the inherent contradictions that are in this, about how Wall Street might have one view of the world, but the rest of America is just beset with all these problems as a result of Wall Street?

Mr. KASHKARI. Thank you, Mr. Chairman. I think about these things all the time. And you asked a very important but complex question, so please, permit me to give a thorough answer to your question.

First, let's talk about the foreclosure piece. The administration has now come out with what I think is a very good loan modification program, a $75 billion program to encourage servicers and lenders to make long-term sustainable loan modifications. That program is getting up and running right now. We have teams of people, reporting to me, that are working on implementing that right now. We feel very good about that. I think that is going to make an important difference in our communities, No. 1.

No. 2, in terms of the loss estimates, I would like to offer my perspective on that. I think we have to segment our different programs, because different programs have different classes of risk for the taxpayers. So for example, the lending initiative that I have spent a lot of time talking about today, which Secretary Geithner wants to take to $1 trillion, is secured by very high quality collateral. We expect, where investors are in the first loss, actually there are multiple losses for investors, before Treasury is exposed, the taxpayer is exposed.

My expectation is the losses on that program or the risks on that program are much, much lower than the risks on some of the other things that we have had to do. So I am just telling you candidly, I don't think we can take the loss estimate for one program and scale it up and apply it. I don't think it is going to be that aggressive.

Nonetheless, there are real risks. We are all taxpayers. And none of us like putting our dollars at risk to have to do what we are having to do. But the economic consequences for all of us are much, much greater if we don't do these distasteful things that we are having to do, putting taxpayer dollars at risk, intervening in these markets. It is in our own interests. We need to get through this crisis as quickly as possible so the economy can grow again, so we can create jobs. And then we need to reform our regulatory system so we don't get back here again.

Mr. KUCINICH. My time is expired. I would like to go to Mr. Souder.

Mr. SOUDER. I thank you for your time today, and I wanted to leave you with a couple of thoughts. One encouraging thing is, all these hearings, which I know have to be frustrating to you, it is amazing how much about finance Americans are going to be learning in this process. It is like we forgot what risk was.

My house, I bought it from a local small town bank, Grable Bank. The next thing I knew, I was sending it to Brussels, to Amro, Ambro or whatever that company is. Now it goes to a company owned by the Chinese. If we are not careful here, we will slam down our own mortgages on ourselves. This money is all over the place and split and securitized and much more complicated than most of us even think about when we get our home mortgage, which may not even have the name of the company we are paying it to.

The transparency question, one is, I know that some banks are nervous about getting in because they are worried that if they get this fund, they are going to get a call from you or somebody that says, "we noticed you put satellite radio in your car, why did you do that?" They are very concerned about the big hand of Government here, because they are watching the micromanaging, what is a fair salary how do you do this?

On the other hand, from the taxpayer perspective, you can hear today a lot of the frustration with transparency. I think while you need to have your private ability, and I am very worried we are about in the process of potentially destroying private sector capital because of the amount of money that the Government is going to be taking, how we are going to micromanage this, the different loan categories. It is a frightening thing. There might be public-private partnerships, but it is a scary time if you are more of a private sector person. Partly brought on by the private sector.

But in the transparency question, I understand the point here. But even in mark to market, there is a deep suspicion that, because the change only occurred in 2007, that the reason we can't come back is that hedge fund, people who are buying short and long and all this kind of stuff, have a chokehold on the system. And it is not transparent. And what would seem logical to a traditional banking system, we can't see what is happening. That leads to a mistrust, because it seems to a hardworking person who gets up in the morning and goes to work and starts a small business and tries to get an expansion loan and the bank calls down and says, "we are not going to keep your revolving loan credit there, we are having struggles," partly, is somebody speculating against me and I can't see it?

So one of the advantages of the education process that we are going through is that it has also generated a fear that some people are manipulating us. I think that the demand of transparency is going to overwhelm the desire to have flexibility in your decisions. When you touch the Government, you get the full scale of the Government. This is very worrisome to many of us. At the same time, I don't know how to do it, because even I don't have a lot of trust right now.

Mr. KASHKARI. Thank you.

Mr. KUCINICH. I thank the gentleman.

Mr. Cummings.

Mr. CUMMINGS. I was just sitting here thinking about what somebody watching this, whether the American people would, how would they feel about all of this, this hearing. The newspapers are running a story, by the way, just in case your staff hasn't told you, Kashkari says that we should stay out of the banks' business of lending. That is the story that has come out of this. That is what is all over the place.

And then you have Reuters, just came out with a story an hour ago, I just want to quote from the story, it says, "Six months after the United States Government stepped in and saved an insurance giant overwhelmed by derivative losses, AIG continues to bleed red ink. Its stocks and bondholders have been crushed, but one group has suffered almost no damage: banks that bought credit protection from AIG financial products. Regulatory filings show that since the Federal Reserve announced its rescue of AIG on September 15th, about $50 billion of Government money has passed through the company to the banks. 'Treasury is providing a massive wealth transfer from taxpayers to Goldman Sachs and other parties, and it is something that absolutely should be investigated,' said Eric Hovde, chief executive of Hovde Capital Advisors, where he manages financial services focused on hedge funds."

The reason why I mention that, it seems like the banks are coming out of this pretty good. They are getting money, whether they want it or not, they get it. If they don't like the rules, you know what they say? "Screw you, we will give it back." Then we have you saying we shouldn't meddle in their business, taxpayers are saying, "we just want a loan."

Then you tell us, and I am sure this is a good thing, this entity that you are creating to help people get loans, auto loans and all of that. But the problem is this. It seems that we are helping the banks tremendously, but they basically, and they could be more of a part of a solution to the problem. But I kind of think maybe, whether it is intentional or unintentional, that we just said to them, you know, guys, we are going to keep on giving you the money and you do whatever you want." Because top guy says, Congress, we shouldn't be trying to determine who they lend to. They are the decisionmakers, as President Bush said, the deciders.

And the deciders have gotten us into the jam that we are in today. I guess what I am trying to say is that I want to go back to that analogy that I gave. I believe that you all are doing everything in your power. I believe you lose sleep, I think you are giving it everything. And I think you are very, very competent. I think the whole team is. But I feel like you are going up a hill.

But it is not becoming any easier, when the banks could help us up this hill by having some gravel down there so we could get a grip on something, we get ice. Sometimes I think that the folks on Wall Street operate in a whole different world. I don't know if they even have a clue, a clue about the people who are looking at this right now. I really don't. When they say, $1 million, it is like $25 to the folks who are losing their homes.

So you have to say something to me, you have to do something for me to tell these banks to help out. I don't want us to leave this hearing with them saying, "thanks, now we really have our way." And it is very, very painful.

Mr. KUCINICH. You may respond to Mr. Cummings, and then we will conclude this round.

Mr. KASHKARI. Thank you, Congressman.

I share your frustration. Every time I open the paper and I read another story of some shindig somewhere, I just wonder, what are these guys thinking. They are not helping themselves, they are not helping me. They are not helping Washington or our leaders who are trying to get us through this. They are not helping the American people have confidence.

So I think there have been many cases of enormous lapses of judgment in some of the actions that the banks have taken. And I also, sir, I don't want to leave you with the wrong impression. My comments about, we don't want to micromanage these institutions, I am talking about the hundreds, maybe thousands of institutions we are investing in, community banks all around our country, who did not create this problem. But we want to encourage them to participate, because they are in the best position to step up and increase credit. So that is where my comments were directed there.

For the institutions, the one-offs that made terrible decisions and they need extraordinary assistance from the Federal Government to prevent them from being destabilized, then we absolutely have obligations and responsibilities to make sure that they run their businesses in a prudent and sound manner, and that they can pay back the taxpayers. Again, my two highest priorities are financial stability and paying back the taxpayers.

Mr. CUMMINGS. Thank you.

Mr. KUCINICH. I thank the gentleman.

Mr. Kashkari, you have been here for four rounds of questioning. We are going to conclude the question of you and thank you for giving this committee your time here, and giving this country your service. We know this hasn't been easy for you as a witness. But I think that you have been a good witness in representing the point of view that Treasury has been conducting as policy. The difference that we have, this whole hearing has been about challenging the policies, about what we believe is Treasury's failure to monitor the ways in which financial institutions are using taxpayers' funds.

And I think that as I conclude, and send you with the appreciation of this committee, one of the things I have seen here, and Mr. Souder brings it up, there is a fundamental flaw in Government intervention in the markets. This is why we are here. The Government is intervening in markets and it is picking winners and losers.

So when the issue came up about micromanaging, you have to remember that Congress has a constitutional obligation for oversight. We are a co-equal branch of Government. We cannot defer to Treasury when there are trillions of tax dollars at stake. I know you understand that, which is the whole point of this hearing.

The reason why we are here in the first place is that the banks did not perform their fiduciary responsibilities. So when we want to defer to the banks again, you could understand why we would have some problems with just letting that go unchallenged, and in not insisting that Treasury, as we move forward, has to look at their responsibilities for monitoring the ways in which financial institutions are using these taxpayer funds under the Troubled Asset Relief Program.

So with that, I just want to say that you have appeared before this subcommittee on two occasions. You have conducted yourself in a way that I think reflects honor and service to the country, and I want to thank you for your presence here. And all the members of the committee who I have talked to about your presence here today, while we may take issue with your presentation, we think that you have certainly been an excellent witness for the Department of Treasury.

So thank you, Mr. Kashkari.

We are going to proceed, the first panel with Mr. Kashkari is now discharged. We are going to take a 5-minute recess, and it is only 5 minutes, as we get the second panel together. We are going to combine the second panel and the third panel together, without objection. But we are going to take a 5-minute recess. We will be back in 5 minutes.

[Recess.]

Mr. KUCINICH. The committee will come to order.

We are fortunate to have an outstanding group of witnesses on our second panel. If you just joined us, we are combining the second and the third panels. This is the Domestic Policy Subcommittee of Oversight and Government Reform. The topic for today is "Peeling Back the TARP: Exposing Treasury's Failure to Monitor the Ways Financial Institutions are Using Taxpayer Funds Provided Under the Troubled Assets Relief Program."

Our first panel has been with Mr. Neel Kashkari. And we are going to go to the second panel. And moving right into this, I want to introduce the members of the panel.

They include Professor Anthony B. Sanders, professor of finance and real estate at the W.P. Carey School of Business of Arizona State University, where he holds the Bob Herberger Arizona Heritage Chair. He has previously taught at the University of Chicago, the Graduate School of Business, University of Texas at Austin Macomb School of Business, and the Ohio State University Fisher College of Business. In addition, he served as director and head of asset-backed and mortgage-backed securities research at Deutschebank in New York City.

Mr. Stephen Horne is vice president of Master Data Management and Integration Services for Dow Jones Business and Relationship Intelligence. Mr. Horne has over 30 years experience in master data management, consumer relationship management, Web data applications and very large data base development. Mr. Horne specializes in large scale data integration and data utilization from the Dow Jones master data base and performs business development and strategy for these areas. Previously, Mr. Horne was a consultant for Generate, a startup relationship mapping and Web-based data collection form that was acquired by Dow Jones to become the Dow Jones BRI division.

Mr. Mark Bolgiano is president and CEO of XBRL US, Inc., the leading advocate for the use of extensive business reporting language, which promises to increase the transparency of reporting and disclosure of corporate financial information. Mr. Bolgiano joined XBRL US as its first president and CEO in December 2006. Previously, he led the technology and online communications operation of the Council on Foundations as vice president and Chief Financial Officer.

We are also joined by Mr. Neil Barofsky. Mr. Barofsky was confirmed by the Senate as a special inspector general for the TARP on December 8, 2008, and was sworn into office on December 15,

2008. Prior to assuming the position of special inspector general, Mr. Barofsky was a Federal prosecutor in the U.S. Attorney's Office for the Southern District of New York for more than 8 years. In that office, Mr. Barofsky was a senior trial counsel who headed the mortgage fraud group which investigated and prosecuted all aspects of mortgage fraud, from retail mortgage fraud cases to investigations involving potential securities fraud with respect to collateralized debt obligations. Mr. Barofsky received the Attorney General's John Marshall Award for his work on the case that led to the conviction of the former president of Refco, Inc., and that is Tony Grant, and the guilty plea of Philip Bennett, Refco's former chief executive officer.

Mr. Richard Hillman has served 31 years with the U.S. Government Accountability Office, and is currently the Managing Director of the GAO's Financial Markets and Community Investment Team. This team helps the Congress improve the efficiency of regulatory oversight in financial and housing markets, and the management of community development programs. Over the past decade, Mr. Hillman has produced scores of reports and led a wide variety of efforts assessing the economy, efficiency and effectiveness of Federal and State regulation of the financial services sector.

It is the policy of the Committee on Oversight and Government Reform to swear in all witnesses before they testify. I want to thank all of you for being here, and I ask that now you would rise and raise your right hands.

[Witnesses sworn.]

Mr. KUCINICH. Thank you, you may be seated.

Let the record reflect that each of the witnesses has answered in the affirmative.

As with panel one, I ask that each witness give an oral summary of his or her testimony. I would especially ask that you keep this summary under 5 minutes in duration.

I would like you to bear in mind that your complete written statement will be included in the hearing record. And we are going to go from my left to right, we are going to start with professor Sanders. You have 5 minutes, and I think we will cover some of the territory in the Q&A. So you may proceed.

STATEMENTS OF ANTHONY B. SANDERS, PROFESSOR, W.P. CAREY SCHOOL OF BUSINESS, ARIZONA STATE UNIVERSITY; STEPHEN HORNE, VICE PRESIDENT, MASTER DATA MANAGEMENT AND INTEGRATION SERVICES, DOW JONES AND CO.; MARK BOLGIANO, PRESIDENT AND CEO, XBRL US INC.; NEIL BAROFSKY, SPECIAL INSPECTOR GENERAL, TROUBLED ASSET RELIEF PROGRAM; AND RICHARD J. HILLMAN, MANAGING DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF ANTHONY B. SANDERS

Mr. SANDERS. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, thank you for the invitation to testify before you today. I testified before you on November 14, 2008, on the subject of the Troubled Assets Relief Program [TARP]. At that time, we understood that the Treasury had not purchased any loans from the financial institutions using TARP funds. Instead, the TARP funds were deployed to numerous financial institutions.

My testimony today focuses on the lack of transparency surrounding the use of the TARP funds as well as some related Treasury and Federal Reserve programs.

Transparency is of critical importance to the stability of financial markets, as well as the reputation of the United States in the international economy. For example, research has found that the frequency of stock market crashes is higher in companies that are more opaque, or less transparent, to outside investors. A recent paper on asset mortgage securitization side has concluded that in order to attract investors, transparency is essential. The less transparent a market is, the more poorly understood it will be by investors, and the higher will be the yield those investors demand to compensate for the uncertainty.

Thus, whether we are talking about loans that are originated and securitized by banks or how TARP funds are deployed to the banks, transparency is critical to returning trust to our financial system and comforting investors both United States and globally. When we consider that our own Federal Government borrows funds from overseas investors, transparency will be a vital tool in restoring confidence in the tarnished financial system of the United States.

Greater transparency of the TARP can alleviate concern among U.S. taxpayers and the investment community that the funds are being used appropriately and not wasted. Without transparency, we are no longer the shining city on the hill. Rather, we are New York City during the blackout of 1977. For example, there should be more transparent asset valuation so that we understand how Treasury and the Federal Reserve are valuing the banks relative to the private market valuations, that is the stock market. If the Treasury systematically is over-valuing the banks, it is an indication that we are still in danger from toxic assets, particularly mortgages that have not been dealt with. Until asset valuation is more transparent and the market is confident that the banks have written down toxic assets, such as bad mortgage loans and accurately priced these assets, any effort to restore stability and confidence in our financial system will ultimately fail.

One can argue that all assets, including TARP funds, are fungible, meaning that it is very difficult, if not impossible, to trace how TARP funds are spent. For example, if Bank A receives $15 billion in TARP funding, but is so large and complex that a paper trail cannot be followed, that presents serious problems. Despite our accounting and regulatory reporting on these institutions, the TARP funds seemingly sink into an abyss or black hole. Clearly, greater transparency is required so that the TARP funds are spent in a non-wasteful manner.

Currently, financial institutions report that information that can be found in SEC filings, the 10Qs and 10Ks, and Call Reports that are produced quarterly. However, this information is not real time and is highly aggregated. As a consequence, it is difficult to follow the money from these filings. Although banks can report on the use of TARP funds in a timelier fashion with Treasury, even daily, the quality of these reports may be of dubious substance given the size and complexity of the financial institutions that have received TARP funds.

For example, our largest financial institutions have hundreds of divisions and subsidiaries and perform operations in numerous countries. For example, Citigroup has operations in over 100 countries and includes such banks as Banamex. For a regulatory body, Congress, the executive branch or the financial institutions themselves to understand where the TARP funds have gone, there is a need for more aggressive forms of auditing that permit better disclosure.

Traditional auditing of the financial institutions is a time consuming and labor-intensive process. The Office of the special inspector general for the Troubled Asset Relief Program produced an initial report to the U.S. Congress on February 6, 2009 detailing the allocation of TARP funds, which is an admirable first step in providing transparency for the TARP program. But it does not address how the recipients of the TARP funds have actually spent the money.

An approach that can offer real time measures of the expenditure of the TARP funds or any other recipient of Government funds is volumetrics. It is possible to obtain vast amounts of reported information on loans, corporate benefits, golf tournaments, concerts, retreats and aggregate them into a usable form for regulators and other market participants.

Should the taxpayers be concerned about a particular bank using TARP funds for the naming of a sports stadium? Well, it can be argued that the naming of a sports stadium or professional golf tournament is part of a marketing strategy, but it can also be argued that the price that the bank pays for these naming rights is far in excess of their advertising value. While it may be a reasonable argument to name sports stadiums, these institutions must be aware of the backlash by taxpayers and regulators against perceived squandering of scarce taxpayer dollars in an economic crisis. The same argument applies to rock concerts, corporate events, executive compensation and perquisites.

Mr. KUCINICH. I would like to ask the gentleman if he could try to wrap up his testimony, and I know we will get back in Q&A.

Mr. SANDERS. Transparency for the use of funds by TARP recipients represents a step forward in understanding how taxpayer dollars are deployed, particularly in this economic climate. In summary, the TARP should be wrapped in Saran Wrap rather than a lead veil that Superman can't even penetrate. Taxpayers have the right to know what is being done with their wealth and transparency helps achieve more economically sound use of TARP funds and eliminate waste.

Thank you for letting me share my thoughts with you.

[The prepared statement of Mr. Sanders follows:]

Testimony of Anthony B. Sanders
Domestic Policy Subcommittee of the Oversight and Government Reform Committee
U.S. House of Representatives
Washington, D.C.
March 11, 2009

Mr. Chairman and Members of the Committee:

Thank you for the invitation to testify before you today.

I testified before you on November 14, 2008 on the subject of the Troubled Assets Relief Program (TARP). At that time, we understood that the U.S. Treasury had not purchased loans from financial institutions using TARP funds; instead, the TARP funds were deployed to several financial institutions. The purpose of my testimony today is not to challenge either Secretary Paulson or Secretary Geithner about the deployment of TARP funds; rather, my testimony today focuses on the lack of transparency surrounding the use of TARP funds, as well as related Treasury and Federal Reserve deployment of funds.

Transparency is of critical importance to the stability of financial markets as well as the reputation of the U.S. in the international economy. For example, research has found that the frequency of stock market crashes is higher in countries with companies that are more opaque (less transparent) to outside investors.[1] A recent paper on the asset (mortgage) securitization side has concluded that in order to attract investors, transparency is essential.[2] "The less transparent a market is, the more poorly understood it will be by investors, and the higher will be the yield those investors demand to compensate for the uncertainty." Thus, whether we are talking about the loans that are originated and securitized by banks or how TARP funds are deployed to the banks, transparency is critical to returning trust in our financial system and comforting investors both in the U.S. and globally. When we consider that our own Federal government borrows funds from overseas investors, transparency will a vital tool in restoring confidence in the tarnished U.S. financial system.

Greater transparency of the TARP can alleviate concerns among U.S. taxpayers and the investment community that the funds are being used appropriately and not being wasted. Without transparency, we are no longer "the shining city on the hill." Rather, we are New York City during the Blackout of 1977.

For example, there should be more transparent asset valuation so that we understand how Treasury and the Federal Reserve are valuing the banks relative to the private market valuations (e.g., the stock market). If the Treasury is systematically overvaluing the banks, it is an indication that the danger posed

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[1] Li Jin and Stewart C. Myers, "R^2 Around the World: New Theory and New Tests." *Journal of Financial Economics*, Vol. 79, No. 2: (February 2006), pgs. 257-292.
[2] "Key Considerations for the Future of the Secondary Mortgage Market and the Government Sponsored Enterprises (GSEs),"Mortgage Bankers Association, 2009.
http://www.mortgagebankers.org/files/ResourceCenter/GSE/KeyConsiderationsfortheFutureoftheSecondaryMortgageMarketandtheGSEs.pdf

by toxic assets (particularly mortgages) has not been dealt with. Until asset valuation is more transparent and the market is confident that banks have written down toxic assets (such as bad mortgage loans) and accurately priced their assets, any effort to restore stability and confidence in our financial system may ultimately fail.

Let us suppose that the fundamental purpose of TARP was to restore bank capital to asset ratios rather than to stimulate lending in the mortgage market and for businesses. Injecting capital does not immediately imply an increase in lending unless the bank has an adequate capital ratio and no expectation of losses that would further undermine its capital. But if the banks that received TARP funds are in jeopardy of further losses that jeopardize their capital position, we should be asking what the recipients of the TARP funding are doing with those funds and would those funds be better used elsewhere? Unfortunately, we still do not have an accurate picture of how those funds are being deployed. The reason why we can't "drill down" on the use is that assets at the banks (and other recipients) are fungible.

The Problem of Fungible Assets

One can argue that all assets (including TARP funds) are fungible, meaning it is very difficult to impossible to trace how the TARP funds are spent. For example, Bank A receives $15 billion in TARP funding, but is so large and complex that a paper trail cannot be followed. Despite our accounting and regulatory reporting on these institutions, the TARP funds seemingly sink into an abyss or a "black hole."

Clearly, greater transparency is required so that the TARP funds are spent in a non-wasteful manner. At a minimum, transparency is extremely useful for regulatory purpose and policy. Furthermore, greater transparency is critical to maintain the reputation of the U.S. in capital markets as the country that is transparent and doesn't squander its funds. Clearly, other countries that purchase our U.S. government bonds or invest in our securities would feel more comfortable with our disclosures of government spending and corporate uses of these expenditures if they knew that waste was being monitored and reduced.

How can we monitor the TARP funds in a fungible world?

Currently, financial institutions report information that can be found in SEC filings (10Q and 10K reports) and Call Reports[3] that are produced quarterly. However, this information is not "real time" and is highly aggregated. As a consequence, it is difficult to "follow the money" from these filings. Although banks can report on the use of TARP funds on a timelier basis with Treasury (even daily), the quality of these reports may be of dubious substance given the size and complexity of the financial institutions that have received TARP funds.

For example, our largest financial institutions have hundreds of divisions and subsidiaries and perform operations in numerous countries (for example, Citigroup has operations in over 100 countries and

[3] See https://cdr.ffiec.gov/public/

includes such banks as Banamex).[4] For a regulatory body, Congress, the Executive Branch or the financial institutions themselves to understand where the TARP funds have gone, there is a need for more aggressive forms of "auditing" that permit better disclosure.

Traditional auditing of the financial institutions is a time consuming and labor intensive process that is clearly valuable but not up to the task of "real time." The Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) produced an initial report to the United States Congress on February 6, 2009 detailing the allocation of TARP funds which is an admirable first step at providing transparency for the TARP program, but it does not address how the recipients of the TARP funds have actually spent (or invested) the funds.[5]

With the rapid weakening of our major financial institutions, it would be extremely helpful to understand the uses of TARP funds in trying to determine if the funds are effective at either increasing loan volumes at the financial institutions, reducing bank losses, or are the TARP funds simply being wasted. Since capital is scarce, the Federal government should be attentive to the effectiveness of the TARP funds.

An approach that can offer "real time" measures of expenditures by TARP recipients (or any other recipient of government funds) is volumetrics. It is possible to obtain vast amounts of reported information on loans, corporate benefits, golf tournaments, concerts, retreats, etc., and aggregate them into a useable form for regulators and other market participants.

Use of TARP Funds

Suppose that Bank A has been sued for allegedly engaging in predatory lending. Should taxpayers be responsible for paying for losses associated with a settlement or loss of a predatory lending case? Suppose that Bank B engaged in shoddy underwriting and is being sued to repurchase the badly underwritten loans. Should TARP funds be used to settle these claims? Since TARP funds were injected into the system to preserve the bank's viability, one question would be whether the use of funds in such a case is needed to protect the bank's viability.

On the marketing side, should we the taxpayers be concerned about Bank C using TARP funds for the naming of a sports stadium? While it can be argued that naming of a stadium (or professional golf tournament) is part of their marketing strategy, it can also be argued that the price that Bank B paid for naming rights is far in excess of its advertising value.[6] While it may be a reasonable argument to name sports stadiums, these institutions must be aware of the backlash by taxpayers and regulators against perceived squandering of scarce taxpayer dollars in an economic crisis. The same argument applies to

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4 See Wall Street Journal, February 26, 2009, "Citi Confronts Global Fallout as U.S. Nears Deal on Stake" for a discussion on how the number and size of Citi's international operations have complicated their business dealings.

5 www.SIGTARP.gov

6 See Robert Boland and Lee Igel's article entitled "Don't sell your values for naming rights." http://www.sportsbusinessjournal.com/article/55256

rock concerts, corporate retreats, executive compensation and perquisites (executive jets, lavish office decorations, etc.)

On the investment side, should Bank D be taking TARP funds and then investing in other banks overseas or using these funds to retool an automotive facility overseas? While these investments may represent good project decisions from the corporation's perspective, the question can be asked whether taxpayers in the U.S. should be funding business activities in other countries where the host country and subsidiary is the beneficiary of increased employment, tax revenues or sales. One simple rule to apply to judging the investments and expenditures of institutions receiving TARP funds is rather than ask "Did you do that with TARP money?" ask instead "In this climate, would you have made that investment or expenditure without access to TARP funds?"

The Best Way to Deploy TARP Funding

Clearly, simply giving capital to banks makes it difficult to understand its uses. Alternative approaches to the TARP funds could be a loan with a system of verification and draws. Lenders in construction and development lending often use the draw system where the lenders monitor the progress of the borrower; the lenders only give the next allocation of funds upon completion and verification of a task. Alternatively, the government could issues vouchers to the banks requiring the banks to use the funds for targeted purposes only, subject to verification. The problem with simply giving banks capital in exchange for preferred, convertible or common stock is that once the government owns the banks, it may be difficult for the banks to reemerge to private ownership. A draw loan or voucher system would provide greater transparency of the use of the TARP funds since the funds would be more directly monitored.

Another advantage of the draw loan or voucher system is that it allows the government to determine if a particular bank cannot meet the draw loan or voucher conditions on an ongoing basis. Thus, certain banks may be allowed to fail if it is determined that additional funding is equivalent to flushing the funds down the drain.

Summary

Transparency for the use of funds by TARP recipients represents a step forward in understanding how taxpayer dollars are employed, particularly in this economic climate. Whether we follow Justice Brandeis' "Sunlight is said to be the best of disinfectants" or President Reagan's "Trust but verify," the path is the same. We should be disclosing the use of TARP and other funding in order to understand how these funds are being used and whether waste is occurring.

In summary, the TARP, TALC and other government programs should be wrapped in Saran Wrap rather than a lead veil that even Superman cannot pierce. Taxpayers have the right to know what is being done with their wealth and transparency helps achieve more economically sound use of the TARP funds.

Thank you for your willingness to let me share my thoughts with you.

Mr. KUCINICH. Saran Wrap. [Laughter.]
Mr. Bolgiano.

STATEMENT OF MARK BOLGIANO

Mr. BOLGIANO. Good afternoon, Mr. Chairman and members of the subcommittee. It is my privilege to testify today about XBRL, or Extensible Business Reporting Language.

I am here as the president of a non-profit organization, XBRL US, that advances XBRL as an open, free, open-source standard. We all benefit from Internet standards, and I am not going to take any time to try to explain the concept. But just in the way that the Web standard brought us browsers and global access and search to a huge amount of information, or .pdf gave us high fidelity to the print document, or even emails made it possible for any of us to exchange messages, regardless of what software, what device or even where we are, XBRL simply makes a common dictionary available and a consistent structure, so that all financial reports can use a common format, so that it can be shared and exchanged at much lower cost with much lower time to do the processing.

As we have heard for last few hours, it is very labor and time-intensive to analyze and parse financial reports.

XBRL documents are more consistent, and they are searchable and they are machine readable. It can transform a 1,500-page 10K annual report that is nothing but a long stream of text into a structured, indexed document that can be readily processed.

But it is not the technology plumbing and wiring that is really the issue here. What is important about this standard and any standard is that the world chooses to agree on it. And the world has agreed on XBRL as the standard across the world for business reporting.

I would like to take the next few minutes to elaborate on this and refer to my testimony in more detail to make the points that XBRL is real, it is ready and it is relevant to the discussion of the subcommittee today. First of all, it is real. Every quarter, 8,000 banks report to the FDIC using this format, and they have since 2005. I will again refer to the testimony on the efficiencies of oversight and regulation gained by the FDIC by using XBRL.

A hundred companies today voluntarily file to the FCC their financial reports using XBRL. And over the next 2 years, SEC rules will phase in all publicly traded companies will submit their financial reports, including the industrial disclosures and footnotes that have numbers embedded in narrative text, like the pension footnote, in XBRL. All mutual funds, all credit rating agencies will be filing to the SEC phased in, these rules have just been promulgated, and they will be phased in over the next 2 years.

So XBRL is real, it is in production. The dictionary that the SEC uses, developed by our non-profit, by bringing together lots of industries and professions for the common good, contains every concept in U.S. GAAP, Generally Accepted Accounting Practices. We are building on that, to include, as detailed in the testimony, mortgage-backed securities. This is ready for us and it is being applied right now in our market.

It is also ready in terms of having a strong organizational underpinnings. Our non-profit brings together the accounting industries, the CFOs that issue, all the way to the investors and everyone in between, including technology companies, for the common good, to make sure that we get a high quality agreement between industry and Government to publish out these dictionaries.

And finally, I am going to say it is relevant in that, again and again, we heard today about, we are not sure, we can't see, we don't know. The fact is, you can't provide oversight to something you can't see. And this common standard does offer a powerful tool for the Government and for markets to get true visibility and transparency into the facts, into the books.

With that, I will conclude my remarks. Again, I thank you. I will just end with the one point that transparency is no longer a matter of technical capability. It is a decision that is waiting to be made.

Thank you, Mr. Chairman, thank you subcommittee.

[The prepared statement of Mr. Bolgiano follows:]

xbrl.us

Using Standards for Transparency

Mark Bolgiano, President and CEO, XBRL US

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Executive Summary

This testimony by XBRL US, the national consortium for business reporting standards in the United States, asserts that requirements for transparency in TARP funds reporting and oversight can be met using an existing standard that brings a consistent format to data on financial condition, risk, value, and compensation information regardless of sources.

As our economic crisis has worsened, government has responded with programs that seek to restore stability, investor confidence, and liquidity to the markets. The unprecedented magnitude and urgent pace of the programs bring great risk for fraud and waste and a proven method must be employed to mitigate and manage that risk by making data provided to the government and markets consistent - regardless of the company or system at its source.

Recent investigations have revealed that without consistent data, effective oversight and regulation is not possible. Government and investors cannot reliably determine the risk and value of troubled assets, know the disposition of TARP and other program funds, or judge compliance with executive compensation and other legislative requirements, unless a standard is adopted.

XBRL, a global open-source standard successfully used for tagging and exchanging financial information by government agencies such as the FDIC and the SEC, can be applied today for compliance, regulation, and congressional oversight of TARP programs. Just as web pages, PDFs, and email have transformed communications over the last fifteen years, XBRL is a mainstream technology that can bring quality, consistency, and interoperability to what is now a patchwork of proprietary data formats.

Transparency in financial reporting, therefore, is no longer a question of capability. It is a matter of agreement and decision, waiting for resolve and action by government and industry for the common good.

The advancement and implementation of this standard is facilitated by XBRL US, a nonprofit consortium that includes all economic sectors with a stake in the information supply chain: filers of information, software companies, accountants and auditors, regulators, publishers, and the citizens, investors and analysts who ultimately consume the information.

Government and industry participants in this consortium, working with our development team, have contributed to the creation of XBRL tagging standards for public company reporting of financial statements in US Generally Accepted Accounting Principles (or "US GAAP"), for executive compensation data, FDIC bank call reports, mutual fund risk and return reports, proxy statements, and corporate actions.

Using the standard does not require a proprietary software product; facts found in statements, narrative text and footnotes can be tagged within mainstream spreadsheet and word processing documents using free add-ins, or converted using open-source data conversion programs.

This testimony offers XBRL as a proven and immediately available method for standardizing the data that financial institutions provide to the government on fundamentals such as financial position, revenues and expense, cash flow, and executive compensation. Examples of current use, effectiveness, and readiness for expanded use are presented.

A significant section of this testimony is dedicated to the application of XBRL to mortgage and mortgage-backed securities (MBS) information. Under the leadership of XBRL US board member and MBS white paper author Philip Moyer, CEO of EDGAR Online, XBRL US assembled research and analysis of current reporting practices, and a team of mortgage data experts, to develop an XBRL dictionary for mortgage data which has been demonstrated to industry and government leaders and is ready for use.

Introduction

Since 1934 companies have been reporting their financial statements in increasingly large documents. As the number of companies and size of documents has grown it has become impossible for investors and regulators to understand bank balance sheets, executive compensation, the good versus the bad mortgages in a mortgage backed security or what happens to funds that the government uses to save a company. Investors and regulators are simply overwhelmed with millions of pages of incomparable data.

XBRL helps to solve this problem by requiring companies to report in a common format using a common, low-cost technology standard, In the same way that the United States is attempting to move to electronic medical records, XBRL is an electronic health record for a company that can be tracked cradle to grave.

XBRL can assist investors and regulators: 1)Monitor the recipients of TARP funds, including their executive compensation, bonuses, acquisitions and the status of their TARP loans) 2) Analyze the financial statements of all public companies, including those that that currently hold Asset Backed securities, 3)Value the actual cash flows of Mortgage Backed Securities, so that investors and government understand the real value of the securities, and 4) Eliminate the friction in the securitization industry and promote information transparency as a foundation to jump-start the market.

Reporting Problems in the Market Today

Investment information today, whether it is data on public companies or on specific securities, is rife with inefficiencies, inaccuracies and ambiguity. Whereas public companies are required to report certain financial data, they can report in different formats, use labels or underlying definitions of items that differ from their peers, and add disclosures that none of their peers report. When the underlying fundamental data is produced, it is typically made available in ASCII Text or HTML and cannot be easily consumed by investors and regulators. These reports can be thousands of pages in length, for example, the 2007 Citigroup 10k is 1,376 pages long. The entire stimulus bill for the United States that was just passed by this house was 1,100 pages long.

In the case of mortgage backed securities, the situation is even more daunting. In 2007, approximately 200 ABS were issued per month, in documents that were hundreds of pages long with thousands of loans. There was no single format for these reports, no single source of information and no regulatory authority managing reporting requirements cradle to grave for these assets. Every player in the industry develops their own proprietary process, resulting in systems that don't communicate, expensive processes and huge holes in critical information necessary for valuing these assets. Today the investors and the regulators that need to understand the health of these assets cannot cost-effectively re-construct their value and performance. Over the past decade, the financial market saw an explosion in the complexity and variety of securities being offered. Unfortunately, there was no corresponding improvement in data standards for reporting related to those securities. This left regulators flat footed and helped to contribute to the crisis we face today.

XBRL is a standard that is in widespread use today

The XBRL standard has broad application. Examples of its use:

- The FFIEC (Federal Financial Institutions Examinations Council), led by the FDIC, launched a global repository of over 8,000 bank call reports in October 2005 resulting in an immediate improvement in data quality, analyst productivity and regulatory monitoring capabilities.
- The SEC mandated XBRL for all public company reporting, starting in June 2009. XBRL US developed the dictionary of terms to be used for US GAAP reporting requirements and common reporting practices. This implementation will result in greater comparability and transparency of corporate information for investors and more efficient monitoring of companies for compliance and enforcement by the SEC.
- Publicly traded companies in Israel, China, Japan and Australia have all started reporting financial statement information in an XBRL format, making their information more transparent and actionable. Government reporting initiatives are also underway in countries including Australia and the Netherlands.

Impact of XBRL on the transparency of financial transactions, specifically Mortgage Backed Securities (MBS)

The lack of reporting standards has made it difficult to understand the simple fundamental value of the mortgages in these loan pools. Information collected about borrowers, loans, ongoing surveillance, settlement and clearance information is reported in differing data and reporting formats. The identity of individual loans is lost when the pool is securitized and value becomes based on a rating and essentially what the market will bear.

With an agreed-upon data standard and XBRL, issuers, investors, rating agencies and regulators could forecast actual discounted cash flows of the individual loans, making it significantly easier to value each security – effectively "normalizing" the data so that the security can be valued using a recognized valuation method.

During strong market periods, there is little need to question the value of the underlying assets. However when a market sours people seek clarity, fundamentals and comparability and the securitization industry is currently unable to produce this. Establishing a standard requires political will and a centralized independent body to validate the information produced. No single participant can drive a standard. As a result, without the government, standards and transparency are elusive.

Recommendations to Implement XBRL

The SEC has mandated the use of XBRL for public company reporting. Ongoing support and funding for this program is critical. Reporting needs change frequently; the collections of terms used to report must be adequately maintained.

In the MBS market, we recommend establishing a single data standard, providing an incentive to engage industry players and using XBRL to serve up the data. XBRL US has developed a prototype dictionary of terms for residential mortgage backed securities (RMBS) which could be a starting point to a broader development of XBRL data in the ABS market.

Once the data and technology standard have been determined, the existing pool of toxic assets can be valued if certain industry players will provide data on the underlying loans. Once that data is in hand, the XBRL dictionary of terms, e.g., the RMBS prototype, can be used to determine the value of existing toxic assets against a set of defined criteria, including those acquired under TARP. XBRL could also be used to support the valuation of other baskets of securitized assets, e.g., new issuances supported by the Term Asset-Backed Lending Facility (TALF).

XBRL could also provide a valuable tool for TARP performance reporting and the oversight of TARP funds through development of a dictionary of reporting terms in XBRL format for ongoing monitoring of the funds distributed.

The Need for Transparency

As the credit crisis has worsened, policymakers have responded with innovative and unprecedented programs to restore liquidity to the markets. The Emergency Economic Stabilization Act of 2008, enacted on October 3, 2008 (P.L 110-1343), authorized $700 billion for the creation of the Troubled Asset Relief Program (TARP). Since then, TARP funds have been utilized to support a broad range of programs including the Capital Purchase Program (CPP) in which Treasury has purchased hundreds of billions of dollars of bank equity in the form of preferred stock; the Targeted Investment Program (TIP) to provide support to systemically significant institutions including Citigroup and Bank of America; support for GM and Chrysler; and, the Term Asset-Backed Securities Loan Facility (TALF) which will first disburse funds on March 25, 2009.

As we will undoubtedly hear from some of today's other witnesses, there have been a series of reports, Congressional hearings and press reports raising concerns about an overall lack of transparency and accountability with respect to TARP expenditures. On February 10, 2009, the Obama Administration announced the Financial Stability Plan (FSP), which includes several important initiatives to address the continuing credit crisis. Significantly, the FSP calls for a "new era of transparency, accountability, monitoring and conditions.... These stronger monitoring conditions were informed by recommendations made by formal oversight groups – the Congressional Oversight Panel, the Special Inspector General, and the Government Accountability Office – as well as Congressional committees charged with oversight of the banking system."1[1]

We believe the need for transparency and accountability will only increase as the existing programs are expanded and newly announced programs are implemented. In particular, the new Capital Assistance Program (CAP), the Homeowner Affordability and Stability Plan (HASP), the expanded TALF, and the much anticipated Public-Private Investment Fund (PPIF) will be more effective and receive broader public support if the associated disclosures are enhanced through the use of XBRL as described below.

The XBRL Standard

Taxpayers want to know how their money is being used to fund the financial bailout. XBRL is a standard that promotes transparency and accountability and can be used by regulators to perform oversight functions more effectively and efficiently. It is similar to other standards we know and use every day:

- Bar code – embeds information in a mechanism used worldwide
- The Internet – provides universal, open access to all comers
- Email – helps separate individuals communicate easily, effectively, quickly

Today's financial crisis was driven in part by a lack of accurate, easily useable information to give investors what they need to make informed, responsible decisions. The value of toxic asset backed securities remains a mystery because information on the underlying loans and ongoing viability of those loans and the securities themselves was not collected consistently and even if it had been, it would not have been in a useable, portable form. XBRL makes information that investors use to make investment decisions more transparent, more accurate, and easier to use because of the following characteristics:

- XBRL relies on XML tags - tags gives data context and can include the name of the element itself, its definition, date, etc. Examples of tags could be tagging photos on flickr or creating a blog.
- The standard is developed and driven by the industry that will use it. XBRL US, as a consortium of different organizations representing the business reporting supply chain can bring together industry representatives to agree upon the terms and definitions for a reporting application.
- XBRL is "extensible" – if a single reporting entity needs to explain a unique situation that other reporting entities do not share, e.g., a public company that wants to report sales of a special product line, the entity can do so by "extending" the collection of terms.

XBRL US developed the terms for US GAAP by bringing together the accounting industry, regulators, analysts, investors, software vendors and public companies. A similar industry-supported standard in the MBS market would require players from the major banks and loan servicers – a handful of organizations compared to the thousands of public companies and accounting firms needed to agree on the US GAAP standard.

1[1] Fact Sheet, Financial Stability Plan, February 10, 2009.

The impact on the user of the data (individual and institutional investors as well as regulators in the case of US GAAP reporting) is significant because XBRL:

- Uses a standard set of definitions – there is no ambiguity and it is easier to compare one company or security to another
- Results in computer-readable data which means less chance for errors because information is not rekeyed and can be taken directly from the source, e.g., the public company, the mutual fund, even from the lender or loan servicer. Machine-readable data means faster analysis and allows for large volumes of data to be extracted from company reports very easily.

Applications in Use Today

XBRL is in widespread use today around the globe.

FDIC and Banking Institution Call Reports

The FFIEC (the FDIC, Federal Reserve and OCC) jointly collect financial statement information, called call reports, from over 8000 banking institutions. The banks submit the information through approved software vendors. In 2005, the FFIEC, led by the FDIC, sought to improve the collection process and reduce costs by automating routine tasks, reducing the amount of manual data checking required (often with analysts contacting the banking institutions directly to verify and correct data submitted) and allowing for the seamless, automated entry of data. Historically data received was often rife with errors, didn't calculate correctly, and was expensive to process and analyze.

The FFIEC determined that XBRL was a viable solution. The agencies worked with the approved software vendors to develop an XBRL-enabled interface. When banks input their call report data, the information is immediately converted to XBRL. The XBRL-enabled software tools validate and check the data in a consistent fashion during the submission process.

The result was an immediate and significant cost reduction and efficiency improvements

- The legacy system had 66% clean data coming in, in the XBRL-enabled system, 95%
- The legacy system had 70% validity edits checked (data calculated correctly), today, 100% checks
- Staff analyst case load has increased between 10-33% because they can complete assignments faster

For the regulators, the result was significant cost reduction, increase in productivity, and greater accuracy.

US GAAP Reporting for Publicly Traded Companies

Approximately 12,000 public companies submit financial statements to the SEC's EDGAR database every quarter following US GAAP guidelines for required disclosures and general industry practice for elements that are commonly reported. While the data is submitted electronically to the SEC's EDGAR database, it is reported in ASCII Text or HTML and the line items within the financial statements are not computer-readable. The problem with today's financial statement reporting is that:

- Labels and definitions for elements reported often differ from company to company
- Some companies report additional elements that are unique to their organization
- Because data is submitted in flat files, it must be rekeyed by users before analysis can begin

Most analysts either 1) rekey company financial statement data which is time-consuming, results in inaccuracies and is expensive, or 2) they rely on aggregate databases that take the information from the SEC web site, rekey it into their own proprietary categories of terms to database the information to facilitate company to company comparisons. Often the database vendor combines elements that companies report to make it easier to compare company to company – thus reducing the granularity of corporate financial statements and potentially masking or even distorting their investment standing. Issues that investors face when relying on corporate data to make decisions include:

- Inaccurate corporate information
- Less granular data as the elements on a corporate financial statement are bucketed into proprietary categories predetermined by the database vendor
- Longer time to market to account for the databasing process, with small cap companies typically last in line to be databased
- Difficult to compare and analyze companies
- Large cap companies get preference over small cap companies
- Individual investors are disadvantaged because they don't have the resources to buy the third-party database or the staff to rekey the information they need

Using XBRL for public company reporting will result in greater accuracy and greater corporate accountability. In 2007, XBRL US, under contract to the SEC, developed the dictionary of terms for public company reporting including US GAAP requirements and common industry practice. XBRL US, as a nonprofit consortium, was able to bring together industry experts from accounting, public companies, analysts/investors, technologists and data intermediaries to develop the agreed-upon labels and definitions. The resulting set of over 10,000 elements is comprehensive enough to make it relatively easy for public companies to present their financial statements in XBRL and for analysts to compare the resulting data company to company.

The SEC has mandated the use of XBRL for public company reporting, starting with the largest 500 public companies reporting their fiscal June 2009 quarter. In June 2010, all other large accelerated filers will be required to submit in XBRL format and in June 2011, all remaining companies will be required to comply.

The US GAAP dictionary of terms will continue to grow and change with changes in accounting standards and with industry-driven changes in reporting practice. At this time, XBRL US has completed the 2009 release of the US GAAP terms and is awaiting SEC approval and acceptance. Maintaining the taxonomies, effectively revising them every year to reflect industry changes and accounting changes (as determined by the Financial Accounting Standards Board), is imperative to making the process simple and effective for issuers but most importantly to make the resulting data useful for investors and regulators that are monitoring corporate performance or their own investments.

Using XBRL for public companies serves to

- Democratize investment information – the same information available today to institutions will be available to individuals, at the same time, with the same level of granularity
- Increase the transparency and accuracy of corporate data and make public companies more accountable to the shareholders that own the company.
- Allow companies tell their own story – small cap company information becomes just as accessible as large cap company information
- Gives investors, both individual and institutional, machine-readable data that can be extracted, searched, aggregated and analyzed more easily and cost effectively.

In addition to finalizing the rule for public company reporting, the SEC also approved the following rules in December 2008:

- Risk/Return Summary portion of Mutual Fund Prospectus – mutual funds must begin publishing the risk return summary portion of their prospectuses in XBRL format starting January 1, 2011. XBRL US has already completed that dictionary of terms and it is published at www.xbrl.us.
- Credit rating agencies – must begin reporting delayed ratings actions (initial rating, upgrades, downgrades, etc.) in XBRL format starting in August 2009 (180 days after publishing in Federal register)

Global Initiatives

XBRL initiatives are underway all over the world, driven by various stakeholders such as governments, stock exchanges, banks and other industry sectors.

In Asia, XBRL is being used by the capital markets. Stock exchanges in China, Japan, Singapore and South Korea all require the submission of XBRL-formatted financial statements. In 2004, China became the first country in the world to formally adopt XBRL for its equities markets. In the near future, it is expected that China will expand its use of XBRL for mutual funds reporting, IPO approvals, and nonofficial and internal financial reporting for smaller companies. In India, the major stock exchanges accept voluntary XBRL documents and are moving towards a mandate with support of the Securities and Exchange Board of India. Canada is also testing out XBRL with it's own voluntary filing program.

Both the governments of Australia and New Zealand have undertaken initiatives to implement standards for business reporting using XBRL.

While the U.S. and Asia focus on XBRL for use in the capital markets, Europe has developed a broad and diverse spectrum of government-wide and cross-border applications that can share consistently structured XBRL data. For example, tax regulators drove development in Ireland, municipalities in Germany, the banking sector in Spain, the Water Board in the Netherlands, and the Companies House in Denmark. The first wave of adoption in Europe started about five years ago, with stakeholders in the private and public sectors working together in an effort to develop a truly open standard.

Other Applications Underway by XBRL US

Corporate Actions Taxonomy

A collection of terms is in development for corporate actions data. This information is typically released by public companies in the form of news releases and prospectuses that must then be rekeyed into databases by custodians, clearing houses, investors and data intermediaries, resulting in inaccuracies, delays and substantial costs in securities processing. The terms are being created in cooperation with The Depository Trust & Clearing Corporation (DTCC). An initial prototype will focus on company mergers. Eventually, the taxonomy will be expanded to include all corporate actions. The XBRL US Corporate Actions taxonomy will be based on data elements found in the ISO 20022 standard.

Proxy Taxonomy

Broadridge Financial Solutions contributed a proxy taxonomy to XBRL US in late 2008. The SEC has shown interest in using this for the Def14a form, and particularly executive compensation reporting. The taxonomy will need to be modified to make it consistent with the XBRL US taxonomy. This taxonomy may prove useful in providing more accurate data in connection with the policy debate over executive compensation.

Bringing Transparency to the Mortgage-Backed Securities Market – a Prototype

This testimony, based on a white paper developed by Philip Moyer, President and CEO, EDGAR Online, member of XBRL US Board, explains how XBRL could be used in the MBS marketplace – an area that currently does not benefit from any form of data standard like US GAAP and certainly has no underlying technology standard to make the data needed by investors more accessible and consumable. Establishing a solid data standard, with XBRL as the conduit, will go a long way towards providing more clarity and accuracy in these complex investments and restoring trust in the marketplace. The use of data and technology standards will also eliminate the ambiguity surrounding valuation of these securities and establish a consistent set of assumptions to make investment decisions. Government agencies and all investors buying existing securities assets will be able to work off the same set of data and assumptions, thus reducing the cost of analysis and the risk of making ad hoc decisions.

What follows is a detailed analysis of how XBRL could be utilized in one sector (MBS) of the re-securitization market. The application of data and technology standards in this market could be used to value the existing pool of toxic assets and to help jumpstart the market going forward. This same methodology could be developed and utilized throughout the re-securitization market. The ability to produce accessible uniform data has the potential to transform the "shadow" banking system into a vibrant, transparent credit market.

Description of the MBS Marketplace

There are perfectly good cash flows to be found in many of the investment vehicles now clogging the American credit system, but the entire re-securitization market lacks the information and reporting standards necessary to untangle the good loans from the bad. As a result, investors will not buy what they cannot understand, the value of these assets is being marked to zero and the entire market has seemingly turned toxic. The cost of analysis is overwhelming because there is no standard data set to access, adding to the paralysis in the market.

The same principles of XBRL that are working for bank call reports and for public company reporting can be brought to bear in the MBS market. The concept is simple: provide loan level detail for every MBS from cradle to grave in an automated form that is easy to analyze so that investors can value the actual cash flows of these investments cost effectively.

The industry is awash in a sea of incomparable data

In the current decentralized and self-defined reporting model, access to MBS information is out of reach for most investors because it is locked up in incompatible data formats and subject to inconsistent reporting. The price of extraction, standardization and analysis has been too costly and time consuming to be viable for any single participant. As a result, issuers, investors, rating agencies and regulators have built sophisticated systems and financial models to get around the problem, and rely on *probabilities of default* and on *mark-to-market accounting* to value these assets. No one understands which loans are bad and which loans are good among the 10 million loans currently sitting in approximately 100,000 re-securitized products. Investors and regulators simply cannot discern the good from the bad.

We believe that MBS and the loans that are in MBS are publicly traded instruments, and all investors are owed regular public reporting on the health of the assets. What is needed is the political will to bring standards and open access to this information — in the same way that the Securities Act of 1933 and the Securities and Exchange Act of 1934 brought standards and open access to financial reporting for public companies after the 1929 market crash.

Specifically, our recommendations for the MBS market are:

1. Define the information disclosures necessary to evaluate a security across the entire MBS supply chain, including mortgage origination, MBS issuance, rating, and loan servicing.

2. Require reporting in a proven technology format already in use for financial data reporting, specifically XBRL (eXtensible Business Reporting Language), to ensure the quality, compatibility, and comparability of the information reported.

3. Require a common reporting system - similar to the SEC's EDGAR System - and ensure equal access to the information by market participants.

4. To value the existing pool of securities will require identifying the underlying data for each loan within the securities pool and reporting it back through an XBRL dictionary of terms, e.g., the prototype for RMBS developed by XBRL US. Industry participants that have ownership of this information must become part of the process in order for this initiative to succeed.

The mortgage-backed securities supply chain needs data standards.

As a loan moves through the many participants in the MBS supply chain, each member of the supply chain – originators, retail banks, wholesale banks, issuers, servicers and ratings agencies – decides what to report publicly and when to report it. All players use different report formats, data labels, data types, tracking methods and even different models for tracking the identity of the individual loans. A loan can receive as many as five unique IDs between its origination and when it is bundled into an MBS. There is no centralized regulator or repository that validates or collects all of this data. Every participant has completely different reporting models.

The Information Supply Chain in the MBS Market

A Mortgage-Backed Security (MBS) contains thousands of loans.

Originators capture information from borrowers including credit score, proof of income, etc.

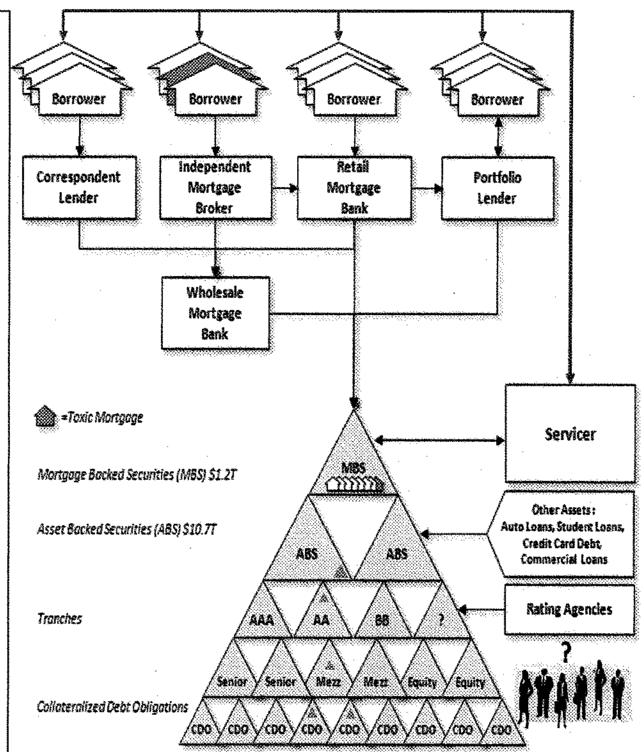
Lenders and banks provide financing for these loans and collect loan data from multiple originators.

Issuers accumulate large pools of loans from lenders. They use the data they receive from lenders to build an MBS. (Asset Backed Securities (ABS) may contain mortgages and/or other debt like auto loans, credit cards, etc.)

Servicers are the final resting place for loans in MBSs. They use the data they receive from lenders or issuers to collect payments from borrowers and issue payments to MBS investors.

Ratings Agencies use information from issuers and their own models to divide the credit worthiness of the pool into tranches. "Waterfall" data explains which loans are in which tranches.

Collateralized Debt Obligations are small slices of MBS tranches that distribute MBS tranches to a broader set of investors. Their value is based on the current market value of a specific Tranche rating.



Incomparable data makes it impossible to identify and track individual loans from cradle to grave.

A single market participant controls little of the information that they depend on upstream, and controls little of what happens to the information that they pass along downstream in the supply chain. Ratings agencies, for example, have no authority to mandate and verify the validity of the data that is provided to them. Servicers cannot control quality of information at loan origination. Investors cannot mandate collateral status reporting across all servicers. Instead, investors spend millions of dollars on their own tracking systems, databases and statistical surveillance systems.

The re-securitization industry has created a multi-faceted data problem.

A. **Ratings are based on inadequate data.** The market relies on rating agencies and statistical probabilities for default instead of on analysis of cash flow and real time status of assets. Rating agencies, by necessity, have built models around assumptions and statistics and their ratings are only as good as the data they receive and their underlying assumptions.

   When the market stopped buying, the statistical models were unable to explain the real value of the cash flows inside each loan within an MBS pool. No one had the information to contradict a market driven by fear, and values headed to zero. It is now apparent that some data provided to rating agencies was simply not valid or comparable. Critical data points, like whether a mortgage was being made to a "First Time Home Buyer" (which has the highest probability of default) or that it was a "Second Mortgage" was omitted by some originators. There are simply no standards for what is considered a "complete" report.

B. **Issuance requires no standardized information.** When an MBS is issued, underwriters file a Free Writing Prospectus (FWP) to the SEC. FWPs are lengthy documents listing all the loans in the MBS, with varying levels of detail on each loan, depending on the underwriter. The FWP describes the individual loans, credit worthiness of the borrower, the value of the asset, when the interest rate will reset, etc. The number of elements can range from over 100 to as few as 20 and an FWP can be thousands of pages long. There are no industry standards or government regulations concerning these disclosures. The FWP is a document, not a datafile and therefore not computer-readable – indeed, barely readable at all.

In an effort to better understand the available data, EDGAR Online, a member of XBRL US, conducted a study of loan tapes from over 500 mortgage-backed securities priced during 2006, 2007 and the first half of 2008. EDGAR Online extracted detailed loan information and attempted to standardize the various fields against a defined set of variables. Each underwriter provided a different set of information in each loan tape, using different terminology. A list of over 600 unique fields was disclosed, some nearly 100 percent of the time, e.g., current loan balance, while others were unique to certain underwriters. This small sample of MBS data demonstrated that investors would need enormous resources and time to accurately process and interpret the information to make better decisions.

The schedule below shows the fields that were most frequently included and the percentage of FWPs that contained those fields from the 500 FWPs analyzed.

Data fields usually found in Free Writing Prospectuses (at issuance)

DATA ELEMENT	% of FWPs	DATA ELEMENT	% of FWPs	DATA ELEMENT	% of FWPs
Original Loan Balance	97.02%	ARM - Periodic Rate Change Frequency	53.77%	Lender Paid Mortgage Insurance Fee	23.81%
Property State	97.02%	Balloon Flag	52.78%	Note Date	23.81%
Property Type	95.24%	Original Interest Rate	52.18%	Self Employed Flag	23.61%
FICO	94.64%	Remaining Term	51.39%	Program	23.21%
First Payment Date	94.64%	Servicing Fee	50.60%	Amortization Type	22.42%
Occupancy Type	93.65%	ARM - First Rate Change Date	47.22%	Pool	21.23%
Loan Purpose	93.45%	Adjustable Rate Flag	47.02%	ARM - First Rate Change Period	21.03%
Current Rate	92.06%	Origination Date	46.83%	Negative Amortization Limit	20.63%
Maturity Date	90.28%	Group	45.63%	Convertible Flag	20.63%
Property Zip	89.88%	Borrower Quality	45.04%	Current Combined LTV	20.24%
Original Term	86.71%	Current LTV	44.64%	ARM - Periodic Payment Change Cap	18.65%
Documentation	85.12%	Loan Type	42.66%	Frontend DTI Ratio	18.65%
ARM - Margin	84.92%	Mortgage Insurance Company	42.06%	Silent Second Flag	18.65%
Lien Position	84.33%	Interest Only Flag	41.67%	Delinquency Status	18.06%
Loan ID	82.74%	Prepayment Penalty Flag	40.87%	Conforming Loan Flag	17.26%
Interest Only Term	81.15%	Servicer	40.48%	Master Servicing Fee	17.06%
ARM - Periodic Rate Change Cap	74.21%	Paid to Date	38.69%	Mortgage Insurance Certificate ID	17.06%
ARM - Lifetime Max Rate	73.21%	Senior Lien Balance	38.69%	Originator Loan ID	16.67%
Current Loan Balance	72.22%	Junior Lien Balance	37.90%	Negative Amortization Flag	16.47%
Current Principal and Interest Payment	71.63%	ARM - Next Payment Change Date	37.70%	As of Date	16.07%
Mortgage Insurance Coverage	70.63%	Loan Subtype	35.52%	ARM - Look Back Period	15.87%
ARM - First Rate Change Cap	69.84%	Seasoning	34.33%	Channel	15.87%
Original Combined LTV	67.86%	ARM - Periodic Payment Change Frequency	33.93%	Property County	15.67%
Original LTV	65.08%	Original Principal and Interest Payment	31.94%	Current Scheduled Loan Balance	14.88%
Prepayment Penalty Term	64.09%	ARM - First Payment Change Date	31.35%	Mortgage Insurance Fee	14.48%
Number of Units	63.29%	Prepayment Penalty Type	30.56%	First Time Buyer Flag	14.29%
Backend DTI Ratio	63.10%	Cut Off Date	30.36%	Remaining Term - Stated	14.09%
Property City	62.70%	Mortgage Insurance Flag	29.76%	Buydown Flag	13.89%
ARM - Next Rate Change Date	62.50%	Next Payment Due Date	29.56%	Delinquency Count	12.30%
Appraisal Value	61.31%	Originator	28.97%	Remaining Interest Only Term	12.10%
ARM - Lifetime Rate Change Cap	61.31%	Current Net Rate	27.98%	Current Combined Loan Balance	11.71%
Property Sales Price	60.52%	Property Value	27.18%	Interest Paid to Date	11.71%
Amortization Term	60.12%	Appraisal Type	25.00%	ARM - Lifetime Min Net Rate	11.51%
ARM - Adjustment Index	60.12%	Current Actual Balance	24.60%	Current Appraisal	11.51%
ARM - Lifetime Min Rate	59.52%	Months to Next Rate Change	24.60%		

C. **Servicers use disparate data in their own, unique systems.** Servicers are organizations that receive pools of loans from a wide variety of originators and lenders. They hold the individual loans and collect and distribute the actual interest payments to investors. Servicers receive loan data in widely disparate formats that they attempt to standardize into their own formats. But in some cases servicers maintain multiple incompatible internal systems all housing information in different formats from different sources.

The servicers file forms 10-D with the SEC. These 10-D filings provide statistical level information on delinquencies, bankruptcies, foreclosures and bank owned assets (REOs), summary information on interest and principal payments, balance information and some loan level details. Information is provided in different format, in varying levels of completeness, and with different identifiers. Most important, the information is completely incomparable to the information provided by any of their peer servicers.

Sample of information contained in Form 10-D from a servicer

Principal Distribution Statement (continued)

Class	Realized Loss	Total Principal Reduction	Ending Certificate Balance	Ending Certificate Percentage	Total Principal Distribution
A-1	0.00	17,366.03	122,783,994.74	0.98227196	17,366.03
A-2	0.00	0.00	0.00	0.00000000	0.00
A-3	0.00	1,577,071.00	118,398,574.00	0.92599443	1,577,071.00

Principal Distribution Factors Statement

Class	Original Face Amount	Beginning Certificate Balance	Scheduled Principal Distribution	UnScheduled Principal Distribution	Accretion
A-1	125,000,000.00	982.41088616	0.02268944	0.11623880	0.00000000
A-2	0.00	0.00000000	0.00000000	0.00000000	0.00000000
A-3	127,861,000.00	938.32869288	2.01440439	10.31985703	0.00000000

Principal Distribution Factors Statement Interest Distribution Factors Statement

Class	Original Face Amount	Current Certificate Rate	Beginning Certificate/ Notional Balance	Current Accrued Interest	Payment of Unpaid Interest Shortfall (1)
A-1	125,000,000.00	5.75000%	982.41088616	4.70738552	0.00000000
A-2	0.00	0.00000%	982.41088616	0.00000000	0.00000000
A-3	127,861,000.00	5.75000%	938.32869288	4.49615833	0.00000000

Collateral Statement

	Total
Collateral Description	Fixed 30 Year
Weighted Average Coupon Rate	6.368291
Weighted Average Net Rate	5.743224
Weighted Average Pass-Through Rate	5.750000
Weighted Average Remaining Term	353
Principal And Interest Constant	3,270,171.54
Beginning Loan Count	1,195
Loans Paid in Full	3
Ending Loan Count	1,192
Beginning Scheduled Balance	578,887,815.86
Ending Scheduled Balance	576,686,667.68
Actual Ending Collateral Balance	577,651,200.23

Delinquency Status - MBA Delinquency Calculation Method

	DELINQUENT	BANKRUPTCY	FORECLOSURE	REO	Total
	No. of Loans Actual Balance	No. of Loans Actual Balance	No. of Loans Actual Balance	No. of Loans Actual Balance	No. of Loans Actual Balance
0-29 Days		0 0.00	0 0.00	0 0.00	0 0.00
30 Days	2 714,243.22	0 0.00	0 0.00	0 0.00	2 714,243.22

10-D information can be critical for investors but because of the lack of standardization in format and fields it is highly time-consuming and expensive to convert these files into information that can be digested and analyzed by computers. The loan-level detail contained in these files is further complicated by unique identifiers that can't be traced back through the waterfall of tranches or to the original FWP. As a result, picking up trends in defaults, shortfalls in interest or positive performance for pools of loans is difficult, if not impossible.

D. **Payment processing is inefficient.** In 2007 the Depository Trust & Clearing Corporation (DTCC), which holds most of these issues on behalf of investors' financial intermediaries (banks and brokers), issued a whitepaper on the re-securitization market explaining that MBS issues have poor performance related to delivering accurate interest rate information on a timely basis.

Many of the deficiencies highlighted above hampered the ability of federal agencies and Congress to respond to the unfolding crisis in the mortgage backed securities market. Even now, issues such as the pricing of securities for purchase by TARP, the ability to understand which entity owns particular mortgages and the ability to refinance mortgages of at-risk borrowers are hindered by the information disconnects that are endemic to the system.

Every mortgage-backed security should be required to report a common set of data elements, using a common data format and submitted to a common centralized reporting system on a timely basis.

The reporting standard should explain the loans, the cash flow, and the status of the collateral every month. It should help originators communicate with re-securitization issuers, help issuers communicate with rating agencies, and help servicers communicate with investors. The MBS market needs to be updated to at least the reporting standards that exist in other asset classes, such as equities, with its own "EDGAR" system. Modern computer software makes the creation of this kind of reporting solution easy and relatively low cost for market participants.

Apply XBRL Principles to the MBS Market.

An industry body that includes the sell side, the buy side, rating agencies, and financial regulators, must come together to define "what" and "how" information needs to be reported to the market. Addressing "how" information is to be reported requires the market to agree on important constructs like the identity of a loan (from cradle to grave), who originated the loan (independent originator, retail bank, etc.), documentation of the borrower (first time home buyer, proof of income, etc.), the status of payments (is a payment late, has one been missed, is the loan in default), the waterfall information which discloses the tiered structure of creditors, who has the right to view certain information, payment processing data and other highly de-standardized but important facts.

Regulators must take leadership in working with the industry to:

1. **Define what information needs to be reported to the public.**

   Representatives from regulatory agencies, the buy-side and sell-side firms, credit rating organizations, issuers, servicers, the mortgage and securitization industries, the accounting profession, and the technology industry should come together quickly to define the data points needed to determine the real value of the underlying loans. That data is necessary for investors and the government to determine a fair price.

   The MBS industry should learn from the experience of the equities market in building the US GAAP dictionary of terms. Industry participants, CFOs, CPAs, CFAs, technologists, and regulators voluntarily convened a standards effort to create a collection of over 10,000 elements, led by XBRL US. The MBS market is far less complex than the equities market, and will require only hundreds of data elements.

2. **Implement reporting quality standards using interactive data (XBRL).**

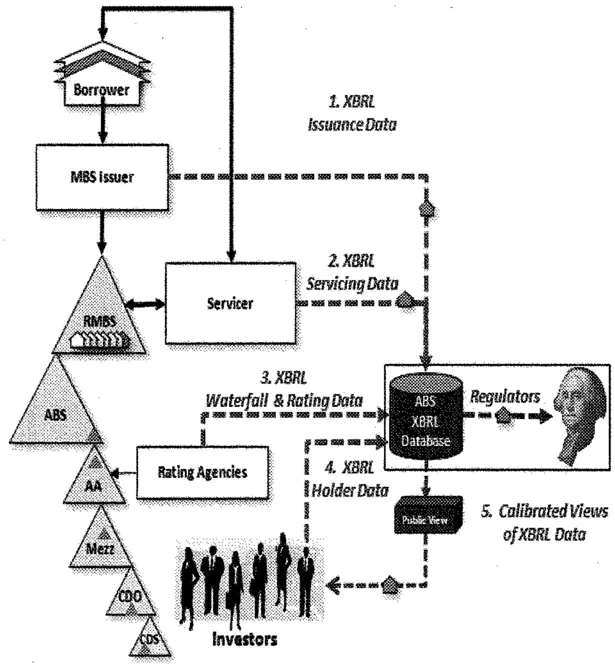
   XBRL is a proven technology that is already in use for public company reporting, mutual fund prospectuses and bank call reports in the US. Applications are being built for corporate actions data and proxy statements. XBRL applications are interoperable – elements in a corporate actions taxonomy can also be used in the US GAAP taxonomy. XBRL allows the market to access what is essentially a single set of terms for many uses which streamlines the creation, processing, reporting and analysis of information. The same XBRL-enabled software applications used for US GAAP reporting can be adapted for the analysis of proxy statements, mutual fund prospectuses, even MBS. XBRL builds on the tagging capabilities of XML by providing a uniform mechanism to present business information. There is no other technology standard in use today that can provide these capabilities.

3. **Build a reporting system that makes the information accessible to investors.**

   Regulators should ensure that a repository like the EDGAR system is established for the MBS market. Any re-securitized asset that is publicly traded should be required to submit XBRL data reports to this central repository on a monthly basis. Market participants should have visibility to the entire supply chain with the data submitted. Investors should have transparency into the monthly health of assets they have invested in or are considering investing in through this central repository.

XBRL tagging and centralized reporting should be used throughout the entire MBS supply chain. How would XBRL reporting practically work? When an MBS is issued, the issuer should be required to file a computer-readable XBRL data file with the repository that contains loan level data tagged in the XBRL format. Based on the work that has been done to date, we estimate that this will involve a few hundred data elements, and will include information on each individual loan, the collateral, and the supporting documentation and detail on the borrower such as: proof of income, salary and down payment amount, and detail on the originator – essentially a digital FWP document.

This XBRL data should be submitted to the common repository and made accessible to all investors. As a waterfall of mortgage-backed security vehicles is created, the contents and structure of each tranche of an issue should be similarly filed with the repository in this common data file format (XBRL). Throughout the life of the MBS, the servicers should be required to file monthly information that they collect on the status of the loans, the collateral and the borrowers in this common data format (XBRL). The result would be a central public repository of the ongoing status and cash flows of all publicly traded mortgage-backed securities – essentially a digital EDGAR system for the MBS. Investors in these issues would be able to access the data in the repository, and, through the use of XBRL, it would be immediately ready for use in automated data modeling and analytic systems. This would also enable investors to much more easily conduct their own financial analytics on the particular issue they own – a major improvement in transparency on MBSs, establishing a much sounder basis for an investor's conclusion that he or she thinks what the MBS asset is worth and is ready to trade it.



***1. MBS Issuers** should provide loan level details in XBRL format before an MBS issue is priced. (Approx. 150 data elements)*

***2. MBS Servicers** should provide Form 10-D, and loan-level detail of ongoing status/servicing information, including entitlement information (used by DTCC) in XBRL format on the MBS loans they service. (Approx. 500 data elements)*

***3. Ratings Agencies** should provide XBRL data that describes the rating structure. This will allow investors and regulators to track the individual loans through the tranche process. (Approx. 100 data elements)*

***4. MBS Ownership** information should be reported – similar to required reports on stockholder equity in the US equity market. (Approx. 100 data elements)*

***5. Public vs. Private Information** - XBRL is a data language that allows issuers and services to file a single report but provides regulators and investors with their own unique views - maintaining the sanctity of* private vs. public information for each issue.

All MBS that the TARP considers purchasing should be valued using this standardized data model and using XBRL as the technology format to serve up the data for analysis and ongoing monitoring. The Treasury will need to work with the issuers, rating agencies and servicers to identify all loans in all MBSs. It will need to provide some incentive to the servicers and other industry players to obtain the data on the underlying loans and borrowers – this information is critical to truly understanding the value of the securities. Define unique IDs. Retrieve any historical information from the original FWPS. Determine the current status of these loans from the servicers. Then, re-issue these MBS in re-tranched form – with a package of XBRL data for each tranche (CUSIP) – essentially kick starting the entire information ecosystem for this market with a new, more transparent type of MBS.

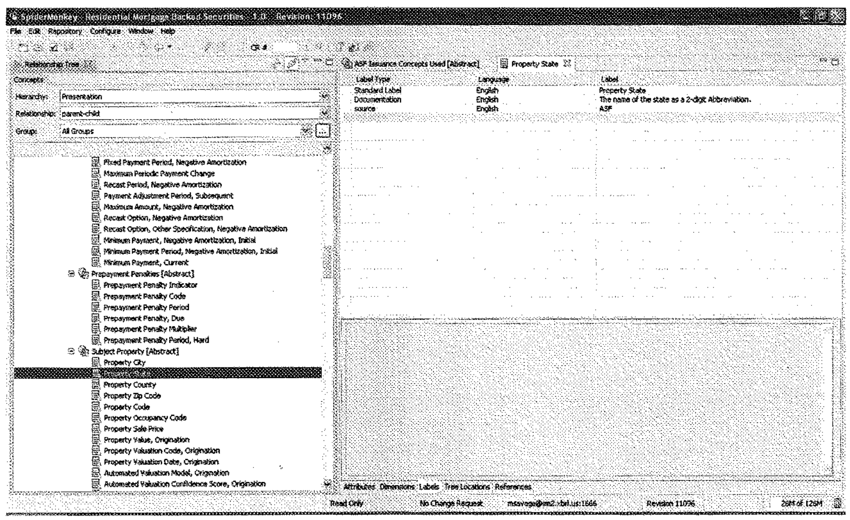
Establishing the data and technology standards to value existing assets will put in place the system to truly jumpstart the entire market and revive what is now a stagnant business.

Prototype for Residential Mortgage Backed Securities (RMBS)

To demonstrate the application of XBRL to the MBS market, XBRL US has developed a prototype collection of data tags (called a taxonomy) for residential mortgage backed securities, based on elements within the FWP. These data tags could provide more accurate, more transparent and more useable information on the underlying loans in a pool of securities. Better information can provide the tools needed by investors to properly evaluate the risk and return potential of their investments. The prototype taxonomy consists of approximately 350 elements, covering securities issuance, surveillance and bond remittance.

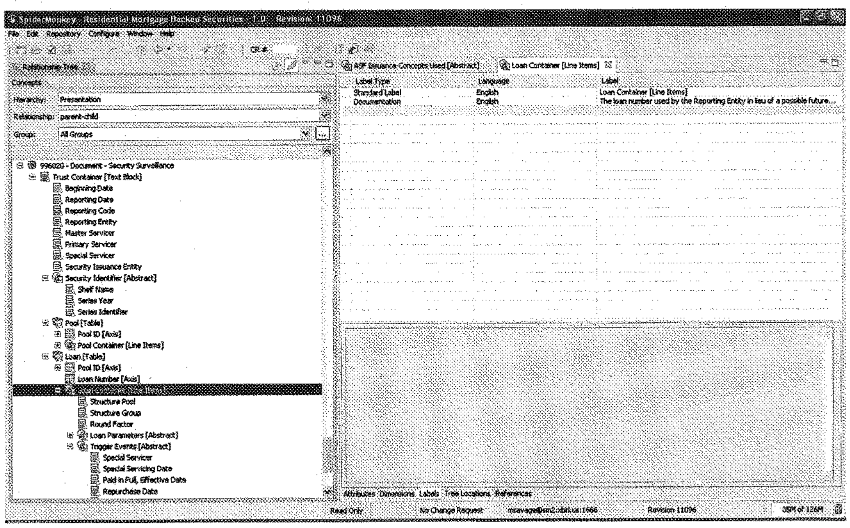
Securities issuance data describes the underlying loan and borrower information, including loan to value, mortgage insurance, loan terms, types and amortization, mortgage lien information and prepayment, among other elements.

Issuance Data Elements in the RMBS Taxonomy Prototype



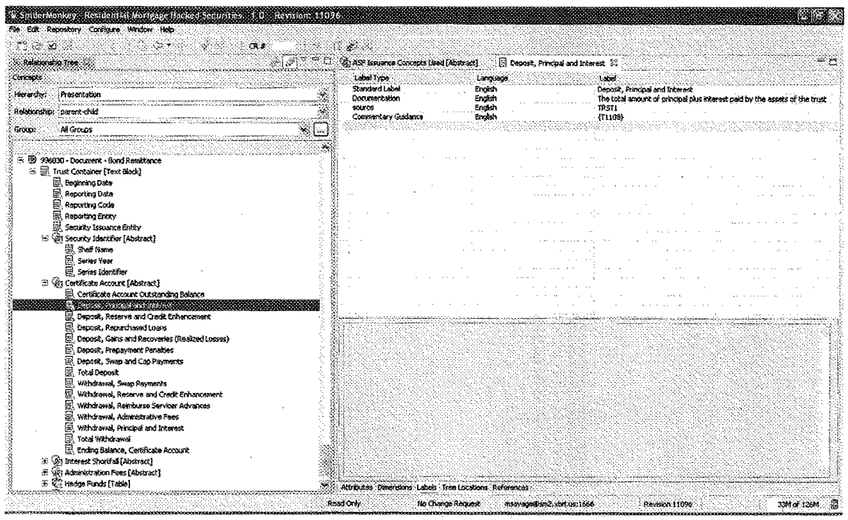
Surveillance data includes information about events happening over time such as changes in loan balance, current payment amount and status. These elements are used to monitor the securities.

Surveillance Data Elements in the RMBS Taxonomy Prototype



Bond remittance data is information that goes to the investor for settlement and clearance, e.g., security identification, reporting data.

Bond Remittance Data Elements in the RMBS Taxonomy Prototype



The elements included in the RMBS taxonomy could be used to create reliable data on the underlying pool of loans in a RMBS that can be easily extracted and analyzed by investors. That data would provide some of the elements needed to properly evaluate the investment.

Data formatted in XBRL can be extracted and manipulated using software tools already available. The market for creation and analytical tools has been growing for years because of the increasing momentum behind XBRL applications, e.g., public company reporting, mutual fund reporting, etc. The same tools used for those needs can be used for RMBS data in XBRL format, making data that previously had been difficult if not impossible to extract and analyze, dramatically simpler to report.

XBRL and Mortgage Backed Securities

The mortgage-backed securities industry is in its worst downturn ever. This crisis has proven that lack of transparency ultimately destroys a market.

At the same time, it is important to understand that market forces do work when there is good information, and in retrospect that good Information in the hands of investors and regulators could have helped the market avoid the current crisis. Since 1934, it has been recognized that consistent centralized financial reporting is critical to the functioning of public markets. There are many data issues in the MBS market, from a lack of information to downright fraudulent information. The simple step to require consistent periodic reporting in XBRL will be a giant leap forward for the industry and the investors. The initial set of data elements will not be perfect or complete and the MBS industry will need to refine the information that needs to be reported across the supply chain over time. However, if the industry is not committed to providing consistency in reporting, then risk will continue to be obscured, analysis by investors made unachievable, and fear will continue to dominate this market.

Conclusion

XBRL brings 21st century technology to solve transparency problems that investors have faced for decades. We need high-quality information that is consistently validated and comparably presented, and that is computer-readable to level the playing field for today's savvy investors.

In a market that is frozen by lack of transparency, the MBS industry and the federal regulators overseeing the TARP fund would be well advised to leverage XBRL. It is the digital sunshine that can help to thaw the fears of investors and reveal the great cash flows that exist inside these assets. It can cast a very bright light on what is wrong and, more importantly, what is right with the re-securitization market.

Combining a recognized technology standard like XBRL with an equally strong data standard, e.g., US GAAP or even a newly established data standard for asset-backed securities, can restore investor confidence and provide a viable solution for government valuation of securities.

XBRL US stands ready to help build the appropriate dictionaries of reporting terms and bring together key industry players to make this initiative work.

Appendix

About XBRL US

XBRL US is the non-profit consortium for XML business reporting standards in the United States and is a jurisdiction of XBRL International. It represents the business information supply chain, including accounting firms, software companies, financial databases, financial printers and government agencies. Its mission is to support the implementation of XML business reporting standards through the development of taxonomies relevant for use by US public and private sectors, working with a goal of interoperability between sectors, and by promoting adoption of these taxonomies through the collaboration of all business reporting supply chain participants. XBRL US has developed taxonomies to support U.S. GAAP and common reporting practices under a contract with the Securities and Exchange Commission.

XBRL US, the national consortium for XML business reporting standards, and US jurisdiction of XBRL International, was formally established as a non-profit 501c6 in December 2006. Today, XBRL US has a staff of eight. XBRL US focuses on building out the dictionary of terms for US-specific reporting applications, including US GAAP for public companies (completed under a contract with the SEC), mutual fund prospectus Risk Return Summary and credit rating agency database for ratings information, corporate actions, proxy, and mortgage-backed securities.

For more information, visit http://xbrl.us

XBRL US Management Team

Mark Bolgiano, President and CEO
Mark Bolgiano joined XBRL US as its first President and CEO in December of 2006. Previously, he led the technology and online communications operations of the Council on Foundations as Vice President and Chief Information Officer. Mr. Bolgiano has provided strategic, operational, and program leadership for membership organizations over a twenty-year career distinguished by success in defining and achieving goals using a collaborative, data-driven and member-focused approach. That career, based on undergraduate and graduate studies in statistics and analysis, and ten years at The Washington Board of Trade, has focused on practical application of transformational technologies as an executive, writer, and public speaker.

Campbell Pryde, Chief Standards Officer
Campbell Pryde leads the development and maintenance of taxonomies for XML-based business reporting applications in the US. This position plays an integral part of the executive team of XBRL US in determining the strategy for taxonomy development and maintenance. Campbell joins XBRL US from Morgan Stanley, where as Executive Director in the Institutional Securities Group, he managed the equity research XBRL-based valuation framework. He has been involved with XBRL since 2001, and most

recently served as Chairman of the XBRL US Domain Steering Committee which is responsible for setting the strategic direction for development of the XBRL US GAAP taxonomies. Prior to joining Morgan Stanley, Mr. Pryde was a Partner in the Risk and Advisory Practice of KPMG LLP. He is a member of the New Zealand Institute of Chartered Accountants.

David Tauriello, Vice President, Member Services

David Tauriello directs community-building and knowledge-sharing efforts for the organization through online infrastructure and face-to-face events. Prior to joining XBRL US from the Council on Foundations, he led online services delivery and communications functions for the nation's philanthropy community. Mr. Tauriello's non-profit and association online production and management experiences also include positions with the American Speech-Language-Hearing Association and Maryland Public Television. In each of these settings, Mr. Tauriello was focused on creating and using Internet technologies to improve member service. Among his professional accomplishments, Mr. Tauriello was part of a team winning a Webby Award (considered the "Oscar" of the Internet) in 2005. Mr. Tauriello was recognized as a Fulbright Teacher Scholar Award recipient in 1999, by the Japan - U. S. Education Commission.

Michelle Savage, Vice President, Communication

Michelle Savage manages education, marketing, communication and outreach efforts. Ms. Savage joins XBRL from PR Newswire where she focused on developing services to help companies communicate their key messages and information to shareholders and potential investors. During her tenure at PR Newswire, Ms. Savage oversaw the introduction and sales of new services to corporate and agency investor relations executives. Previously, she held positions as an equity analyst at Shearson Lehman Hutton and a marketing executive at Pepsi Cola. Ms. Savage is on the Board of the NY chapter of the National Investor Relations Institute.

XBRL US Board of Directors

- Alfred R. Berkeley, Chairman and CEO, Pipeline Trading Systems **(CHAIR)**
- Barry Melancon, President and CEO, AICPA **(VICE CHAIR)**
- Charles Callan, Senior Vice President of Broadridge Financial Solutions
- Donald Donahue, Chairman and CEO, The Depository Trust and Clearing Corporation
- Randy Fletchall, Vice Chair, AABS Professional Practice & Risk Management, Ernst & Young LLP
- Taylor Hawes, GM and CFO, Intellectual Property and Licensing, Microsoft Corporation
- Mohamoud Jibrell, Chief Technology Officer, The Ford Foundation
- Sunir Kapoor, President and CEO, UBmatrix
- Ray Lewis, Partner, Deloitte
- Philip Moyer, President and CEO, Edgar Online
- Sam Ranzilla, Partner-in-Charge, Professional Practice, KPMG
- Michael Schlanger, Vice President, Business Development and Strategy, Merrill Corporation
- David Sharpe, Partner, National Professional Services Group, PricewaterhouseCoopers
- Mike Starr, Chief Operating Officer, Grant Thornton International

About XBRL International

XBRL International is a non-profit consortium of approximately 550 organizations worldwide working together to build the XBRL language and promote and support its adoption. XBRL International is responsible for the technical XBRL specification and each country-specific jurisdiction works to facilitate the development and adoption of local XBRL taxonomies, or dictionaries, consistent with accounting, regulatory, and market standards and practices.

About XBRL

The XBRL concept was funded and incubated by the AICPA (American Association of Certified Public Accountants) and eventually spun off into a global nonprofit organization called XBRL International, which today is comprised of 27 country-specific jurisdictions. The international consortium is tasked with establishing the specification for the XBRL standard and each country jurisdiction is responsible for developing the reporting applications in XBRL format for their own business information needs.

Milestones for XBRL US and Regulatory Activity

March 2005	SEC launched XBRL Voluntary Filing Program
October 2005	FFIEC launched global repository for bank call reports
September 2006	XBRL US spins off from AICPA to become separate non-profit 501C6
December 2006	XBRL US hires President and CEO
March 2007	XBRL US finalizes contract with SEC for creation of US GAAP dictionary of terms (taxonomy)
September 2007	XBRL US completes first draft US GAAP Taxonomies, Preparers Guide and Technical Documentation
October 2007	SEC establishes Office of Interactive Disclosure
December 2007	XBRL US initiates Public Review of US GAAP Taxonomies
January 2008	XBRL US seats 12 new Board Members for 2008, chaired by Alfred R. Berkeley, CEO and Chairman, Pipeline Trading LLC, former head of NASDAQ Stock Market
April 2008	XBRL US delivers final US GAAP Taxonomies to SEC
May 2008	SEC releases draft rule proposal for public company filing in XBRL
June 2008	SEC releases draft rule proposal on XBRL for mutual fund risk/return summaries, credit rating agencies and oil and gas disclosures
September 2008	XBRL US issues Request for Proposal to develop Consistency Check System
December 2008	SEC approves rules mandating XBRL for public company reporting, credit rating agencies, oil and gas disclosures and risk return summary portion of mutual fund prospectus
February 2009	XBRL US completes 2009 Release of US GAAP Taxonomies, awaits SEC approval

Articles of Interest

Wall Street Journal, February 17, 2009

Let's Use Technology to Help Value Toxic Assets

Perhaps the market would have preferred Treasury Secretary Timothy Geithner's plan announced Feb. 10 if it incorporated insight from Gordon Crovitz's "Time to Reinvent the Web (and Save Wall Street)" (Information Age, Feb. 9). Mr. Crovitz presciently reports how a combination of structured data and Internet technology could advance Mr. Geithner's goal to "mobilize and leverage private capital." Mr. Crovitz describes the application of "semantic Web" technology to streamline access to information about bad debts.

A semantic industry standard computer language to make investments transparent and Internet friendly already exists. Last year, the U.S. Securities and Exchange Commission mandated its use for disclosure about public company financials, mutual fund risk and return, and credit ratings. A crowd-sourced project by the non-profit extensible business reporting language software (XBRL) U.S. consortium produced more than 10,000 data tags for U.S. Generally Accepted Accounting Principles at the cost of a TARP rounding error. Software already exists to detect and explain nonstandard reporting. Finalizing data tags for the relative handful of facts required to price mortgage backed securities, other asset backed securities, and their derivatives -- at least standard derivatives -- would be easy compared to the work required to create tags for the vast universe of GAAP.

If the troubled assets are as poor as feared, those who hold them might fear the effect of industry computer standards making them transparent. It wouldn't be the first time standards hurt some incumbents. For the economy as a whole, however, prices based on accurate information and subject to competition are far superior to today's "values."

Digitizing mortgage-backed securities information should be vastly easier than it was to digitize financial disclosure for thousands of public companies with diverse business models. A few service providers handle the great majority of mortgages. Other debt issuance and maintenance is similarly concentrated. Making small-cap, asset-backed securities more comparable, transparent, marketable and potentially combinable into larger, more liquid securities would be a particular bargain if it meant fewer subsidies billed to taxpayers.

The market wants to know the specifics of Mr. Geithner's plan. XBRL could be one of them, giving the market specific data to help choose investments and discover prices.

Paul Wilkinson

Mr. KUCINICH. Thank you very much, Mr. Bolgiano.

Mr. Horne, you may proceed.

STATEMENT OF STEPHEN HORNE

Mr. HORNE. Good afternoon, Mr. Chairman, Ranking Member Jordan, members of the committee.

My name is Steve Horne, and I want to thank you for inviting us here to speak to you today.

I am going to show you an example of what Professor Sanders and Mr. Bolgiano were just speaking of. The question is getting to TARP transparency. I have some slides up on the board, you may not be able to see them too well. Those who have the handouts have the slides included.

The question you have raised is, "where did the money go?" I think that is the question everybody has been asking since this morning started. I am going to show you how to take what is complex financial information and make it simple and then transparent.

I am showing on the slide here eight of the CPP institutions. I intentionally left off AIG, because being in SSFI, they have different things that we have to look at, and we can talk about those at another time, if you wish.

But these companies collectively received just about $200 billion of the total TARP outlay from tranche one. They collectively represent over $10 trillion in assets, they have greater than 14,000 subsidiaries, any of which could receive funds that had been fused into the institutions themselves. They have greater than 6,000 executives making decisions as to how to use these corporate assets. And in the first 100 days since TARP funds were approved, there have been greater than 40,000 what we call public events, which consist of regulatory filings, press releases, and other kinds of public disclosure about these firms regarding TARP, specifically TARP.

Now, let's look at an institution to illustrate the complexity. I don't expect anybody to read this eye chart. Rather, I am making a point of the structural complexity, in this case of just Bank of America. I chose Bank of America because they were alphabetical. So any other institution is going to kind of look this way.

This is a portion, and only a portion, of BofA's 2,435 subsidiaries and divisions. The reporting banks on the slide are shown in red, the investment firms are shown in blue. Any of these subsidiaries or divisions may be a beneficiary of the funds or part of the total $45 billion in total capital infusions that have come into this institution through TARP to Bank of America.

A hundred and four of these subsidiaries and divisions file with up to 20 or more Government agencies. And there is no single holistic view of the institution that comes in through those agencies. Furthermore, the information sometimes comes in disparate and incompatible formats. My friend here, Mr. Bolgiano, has commented on the fact that we are very big subscribers to the concept of XBRL, because that is a computable and consistent format.

In other cases, it is aggregated at a holding company level, but you lose all the detail of the transactions that are underneath it. Now, a lens can be put on individual transactions that roll the data into a single view of the institution. Now, in the time line that is shown on my chart here, instead of looking at greater than 10,000 of the Bank of America events, a regulator could highlight what they might call the seminal events, chosen by them, which show the key transactions of the funds that move through the institution. In addition, the aggregation of the non-public regulatory data, as proposed under Congresswoman Maloney's bill, TARP Accountability and Disclosure Act, would be available to the regulator as well.

At the request of the committee, we have a sample of transactions that are in excess of $1 billion, as well as charitable contributions and marketing events during this first 100 day period. The first capital infusion at the beginning of the chart took place in October 28th of last year, and $15 billion were taken onto the Bank of America books as a partial receivable. The remaining $10 billion was paid out when the Merrill Lynch transaction was completed.

Other events, including the issuance of new debt, to layoffs, to charitable contributions, continue to impact the balance sheet that is highlighted in this time line. So let's drill into one of these events. Just last week, the Bank of America filed their 10K SEC annual report for 2008. Now, here on the right side of the chart, what you are going to see is a statement about their new Q4 lending activity. Other institutions have made similar types of statements.

To use an analogy, think of your own checking account. You know your balance, you just can't look at the deposits, you have to look at the withdrawals, too. So to add transparency, one must look at the offsetting activities shown in the summary, including write-downs, foreclosures, toxic asset reductions, etc., to get to the balance as you would in your own checking account. You might question the lending activities occurring between the banking institutions and federally sanctioned lending institutions, such as Freddie Mac, Fannie Mae, FHA, etc. None of this is contained within the filings themselves.

Now, compare the single institution to looking at three separate, an aggregated view of three separate institutions, in this case Bank of America, Citigroup and J.P. Morgan Chase. These banks were recipients of more than $75 billion during the Q4 period of 2008 of TARP funds that reported increased lending activity. Similar offsets took place with these institutions as well.

What we see here is $75 billion in capital infusions and less than $100 million in increased net credit facilities to the American people. That is what is on the balance sheet. What is off the balance sheet is another thing entirely, but that means it is not transparent. How do we reconcile the overall lending activity from the institutions that are reporting to the Federal Government? Public data, plus the addition of the data included in Congresswoman Maloney's bill, will enable the ultimate provider of information to go from a complex collection of separate transactions across thousands of organizations to greater transparencies of funds distributed through the Government to private institutions.

I want to thank you, Mr. Chairman, Ranking Member Jordan, members of the committee, for your time and attention.

[The prepared statement of Mr. Horne follows:]

House Committee on Oversight and Government Reform
March 11, 2009
Testimony of Steve Horne, Vice President
Master Data Management
Dow Jones Enterprise Media Group

Testimony begins:
Good morning, Mr. Chairman and Members of the Committee

My name is Steve Horne.
I am the Vice President of Master Data Management for the Dow Jones's Enterprise Media Group. I have spent over 30 years building complex data bases, transforming very complex data into usable information.
Dow Jones has provided transparency to the marketplace in the form of indexes, publicly and privately held corporate information, news and analysis for over 100 years.

Thank you for inviting us here to speak with you today.

I am going to show you an example of what Professor Sanders has illustrated in his presentation.

Slide 1: Getting to TARP Transparency

I think we can all agree that the goal of this committee is to give transparency to the TARP funds. The American people want this and you, as members of Congress, are demanding this. The question you have raised is where did the money from TARP go?

Here are 8 institutions which represent almost $200Billion in TARP funds. The question seems to be, why is it so hard to track these capital infusions?

The reason for that is mostly because these institutions are incredibly complex.

They collectively represent over $10Trillion Assets
They have >14,000 subsidiaries any of which could receive funds that have been infused into the institutions.
They have >6,000 executives making decisions as to how to use corporate assets.

In the first 100 days since the TARP funds were approved, there have been >40,000 public events which include many different types of data (8Ks, 10Qs, S-1s, OCC

FRY9cs, call reports, newswires, public records, press releases, transcriptions, and other publicly available data.)

Slide 2:
Now let's look at one institution to illustrate the complexity. I don't expect you to read this eye chart; rather I am making the point of the structural complexity of Bank of America. BofA is made up of 2,435 subsidiaries and divisions, (This is only a portion of that organization) reporting banks, shown in red and investment firms, shown in blue. Any of these subsidiaries and divisions may be a beneficiary of the funds that were part of the $45B in total capital infusions through TARP to BofA.

Many of you may be receiving portions of this regulatory data already. However, it is mostly in disparate and incompatible formats from one report to another. In other cases you are receiving an aggregated view at the holding company level. 104 of these subsidiaries and divisions file with >20 government agencies with no single view for you to understand what is going on holistically.

Slide 3:
A lens can be put on individual transactions that roll up the data into a single view of the institution. Now instead of looking at the >10,000 events that BofA was involved with, one could highlight the seminal events which one could choose based upon rules which show the key transactions which make up the ebbs and flows of funds moving through the institution... In addition, one could aggregate all the non-public regulatory data proposed under Congresswoman Maloney's Bill "TARP Accountability and Disclosure Act" (H.R. 1242). At the request of the Committee, we have a sample of transactions in excess of $1Bil as well as charitable contributions and marketing events during this first 100 day period.
The first capital infusion took place on October 28th of last year and $15Bil was taken onto the BofA books as a partial receivable (The remaining $10Bil was paid out when the Merrill Lynch transaction was completed). Regardless, other events continue to take place which impact the balance sheet as highlighted on this timeline. For example, everything from the issuance of new debt to, layoffs to charitable contributions. So, let's drill into one of these events.

Slide 4:
Just last week BofA filed their 10K SEC annual report for 2008. There is a statement about their NEW Q4 lending activity. This is similar to most of these institutions.

At the same time to broaden the picture, one could look at the offsetting net activities including write downs, foreclosures, toxic asset offloading etc., from both on and off balance sheet transactions to get the NET of the activity that is taking place in summary as shown in the second chart listed below the red line.

Slide 5:
Now compare the single institution to looking at an example of an aggregated view of three banks. These banks were the recipients of more than $75B of capital infusion and reported increased lending activity as well. At the same time there are activities taking place that offset this overall lending activity. What we see here is a $75B in capital infusions and less than $0.1B in increased NET credit facilities to the American people. This information was received from the FDIC FRY 9C report issued last month.
The information is strictly based on public data.

Public data, plus the addition of the data included in Congresswoman Maloney's Bill, will enable the ultimate provider of this information to go from the complex collection of separate transactions across thousands of organizations to a greater transparency of funds distributed by the government to private institutions.

Thank you Mr. Chairman and Members of the Committee for your time and attention.

Getting To TARP Transparency

Bank of America

Morgan Stanley

Wells Fargo

State Street

BNY Mellon

Goldman Sachs

JP Morgan Chase

Citigroup

Top 8 Institutions – Collectively

>$10 trillion Total Assets

>14,000 Subsidiaries and Divisions

>6,000 Executives

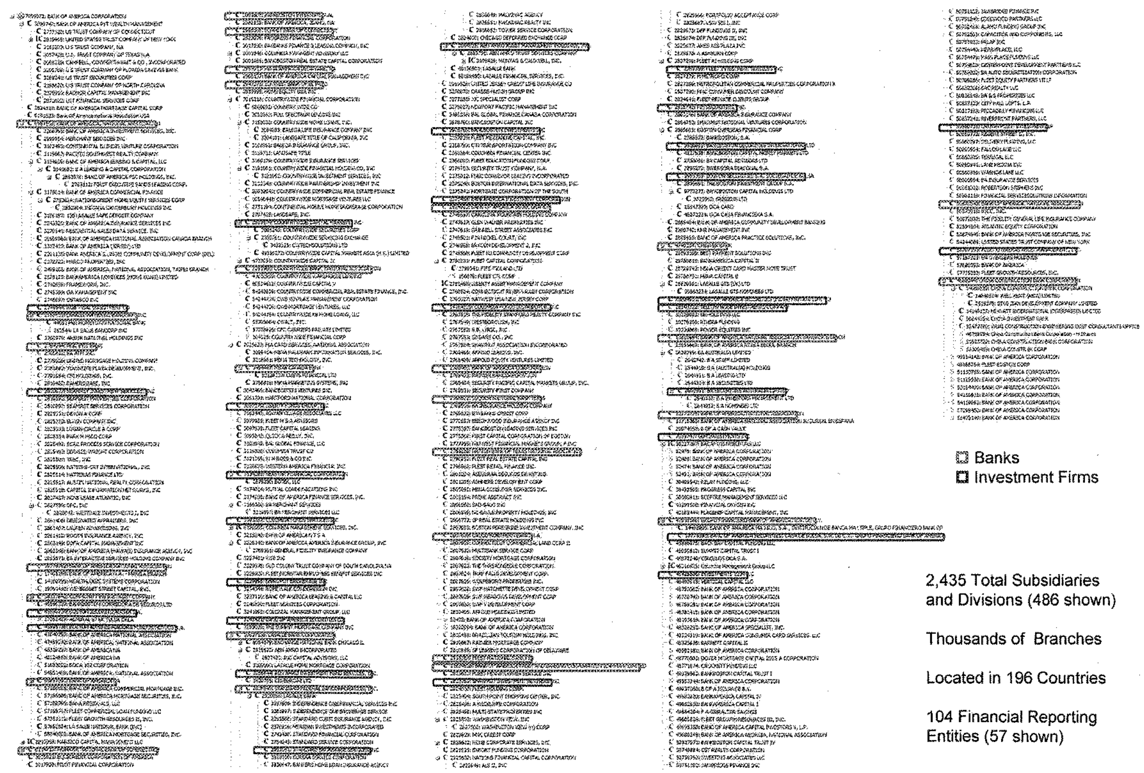
>40,000 events of Public Information in the first 100 Days Of TARP

8K's,10Q's, S1's, OCC FRY 9C, Call Reports, Newswires, Public Records, Press Releases, Transcriptions, and other publically available data

Almost $200 Billion In Tranche 1 TARP Money Representing over 62% Of Total Infusions

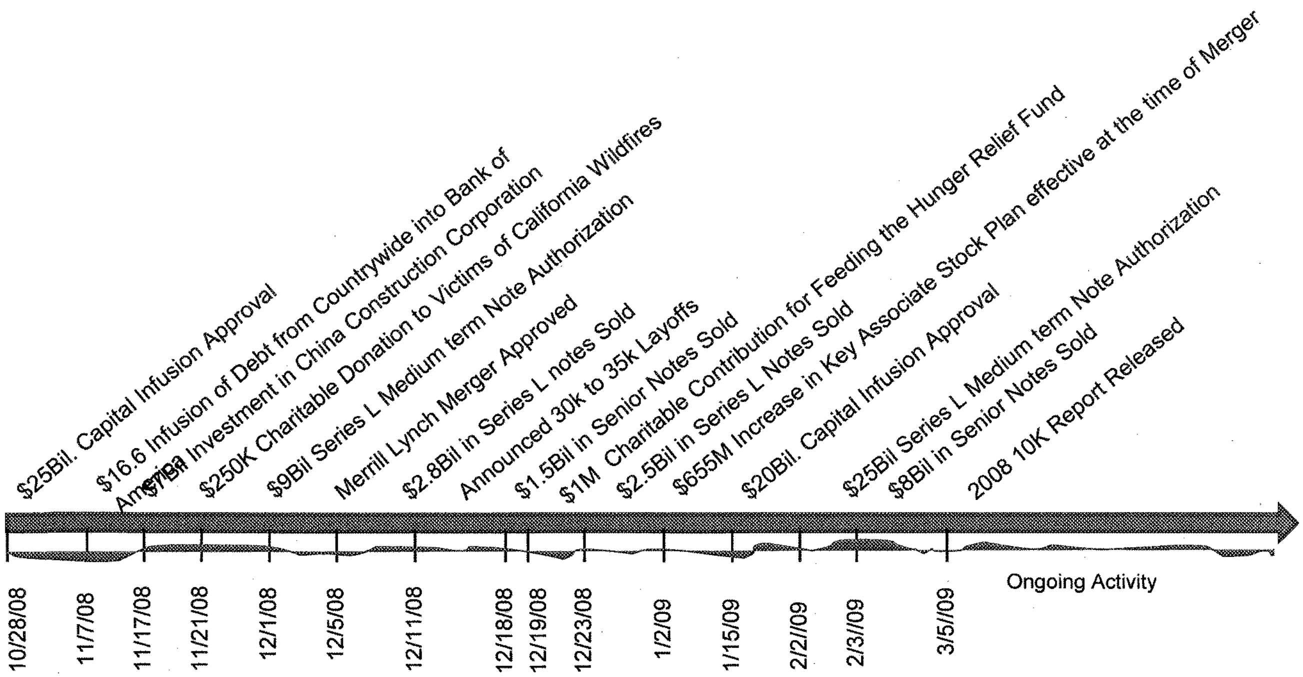
Bank of America

(Tier 1 Subsidiaries and Branches)



Creating a Single View of an Institution

During this 100 Day span over 10,000 events from public information have been released on Bank of America



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

-E SECURITIES EXCHANGE ACT OF 1934

or

OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number:
1-6523

Exact name of registrant as specified in its charter:

Bank of America Corporation

Family Residential Mortgage Origination Activity
(in Billions)
Source: FRY9C

Quarter	Total	Period to Period Change
6/30/2008	$21.3	
9/30/2008	$49.4	$28.1
12/31/2008	$49.3	($0.1)

Loans secured by 1–4 family residential properties
(in Billions)
Source: FRY9C

Period Ending	Balance	Period to Period Change
6/30/2008	$358.2	
9/30/2008	$437.1	$78.9
12/31/2008	$428.8	($8.3)

Residential Mortgages and Home Equity
(in Billions)
Source: SEC Filings

Period Ending	Balance	Period to Period Change
6/30/2008	$356.9	
9/30/2008	$408.9	$52.0
12/31/2008	$400.5	($8.4)

During 2008, to help borrowers avoid foreclosure, Bank of America and Countrywide had completed over 230,000 modifications.

In addition to being committed to the loan modification programs, we continued to focus on extending new credit by extending approximately $115 billion of credit during the fourth quarter including $49 billion in commercial non-real estate; $45 billion in mortgages; nearly $8 billion in domestic card and unsecured consumer loans; nearly $7 billion in commercial real estate; approximately $5 billion in home equity products; and approximately $2 billion in Dealer Financial Services consumer credit.

Bank of America 2008 17

"...focus on extending new credit by extending $115 billion of credit during the fourth quarter..."

$49 billion Commercial, non-real estate

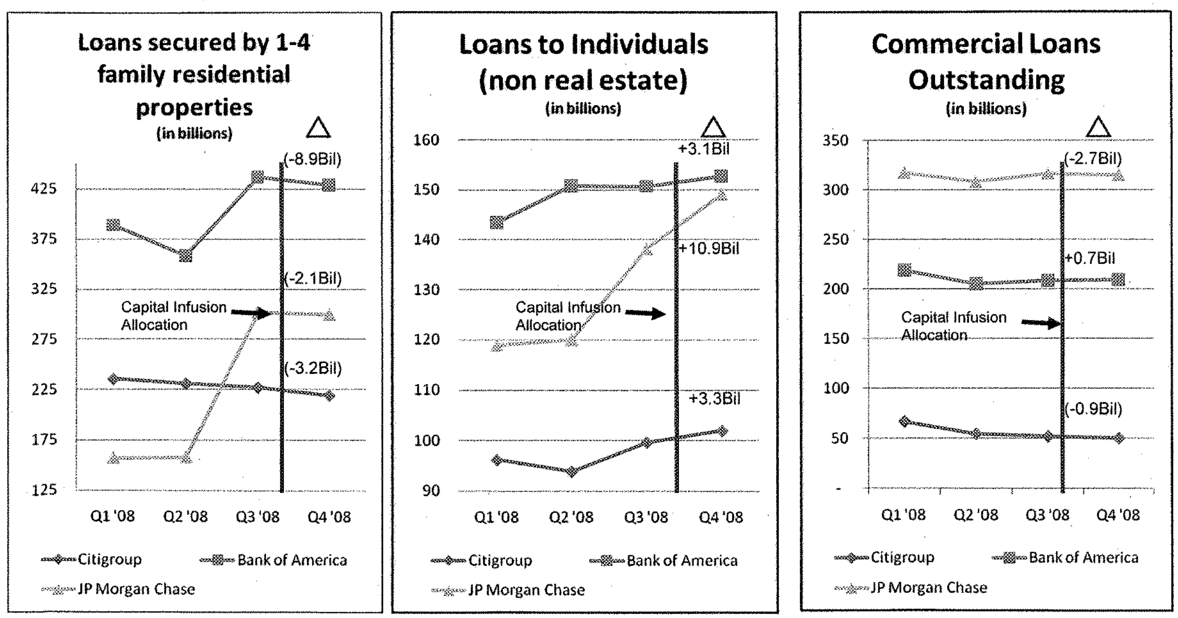
$45 billion in mortgages
$5 in home equity products

$8 billion in domestic card and unsecured loans

$7 billion in commercial real estate

$2 billion in Dealer Financial Services consumer credit

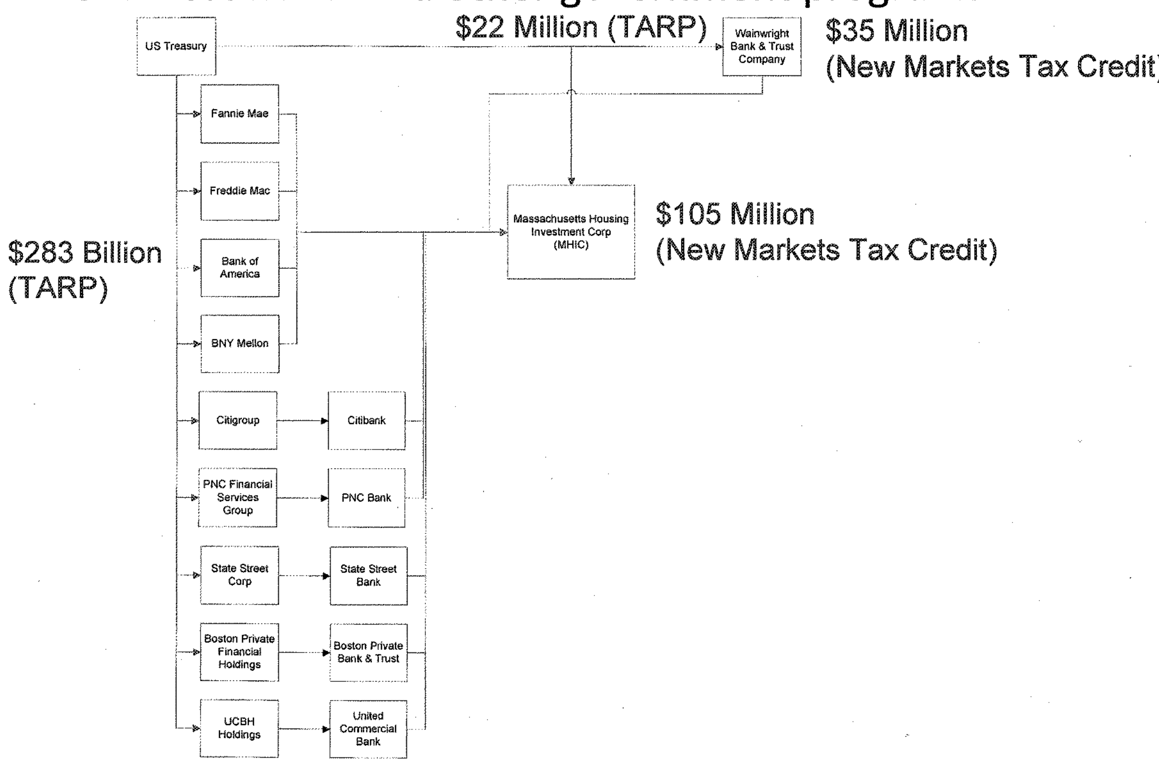
Have TARP Funds Influenced The Lending Activities Of Some Of The Key Recipients?



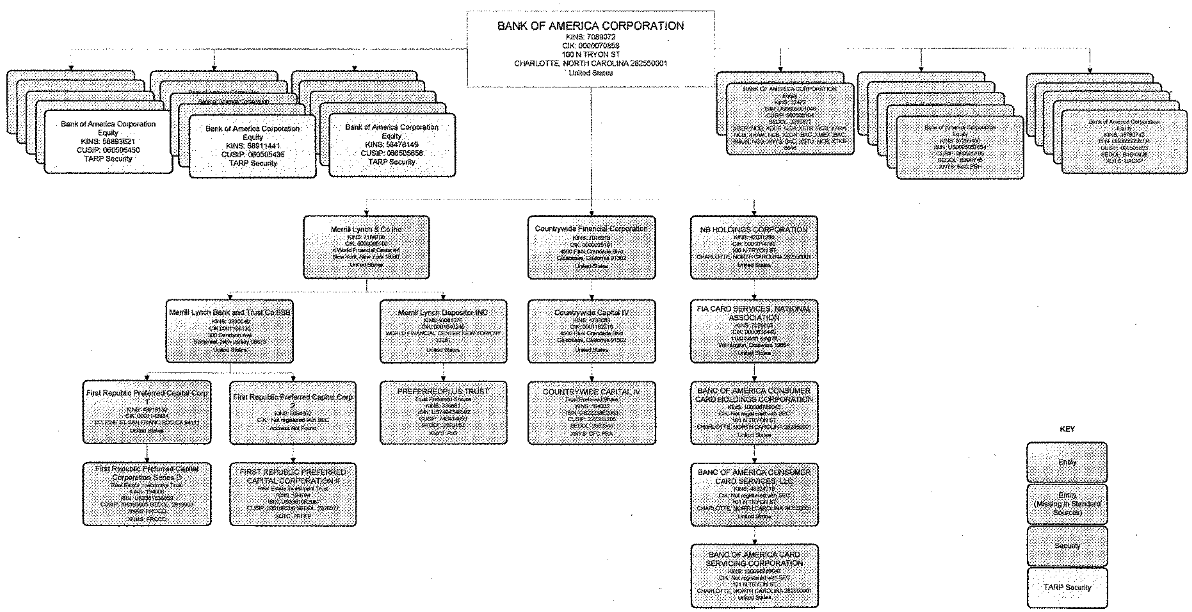
Total Capital Infusion [prior to 12/31/08] **$75Bil** Aggregate Loan Activity Consumer and Commercial Q4 '08 = **$0.1Bil Net**

End of slide show –
other slides below for
use or not.

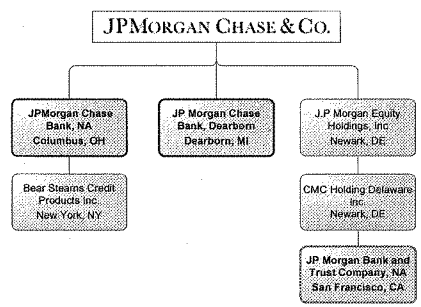
Institutions that receive TARP funding may also benefit from other investments and other government programs.



In this example, key acquisitions such as Merrill Lynch and Countrywide are highlighted



By using the corporate hierarchy and multiple sources of reported information, you can un-consolidate certain balances.



WaMu

Total Assets **(millions)**

Company	12/31/08	09/30/08	06/30/08	03/31/08
JPMorgan Chase & Co (consolidated)	$2,175,052	$2,251,469	$1,775,670	$1,642,862
JPMorgan Bank & Trust Company, NA	$101	$101	-	-
JPMorgan Chase Bank, NA	$1,746,242	$1,768,657	$1,378,468	$1,407,568
JPMorgan Chase Bank, Dearborn	$67	$62	$62	$63

Dow Jones has provided the accompanying sample transactions at the direction of the Committee, using the Committee's criteria, in order to demonstrate the type of transparency that is available to track TARP funds. The transactions and news events were derived from public sources and are included for demonstration purposes only. By providing this information, Dow Jones makes no judgment with respect to any of these transactions.

Action	Description	Amount	Date of Action	Filing Type	Date of Filing	
Agreement and Plan of Merger with Merrill Lynch	Bank of America entered into a Agreement and Plan of Merger with Merrill Lynch. Under the terms it would a be a stock for stock transaction and BAC will form a new subsidiary ("Merger Sub") that will merge with and into Merrill Lynch, with Merrill as the surviving company		9/15/2008	8-k	10/3/2008	
New share registration	Bank of America issued 455M shares @ $22.00 a share with an option to issue 68M more if the underwriter sells all initial shares. Expected proceeds $9B. Net proceeds were $9.9B per 2/27/09 10-K	$9,759,750,000.00	10/7/2008	8-k	10/10/2008	
Receives TARP Funds from 1st Tranche	Bank of America receives $25B from the Treasury ($15B for Bank of America and $10B for Merrill Lynch) On October 26, 2008, Bank of America Corporation (the "Registrant") entered into a Letter Agreement (the "Purchase Agreement") with the United States Department of the Treasury ("Treasury"), pursuant to which the Registrant agreed to issue and sell (i) 600,000 shares of the Registrant's Fixed Rate Cumulative Perpetual Preferred Stock, Series N (the "Series N Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 73,075,674 shares of the Registrant's common stock, par value $0.01 per share (the "Common Stock"), for an aggregate purchase price of $15,000,000,000 in cash. The Purchase Agreement is attached as Exhibit 10.1 hereto and is incorporated herein by reference. Simultaneously with the Registrant's entry into the Purchase Agreement, Merrill Lynch & Co., Inc. ("Merrill Lynch") entered into an agreement with Treasury (the "Merrill Agreement") which allows Merrill Lynch to sell preferred stock and warrants to Treasury for a purchase price of $10,000,000,000 prior to January 31, 2009	$ 25,000,000,000	10/26/2008	8-k	10/30/2008	
Transfer of Assets	In connection with the integration of Countrywide, Countrywide and Countrywide Home Loans, Inc transferred all assets and operations to Bank of America. Bank of America will assume debt securities of Countrywide, totaling $16.6B		11/7/2008	8-k	11/10/2008	
Investment in Foreign Bank	Gave notice of its plan to exercise its option to purchase ordinary shares of China Construction Bank Corporation (CCB). Following the purchase BAC would hold 44.7B H-shares of CCB representing about 19.1% of CCB issued shares, it currently holds 10.75%	$ 7,000,000,000	-	Press Release	11/17/2008	http://newsroom.bankofamerica.com/index.php?s=press_releases&item=8295 http://www.iht.com/articles/2008/11/18/business/views19.php
Charitable Donation	Contributes $250,000 to aid victims in Southern California wildfires	$ 250,000	-	Press Release	11/21/2008	http://newsroom.bankofamerica.com/index.php?s=press_releases&item=8298
Merger Approved	Shareholders approved the merger with Merrill Lynch, including a 50% stake in BlackRock Inc		12/5/2008	8-k	12/5/2008	
Increased Debt Securities Authorized	Increased the amount Medium Term Notes, Series L to be sold by and additional $9B	$ 9,000,000,000	12/1/2008	8-k	12/5/2008	
Raised Capital - Debt	Pursuant to the Medium Term Note Program, Series L, Bank of America sold an additional $2.4B	$ 2,400,000,000	12/11/2008	8-k	12/11/2008	
Layoffs	Bank of America announced that it planned to cut 30,000 to 35,000 positions		-	News Article	12/11/2008	http://www.nytimes.com/2008/12/12/business/12bank.html
Increased in Common Shares Authorized	Pursuant upon shareholder approval, BAC increased its number of shares of the Corporation's common stock authorized for issues from 7.5B to 10B		12/9/2008	8-k	12/15/2008	
Raised Capital - Debt	Sold an additional $1.5B principal amount of Senior Notes due 2012	$ 1,500,000,000	12/18/2008	8-k	12/18/2008	
Raised Capital - Debt	Sold an additional $2.50B of Medium Term Note, Series L	$ 2,750,000,000	12/19/2008	8-k	12/23/2008	
Charitable Donation	Made a 1 million dollar donation to Feeding America to support hunger relief	$ 1,000,000	12/19/2008	Press Release	12/19/2008	http://newsroom.bankofamerica.com/index.php?s=press_releases&item=8326
Increased Shares in Associate Stock Plan	Amended the 2003 Key Associate Stock Plan to add 105 million shares (~655M) of Bank of America's common stock to the pool of shares available for awards, effective at the effective time of the Merger	$ 655,200,000	-	S-8	1/2/2009	
Completion of Acquisition or Disposition of Assets	Bank of America has completed the conversion of all equity capital of Merrill Lynch into Bank of America equity capital		1/1/2009	8-k	1/2/2009	
Receives TARP Funds from 2nd Tranche	On January 15, 2009, Bank of America Corporation (the "Registrant") entered into a Securities Purchase Agreement (the "Purchase Agreement") with the United States Department of the Treasury (the "Treasury"), pursuant to which the Registrant sold (i) 800,000 shares of the Registrant's Fixed Rate Cumulative Perpetual Preferred Stock, Series R (the "Series R Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 150,375,940 shares of the Registrant's common stock, par value $0.01 per share (the "Common Stock"), for an aggregate purchase price of $20,000,000,000 in cash. The Purchase Agreement is attached as Exhibit 10.1 hereto and is incorporated herein by reference.	$ 20,000,000,000	1/15/2009	8-k	1/22/2009	
Increased Debt Securities Authorized	Bank of America has increased the amount of securities authorized to be issued and sold pursuant to the Medium Term Note Program, Series L by an additional $25B	$ 25,000,000,000	1/27/2009	8-k	2/3/2009	
Raised Capital - Debt	Sold $8B in senior notes and $350M in floating rate notes to initial purchasers (Bank of America Securities, HSBC Securities (USA) Inc., J.P. Morgan Securities, Morgan Keegan & Company, SunTrust Robinson Humphrey, U.S. Bancorp Investments, Wells Fargo Brokerage Services, Cabrera Capital Markets, Jackson Securities, Loop Capital Markets, Samuel A. Ramiez & Company, Inc	$ 8,350,000,000	1/28/2009	8-k	2/3/2009	

Loss Sharing Program	The U.S. Treasury, the FDIC and the Federal Reserve have agreed in principle to provide protection against the possibility of unusually large losses on an asset pool of approximately $118.0 billion of financial instruments comprised of $81.0 billion of derivative assets and $37.0 billion of other financial assets.The majority of the protected assets were added by the Corporation as a result of its acquisition of Merrill Lynch. This guarantee is expected to be in place for 10 years for residential assets and five years for non-residential assets unless the guarantee is terminated by BoA at an earlier date. It is expected that BoA will absorb the first $10.0 billion of losses related to the assets while any additional losses will be shared between the Corporation (10 percent) and U.S. government (90 percent). As a fee for this arrangement, BoA will issue to the U.S. Treasury and FDIC a total of $4.0 billion of a new class of preferred stock and to issue warrants to acquire 30.1 million shares of Bank of America common stock.	$ 4,000,000,000	1/16/2009	10-K	2/27/2009	
Lending Activities	BoA expanded new credit by extending approximately $115 billion of credit during the fourth quarter including $49 billion in commercial non-real estate; $45 billion in mortgages; nearly $8 billion in domestic card and unsecured consumer loans; nearly $7 billion in commercial real estate; approximately $5 billion in home equity products; and approximately $2 billion in Dealer Financial Services consumer credit.	$ 115,000,000,000	-	10-K	2/27/2009	
Auction Rate Security Repurchases	As of December 31, 2008, BoA repurchased $4.7 billion in Aution Rate Securities (ARS) from customers, over 60% of their buyback committment.	$ 4,700,000,000	-	10-K	2/27/2009	
Tax Rate Reduction	Income tax expense was $420 million for 2008 compared to $5.9 billion for 2007 resulting in effective tax rates of 9.5 percent and 28.4 percent due to permanent tax preference amounts offseting a higher percentage of pre-tax income. (through provision for credit losses increasing from 8.4B in 2007 to 26.8B in 2008)	-	-	10-K	2/27/2009	
Liquidity Exposure to SPE's	On December 31, 2008 the Corporation's total **liquidity exposure to SPEs was $81.0 billion**, a decrease of $23.1 billion from December 31, 2007. The decrease was attributable to lower liquidity exposure in all categories, primarily CDOs and multi-seller conduits	-	-	10-k	2/27/2009	
Lending Increase for '08	Outstanding loans and leases increased $6.9 billion at December 31, 2008 compared to December 31, 2007 due to purchases of automobile loan portfolios, student loan disbursements and growth in the *Card Services* unsecured lending product partially offset by the securitization of automobile loans and the strengthening of the U.S. dollar against certain foreign currencies.	$ 6,900,000,000	-	10-K	2/27/2009	
Nonperforming Loans/Consumer Assets	During 2008 BoA added $9.5B to their non-performing loan designation and $7.7B in nonperforming consumer assets	$ 17,200,000,000	-	10-K	2/27/2009	
CDO Valuation	We were able to obtain security values using either external pricing services or offsetting trades for approximately 94 percent of the CDO exposure for which we used the average of all prices obtained by security. The majority of the remaining positions where no pricing quotes were available were valued using matrix pricing by aligning the value to securities that had similar vintage of underlying assets and ratings, using the lowest rating between the rating services.	-	-	10-K	2/27/2009	
CDO Losses	During 2008, BAC recorded CDO-related losses of $4.8 billion compared to $5.6 billion in 2007 including losses on super senior exposure of $3.6 billion and $4.0 billion. Also included in CDO-related losses in 2008 were $707 million of losses on purchased securities from liquidated CDO vehicles. CDO-related losses reduced trading account profits (losses) by $1.6 billion and other income by $3.2 billion.	$ 4,800,000,000	-	10-K	2/27/2009	Pg 35
CDO Writedown	During 2008, BAC reclassified $5.6 billion of super senior CDO's from liquidity commitments to super senior exposure (this value represents the net exposure after insurance and writedowns)	$ 5,600,000,000	-	10-K	2/27/2009	pg 36
CDO Exposure	Bank of America reported Total Net CDO Exposure of $11.6 billion as of 12/31/08. A footnote note in the Super Senior Collateralized Debt Obligation Exposure table indicates that the cumulative write downs do not include losses taken on liquidated CDOs . The total CDO-related losses from purchased securities on liquidated CDOs was $707 million.	-	-	10-K	2/27/2009	pg 35-36
Funding Shortfall	BAC allowed $1B for rapid amortization of home equity securitization for 2008. The actual value which rapadily amortized was $13.1B	$ 12,100,000,000	-	10-K	2/27/2009	pg 45
Level 3 Obligation Exposure	BAC's total purchase obligations total $28.4B in high risk obligations (long term derivatives, MSRS, AFS debt, etc)	$ 28,400,000,000	-	10-K	2/27/2009	pg 46
Written CDS Positions	BAC has written $1T in CDS coverage down from $1.5T in 2008	$ 1,006,237,000,000	-	10-K	2/27/2009	pg 127
Derivative Assets	BAC has increased its derivative holdings to $62B in 2008 up from $35B in 2007	$ 62,000,000,000	-	10-K	2/27/2009	
Writedowns	Other income decreased $6.0b due to Capital Markets and Advisory Services (CMAS) related writedowns (e.g. CDO exposure, leveraged fiannce loans and CMBS) of $5.3b and $1.1b of losses associated with the support provided to cash funds managed within Global Wealth and Investment Management (GWIM)			10-K	2/27/2009	Pg 19
Countrywide Writedown	Noninterest expense increased **$4.0 billion to $41.5 billion** for 2008 compared to 2007, primarily due to the acquisitions of Countrywide and LaSalle, which increased various expense categories			10-K	2/27/2009	pg 19

Action	Description		Amount	Date of Action	Filing Type	Date of Filing		
Bonuses	Citi announces deferred stock options for Smith Barney and Citi Alternative Investments divisions	$	619,000,000	10/27/2008	S-8	10/27/2008		
Receives TARP Funds	Citi receives TARP infusion	$	25,000,000,000	10/28/2008	8-k	10/30/2008		
New Agreement With Gov't	Citi adds capital benefit from agreement with US Treasury, Fed, and FDIC which will free up $40B in total capital, of which $20B will come directly from a second TARP infusion	$	40,000,000,000	-	Press Release	11/21/2008		
Debt Issuance	Citi issues floating rate notes under TLGP	$	5,750,000,000	12/9/2008	8-k	12/9/2008	http://idea.sec.gov/Archives/edgar/data/831001/000114420408068789/v134450_8-k.htm	
Lending	Citi Announces that it will provide $8B in lending to Dubai (UAE) public sector entities	$	8,000,000,000	12/14/2008	Press Release	12/14/2008	http://www.citigroup.com/citi/press/2008/081215a.htm	
Receives TARP Funds	Citi issues preferred stock and warrants to US Treasury as per the 11/24/2008 agreement	$	20,000,000,000	1/15/2009	8-k	1/15/2009	http://www.citigroup.com/citi/fin/data/fs081231a.pdf	
Resignation Chairman	National Bank of Abu Dhabi's Chairman resigns with no given reason. NBAD is 73% owned by the Abu Dhabi Investment Council -- the replacement for Abu Dhabi Investment Authority, the entity whom injected $7.5B into Citi. The government of Abu Dhabi has infused cash into NBAD as recently as 2/5/2009. (~$1B infusion)		-	1/5/2009	News Article	1/6/2009	hthttp://www.arabianbusiness.com/542793-abu-dhabi-bank-chief-resigns	http://in.reuters.com/article/asiaCompanyAndMarkets/idINL561057120090205
Director Retires	Robert Rubin Retires as Senior Counselor and member of the Board of Directors		-	1/9/2009	8-k	1/12/2009		
Intent to Form Joint Venture	Citi and Morgan Stanley to form joint-venture wealth management group. Citi spins off Smith Barney, Smith Barney Australia and Quilter to MS and receives $2.7B cash and 49% stake in the group to be named Morgan Stanley Smith Barney. Expectation of $9.5B pre-tax gain, an increase to tangible common equity of approximately $6.5 billion and an increase to Tier 1 capital of approximately $6.4 billion	$	2,700,000,000	1/13/2009	8-k	1/14/2009	http://www.citigroup.com/citi/press/2009/090113c.htm	
Executive Compensation	Citi announces compensation for directors. NOTE: Expenses **decreased** 12%, driven by a significant decrease in salary and incentive compensation due to headcount reductions and cost cutting offset by a $563 million Nikko Asset Management intangible asset impairment charge and a $457 million restructuring charge.		-	1/14/2009	8-k	1/14/2009		
Loss Sharing Program	Citi enters into loss sharing program with US Government and lowered capital requirement on $301B	$	301,000,000,000	1/15/2009	8-k	1/16/2009		
Corporate Reorganization	Citigroup announces its intent two reorganize into two operating units, Citicorp and Citi Holdings		-	-	Press Release	1/16/2009	http://idea.sec.gov/Archives/edgar/data/831001/000095010309000096/dp12301_ex99-1.htm	
Equity Issuance	Citigroup issues preferred stock under TARP to US Treasury and FDIC	$	7,000,000,000	1/16/2009		1/16/2009	http://www.citigroup.com/citi/fin/data/fs090116a.pdf	
Director Retires	Sir Win Bischoff steps down as Chairman of the Board of Directors -		-	2/23/2009	Press Release	1/21/2009	http://www.citigroup.com/citi/press/2009/090121c.htm	
Debt Issuance	Citi issues notes under TLGP	$	8,500,000,000	1/23/2009	8-k	2/2/2009		
Debt Issuance	Citigroup Global Markets Inc. Underwrites senior note issuance by Citigroup under TLGP	$	6,500,000,000	1/23/2009	8-k	1/23/2009		
TARP Progress Report	Citi releases first quarterly TARP progress report		-	2/3/2009	Press Release	2/3/2009	http://www.citigroup.com/citi/press/2009/090203a1.pdf	
Sale of Mortgages	Citi announces agreement to sell billing-and-collections rights to 185,000 mortgages to American Home Mortgage Servicing Inc. The face value on the mortgages is $37B	$	1,500,000,000	2/5/2009	News Article	2/5/2009	http://www.bloomberg.com/apps/news?pid=20601087&sid=aguFgJmPylx4&refer=home	

Action	Description	Amount	Date of Action	Filing Type	Date of Filing	
Resignation of Board Member	Edward M. Liddy resigned from the board as he has been appointed chairman and CEO of AIG, Inc.	-	9/23/2008	8-K	9/26/2008	
Raises Equity	Goldman issues private placement of preferred stock and warrants, and public offering of common stock. Berkshire Hathaway is purchasing the preferred stock.	$ 10,750,000,000	9/23/2008	8-K	9/29/2008	
Philanthropic Initiative	Goldman Sachs announces 5 year partnership with the 10,000 women program	$ 100,000,000	9/26/2008	Press release	9/26/2008	http://www2.goldmansachs.com/our-firm/press/press-releases/archived/2008/10k-women-partnership.html
Announcement of Participation in TARP	Goldman Sachs announces it will participate in TARP and receive $10B	-	10/13/2008	8-K	10/17/2008	
TARP Infusion	Goldman Sachs receives TARP funding	$ 10,000,000,000	10/28/2008	8-K	10/31/2008	
Debt Issuance	Goldman Sachs issues senior debt	$5,000,000,000	12/1/2008	8-K	12/1/2008	
Decrease in Tax Rate	The effective income ***tax rate was approximately 1% for 2008***, down from 25.1% for the first nine months of 2008 and down from 34.1% for fiscal year 2007. The decreases in the effective income tax rate were primarily due to an increase in permanent benefits as a percentage of lower earnings and ***changes in geographic earnings mix***.	-	12/15/2008	8-k	12/16/2008	http://www.bloomberg.com/apps/news?pid=20601087&sid=aznONFhyuoOI&refer=home
Share Repurchase	During 2008, Goldman Sachs repurchased 10.5 million shares of its common stock	$ 2,040,000,000	-	8-k	12/16/2008	
Declares Dividend	Goldman declares a $0.46 common stock dividend		3/26/2009	8-k	12/16/2008	
Compensation to Earnings	Excluding severance costs, the ratio of compensation and benefits to net revenues for 2008 was 48%	-	-	8-k	12/16/2008	
Total compensation	Total compensation for 2008 was $10.9B compared to $20.19B in 2007	-	-	10-k	1/27/2009	
Registration of Debt Securities	Goldman Sachs files registration of debt in conjunction with The Bank of New York Mellon as trustee, among others	-	-	8-A12B	2/4/2009	
Resignation	Jon Winkelried, President and Co-Chief Operating Officer has resigned in that capacity. He will be affiliated as a senior director	-	2/12/2009	8-k	2/17/2009	

Action	Description	Amount	Date of Action	Filing Type	Date of Filing
Acquisition	JPMorgan Chase acquired all deposits, assets, and certain liabilities of Washington Mutual's banking operations from the FDIC. JP Morgan Chase will pay approximately $1.9 billion	$1,900,000,000	9/25/2008	Press Release	9/26/2008
Raised Capital - Equity	JPMorgan Chase priced a $10 billion offering, consisting of approximately 246.9 million shares of its common stock at $40.50/share. The offering was originally estimated to be $8 billion but was raised to $10 billion	$10,000,000,000	9/26/2008	Press Release	9/26/2008
Declared Dividend	JPMorgan Chase declared a quarterly dividend of the company's 8.625% Non-Cumulative Preferred Stock, Series J for $239.58333 per share		10/20/2008	Press Release	10/20/2008
Receive TARP Funds	JPMorgan Chase receives $25 billion from the U.S. Treasury	$25,000,000,000	10/26/2008	8-K	10/31/2008
Lending	Chase Foreclosure Prevention Program has been enhanced to help keep families in their homes. The program is being extended to WaMu and EMC customers. The enhanced program is anticipated to provide $70 billion in loans and help 400,000 families over the next two years		10/31/2008	Press Release	11/5/2008
Buying Debt Securities	J.P. Morgan Securities announced that the duration of an offer to buy auction rate securities has been extended to December 12, 2008. As of November 7, 2008 J.P. Morgan Securities had received valued tenders of approximately $2 billion.	$2,000,000,000	11/10/2008	Press Release	11/10/2008
Spending	In order to enhance JPMorgan Chase's cash management and trade finance solutions in India, it revealed a global investment plan of $1 billion.	$1,000,000,000	11/11/2008	Press Release	11/11/2008
Lending	Announced that funds totaling approximately $250 million were issued to assist with disaster relief.	$250,000,000	-	Press Release	11/12/2008
Lending	Announced that JPMorgan Chase Foundation donated $500,000 to Denver's Lincoln La Alma Neighborhood through 2010.	$500,000	-	Press Release	11/24/2008
Raised Capital - Debt	Sold $5 billion worth of 3.125% Guaranteed Notes due 2011, $1 billion Floating Rate Guaranteed Notes due 2010, and $500 million Floating Rate Guaranteed Notes due 2011.	$6,500,000,000	11/26/2008	8-K	12/2/2008
Termination of Employees	JPMorgan Chase plans to cut 9,200 jobs at the former Washington Mutual. 4,000 of the jobs will be terminated by January 2009, and the remaining 5,200 jobs will be eliminated by the end of 2009.	-	-	Press Release	12/2/2008
Lending	Chase provided $250 million for the completion of the new Lucas Oil Stadium for the Indianapolis Colts football team.	$250,000,000	-	Press Release	12/4/2008
Lending	Announced that JP Morgan Chase would be lending an addition $5 billion to non-profit and health care companies, higher-education institutions and government units. The lending will be over the next year, and this additional lending brings the total commitments to approximately $65 billion.	$5,000,000,000	-	Press Release	12/4/2008
Declared Dividend	JPMorgan Chase declared a quarterly dividend of: $.38/share on outstanding common stock, $3.075/share on 6.15% Cum Pfd Stock Series E, $2.86/share on 5.72% Cum Pfd Stock Series F, and $2.745/share on 5.49% Cum Pfd Stock Series G	-	-	Press Release	12/9/2008
Lending	Provided $400 million to Reliance industries Ltd, an Indian based company. The funds will be supplied to Reliance through an 11-yr facility.	$400,000,000	-	Press Release	12/10/2008
Lending	Chase announced its plans to loan $400,000 to help pay severance to union workers, that were affected by the shutdown of Republic Windows & Doors.	$400,000	-	Press Release	12/10/2008
Lending	Chase is providing approximately $780,000 in grants to 10 non-profit groups in two Detroit neighborhoods. Chase will also provide $200,000 to Detroit Renaissance, and $150,000 to Goodwill Industries for workforce development for unemployed young men in Detroit.	$1,130,000	-	Press Release	12/17/2008
Plan of Acquisition	JPMorgan announces it will acquire UBS Commodities Canada Ltd. During the first quarter of 2009. Terms of the acquisition were not disclosed.	-	-	Press Release	12/22/2008
Board of Director Change	JPMorgan Asset Management Co. announced that Krishnamurthy Vijayan, formerly CEO and whole time director, will be promoted to Executive Chairman.	-	-	Factiva	1/6/2009
Spending	Chase will be spending $375 million on their California bank branches. $300 million will be spent on replacing the WaMu name with the Chase brand. $75 million will be spent on opening 20 more Chase branches.	$375,000,000	3/30/2009	Press Release	1/12/2009
Lending	Chase plans to invest $7.2 million in grants to California non-profits in 2009.	$7,200,000	-	Press Release	1/12/2009
Declared Dividend	JPMorgan Chase declared a quarterly dividend of $215.6250/share on 8.625% Cum Pfd Stock Series J.	-	-	Press Release	1/22/2009
Lending	Chase announced its plans to provide a $10 million grant to the Seattle Art Museum, and it will be paid over the next five years.	$10,000,000	-	Press Release	1/22/2009

Lending	Chase will be providing $2.65 million in grants to Washington non-profits in 2009.	$2,650,000	-	Press Release	1/22/2009
Acquisition	JPM is buying UBS's Canada commodities energy business and its global agriculture business.	-	-	Factiva	1/23/2009
Custodian for MBS Purchase Pr	JPMorgan has been selected by the Federal Reserve to serve as custodian for its program to purchase mortgage-backed securities.	-	-	Press Release	2/3/2009
Lending	Chase Card Services, the credit card division of JPMorgan announced it will be donating $1.5 million to 50 community organizations across the country.	$1,500,000	-	Press Release	2/3/2009
Spending	JPMorgan invested $1 billion to enhance its online payable solution, Payables Web Services.	$1,000,000,000	-	Press Release	2/4/2009
Sabbatical	Chris Complin, the Chief Information Officer, at JPM European equity group will take a 12-month sabbatical from march. No information provided regarding whether or not it is a paid sabbatical	-	-	Factiva	2/16/2009
Declared Dividend	The Board of Directors of JPM issued a press release announcing that the company's quarterly dividend will be reduced from $0.38 to $0.05, effective for the dividend payable April 30th, 2009. This will allow JPM to retain an additional $5 billion in capital per year.	-	2/23/2009	8-k / Press Release	2/24/2009
Acquisition	Bank of New York Mellon announced that it has completed the acquisition of JPMorgan Trust Bank Ltd in Japan from JPM. The price of the transaction was not disclosed.	-	-	Factiva	3/3/2009

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Action	Description	Amount	Date of Action	Filing Type	Date of Filing	
Raised Capital - Equity	Announced an agreement with Mitsubishi UFJ Financial Group where Mitsubishi will invest $9B in Morgan Stanley in exchange for $7.8B perpetual non-cumulative convertible preferred stock and $1.2B in perpetual non-cumulative non-convertible preferred stock. Morgan Stanley must assume that MUFG will convert all convertible preferred stock into common shares, so as of 11/30/2008 MUFG has 22.86% ownership in Morgan Stanley.	$9,000,000,000	10/13/2008	Press Release	10/14/2008	http://idea.sec.gov/Archives/edgar/data/895421/000119312509002600/ddef14a.htm#toc55521_11 -- page 19/20 -- MUFG owns 22.86% of Morgan Stanley's common stock --
Receives TARP Funds	Morgan Stanley receives $10B from the U.S. Department of the Treasury	$10,000,000,000	10/28/2008	8-K	10/30/2008	http://idea.sec.gov/Archives/edgar/data/895421/000095010308002687/dp11706_8k.htm
Raised Capital - Debt	Sold $2.25B of its 2.90% Notes due 2010, $2.5B of its 3.25% Notes due 2011, $500M of its Floating Rate Notes due June 2011, and $500M of its Floating Rate Notes Due December 2011	$5,750,000,000	12/2/2008	8-K	12/4/2008	
Change in Organizational Structure	Appointment of 133 Managing Directors	-	12/10/2008	Press Release	12/10/2008	http://www.morganstanley.com/about/press/articles/ba4f5d83-c6d5-11dd-b3a2-8df06e0b6eda.html
Approved Compensation Plan and Gave Grants to Certain Executives	Morgan Stanley Compensation Incentive Plan was approved. A long-term incentive plan was approved, where a participant's award would be credited to an account, and maintained as a liability to the company. The award would earn interest and would be paid in cash after vesting and other restrictions satisfied. Grants were given under the plan to certain executive officers of the company, excluding John Mack (Chairman and CEO), Walid Chamman (Co-President), and James Gorman (Co-President). An amount of the grants was not disclosed.	-	12/18/2008	8-K	12/19/2008	http://idea.sec.gov/Archives/edgar/data/895421/000095010308002995/dp12102_8k.htm
Joint Venture with Citigroup	Morgan Stanley and Citigroup announced the combination of Morgan Stanley's Global Wealth Management Group with Citi's Smith Barney, Quilter in the U.K., and Smith Barney Australia. The combined entities will represent a joint venture between Morgan Stanley and Citigroup, and the joint venture will be named Morgan Stanley Smith Barney. Morgan Stanley will acquire a 51% ownership in the joint venture, and pay Citigroup $2.7B for the controlling interest. Citigroup will hold the remaining 49% stake in the joint venture.	$2,700,000,000	1/13/2009	Press Release	1/13/2009	http://www.morganstanley.com/about/press/articles/af3e409a-e1b7-11dd-84e6-b390c77322d3.html
Layoffs	Morgan Stanley announces plans to cut about 3%-4% of its work force, or up to 1,880 people.	-		News	2/2/2009	http://money.cnn.com/2009/02/02/news/companies/morganstanley_jobs.reut/

Action	Description	Amount	Date of Action	Filing Type	Date of Filing	
Acquires All Shares of JPMorgan Trust Bank Limited in Japan	entered into a definitive agreement with JPMorgan Chase & Co. to acquire all issued and outstanding shares in JPMorgan Trust Bank Limited in Japan. The transaction is a result of the company's acquisition of JPMorgan Chase's global corporate trust business in 2006. Terms of the deal were not disclosed.	-	10/8/2008	News Release	10/8/2008	http://www.bnymellon.com/pressreleases/2008/pdf/pr100808c.pdf
Dividend Announced	announced that its Board of Directors declared a quarterly dividend of 24 cents per share on the outstanding shares of the Company's common stock. The dividend is payable on November 3, 2008 to holders of record as of the close of business on October 24, 2008.	-	10/14/2008	News Release	10/14/2008	http://www.bnymellon.com/pressreleases/2008/pdf/pr101408b.pdf
Receives TARP Funds from 1st Tranche	agreed to issue and sell, and the U.S. Department of the Treasury (the "Treasury") agreed to purchase, (i) 3,000,000 shares (the "Preferred Shares") of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series B, having a liquidation preference of $1,000 per share, and (ii) a ten-year warrant (the "Warrant") to purchase up to 14,516,129 shares of the Company's voting common stock, par value $0.01 per share ("Common Stock"), at an exercise price of $31.00 per share, for an aggregate purchase price of $3.0 billion in cash.	$ 3,000,000,000	10/26/2008	8-K	10/30/2008	http://sec.gov/Archives/edgar/data/1390777/000119312508220414/d8k.htm
Personnel change	BNY Mellon Asset Management has named Jeffrey B. Saef director of multi-strategy investment solutions. Saef, who reports to Phil Maisano, chief investment strategist, is responsible for developing integrated solutions for U.S. clients that combine investment strategies from the asset manager's investment boutiques.	-	11/10/2008	News Release	11/10/2008	http://www.bnymellon.com/pressreleases/2008/pr111008e.html
Job Cuts	Dow Jones reported that according to Bloomberg News, The Bank of New York Mellon Corporation plans to cut 1,800 jobs, or 4% of its work force.	-	11/20/2008	News Release	11/20/2008	http://www.reuters.com/finance/stocks/keyDevelopments?symbol=BK.N&pn=4
Acquires Shares	Bematech SA announced that The Bank of New York Mellon Corporation has acquired 4,462,966 shares of Bematech SA, representing 8.22% of its capital stock. Financial details of the transaction were not disclosed.	-	12/16/2008	News Release	12/16/2008	http://www.reuters.com/finance/stocks/keyDevelopments?symbol=BK.N&pn=3
Dividend Announced	announced that its Board of Directors declared a quarterly dividend of 24 cents per share on the outstanding shares of the Company's common stock. The dividend is payable on February 3, 2009 to holders of record as of the close of business on January 23, 2009.	-	1/13/2009	News Release	1/13/2009	http://www.bnymellon.com/pressreleases/2009/pr011309b.html
Donation to Syracuse	The Bank of New York Mellon has awarded $60,000 to four area nonprofit organizations -- OnPoint for College, Inc., Arc of Onondaga, AIDS Community Resources and the Food Bank of Central New York. The contributions illustrate the company's long tradition of supporting the communities in which its employees live and work, including the greater Syracuse region	$ 60,000	2/17/2009	News Release	2/17/2009	http://www.bnymellon.com/pressreleases/2009/pr021709.html

Action	Description	Amount	Date of Action	Filing Type	Date of Filing		http://phx.corporat
Salary and Savings Plan Changes	Effective Jan. 1, 2008, State Street begins matching 100% of first 6% of contribution to savings plan. Prior to Jan. 1, matched 50% of first 6%.	N/A	1-Jan-08			http://idea.sec.gov/Archives/edgar/data/93751/000119312508142792/d11k.htm	
Equity Issuance	Issues for sale 35,715,000 shares @ $70/share, less underwriting fees $2.10/share	2.4 Billion - 2.8 Billion	2-Jun-08	424B5	2-Jun-08	http://idea.sec.gov/Archives/edgar/data/93751/000104746908007199/a2186095z424b2.htm	
Adjustment to performance awards for executives	Approved amendments to provide that "awards granted to recipients that are or become eligible for retirement and leave the employment of the company continue to vest in accordance with their terms for the full duration of the relevant performance cycle. These award recipients are therefore entitled to receive payment under the applicable performance award at the end of the performance cycle for the full duration of the performance cycle to the extent that the conditions of the award, including the relevant performance goals, are achieved. Payment under these circumstances is subject to the recipient's compliance with State Street customer and employee non-solicitation obligations. Prior to these amendments, the payment received by these recipients would have been pro-rated for the term of their employment during the relevant performance cycle. The applicable retirement age is 55 years, and retirement under the State Street 2006 Equity Incentive Plan also requires five years of service to the company."	N/A	17-Jun-08	8-K	20-Jun-08	http://idea.sec.gov/Archives/edgar/data/93751/000119312508137477/d8k.htm	
Sale of holdings	Completes sale of interest (50% stake) in CitiStreet, records gain of $345 Million pre-tax gain net of exit and costs of sale	$ 345,000,000	1-Jul-08	10-Q	1-Jul-08	http://idea.sec.gov/cgi-bin/browse-idea?action=getcompany&CIK=0000093751&owner=exclude&count=40	
TARP funding	$2 Billion in funding from TARP in exchange for 20,000 shares of Series B fixed rate cumulative perpetual preferred stock $100,000 liquidation preference per share and warrant to purchase 5,576,208 shares of common stock at exercise price of $53.80/share	$ 2,000,000,000	28-Oct-08	8-K	31-Oct-08	http://idea.sec.gov/Archives/edgar/data/93751/000119312508221638/d8k.htm	http://idea.sec.gov/Archives/edgar/data/93751/000119312508243425/ds3asr.htm
Layoffs	Reduces staff by approx. 6% globally, or 1,600 - 1,800 positions.	N/A	3-Dec-08	8-K	3-Dec-08	http://idea.sec.gov/Archives/edgar/data/93751/000119312508247278/d8k.htm	
Dividends	Announces regular quarterly dividend of $0.24 per common share, payable on January 15, 2009. Normally increases common stock dividend twice each year since 1978, was unable to do so this year due to TARP funding restrictions.	N/A	15-Jan-09	Press Release	18-Dec-08	http://phx.corporate-ir.net/phoenix.zhtml?c=78261&p=irol-newsArticle&ID=1237854&highlight=	
Asset-Back Commercial Paper holdings increase	Between Sept 2008 and Dec 2008, holdings in ABCP due to conduit agreements decreased from $6.19 Billion to $230 Million thanks to CPFF , at same time Unrealized after-tax MTM loss increased from $2.138 Billion to $3.558 Billion. Major increase in exposure to losses due	N/A	1-Jan-09	8-K	1-Jan-09	http://idea.sec.gov/Archives/edgar/data/93751/000115752309000311/a5874797ex99-2.htm	
Dividends	Announces plan to lower dividends to 1 Cent per share, 96% drop from previous dividend of 24 Cents per share. Also announces plan to cut 2008 bonuses by ~ 50% from 2007 levels, and eliminate bonuses for company's top 5 execs		5-Feb-09	News	5-Feb-09	http://www.nytimes.com/2009/02/06/business/06state.html	

Party	Action	Description	Date of Action	Filing Type	Date of Filing
Wachovia	**Agreement-in-principle with Citigroup**	Wachovia issued a news release announcing that it entered into an agreement-in-principle with Citigroup, relating to the sale of its retail bank, corporate and investments bank, and wealth management business with Citigroup. Under the terms Citigroup would pay $2.1 billion	9/29/2008	8-k	9/29/2008
Wachovia	**Agreement and Plan of Merger with Wells Fargo**	Wachovia issued a news release announcing that it entered into an Agreement and Plan of Merger providing for the merger of Wachovia and Wells Fargo, which was unanimously approved by the Board. Under the terms, it would be a stock for stock transition for a approximate value of $15.1 billion. In the merger agreement Wells Fargo will form a new subsidiary ("Merger Sub") that will sign a agreement that they will merge with and into Wachovia, with Wachovia as the surviving company.	10/3/2008	8-k	10/3/2008
Wachovia	**Details of Agreement and Plan of Merger with Wells Fargo**	Agreement and Plan of Merger between Wells Fargo and Wachovia finalized. Under the terms of the merger agreement Wells Fargo will form a new subsidiary ("Merger Sub") that will sign an agreement that they will merge with and into Wachovia, with Wachovia as the surviving company.	10/9/2008	8-k	10/9/2008
Wachovia	**Intent to issue Preferred Stock for Merger**	Wachovia issued a news release relating to its intention to issue shares of preferred stock to Wells Fargo in connection with the merger agreement and share exchange agreement	10/10/2008	8-k	10/10/2008
Wachovia	**Issuance of Preferred Stock Wells Fargo**	Issued to Wells Fargo new series of Class A Preferred Stock. Wells Fargo is entitled to vote together with the common stock holders with number of votes equal to 39.9% of the aggregate voting power of all outstanding capital stock.	10/20/2008	8-k	10/21/2008
Wells Fargo	**Receives Funds from TARP**	Receives $25 billion from the Treasury Department in exchange for 25,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series D with liquidiation amount of $1 million. Treasury Department aslo will receive warrants to purchase 110,261,688 shares of their common stock at a exercise price of $34.01.	10/26/2008	8-k	10/30/2008

Mr. KUCINICH. You have given us a lot to think about here. I am sure there will be a lot of questions.

Mr. Barofsky, special inspector general.

STATEMENT OF NEIL BAROFSKY

Mr. BAROFSKY. Thank you, Mr. Chairman.

Chairman Kucinich, Ranking Member Jordan, members of the subcommittee, I am honored to appear before you today as the special inspector general for the Troubled Assets Relief Program [SIGTARP].

$300 billion has already gone out the door, and including the recently announced programs, Treasury intends to combine TARP funds with the Federal Reserve and others to more than quadruple the original $700 billion allotment to fund at least eight separate programs involving approximately $2.9 trillion.

These huge investments of taxpayer money will invariably create opportunities for waste, fraud and abuse, and will require strict oversight. To meet this oversight challenge, I focused SIGTARP on three areas since our inception: enforcement, transparency and oversight.

First, enforcement. Of the four primary bodies set forth in the Stabilization Act, we alone are responsible for investigating those who seek to criminally profit from the TARP. To meet this challenge, we have developed key relationships with other law enforcement and prosecutorial agencies from coast to coast, and have already shut down one securities fraud in Tennessee and have several other criminal investigations pending.

Today I am also pleased to announce our newly formed TALF task force. The TALF has been announced as a trillion dollar Federal Reserve Bank of New York program that will be seeded with up to $100 billion in TARP money. It is intended to secure liquidity to the securitization market by lending Government money to investors, including hedge funds, to buy newly issued asset-backed securities.

We have been vocal in our warnings about the susceptibility of this program to fraud. And today we convert those warnings into action by putting together a team of Federal law enforcement and regulatory investigators to address potential fraud in the TALF. Members of this task force will include the SEC, the FBI, the Postal Inspection Services [ICE], Treasury's Financial Crimes Enforcement Network, the Federal Reserve's Inspector General and the IRS. We will operate out of New York and Washington and provide training to both Federal and local law enforcement and prosecutorial agencies and provide a conduit, so we can ensure quick response to any tip or lead, whether generated from our hot line, 877–SIG–2009, the Federal Reserve or elsewhere.

Together, the members of our task force will combine our shared experience in securities fraud investigations and combine our resources to identify and cutoff potential fraud schemes before they can fully develop, deter would-be criminals and bring to justice those who seek to commit fraud through the TALF. For any would-be fraudster, our message is clear: If you try and steal from this program, we will find you, we will investigate you, and we will put you in jail.

My office has also focused on transparency since my first day in the office. And our audits are going to bring transparency both to those running the TARP program and the TARP recipients. We are conducting a survey on TARP recipients' use of funds, and on both the recipients' plans for complying with executive compensation conditions, as well as Treasury's plans on overseeing compliance.

We are also conducting audits on the impact of outside influences, such as lobbyists, on the TARP application process, and a case study on the circumstances under which Bank of America received approval for $45 billion in cash, $100 billion in asset guarantee in four different transactions through three separate TARP programs.

As for oversight, we have and will continue to coordinate our oversight activities with my co-panelist, Rick Hillman, and his colleagues at GAO, as well as the other inspectors general whose responsibilities touched on the TARP. We have also tried to have a positive impact on the TARP programs before the money goes out the door. Treasury has adopted several of our recommendations and we will continue to make recommendations to Treasury to address potential fraud as the new programs are rolled out.

The TARP program has changed significantly since the Stabilization Act was passed last October. Originally intended to purchase and manage $700 billion of toxic assets, that effort now stands as just a portion of only one of the eight intended TARP programs, and less than 25 percent of the total $2.9 trillion involved. We must change with it, and I ask that you support S. 383, the Special Inspector General Act of 2009, which unanimously passed the Senate early last month, and would give my office important hiring flexibility to react as the TARP programs grow and evolve. Quick passage of this important and essential legislation will help me continue to build the necessary core of my office to meet this challenge.

Chairman Kucinich, Ranking Member Jordan, members of the subcommittee, I commend you for your efforts to ensure proper oversight of the trillions of dollars of American taxpayer funds, and I would be happy to answer any questions that you may have.

[The prepared statement of Mr. Barofsky follows:]

SIGTARP OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR THE TROUBLED ASSET RELIEF PROGRAM

ADVANCING ECONOMIC STABILITY THROUGH TRANSPARENCY, COORDINATED OVERSIGHT AND ROBUST ENFORCEMENT

FOR OFFICIAL USE ONLY UNTIL RELEASED BY THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM SUBCOMMITTEE ON DOMESTIC POLICY

STATEMENT OF NEIL BAROFSKY

SPECIAL INSPECTOR GENERAL
TROUBLED ASSET RELIEF PROGRAM

BEFORE THE
UNITED STATES HOUSE OF REPRESENATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON DOMESTIC POLICY

March 11, 2009

Chairman Kucinich, Ranking Member Jordan, and Members of the Subcommittee, I am honored to appear before you today.

The Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") was created under the Emergency Economic Stabilization Act of 2008 ("EESA") to conduct, supervise, and coordinate audits and investigations of the purchase, management, guaranty, and sale of assets under the TARP. More than $300 billion has already been expended, and Secretary Geithner has now outlined his plans for how Treasury will spend the balance of the $700 billion approved by Congress under EESA.

In addition to the programs previously announced, Treasury has announced several new programs that will be implemented in the coming weeks, including efforts to deal with rampant foreclosures, to provide additional capital to struggling banks, and to address the toxic assets that remain on many financial institutions' books. As announced, the total amount of money potentially at risk in these programs, including those aspects of the programs that are funded in part by the Federal Reserve and FDIC, is in excess of $2.9 trillion, and this does not include the $750 billion that the Administration has noted that it may seek later this year.

To accomplish SIGTARP's mission to oversee this vast amount of money for the American taxpayer, I have focused on three areas: transparency, coordinated oversight and robust enforcement.

Transparency has been an area of focus for SIGTARP from day one. In late December, I formally recommended that Treasury post all TARP agreements, whether with recipients of TARP funds or with its vendors, on the Treasury website. Shortly after his confirmation, Secretary Geithner adopted this recommendation in full. Similarly, I asked for and obtained oversight language in the Citigroup and Bank of America agreements that require those banks to account for and report on their use of the TARP funds. I was pleased to see that Citigroup reported on its use of funds and its announcement that it was addressing lending with more than $34 billion in TARP funds .

SIGTARP is also using its audit function to bring increased transparency to the TARP. For example, we sent letter requests to each of the TARP recipients that received TARP funds as of the end of January asking them to report on how they have used TARP funds and how they plan to use the funds that they have received but not yet spent. Responses from recipients have been coming in at a steady pace for the past week and we anticipate that most, if not all will be received within the next few days. We look forward to being able to provide more complete information on the extent of compliance with our request, and start providing initial information concerning the types of responses we have received in the next 30 days. Of course, more complete analysis of the responses will require additional time to complete and likely will require follow-up contact with some recipients before we complete our work. In that same survey, we also asked TARP fund recipients to provide details on their plans to comply with applicable executive compensation restrictions and how they are complying with those requirements. Overall, we believe that this survey data and associated follow-up work will shed light on an area about which very little information has previously been available: what the banks have done with the TARP money.

We have initiated two other audits that will also bring increased transparency to the TARP. First, we are looking into the impact of outside influences on the TARP application process, and we will report back to Congress on our finding as to what impact, if any, that lobbyists or other outside influences have had. Additionally, if necessary, we will make recommendations on dealing with such outside influences going forward. Second, we have begun an audit into the process under which Bank of America received $45 billion in capital investment and is to receive a guarantee relating to approximately $100 billion of toxic assets in four separate TARP transactions under three different TARP programs.

As to coordinated oversight, it has been and will continue to be a privilege and a pleasure to work closely with my co-panelist, Rick Hillman, Managing Director of Financial Markets and Community Investment at GAO. Over the past three months, GAO and SIGTARP have worked effectively to coordinate monitoring efforts to provide maximum oversight coverage while avoiding unnecessary or duplicative burdens on those charged with managing TARP. I have also founded and chair the TARP-IG Council, which has, as its members, GAO and the Inspectors General of the other agencies involved in aspects of the administration of TARP programs: the Inspectors General of the FDIC, SEC, FHFA, Federal Reserve, HUD, Tax Administration and Treasury. Through these and other coordinating efforts, we are establishing protocols and sharing ideas for comprehensive audits and investigations.

In conducting oversight, one focus of SIGTARP has been to attempt to have a positive impact on TARP programs to increase oversight effectiveness and fraud protections as the programs are developed – in other words, *before* the money goes out the door. Because I did not take office until mid-December, I was not able to offer advice with respect to the early TARP transactions. However, we have been active in providing recommendations concerning the programs and contracts that followed. Pursuant to our recommendations, the Auto Industry, Targeted Invested Program and Asset Guarantee Program agreements all contain explicit acknowledgement of SIGTARP's oversight authority to oversee the contracts. Moreover, at my Office's recommendation, for many of the significant conditions imposed by the agreements, the recipients are required to establish internal controls to ensure compliance with those conditions, that they are meet and report on, certifying, under criminal penalty, that the reporting was accurate. Collectively, these agreements – representing approximately $465 billion of TARP investments and guarantees – are a significant step forward from an oversight perspective as compared to earlier agreements and programs. We have also made a series of recommendations pertaining to the first part of the $200 billion Term Asset-Backed Securities Loan Facility

("TALF") program, and have met extensively with the Federal Reserve and Treasury to discuss those recommendations. Similar to the recommendations made for the TALF, SIGTARP has provided Treasury with several suggestions as to how to structure the loan modification program to guard against vulnerabilities to fraud, and we look forward to continuing to work with Treasury and the Government Sponsored Entities that will be overseeing the mortgage modification program to make further recommendations to reduce that program's vulnerability to fraud, to set up deterrence mechanisms to prevent bad actors from participating in the program, and fraud detection tools to make sure that we can quickly detect, shut down, and prosecute fraud if and when it occurs.

The scope and variety of the announced TARP programs, now involving eight different programs and nearly $2.9 trillion, leads to our third area of focus, civil and criminal law enforcement. Of the four primary oversight bodies referenced in EESA, SIGTARP stands as the sole TARP oversight body charged with criminal law enforcement authority: as the cop on the beat. This is obviously one of our most important functions, and we are meeting this unprecedented challenge head on.

Through these relationships, we are exploring task force and similar regional relationships throughout the country to deter criminal activity before it occurs, and to investigate and prosecute any and all who attempt to profit criminally from this National crisis. On that front, I am pleased to announce that we are establishing a multi-agency task force focused on one TARP program, the Term Asset backed securities Loan Facility (TALF), a New York Federal Reserve/Treasury program that has been announced as eventually becoming a trillion dollar program. The TALF Task Force will work collectively to identify fraud vulnerabilities in the TALF program and proactively and aggressively investigate any indications of wrongdoing associated with the program. We believe that this Task Force will serve as a powerful deterrent, and when we detect fraud, rest assured we will promptly investigate the matter and refer it to the relevant and appropriate state or federal prosecutor for quick and effective prosecution.

Through these relationships, we are exploring task force and similar regional relationships throughout the country to deter criminal activity before it occurs, and to investigate and prosecute any and all who attempt to profit criminally from this National crisis. On that front, I am pleased to announce that we have established a multi-agency task force focused on one TARP program, the TALF, a New York Federal Reserve/Treasury program that has been announced as eventually becoming a trillion dollar program. The TALF Task Force is comprised of representatives from SIGTARP, the Federal Reserve Office of the Inspector General, Treasury's Financial Crimes Enforcement Network, IRS-CI, the SEC, the FBI, the Postal Inspection Service and Immigration and Customs Enforcement of the Department of Homeland Security, and we will work collectively to identify fraud vulnerabilities in the TALF program and proactively and aggressively investigate any indications of wrongdoing associated with the program. We believe that this Task Force will serve as a powerful deterrent, and when we detect fraud, rest assured that we will promptly investigate the matter and refer it to the relevant and appropriate state or federal prosecutor for quick and effective prosecution.

We believe that the TALF Task Force will serve as a model for other multi-agency approaches to TARP programs, and we are already planning a coordinated response to potential fraud in other programs, including the recently announced mortgage modification initiative.

Additionally, we have begun our outreach to potential whistleblowers and those who may have tips about ongoing waste, fraud and abuse in TARP programs. The SIGTARP Hotline is operational and can be accessed through the SIGTARP website at www.SIGTARP.gov, and by telephone at 1 (877) SIG-2009. Plans are being formulated to develop a fraud awareness program with the objective of informing potential whistleblowers of the many ways available to them to provide key information to SIGTARP on fraud, waste and abuse involving TARP operations and funds, and explaining how they will be protected. Training programs are being developed to instruct law enforcement at a variety of agencies to assist in the oversight of the TARP, particularly with respect to the recently announced programs. Indeed, one of the primary functions of the TALF Task Force will be to sensitize law enforcement and prosecutorial offices to the potential for fraud, and to provide an easy referral source should they encounter any indicators of fraud.

We stand on the precipice of the largest infusion of Government funds over the shortest period of time in our Nation's history. History teaches us that an outlay of so much money in such a short period of time will inevitably attract those seeking to profit criminally. If, by percentage terms, some of the estimates of fraud in recent government programs apply to the TARP programs, we are looking at the potential exposure of hundreds of billions of dollars in taxpayer money lost to fraud. The TARP program is too important, and taxpayer funds are too dear, to allow that to happen.

The proactive cooperation and coordination that is at the heart of our investigative strategy is resource intensive. While I believe that SIGTARP is effectively establishing a framework that will permit us to meet our oversight obligations with respect to the nearly $3 trillion at risk in the TARP programs, we face serious challenges. Most significantly, we have had significant difficulties in meeting our hiring needs. We face many of the same problems faced by Treasury itself as it hires TARP managers, as outlined by GAO's recent report to Congress, including the limitations on pay, the difficulties of hiring into a demanding federal agency, and our conflict of interest rules, which, of course, limit our ability to hire employees who have represented or worked for the entities that we investigate and oversee or have a financial interest in them. We also face additional challenges given our need to identify highly trained and experienced government investigators and auditors and to convince them to join what is, by definition, a temporary agency.

With the passage of the recent stimulus bill, which provides more than $300 million in new funding to other law enforcement agencies and Inspectors General to provide oversight for programs funded by the bill, we are also facing stiff competition for a limited pool of experienced investigators and auditors as many audit organizations are ramping up to deal not only with audit requirements of the TARP program but also with new audit requirements included in the recently enacted stimulus legislation. Furthermore, the TARP program has changed significantly since EESA was passed last October. Originally intended to purchase and manage $700 billion of toxic assets, that task is now contemplated to represent just a portion of one of the eight intended programs, and the total number of programs and dollars to be overseen dwarf the original amounts contemplated when Congress created my office. To help us deal with these challenges, I ask for swift approval S. 383, a bill that unanimously passed the Senate on February 4, 2009, and which address some of these hiring hurdles and would provide significant assistance in helping us to meet these challenges.

Chairman Kucinich, Ranking Member Jordan, and Members of the Subcommittee, I commend you for your efforts to insure that the trillions of dollars being expended under TARP-related programs receive close oversight scrutiny. This concludes my statement and I would be happy to answer any questions you may have.

SIGTARP Hotline

If you are aware of fraud, waste, abuse, mismanagement or misrepresentations affiliated with the Troubled Asset Relief Program, please contact the SIGTARP Hotline.

By Online Form: www.SIGTARP.gov

By Phone: Call toll free: (877) SIG-2009

By Fax: (202) 622-4559

By Mail:

Hotline
Office of the Special Inspector General
For The Troubled Asset Relief Program
1500 Pennsylvania Ave., NW, Suite 1064
Washington, D.C. 20220

Mr. KUCINICH. Thank you, Mr. Barofsky.

Mr. Hillman is the person who is the Managing Director of Financial Markets and Community Investment for the U.S. Government Accountability Office.

Thank you for being here, you may proceed.

STATEMENT OF RICHARD HILLMAN

Mr. HILLMAN. Thank you, Mr. Chairman. I am pleased to be here today to discuss our work on the Troubled Assets Relief Program. My statement today is primarily based on our second 60-day report required under EESA that was issued on January 30, 2009. Specifically, my statement focuses on the nature and purpose of activities that have been initiated under TARP, and Treasury's efforts to establish a management structure for TARP.

Regarding our first objective, Treasury has announced a number of new programs to try to stabilize financial markets. But most of its activities during our reporting period have continued to fall under its capital purchase program. As of March 5, 2009, Treasury had disbursed approximately $300 billion in TARP funds, about $200 billion of which was for the capital purchase program.

Our previous report emphasized the lack of monitoring and reporting for program investments and recommended stronger measures to ensure that participating institutions used the fund to meet the program's purpose and comply with program requirements on, for example, executive compensation and dividend payments. In response to our recommendation, Treasury developed plans to survey the largest 20 institutions monthly to monitor lending and other activity, and analyze quarterly call report data for all institutions.

While the monthly survey is a step toward greater transparency and accountability for the largest institutions, we continue to believe that additional action is needed to better ensure that all participating institutions are accountable for their use of program funds. Our latest report recommended that Treasury expand the scope of its monthly surveys to include collecting at least some information from all institutions participating in the program.

Further, our most recent report found that Treasury has made limited progress in articulating and communicating an overall strategy for TARP. This lack of a clearly articulated vision has complicated Treasury's ability to effectively communicate with Congress, the financial markets and the public on the benefits of TARP, and has limited its ability to identify personnel needs. While Treasury has continued to publicly report on individual issues, testify and make speeches about the program, it continues to struggle to convey clearly articulated and overarching methods about its efforts potentially hampering TARP's effectiveness and underscoring ongoing questions about its communication strategy.

Without a clearly articulated strategic vision, Treasury's effectiveness in helping to stabilize markets may be hampered. Our most recent report recommended that Treasury clearly articulate its vision for TARP and to document needed skills and competencies to achieve that vision.

Regarding our second objective on TARP's efforts to establish a management structure for TARP, our first report included several recommendations for Treasury to improve hiring, contract oversight and its system of internal controls. Treasury has taken important steps to address our recommendations, but in its latest report, we found that it still faces several challenges.

First, it took proactive steps to ensure a smooth transition to the new administration by keeping positions filled and using an expedited hiring process, including direct hire authority. Moreover, after losing some potential candidates because of conflicts of interest, Treasury is now asking candidates to address potential conflicts earlier in the recruitment process to avoid unnecessary delays and finalizing employment offers. However, it continues to face difficulty providing competitive salaries to attract skilled employees.

Second, consistent with our earlier report about contracting oversight, Treasury has enhanced such oversight by tracking costs, schedule and performance, and addressing its training requirements of personnel who oversee the contracts. However, as we previously recommended, Treasury needs to continue to identify and mitigate conflicts of interest in contracting.

Similarly, in an earlier recommendation, our latest report found that a framework for adopting and organizing the development and implementation of a system for internal controls for TARP activities is progressing. The program plans to use this framework to develop specific standards, policies, drive communications on expectations and measure effectiveness of internal controls and the related policies and procedures. However, to date, much work continues to be needed to be accomplished in this area, including implementing a disciplined risk assessment process. Our latest report called for the development of a comprehensive system of internal controls over TARP activities, including detailed policies and procedures and guidance that are robust enough to ensure that the program's objectives and requirements are being met.

In summary, Treasury is taking important steps to implement our previous recommendations, but we continue to identify a number of areas that warrant ongoing action by Treasury to improve the accountability and integrity of the program.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to discuss these critically important issues and I would be happy to address any questions you may have.

[The prepared statement of Mr. Hillman follows:]

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Domestic Policy, Committee on Oversight and Government Reform, House of Representatives

For Release on Delivery
Expected at 10:00 A.M. EDT
Wednesday, March 11, 2009

TROUBLED ASSET RELIEF PROGRAM

Status of Efforts to Address Transparency and Accountability Issues

Statement of Richard J. Hillman, Managing Director
Financial Markets and Community Investment

GAO
Accountability * Integrity * Reliability

GAO-09-474T

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our work on the Troubled Asset Relief Program (TARP), under which the Department of the Treasury (Treasury) has the authority to purchase and insure up to $700 billion in troubled assets held by financial institutions through its Office of Financial Stability (OFS).[1] As you know, Treasury was granted this authority in response to the financial crisis that has threatened the stability of the U.S. banking system and the solvency of numerous financial institutions. The Emergency Economic Stabilization Act (the act) that authorized TARP on October 3, 2008, requires GAO to report at least every 60 days on findings resulting from our oversight of the actions taken under TARP.[2] We are also responsible for auditing OFS's annual financial statements and for producing special reports on any issues that emerge from our oversight. To carry out these oversight responsibilities, we have assembled interdisciplinary teams with a wide range of technical skills, including financial market and public policy analysts, accountants, lawyers, and economists who represent combined resources from across GAO. In addition, we are building on our in-house technical expertise with targeted new hires, re-employed annuitants with related expertise, and outside experts. The act also created additional oversight entities—the Congressional Oversight Panel (COP) and the Special Inspector General for TARP (SIGTARP)—that also have reporting responsibilities. We are coordinating our work with COP and SIGTARP and are meeting with officials from both entities to share information and coordinate our oversight efforts. These meetings help to ensure that we are collaborating as appropriate and not duplicating efforts.

My statement today is based primarily on our January 30, 2009 report, the second under the act's mandate, which covers the actions taken as part of

[1]GAO, *Troubled Asset Relief Program: Status of Efforts to Address Transparency and Accountability Issues*, GAO-09-296 (Washington D.C.: Jan. 30, 2009) and *Troubled Asset Relief Program: Additional Actions Needed to Better Ensure Integrity, Accountability, and Transparency*, GAO-09-161 (Washington, D.C.: Dec. 2, 2008).

[2]Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343, 122 Stat. 3765. The act requires the U.S. Comptroller General to report at least every 60 days, as appropriate, on findings resulting from oversight of TARP's performance in meeting the act's purposes; the financial condition and internal controls of TARP, its representatives, and agents; the characteristics of asset purchases and the disposition of acquired assets, including any related commitments entered into; TARP's efficiency in using the funds appropriated for its operations; its compliance with applicable laws and regulations; and its efforts to prevent, identify, and minimize conflicts of interest among those involved in its operations.

TARP through January 23, 2009, and follows up on the nine recommendations we made in our December 2, 2008 report.[3] This statement also provides additional information on some recent developments related to TARP, including Treasury's new financial stability plan. Our oversight work under the act is ongoing, and our next report is due to be issued by March 31, 2009, as required. This statement focuses on (1) the nature and purpose of activities that have been initiated under TARP; and (2) Treasury's efforts to establish a management structure for TARP, including a system of internal controls over the use of TARP funds. To do this work, we reviewed documents related to TARP, including contracts, agreements, guidance, and rules. We also met with OFS, contractors, federal agencies, and officials from all eight of the first large institutions to receive disbursements. We plan to continue to monitor the issues highlighted in the report, as well as future and ongoing capital purchases, other more recent transactions undertaken as part of TARP (for example, guarantees on assets of Citigroup and Bank of America), and the status of other aspects of TARP. We conducted this performance audit between December 2008 and March 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

Treasury has announced a number of new programs to try to stabilize financial markets, but most of its activities during this period have continued to fall under its Capital Purchase Program (CPP). As of March 5, 2009, Treasury had disbursed approximately $300 billion in TARP funds, about $197 billion of it for CPP. Treasury has recently announced the Financial Stability Plan, which outlines a set of measures to address the financial crisis and restore confidence in the U.S. financial and housing markets, and a Homeowner Affordability and Stability Plan to mitigate foreclosures and preserve homeownership. Treasury also has taken important steps since our first report to implement all nine of our recommendations. However, due in part to the short time that has elapsed since our first report, we continued to identify a number of areas that warrant Treasury's ongoing attention. We recommended in our latest

[3]Information is current as of January 23, 2009, unless otherwise noted in the statement.

report that Treasury continue to take action to further improve TARP's transparency and accountability and more clearly articulate and communicate a strategic vision for TARP. Specifically, we recommended that Treasury:

- expand the scope of the monthly CPP surveys for the 20 largest banks to include collecting at least some information from all institutions participating in the program;
- ensure that future CPP agreements include a mechanism that will better enable Treasury to track the use of the capital infusions and seek to obtain similar information from existing CPP participants;
- establish a process to ensure compliance with all CPP requirements, including those associated with limitations on dividends and stock repurchase restrictions;
- communicate a clearly articulated vision for TARP that incorporates actions to preserve homeownership and describes how all individual programs are intended to work in concert to achieve that vision; and once this vision is clearly articulated, document the skills and competencies needed within the department to carry it out;
- develop a comprehensive system of internal controls over TARP, including policies, procedures, and guidance for program activities that are robust enough to ensure that the program's objectives and requirements are met;
- continue to expeditiously hire personnel needed to carry out and oversee TARP;
- expedite efforts to ensure that sufficient personnel are assigned and properly trained to oversee the performance of all contractors, especially for contracts priced on a time-and-materials basis, and move toward fixed-price arrangements whenever possible as requirements are better defined over time;
- develop and implement a well-defined and disciplined risk-assessment process, which is essential to monitoring the status of programs and identifying any risks that previously announced programs will not be adequately funded; and
- review and renegotiate existing conflict-of-interest mitigation plans, as necessary, to enhance specificity and conformity with the new interim conflict-of-interest regulation and take continued steps to manage and

monitor conflicts of interest and enforce mitigation plans.

Consistent with our recommendations, the recently announced Financial Stability Plan outlines some steps that Treasury is taking to improve the transparency and accountability of new programs going forward. But Treasury still faces several challenges. First, our initial report emphasized the lack of monitoring and reporting for CPP investments and recommended stronger measures for ensuring that participating institutions used the funds to meet the program's purpose and comply with CPP requirements on, for example, executive compensation and dividend payments. In response to our recommendation, Treasury completed its initial survey of the 20 largest institutions to monitor lending and other activities and announced plans to analyze quarterly monitoring data (call reports) for all reporting institutions.[4] While the monthly survey is a step toward greater transparency and accountability for the largest institutions, we continue to believe that additional action is needed to better ensure that all participating institutions are accountable for their use of TARP funds. Second, Treasury has continued to develop a system to ensure compliance with CPP requirements, including executive compensation, dividend payments, and repurchase of stocks, but it has not yet finalized its plans for detecting noncompliance and taking enforcement actions. Third, we noted that Treasury had made limited progress in articulating and communicating an overall strategic vision for TARP and continued to respond to institution- and industry-specific needs. This lack of clarity has complicated Treasury's ability to effectively communicate to Congress, the financial markets, and the public. As Treasury provides more details on its new Financial Stability Plan, its strategic approach to addressing the financial crisis may become clearer.

Treasury has made progress in establishing a management structure for TARP, including adopting a framework for developing and implementing its system of internal control for TARP activities that is consistent with our recommendation. However, as of our January report, OFS had yet to implement a disciplined risk-assessment process. Treasury has taken steps to help ensure a smooth transition to a new administration by keeping positions filled and using an expedited hiring process. However, it continues to face difficulty providing competitive salaries to attract skilled

[4]Call reports are quarterly reports that collect basic financial data of commercial banks in the form of a balance sheet and income statement (formally known as *Report of Condition and Income*).

employees. Also, given the TARP's evolving nature and the changes under the new administration, Treasury needs to identify OFS's long-term organizational needs. Additionally, consistent with our recommendation on contracting oversight, Treasury has enhanced such oversight by tracking costs, schedules, and performance and addressing the training requirements of personnel who oversee the contracts. However, as we previously recommended, Treasury needs to continue to identify and mitigate conflicts of interest in contracting.

Treasury Has Continued to Focus on CPP, but a Variety of Other Programs Have Been Created or Are Being Planned

Treasury has continued to focus on CPP, but a variety of other programs have been created or are in progress, as shown in table 1. As of March 5, 2009, Treasury had disbursed almost 80 percent of the $250 billion it had allocated for CPP to purchase almost $197 billion in preferred shares of 467 qualified financial institutions (table 1).[5] Treasury has begun to receive dividend payments relating to capital purchases under CPP and other programs. According to Treasury, as of February 17, 2009, it had received about $2.4 billion.

[5]Through December 31, 2008, TARP capital purchases and loans totaled $247 billion. The Congressional Budget Office (CBO) estimated the subsidy cost for these transactions at $64 billion, or 26 percent, using valuation procedures similar to those specified in the Federal Credit Reform Act and adjusted for market risk as specified in the Emergency Economic Stabilization Act. See Congressional Budget Office, *The Troubled Asset Relief Program: Report on Transactions Through December 31, 2008* (Jan. 2009). COP estimated the subsidy cost at $78 billion, or 31 percent, using multiple valuation methods and an evaluation of similar private transactions. See Congressional Oversight Panel, *February Oversight Report: Valuing Treasury's Acquisitions* (Feb. 6, 2009). In connection with our audit of TARP's financial statements, we will be evaluating and testing the credit subsidy model that TARP uses to value capital purchases and loans for financial reporting purposes.

Table 1: Status of TARP Funds as of March 5, 2009 (dollars in billions)

Program	Disbursed
Capital Purchase Program	$ 196.8
Systemically Significant Failing Institutions	40.0
Targeted Investment Program	40.0
Automotive Industry Financing Program	23.7
Citigroup Asset Guarantee	0.0
Bank of America Asset Guarantee	0.0
Making Home Affordable Program	0.0
Term Asset-backed Securities Loan Facility – 1	0.0
Consumer & Business Lending Initiative	0.0
Totals	**$ 300.5**

Source: Treasury OFS, unaudited.

Initially, Treasury approved $125 billion in capital purchases for nine of the largest public financial institutions that federal banking regulators and Treasury considered to be systemically significant to the operation of the financial system.[6] At the time, these nine institutions held about 55 percent of U.S. banking assets. Subsequent purchases were made for qualified institutions of various sizes (in terms of total assets) and types. As we noted in our January report, most of the institutions that received CPP capital were publicly held institutions, although a limited number of privately held institutions and community development financial institutions (CDFI) also received funds.[7]

Treasury has taken a number of important steps toward better reporting on and monitoring of CPP. These steps are in keeping with our prior recommendations that Treasury bolster its ability to determine whether

[6]While Treasury approved $125 billion to the nine largest institutions, it initially disbursed funds to eight. The $10 billion to Merrill Lynch was not disbursed until January 9, 2009, after its merger with Bank of America was completed.

[7]CDFIs are specialized financial institution working in market niches that are underserved by traditional financial institutions. CDFIs provide a range of financial products and services such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers; flexible underwriting and risk capital for needed community facilities; and technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas.

institutions are using CPP proceeds in ways that are consistent with the act's purposes and establish mechanisms to monitor compliance with program requirements. However, Treasury needs to take further steps in this area. Treasury has done an initial survey of the largest institutions to monitor their lending and other activities and announced plans to analyze quarterly monitoring data (call reports) for all reporting institutions. While the monthly survey is a step toward greater transparency and accountability for the largest institutions, we continue to believe that additional actions are needed to better ensure that all participating institutions are held accountable for their use of the funds. Without more frequent information on all participants, Treasury will have little timely information about the changing financial condition of participating institutions, potentially limiting the ability of its newly created team of analysts to understand how the institutions are using CPP funds and whether the program is having the desired effect. In addition, without ensuring that future CPP agreements include a mechanism that enables Treasury to track the use of capital infusions and that existing CPP participants provide similar information, Treasury may have difficulty determining whether an institution has used the funds in a manner consistent with TARP's purposes. Therefore, we recommended that Treasury expand the scope of planned monthly CPP surveys to include collecting at least some information from all participating institutions. We also recommended that future CPP agreements include a mechanism that enables Treasury to track the use of capital infusions and that Treasury seek to obtain similar information from existing CPP participants. We will continue to monitor Treasury's oversight efforts as well as the consistency of the approval process in future work.

Treasury has also continued to take steps to increase its planned oversight of compliance with terms of the CPP agreements, including limitations on executive compensation, dividends, and stock repurchases. Among these steps, Treasury has named an Interim Chief Compliance Officer. However, Treasury has not finalized its plans for detecting noncompliance with CPP requirements or for taking enforcement actions. Without a more structured mechanism in place to ensure compliance and with a growing number of institutions participating in the program, ensuring compliance with these important aspects of the program will become increasingly challenging. In its recently announced Financial Stability Plan, Treasury called for banks receiving government funds in the future to be held responsible for appropriate use of those funds through (1) stronger restrictions on dividend payment and executive compensation, and (2) enhanced reporting to the public, including reporting on lending activity. In addition, Treasury is in the process of drafting new regulations to implement the executive compensation requirements in the American Recovery and Reinvestment Act of 2009, which amended the requirements in the Emergency Economic Stabilization Act related to executive compensation and corporate governance of TARP fund recipients.[8] Among these amendments is a requirement for the boards of directors of any TARP fund recipient to have in place a company-wide policy regarding excessive or luxury expenditures, as identified by Treasury. These may include excessive expenditures on entertainment or events, office and facility renovations, aviation or other transportation services, or other activities or events that are deemed unreasonable. We plan to monitor how Treasury defines excessive or luxury expenditures and how Treasury assures that TARP fund recipients adopt reasonable policies and practices to control against such expenditures. We will also continue to monitor both the system that Treasury develops to ensure compliance with the agreements and the implementation of additional oversight and accountability efforts under its new plan.

Treasury has also continued to make some progress in improving the transparency of TARP and a few weeks ago announced its plans for the remaining TARP funds. In our December 2008 report, we first raised questions about the effectiveness of Treasury's communication strategy for TARP with Congress, the financial markets, and the public. These questions were further heightened in the COP's January report, which raised similar questions about Treasury's strategy for TARP. In response to our recommendation about its communication strategy, Treasury noted numerous publicly available reports, testimonies, and speeches. However, even after reviewing these items collectively, we found that Treasury's strategic vision for TARP remained unclear. For example, Treasury initially outlined a strategy to purchase whole loans and mortgage-backed securities from financial institutions, but changed direction to make capital investments in qualifying financial institutions as the global community opted to move in this direction. However, once Treasury determined that capital infusions were preferable to purchasing whole mortgages and mortgage-backed securities, it did not clearly articulate how the various programs—including CPP, the Systemically Significant Failing Institutions Program (SSFI) , and the Targeted Investment Program (TIP)—would work collectively to help stabilize financial markets. For instance, Treasury has used similar approaches—capital infusions—to stabilize healthy institutions under CPP as well as SSFI and TIP, albeit

[8]Pub. L. No. 111-5, div. B, title VII, § 7001 (Feb. 17, 2009) (amending section 111 of EESA).

with more stringent requirements. Moreover, with the exception of institutions selected for TIP being viewed as able to raise private capital, both SSFI and TIP share similar selection criteria. Treasury also created the Auto Industry Financing Program in December 2008 to prevent a disruption of the domestic automotive industry that would pose systemic risk to the nation's economy and provided loans to two auto companies and two financing companies that, among other business lines, provide consumer automotive loans. Further, the same institution may be eligible for multiple programs. At least two institutions (Citigroup and Bank of America) currently participate in more than one program, adding to the confusion about Treasury's strategy and vision for implementing TARP. Other actions also have raised additional questions about Treasury's strategy. For example, Treasury announced the first institution under TIP weeks before the program was established. Similarly, the Asset Guarantee Program was established after Treasury announced that it would guarantee assets under such a program, but many of the details of the program have yet to be worked out.

Since our January report, Treasury has taken three key actions related to our recommendation about the need for a clearly articulated vision for the program. First, on February 10, Treasury announced the Financial Stability Plan, which outlined a set of measures to address the financial crisis and restore confidence in U.S. financial and housing markets. The plan appears to be an approach designed to resolve the credit crisis by restarting the flow of credit to consumers and businesses, strengthening financial institutions, and providing aid to homeowners and small businesses. Next, on February 25, Treasury provided the standardized terms and conditions for eligible financial institutions participating in the Capital Assistance Program (CAP). Under CAP, an eligible institution that is found by its primary banking regulator to need additional capital to continue lending and absorb losses in a severe economic downturn will be eligible to participate in CAP.[9] Such institutions will be eligible to receive a capital investment from Treasury in the form of preferred securities that can be converted into common equity to help absorb losses and serve as a bridge to receiving private capital. A key element of Treasury's Financial Stability Plan, CAP is designed to ensure that, in severe economic conditions, the largest U.S. bank holding companies have sufficient capital to support

[9]According to Treasury and the federal banking regulators, eligibility will be consistent with the criteria and deliberative process that has been established for identifying qualified financial institutions in the existing CPP.

lending to creditworthy homeowners and businesses. As part of this effort, the federal banking regulators—the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Office of Thrift Supervision—announced that they will begin conducting a one-time forward-looking capital assessment (or stress test) of the balance sheets of the 19 largest bank holding companies with assets exceeding $100 billion. These institutions are required to participate in the coordinated supervisory capital assessment and may obtain additional capital from CAP if necessary.[10] Regulators noted that the capital assessment process for all eligible institutions was expected to be completed by April 30, 2009.

In addition, on March 4, 2009, Treasury unveiled its Making Home Affordable program, which is based in part on the use of TARP funds. Among other things, the plan is designed to do the following:

- It will use $75 billion to modify the loans of up to 3-4 million homeowners to avoid potential foreclosure. The goal of modifying the mortgages of these homeowners is to reduce the amount owed per month to sustainable levels (a mortgage debt-to-income ratio of 31 percent). Treasury will share the cost of restructuring the mortgages with the other stakeholders (e.g., financial institutions holding whole loans or investors if loans have been securitized). Treasury announced a series of financial incentives for the loan servicers, mortgage holders/investors, and borrowers that are intended to "pay for success," encourage borrowers to continue paying on time under the modified loan, and encourage servicers and mortgage holders/investors to modify at-risk loans before the borrower falls behind on a payment.
- It includes an initiative to help up to 4-5 million homeowners to refinance loans that are owned or guaranteed by Freddie Mac and Fannie Mae at current market rates. According to Treasury, these homeowners would not otherwise be able to refinance their loans at the conforming loan rates because the declining value of their homes has left them with little or no equity. Refinancing at current mortgage rates could help homeowners save thousands of dollars in their annual mortgage payments.

[10]Eligible institutions with less than $100 billion in risk-weighted assets are also eligible to participate in CAP. Risk-weighted assets are the total of all assets held by the bank that are weighted for credit risk according to a formula established in regulation by the Federal Reserve.

- It increases Treasury's funding commitment to Fannie Mae and Freddie Mac to ensure the strength and security of the mortgage market and to help maintain mortgage affordability. The $200 billion funding commitment is based on authority granted to Treasury under the Housing and Economic Recovery Act of 2008.[11]

We will continue to monitor the development and implementation of Treasury's plan, including how its actions address the challenges we have previously identified.[12]

Efforts to Establish a Management Structure for TARP, including a System of Internal Control, Are Ongoing

Treasury has made progress in establishing its management infrastructure for TARP. However, its development of a system of internal control is still evolving, hiring for OFS is still ongoing, and Treasury is working to improve its oversight of contractors.

- OFS has adopted a framework for developing and implementing its system of internal control for TARP activities. OFS plans to use this framework to develop specific policies, drive communications on expectations, and measure compliance with internal control standards and policies. However, OFS has yet to develop comprehensive written policies and procedures governing TARP activities or implement a disciplined risk-assessment process.

- In the hiring area, Treasury took steps to help maintain continuity of leadership within OFS during and after the transition to the new administration. Specifically, Treasury ensured that interim chief positions would be filled to ensure a smooth transition and used direct-hire authority and various other appointments to bring a number of career staff on board quickly. OFS has increased its overall staff since our December 2008 report from 48 to 90 employees as of January 26, which includes an increase of permanent staff from 5 to 38. Treasury officials recently told us that the number of permanent staff had increased to 60. While progress has been made since our last report, the number of temporary and contract staff who will be needed to serve long-term organizational needs remains unknown. Because TARP has added many new programs since it was first established in October and program activities are changing under

[11]Pub. L. No. 110-289, 122 Stat. 2654 (2008).

[12]See GAO, *Troubled Asset Relief Program: Status of Efforts to Address Defaults and Foreclosures in Home Mortages*, GAO-09-231T (Washington, D.C.: Dec. 4, 2008) for a discussion of challenges facing loan modification programs.

the new administration, we recognize that Treasury may find it difficult to determine OFS's long-term organizational needs at this time. However, such considerations will be vital to retaining institutional knowledge in the organization.

- Treasury's use of existing contract flexibilities has enabled it to enter into agreements and award contracts quickly in support of TARP. However, Treasury's use of time-and-materials contracts, although authorized when flexibility is needed, can increase the risk that government dollars will be wasted unless adequate mechanisms are in place to oversee contractor performance. Although Treasury has improved its oversight of contractors, the department itself has identified both certification of its Contracting Officer Technical Representatives and its use of time-and- materials pricing as high-risk issues that still need attention. In addition, while Treasury has taken the important step of recently issuing an interim regulation outlining the process for reviewing and addressing conflicts of interest among new contractors and financial agents, it is still reviewing existing contracts or agreements to ensure conformity with the new regulation. We believe this step is a necessary component of a comprehensive and complete system to ensure that all conflicts are fully identified and appropriately addressed.

In each of these areas, we made additional recommendations. Specifically, we recommended that Treasury, in addition to developing a comprehensive system of internal controls, develop and implement a well-defined and disciplined risk-assessment process, because such a process is essential to monitoring the status of TARP programs and identifying any risks that announced programs will not be adequately funded. We also recommended that Treasury continue to expeditiously hire personnel needed to carry out and oversee TARP. For contracting oversight, we recommended that Treasury expedite efforts to ensure that sufficient personnel are assigned and properly trained to oversee the performance of all contractors, especially for contracts priced on a time-and-materials basis, and move toward fixed-price arrangements whenever possible as program requirements are better defined over time. We also recommended that Treasury review and renegotiate existing conflict-of-interest mitigation plans, as necessary, to enhance specificity and conformity with the new interim conflicts of interest regulation and that it take continued steps to manage and monitor conflicts-of-interest and enforce mitigation plans. We will continue to monitor OFS's implementation of the internal control framework and hiring and contracting practices, both of which are vital to TARP's effectiveness.

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to discuss these critically important issues and would be happy to answer any questions that you may have.

Contact

For further information on this testimony, please contact Richard J. Hillman on (202) 512-8678 or hillmanr@gao.gov.

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Mr. KUCINICH. Thank you very much, Mr. Hillman. I would like to go to questions now and begin with Mr. Horne.

In your testimony, you made the pretty shocking statement that the new lending several of the largest TARP recipients have claimed they are doing has been grossly overstated. I am going to ask staff to help us with some of these Bank of America slides. How could their representations be so far at odds with your own?

Mr. HORNE. Mr. Chairman, I don't believe that the representations per se are at odds. What they are is one side of the story.

Mr. KUCINICH. Well, you are just looking at new credit, but not offset by credit contracted.

Mr. HORNE. If you are going to publish a story that says that you are giving $115 billion or whatever, $150 billion in the case of another institution, etc., it talks about new lending activities. A balance sheet would actually say to you that you should also show the opposite side of those transactions. That has not been what we have observed. And again——

Mr. KUCINICH. So we don't really have a clear view as to the net effect.

Mr. HORNE. Transparency would dictate that you would want both sides of it.

Mr. KUCINICH. So you could have a condition where a lot of money is going out the door, but the credit contracts and you have a new loss?

Mr. HORNE. Well, again, as I said, we are trying to represent information from a transparency standpoint.

Mr. KUCINICH. I know. Right. I get it.

Mr. HORNE. So our issue is, from a transparency perspective, if you want to be transparent, and we have been doing so for 100 years for the commercial marketplace, you have to show both sides of the picture. And it is impossible for you to say that you are giving out lending without having an offsetting amount that shows that you are retracting.

Mr. KUCINICH. Thank you, Mr. Horne.

I want to ask Mr. Sanders, from the standpoint of impact on the economy, which is a more accurate description of bank lending activities, the method of representation employed by several TARP recipients, or the method that Mr. Horne has presented?

Mr. SANDERS. Well, I think that method Mr. Horne is presenting gives us a much better picture of how it is really impacting our economy and how it is impacting borrowers. Because again, the way the bank balance sheets are structured and the call reports, we just can't get a good picture.

What Mr. Horne is talking about is much more in real time and is much more translucent, we can actually see what is going on.

Mr. KUCINICH. So let's go back to Mr. Horne. If the banks you have identified are creating so little new credit now that they have billions in TARP funds, what are they using TARP funds for?

Mr. HORNE. Well, again, most of the activities that we are seeing from a transparency perspective are reflected in the balance sheet. So if you looked along the time line of some of the examples of events, you can see some of the examples of events. The first transaction that took place in the Bank of America event was a $16.8 billion debt buy-down on Countrywide being infused into Bank of

America. Now, at that point in time they had only received $15 billion, so they used some of their internal funds.

They also, many of the institutions need money to make money. In other words, you can't go out and lend secured notes or create senior debt without having balances or relatively large sums in reserves. So they want to keep this money on their books, in some cases, in order to be able to try to get other institutions to invest in them.

Mr. KUCINICH. Well, can I get a true picture at Treasury of bank lending by relying on the monthly intermediation snapshot?

Mr. HORNE. No, you cannot. You need to have every individual event that occurs transactionally over time brought together into a single format and structure to answer that question.

Mr. KUCINICH. So all the necessary information is available to regulators to create transparency of how TARP funds are being used?

Mr. HORNE. All the necessary information is available in 25 or some odd places.

Mr. KUCINICH. Mr. Bolgiano, Treasury can track how banks are using these funds?

Mr. BOLGIANO. Yes.

Mr. KUCINICH. And the technical capability is there, is that right?

Mr. BOLGIANO. Yes, that is correct.

Mr. KUCINICH. So it comes at a question of whether there is a will to do it?

Mr. BOLGIANO. That is right.

Mr. KUCINICH. Some have argued that since TARP funds are fungible, is it not possible to track the use of TARP funds? Mr. Horne?

Mr. HORNE. It is absolutely possible. Professor Sanders mentioned volumetrics. Volumetrics is, if you think of two glasses of water, and if you were pour the water, they were both half full and you pour the water out of one glass, and as long as you don't spill any into another glass, you should have the same volume of water. If you look at individual events, and remember, there is a Pareto principle, I don't know how many of you are familiar with the 80–20 Pareto law, well, in these cases of institutions that we are talking about here, it is more like 95–5, where 5 percent of the transactions make up 95 percent of the actual movement of funds.

So there is not, as a proportion of number of transactions, a large number volumetrically of funds that have to be looked at, nor to understand the ebbs and flows of the funds moving throughout the business. It is complex in terms of the interconnections. That is why it is so important to have a format such as XBRL, which would leave the ability to take two different systems together that are speaking totally different languages and bring them together as one.

Mr. KUCINICH. Thank you, Mr. Horne. My time is concluded this round. Mr. Jordan, you may proceed for 5 minutes.

Mr. JORDAN. Thank you, Mr. Chairman.

Is it fair to say then, I am trying to gather this together, that it is almost too much information in too many different forms is actually leading to a lack of transparency? Is that the problem? And we will go with Mr. Horne again.

Mr. HORNE. Yes, Ranking Member Jordan. In some cases that is true. But I feel that it is mostly the lack of the ability for individual members of various committees of the regulatory agencies, etc., to read paper documents. We live in Washington, in a document-based world. We don't live in a data world.

Mr. JORDAN. Has there been a reluctance on the part of various financial institutions and/or the Treasury to embrace Mr. Bolgiano's XBRL that he talked about, or the process that is going to allow us to sort of synthesize this and get it in a readable format? Has there been a reluctance out there to go that direction?

Mr. HORNE. I would defer that to Mr. Bolgiano.

Mr. JORDAN. All right.

Mr. BOLGIANO. In our markets today——

Mr. JORDAN. And if there has been a reluctance, why is that the case?

Mr. BOLGIANO. I think there is certainly a reluctance, first of all, to change in general. But also, information is a very valuable commodity. And the absence of a standard and the absence of transparency makes the publishing of that information a very profitable enterprise. This is a commodity that flows through our economy just like any other.

So the absence of transparency does protect certain businesses.

Mr. JORDAN. I want to go to the inspector general. Mr. Barofsky, your thoughts on the same question.

Mr. BAROFSKY. We have taken a different approach to this. We made a recommendation to Treasury that they require banks to establish internal controls to account for the use of funds and report on the use of funds. We recommended that they do that on a forward-going basis.

They haven't, so we have initiated our own use of funds survey. And we have pulled all of the banks and——

Mr. JORDAN. Wait. Go back. You made a recommendation to Treasury to increase transparency and they didn't?

Mr. BAROFSKY. Yes. It is included in our February 6th report. We made a recommendation that for every agreement going forward, it is taking a step back, we initially made the recommendation back in late December. And they did adopt it with respect to Bank of America and Citigroup, in those extraordinary transactions, they did require those banks to establish internal controls at our recommendation and report quarterly on how they are using the funds.

They have not adopted that recommendation with respect to any other financial institutions.

Mr. JORDAN. And give me your guess as to why.

Mr. BAROFSKY. I don't want to hazard a guess. I think that Mr. Kashkari has articulated some things this morning that are probably consistent with that explanation. I don't want to speak for him, but concern about putting certain conditions on a——

Mr. JORDAN. Well, obviously that is an important question, particularly when in your written testimony you talk about the potential exposure of hundreds of billions of dollars of taxpayer money potentially being lost to fraud and that is in your written testimony, so that is an important question.

Mr. BAROFSKY. It is absolutely an important question.

Mr. JORDAN. Talk about your thoughts on the XBRL, that concept as well.

Mr. BAROFSKY. From our perspective, we are taking a look and we are doing a survey of all the financial institutions' use of funds. We are going to get their narratives, they are coming in, I think we have about 90 percent responded. I think XBRL would help us turn around and then test some of these responses. But we are taking a different approach really on starting with the financial institutions' own reporting on how they are using the funds.

Now, our reports also require a certification, subject to criminal penalty, that if they lie to us, they would be committing a crime and we would investigate that. So we are hoping that provides a sufficient hammer to make sure we get accurate responses.

Mr. JORDAN. That is usually a pretty good incentive.

Last question. XBRL, can this help us, and my guess is it can, get to the questions I posed earlier to Mr. Kashkari that, we still haven't got at the focus of this entire TARP program initially, the mortgage-backed securities? Can it help us in that regard as well?

Mr. BOLGIANO. Yes. Mr. Jordan, we have been working on the mortgage-backed securities dictionary for the last 6 months with this question in mind. It is not a substitute for policy, obviously, and it is not a substitute for access to the information or the Government authority to request that information. But it does give a consistent vehicle for that information to be delivered and for the Government to use it effectively.

Mr. JORDAN. I thank the chairman.

Mr. KUCINICH. I thank the gentleman.

Mr. Cummings, 5 minutes.

Mr. CUMMINGS. Mr. Barofsky, you mentioned, I think you were talking about the task force. And then you just talked a moment ago about if folks lie to you. How do you deal with that, and what is the offense?

Mr. BAROFSKY. Any official, senior executive officer, any person who lies to us, we are a Government entity, or a part of the executive branch, that is a crime under 18 U.S.C. 1001. It is the statute that Martha Stewart, for example, was prosecuted under, just to give an easy example. And we require each and every one of the recipients of our survey to sign a certification with a senior executive officer stating that the information that is contained in this report is true. And if they lie, that is a Federal crime.

Mr. CUMMINGS. When we try to get information from some of these folks, they seem to duck and dodge. We don't always get the whole truth and nothing but the truth. I am just wondering, do you feel that you are getting the kind of information that you need?

Mr. BAROFSKY. My audit chief, who has begun the review of these surveys, we are holding off doing our full review until they are all in, which should be this week, has told me that his initial review, that they have been very good responses. We have gotten a lot of detailed responses about use of funds, according to him. He is encouraged that we are going to be able to do a very complete audit report. We will have to take a look at that.

Then obviously there is going to be followup. We are not just going to take the banks at their word. We are going to be doing followup as part of the audit process.

Mr. CUMMINGS. Now, are you staffed up sufficiently?

Mr. BAROFSKY. No. We are growing. We have been in existence a little bit under 3 months now. We have about 25 people on staff. We are aggressively hiring.

It has been very difficult. S. 383, which is now in the House, will help us grow. It gives us some hiring flexibility that we desperately need. We are striving to build to about 100 to 125 initially. So hiring is a challenge.

But I also don't want to leave the impression that it is only me and my staff of 25 standing between the taxpayers' $2.9 trillion and those who would try to take advantage of it. We are working with all of Federal law enforcement, as well as some State law enforcement, to make sure that we have the right protections in place.

Mr. CUMMINGS. I see we have a vote coming, but I have one question I have to get out. In your written testimony you indicate that you have "begun an audit into the process under which the Bank of America received $45 billion in capital investment and it is to receive a guarantee relating to approximately $100 billion of toxic assets in four separate TARP transactions under three different TARP programs." You further state, and this is what I am getting to, as to coordinated oversight, it has been and will continue.

Now, considering what you wrote in your testimony, I am interested to know whether Treasury knew about the $3.6 billion in bonuses awarded by Merrill Lynch in December, just before it was taken over by Bank of America. Did you know about that?

Mr. BAROFSKY. Congressman, I really can't talk about any matters that are pending under review in our investigations.

Mr. CUMMINGS. I understand.

Mr. BAROFSKY. It has been stated that we do have a pending investigation into the Merrill Lynch BofA bonus situation.

Mr. CUMMINGS. I understand. Let me ask you another way. And this may fall in the same category. Is this the kind of information, though, that would normally come through your office?

Mr. BAROFSKY. Yes, Congressman, we would ask those types of questions and we would expect to receive those types of answers.

Mr. CUMMINGS. And you would expect to get truthful answers, is that right?

Mr. BAROFSKY. It would also be a crime to lie to our office, if we asked that question, if somebody gave an untruthful answer, that would also be a crime. So yes, we would expect truthful answers.

Mr. CUMMINGS. Very well. I know we have a vote coming up, so thank you, Mr. Chairman. I yield back.

Mr. KUCINICH. We will go to Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman.

I am going to try and focus a little bit of attention again on XBRL. I apologize, I have been going through here and the Circuit City bankruptcy hearing next door. And actually, they have a lot in common, since it cost Circuit City $30 million to get a $50 million financing package. Needless to say, their Chapter 11 was short.

But without getting into whether TARP funds should be used for DIP financing or to encourage the Debtor In Possession financing to stop corporations from going bankrupt completely, Mr. Horne, Mr. Bolgiano, let me go toward you again. I think I heard Mr. Jordan kind of get on this, but I want to be absolutely sure.

If XBRL were to be implemented going forward, well, let's go the other way. If in fact we were to use XBRL to try to drill down into where the TARP money has gone today, would you be able to do that?

Mr. BOLGIANO. Yes, sir, with the proper authority from the Government, we would be able to provide the tool to be wielded by the Government for oversight.

Mr. ISSA. So you could provide the tool. They would need to make sure they had access to the data bases?

Mr. BOLGIANO. We would be able to provide the standard to be wielded as a tool, a dictionary. But it is not a system. It is not software. It's a standard.

Mr. ISSA. Should we realize that you allow other people to develop independently software that use your technology?

Mr. BOLGIANO. It is similar, if you had asked me in 1993, would it make it easier to get information from people if we had the Web, I would have immediately answered you yes. It would be a quantum leap in the efficiency, time and expense to gather information.

Mr. ISSA. So I guess, Mr. Horne, would you have the equivalent of Google, now that we have established that it is like getting the Web, would you have the ability to drill down?

Mr. HORNE. I would love to be using that analogy. I think the key is that we would actually create something that would be, to a greater extent, even more actionable relative to this subject matter. Because we would be dealing with the numbers of events that are specifically related to the financial instances that would be involved.

So the answer to that, Mr. Congressman, is yes, we would be in that type of position.

Mr. ISSA. And then I think I will shift, obviously if we implemented this technology going forward, it wouldn't just be the two of you we would be asking, but in fact, all our regulators would then have the tools to do this themselves?

Mr. HORNE. That is correct. And it would also be on the basis of the fact that we are asking through Congresswoman Maloney and Congressman King and also in the Senate to pass a bill that would allow access to the regulated data, so it wouldn't just be the data that is publicly available but also the data that would be available only to those people who would have access for regulatory purposes.

Mr. ISSA. Mr. Barofsky, when we had Secretary Kashkari here a few minutes ago, he answered in very, very many ways that of course, he would love to have the ability to have more transparency, to know the value of these assets in order to value them and so on. But today, are we in fact, I am going to lead a little bit here, are we in fact asking for repeatedly, and are you asking for, repeatedly, production of documents almost in the way that attorneys do in a court case, where you have to know what you want, you ask for it, they turn it over to you, often you have to sift through it and say, but it is not in a format I can use, can you remanipulate it and send it back to us? Is pretty much what is going on in the delivery of answers to your questions by the various TARP recipients?

Mr. HORNE. No, Congressman. From what my audit chief tells me, we have gotten good narrative answers that we think are going to be very useful.

Mr. ISSA. I was talking about production of data, not narrative answers. In fairness, Bank of America said they were solvent, so solvent that they could turn around and buy Merrill Lynch. Today we know that is not true, that in fact we would have been much better off having Merrill Lynch live or die on its own, BofA live or die on its own, and not have two organizations perhaps too big to fail be now two organizations made into one too, too, too big to fail.

So back to the question. You are receiving answers to your requests, narrative answers. Mr. Kashkari, of course, if he asks for it, is receiving them. But the real question, the question that Mr. Horne was asked and answered was, do you or does anyone in the Federal Government have the ability to basically ask the question, if they have the access, and get the answers from raw data, diverse raw data, or do we in fact depend on often self-serving individuals at various large banks who do not want to fail to give us answers that cause us to give them money, only to later get answers that they need more money?

Mr. KUCINICH. The gentleman's time is expired, but please answer the question.

Mr. BAROFSKY. We have not asked for that type of raw data, in part because it would be simply way too expensive for us to analyze it.

Mr. ISSA. So if I can conclude, so you don't ask for the information because you couldn't analyze it, people are here today talking about the tools to analyze it both prospectively and retrospectively. And we are being told, no, we are going to rely on companies to deliver us information that have proven to be unreliable.

Mr. KUCINICH. The gentleman makes a point, if I may, and that is, Mr. Barofsky, how do you know if people are telling the truth if you don't have a comprehensive data base against which to analyze the bank's reports?

Mr. BAROFSKY. What we are doing in our survey and how we are going to test these answers is, there are several things that we have built into the survey. And it is a survey, to be very clear. We are initially, as the initial part of this audit, and as a part one, relying on the banks' responses. But not in a vacuum. For example, we have asked them to make reference to their budgets and plans. Our experience is that when a bank gets a huge influx of cash, they don't just say, "have a party." They budget, they plan for it.

These TARP programs are expensive for some of these banks.

Mr. ISSA. Well, actually AIG did have a party, if I remember right.

Mr. KUCINICH. They did.

Mr. BAROFSKY. They may have, but many of these financial institutions, they have plans, they have budgets, we make reference to internal emails, internal planning, and we are going to test it against that. And again, if they do lie, if they do tell us a story and it doesn't match up with their internal documents, with their public statements, with data that we can later obtain, they will have committed a crime and we are going to investigate that thoroughly.

Mr. KUCINICH. And if I may say, that this investigative party will continue.

We have dozens, literally dozens of questions to ask the witnesses. But we are out of time. We are going to submit written questions as a followup, to the witnesses, I will ask Mr. Issa and Mr. Jordan to join me in this, that will help to fulfill the purpose of this particular meeting.

We have had a very patient panel here in front of us, because this hearing has gone on over 5 hours. The title of the hearing, "Peeling Back the TARP: Exposing Treasury's Failure to Monitor the Ways Financial Institutions Are Using Taxpayer Funds Provided Under the Troubled Assets Relief Program." We know that we could be looking at as much as $3 trillion in funds that are coming from our Government, from the taxpayers, to these various Wall Street interests. It is a mind-boggling amount of money. And we also know that if Treasury does not have the capability to keep track of those funds, we are looking at nightmare.

And we are looking at a severe challenge to trust in the political system. We can worry about banks collapsing, but we also better worry about the trust that the American people should have in their Government collapsing. Because that is the basis for our entire Nation. It is all held together by trust.

So I want to thank each of the witnesses for what they have done to try to take a path toward trust and toward accountability and toward reliability of the information which Congress is given.

I want to thank you on behalf of this committee and on behalf of the American people. This committee meeting stands adjourned, but we will be back at this subject. I want everyone here who is paying attention to this to know this subcommittee will not relent in our efforts to make sure that the people of the United States know how their tax dollars are being spent.

[Whereupon, at 3:08 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

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May 22, 2009

The Honorable Dennis J. Kucinich
Chairman
Subcommittee on Domestic Policy
Committee on Oversight and Government Reform
House of Representatives

The Honorable Jim Jordan
Ranking Member
Subcommittee on Domestic Policy
Committee on Oversight and Government Reform
House of Representatives

Enclosed are my written responses to questions from the March 11, 2009, hearing on Troubled Asset Relief Program: Status of Efforts to Address Transparency and Accountability Issues.

If you have questions regarding these responses, I can be reached at (202) 512-8678 or hillmanr@gao.gov.

Richard J. Hillman
Managing Director, Financial Markets
and Community Investment

Enclosure

1) Should Treasury's oversight of the TARP be concerned with potential waste, fraud and abuse of TARP monies once they enter the operations of recipient banks, or need Treasury only be concerned with the use of TARP funds at Treasury itself, its employees and contractors?

Section 101(a) of the Emergency Economic Stabilization Act authorized Treasury to create the TARP and to develop terms and conditions for the purchase of troubled assets with TARP funds as Treasury determines are appropriate "in accordance with" the Act and Treasury's implementing policies and procedures. Treasury's primary vehicle under TARP for stabilizing financial markets has been the Capital Purchase Program (CPP), under which Treasury has disbursed, as of March 31, 2009, almost $199 billion to purchase preferred shares of 532 qualified financial institutions. Treasury's purchase of the preferred shares was accomplished through the use of standard Securities Purchase Agreements with participating financial institutions. Under the authority of section 101(a), these Securities Purchase Agreements imposed various terms and conditions on recipients of TARP assistance, but did not, in GAO's view, impose requirements that enabled Treasury to track the use of funds at the participating institutions. Since our first report on TARP oversight in December 2008, we have emphasized the lack of Treasury's monitoring and reporting for CPP investments and recommended stronger measures for ensuring that participating institutions use the funds to meet the program's purposes and comply with CPP agreement requirements—for example, executive compensation and dividend payments. Likewise, in our second 60-day report on TARP in January 2009, we recommended that Treasury ensure that future CPP agreements include a mechanism that will better enable Treasury to track the use of the capital infusions and seek to obtain similar information from existing CPP participants.

Given the magnitude of funds disbursed by this program, we did not believe that Treasury's stated intentions to develop general metrics for evaluating the overall success of CPP would provide the necessary transparency and accountability needed to ensure that participating institutions were using funds in a manner consistent with the purposes of the act. Similarly, in light of the magnitude of funds being disbursed under the CPP, we believe it would also be important for TARP recipients to take appropriate steps to ensure that there is no fraud, waste, and abuse of TARP monies.

In our reports, we have described a variety of mechanisms that Treasury could use to better monitor the use of funds by program recipients. These included building on the existing oversight mechanisms of the banking regulators to minimize overlap with existing regulations and to develop a means for reviewing and reporting on planned and actual actions taken by participating institutions that result from the additional funding received through CPP. Another approach discussed with Treasury officials was to seek to amend existing agreements with recipients and to require new agreements with recipients to improve the reporting on the actual uses of TARP funds. In this vein, Treasury might use similar measures to improve its ability to detect and prevent waste, fraud, and abuse.

In response to our recommendations, Treasury has taken steps to improve the accountability and transparency of TARP. For example, it began regular surveys of all CPP recipients to gather and assess information about how the capital investments are impacting participants' lending activities and capital levels. These surveys should provide additional important information about how the capital investments are being used to restore liquidity and stability to the financial system.

2) At the current time, has Treasury sufficiently established policies and procedures to collect and analyze the kind of information necessary to monitor the use of TARP funds by recipients of the Capital Purchase Program?

In our December 2008 report on TARP, we recommended that Treasury:

- Work with the bank regulators to establish a systemic means of monitoring and reporting on whether financial institutions' activities are consistent with the purposes of CPP and help ensure an appropriate level of accountability and transparency; and
- Develop a means to ensure that institutions participating in CPP comply with key requirements of program agreements, including those covering limitations on executive compensation, dividend payments, and the repurchase of stock.

In addition, in our January 2009 report on TARP, we reported that Treasury has made some progress in responding to these recommendations, but that more needs to be done to ensure an appropriate level of accountability and transparency. For example, Treasury developed a survey of the 20 largest institutions that will collect, among other things, monthly data on loan balances, new loan originations by different categories, and purchases of mortgage-backed and asset-backed securities. Treasury also announced that it was developing an approach with the bank regulators to analyze quarterly call report data for all CPP participants to gauge changes in lending activity and compare them with changes at nonparticipating institutions. In addition, Treasury has taken steps to establish a team focused on monitoring and reporting issues. Finally, Treasury has taken steps to provide additional assurance that CPP participants are complying with limitations and conditions in the CPP agreements.

Based on our findings, we made three additional recommendations on these matters to Treasury:

- Expand the scope of planned monthly CPP surveys to include collecting at least some information from all institutions participating in the program;
- Ensure that future CPP agreements include a mechanism that will better enable Treasury to track the use of the capital infusions and seek to obtain similar information from existing CPP participants; and
- Establish a process to ensure compliance with all CPP requirements, including those associated with limitations on dividends and stock repurchase restrictions.

As I said in my testimony, without more frequent information on all participants, Treasury will have little timely information about the changing financial condition of participating institutions, potentially limiting the ability of its newly created team of analysts to understand how the institutions are using CPP funds and whether the program is having the desired effect. In addition, without ensuring that future CPP agreements include a mechanism that enables Treasury to track the use of capital infusions and that existing CPP participants provide similar information, Treasury may have difficulty determining whether an institution has used the funds in a manner consistent with TARP's purposes. We will report on Treasury's progress in implementing the five recommendations above in our March 2009 report.

3) With limited exception, Treasury's contractual agreements with recipients of TARP funds allocated under the CPP did not contain definitions nor impose requirements relating to internal accounting generally, or prevention of waste, fraud and abuse specifically. In GAO's opinion,

A) Should any future agreements for allocations made under the CPP contain definitions and impose requirements relating to internal accounting generally, or prevention of waste, fraud and abuse specifically. If so, what should those definitions and requirements be?

B) Should Treasury seek to change past agreements for allocations made under the CPP? If so, what changes should Treasury seek?

As stated in the response to the previous question, we have recommended that Treasury take steps to collect information from CPP participants on how they are using CPP funds and whether such uses are furthering the TARP's objectives, and to implement a system to monitor recipients' compliance with various limitations or conditions imposed under the pertinent CPP agreements, such as limitations on executive compensation, bonuses or other incentives, golden parachutes, and tax deductions for executive compensation. As we reported in our January 2009 report, Treasury has made some progress in implementing these recommendations, but more needs to be done. Our March 2009 report will address the actions that Treasury has taken since January 2009 to monitor CPP participants' use of CPP funds and compliance with applicable limitations or conditions.

As we reported in January 2009, the CPP purchase agreements do not contain specific requirements for CPP participants to use CPP funds for any particular purpose or to separately account for the equity injected via Treasury's purchase of senior preferred stock and warrants.[1] Of eight large institutions that we contacted, two said they were separately

[1] The standard CPP agreements include a number of provisions, some in the "recitals" section at the beginning of the agreements and others that are detailed in the body of the agreements. The recitals refer to the participating institutions' future actions in general terms—for example, that "the Company agrees to expand the flow of credit to U.S. consumers and businesses on competitive terms" and "agrees to work diligently, under existing programs, to modify the terms of residential mortgages."

tracking CPP funds and would use those funds for the specific purposes of purchasing mortgage-backed securities, increasing interbank lending, and increasing market liquidity. In our view, given the fungibility of money, monitoring a specific amount of equity after receiving CPP funds would require the use of effective organizational mechanisms, accounting systems and processes, and related internal controls. As Treasury goes forward, it has the option of negotiating for any additional limitations or conditions on CPP participants' use of TARP funds that would further the TARP's objectives. Factors to consider, however, include the administrative costs to CPP participants of implementing separate accounting requirements, any effects that limitations or conditions would have on participants meeting their capital requirements, the extent to which any additional limitations or conditions are likely to guide the participants to carry out or avoid activities of interest, and the role of banking regulators in overseeing the use of TARP funds.[2]

Regarding the prevention of waste, fraud, and abuse, please see the response above to question 1.

4) In the absence of such changes, do the American people have reasonable assurance that Treasury can prevent and detect the exposure of TARP funds allocated through CPP to risk of waste and abuse by the recipients of those funds?

On behalf of the American people, Treasury enjoys the rights and privileges of other shareholders of CPP participants, including any rights to file shareholder derivative suits against the directors or officers of CPP participants in cases in which they breach their fiduciary duties of care, loyalty, or good faith, as described in response above to question 1. Treasury may also work with the banking regulators to ensure that the institutions do not engage in (or avoid) activities that may result in a negative impact on their safety and soundness.

In addition, as stated in the response above to question 2, we have recommended that Treasury take steps to collect information from CPP participants on how they are using CPP funds and whether such uses are furthering the TARP's objectives, and to implement a system to monitor recipients' compliance with various limitations or conditions imposed under the pertinent CPP agreements, such as limitations on executive compensation. As we reported in our January 2009 report, Treasury has made some progress in implementing these recommendations, but more should be done. Our March 2009 report will address the actions that Treasury has taken since January 2009 to monitor CPP participants' use of CPP funds and compliance with applicable limitations or conditions.

[2] On January 12, 2009, FDIC issued a Financial Institution Letter that, among other things related to state nonmember banks' use of TARP and other federal funds, stated that such banks should report on the use of the federal funds. Specifically, the Letter stated that, "FDIC-supervised institutions should implement a process to document how these funds were used. State nonmember institutions should describe their utilization of this federal funding during bank examinations and are encouraged to summarize such information in published annual reports and financial statements." FDIC, FIL-1-2009, Jan. 12, 2009.

5) Has Treasury adequately responded to your recommendation in your initial TARP report that it develop a systematic means of determining and reporting on whether the activities of financial institutions that are participating in its Capital Purchase Program are generally consistent with the purposes of the program?

Please see the response above to question 2.

6) Since money is fungible, do you believe that oversight of the TARP program extends to the entire business of banks receiving TARP monies, or do you think there is a way to monitor their use of TARP monies as if those funds were a separate entity?

While it may not be possible to track the dollars themselves that Treasury has provided to the financial institutions, several methods of reporting and monitoring that we have recommended will assist Treasury in determining whether the institutions are helping achieve the purposes of TARP and protecting the taxpayers. For example, we have recommended that Treasury monitor lending and other activities at all participating institutions, and Treasury is in the process of developing the reporting processes to carry out this recommendation. As noted above, we have made recommendations that Treasury monitor the activities of the institutions to ensure that they are consistent with the purposes of the programs. In addition, Treasury is drafting regulations to restrict executive compensation and luxury or excessive expenditures, and we will examine how the requirements are enforced and monitored.

7) If the TARP monies were not to be awarded as capital injections, but were parceled out in some other way with conditions and certifications of reaching those conditions, would that improve the transparency with which TARP monies were used?

Section 101 of the Emergency Economic Stabilization Act provided Treasury with broad authority to purchase troubled assets that include mortgage-related securities or any other financial instrument that the Secretary, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, determines the purchase of which is necessary to promote financial market stability. As reflected in our prior reports, Treasury has purchased financial institutions' equity securities (preferred stock and warrants) and debt securities, but has not yet purchased any mortgage-related securities. Each type of security carries with it different duties and obligations on the part of the TARP recipients and different rights and privileges of Treasury. As Treasury enters into agreements under TARP, it must evaluate these options and, as discussed in response to question 3, consider whether specific limitations and conditions should be negotiated to further the TARP's objectives. For example, as we reported in January 2009, in making loans to General Motors and Chrysler through the purchase of debt securities, Treasury included in the loan agreements a number of provisions to protect taxpayers' interests and put the companies on the path to financial viability. The agreements limit executive compensation; require concessions from parties including management, labor, and debt holders; subject the companies to periodic reviews by government entities including GAO; require collateral for the loans; and subject business and other transactions of more than $100 million to government approval.

8) Building an effective management team is one key step to help Treasury increase the transparency of and accountability for its various activities under the Troubled Asset Relief Program (TARP). How much progress has Treasury made in responding to GAO's recommendation to expedite hiring efforts?

As I stated in my testimony, OFS has increased its overall staff since our December 2008 report from 48 to 90 employees as of January 26, which includes an increase of permanent staff from 5 to 38. Treasury officials recently told us that the number of permanent staff had increased to 60. While progress has been made since our last report, the number of temporary and contract staff who will be needed to serve long-term organizational needs remains unknown. Because TARP has added many new programs since it was first established in October and program activities are changing under the new administration, we recognize that Treasury may find it difficult to determine OFS's long-term organizational needs at this time. However, such considerations will be vital to retaining institutional knowledge in the organization. We recommended that Treasury continue to expeditiously hire personnel needed to carry out and oversee TARP. In our March 2009 report, we will provide an update on Treasury's progress in hiring.