S. HRG. 111–96

HERB ALLISON, ASSISTANT SECRETARY OF THE TREASURY FOR FINANCIAL STABILITY

HEARING

BEFORE THE

CONGRESSIONAL OVERSIGHT PANEL

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, JUNE 24, 2009

Printed for the use of the Congressional Oversight Panel

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CONGRESSIONAL OVERSIGHT PANEL

PANEL MEMBERS

ELIZABETH WARREN, *Chair*

SENATOR JOHN SUNUNU

REPRESENTATIVE JEB HERSARLING

RICHARD H. NEIMAN

DAMON SILVERS

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HERB ALLISON, ASSISTANT SECRETARY OF THE TREASURY FOR FINANCIAL STABILITY

WEDNESDAY, JUNE 24, 2009

U.S. CONGRESS,
CONGRESSIONAL OVERSIGHT PANEL,
Washington, DC.

The Panel met, pursuant to notice, at 2:30 p.m., in Room SD–538, Senate Dirksen Office Building, Elizabeth Warren, Chairman of the Panel, presiding.

Attendance: Professor Elizabeth Warren [presiding], Mr. Richard Neiman, Mr. Damon Silvers, Representative Jeb Hensarling.

OPENING STATEMENT OF ELIZABETH WARREN, CHAIR, CONGRESSIONAL OVERSIGHT PANEL

Chair WARREN. This hearing of the Congressional Oversight Panel is now called to order.

Good afternoon. Welcome. Welcome, Mr. Assistant Secretary. Congratulations on your recent confirmation. I understand you were sworn in yesterday. We are delighted to be your first official order of business. We appreciate your coming here today to testify. We know there are many demands on your time.

Last Fall when Congress created the Troubled Asset Relief Program in response to the crisis, it gave the Secretary of Treasury enormous authority to spend $700 billion under a broad goal to restore liquidity and stability to the country's financial system. This was unprecedented discretion that rested with Secretary of Treasury.

But Congress also set up highly-flexible oversight, including its own congressional oversight panel. To execute our responsibilities, we have reviewed the efforts now of two Administrations to stabilize the financial system. We have issued seven monthly reports as well as a Special Report on Regulatory Reform.

We have covered TARP from many angles: have taxpayers received fair value for their investments, has an effective foreclosure mitigation program been established, are TARP funds being used to make credit available to small businesses, were the assumptions in the stress test reasonable?

We will do our next report on the repayment of TARP funds, including the challenges of valuing the warrants that Treasury now holds in the institutions that want out of the TARP.

We have throughout these reports returned time and time again to three themes: transparency, accountability, and clarity in Treasury's programs. The questions for you today will touch on these and a variety of other matters.

It's now been eight months since the first TARP transaction took place. Most people believe the financial system is no longer on the edge of an abyss. Some are touting green shoots of economic recovery, but those are little consolation to the 9.4 percent of Americans who were unemployed in May, the highest rate since 1983, little consolation to the almost 2.5 million people whose homes have gone into foreclosure since the enactment of TARP legislation last October, to the countless individuals who continue to see their credit card rates skyrocket, even as their tax dollars are used to keep banks afloat.

These Americans and all Americans want to know that the Government has their interests at heart, that Treasury is respecting and protecting their investment, that the bail out will benefit them and not just those on Wall Street, and I think it's fair to say at this point many still have doubts.

I hope our conversation today will help clarify those issues. Thank you again for joining us. We appreciate it.

I now call on our Vice Chair—I wanted to make sure I had the right title. On our Deputy Chair—I knew I didn't have that right, although I do think of you in terms of Vice from time to time. No. Our Deputy Chair Damon Silvers. Mr. Silvers.

STATEMENT OF DAMON SILVERS, DEPUTY CHAIR, CONGRESSIONAL OVERSIGHT PANEL

Mr. SILVERS. Thank you, Madam Chair. Your title at least is, I think, clear.

Good afternoon. It is a real honor and a pleasure to welcome this morning Herb Allison, the new Assistant Treasury Secretary for the Office of Financial Stability.

Mr. Allison is a distinguished American business leader with a track record of thoughtful stewardship of major financial institutions and real leadership in engaging with the tough issues facing American business, real leadership I have witnessed firsthand on many occasions.

He brings to the Treasury Department a demonstrated commitment to transparency and accountability and again it's just a real pleasure to be with you, Mr. Allison.

Like your predecessors, you face, I think, three fundamental challenges. The first challenge is to use the powers granted by Congress to facilitate the revival of a sustainable financial system and not simply to prop up or bailout specific financial institutions or, even worse, specific groups of investors at the public's expense.

A sustainable financial system is one which channels savings to productive investment in a prudent manner, contributing to economic recovery and not retarding it.

Unfortunately, as we, I think, have learned, financial metrics can always be manipulated. The real stress test that we are engaged in today is whether we see a revival of prudent lending by our financial institutions, lending that contributes to economic recovery.

The second and related challenge is the challenge of ensuring that the funds granted by Congress to stabilize the financial system are managed in a manner that protects the financial interests of the public and is not a regressive wealth transfer from the public at large and our government to investors and executives of financial institutions.

The third challenge is to actually address the underlying sources of our financial and economic crisis in the continuing and accelerating foreclosure crisis.

These three challenges have been present from the moment Congress passed the Emergency Economic Stabilization Act and they are with us today in issues as diverse as the structure of the PPIP, the repurchase of warrants, and the oversight of executive compensation.

Mr. Allison, your testimony correctly notes that there has been some improvement in financial market conditions since the inception of the TARP. However, as our Chair remarked, there is a broad perception in our country that key decisions in relation to TARP may have been made as if protecting the banks, their investors and even their executives was an end in itself, that the Government and the public purse was a means to that end rather than the public interest being the end.

While in some cases that perception may be unfair, I believe it is not completely unfounded and now you, Mr. Allison, and your team will have the opportunity to change it. Your immediate appearance before this panel following your confirmation is most appreciated, and I am sure that you will bring the skills and the commitment that you have brought to your career in business to this important challenge on behalf of the American public.

I am sure I speak for the panel, which is not often, when I say we very much look forward to working with you.

Chair WARREN. Thank you, Mr. Silvers.

Superintendent Neiman.

STATEMENT OF RICHARD NEIMAN, MEMBER, CONGRESSIONAL OVERSIGHT PANEL

Mr. NEIMAN. Good afternoon, Assistant Secretary Allison. I am very pleased to have you here with us today to share your perspectives on the future of the Troubled Asset Relief Program and to discuss how you will leverage your expertise and experience to ensure its success.

It is critical for us to be having this dialogue now at the very start of your term and in fact your first day, and I congratulate you on that.

Therefore, the panel members have agreed to make abbreviated opening statements to reserve more time for questions.

The purpose of today is for us and the American public to hear from you. Congress, this panel, and the public will benefit from a fuller presentation of your vision for achieving financial stability.

You are bringing a uniquely-relevant experience from your management at Fannie Mae and TIAA-CREF and your many years at Merrill. You are bringing as well a very fresh perspective at the most appropriate time.

I watched your confirmation hearing with particular interest and I was very encouraged by the importance you placed on transparency, especially your threefold pledge that "Congress and the American people will know what we are doing with their money, why we are doing it, and how it is making a difference in our economy," and it should be no surprise that we all plan on holding you to this.

I intend to use much of my allotted time to focus on the mortgage modification program. As you know, I lead a task force within our state of New York to prevent unnecessary foreclosures and took the lead on our panel's March report on foreclosure prevention.

There are also further avenues in state-federal cooperation that are needed now more than ever, both in the mortgage area but also in protecting consumers and in stabilizing our financial system.

I hope that you will never hesitate to suggest new ideas or find ways to improve, even if that means stepping on a few toes to get that result. I realize that we can only scratch the surface in our brief time here this afternoon, but I believe these hearings are vital and must be a regular occurrence.

I thank you for your appearance today and I look forward to a lively discussion.

Chair WARREN. Thank you, Superintendent Neiman.

We're going to begin. We're going to start with your statement, Mr. Allison. We have allocated up to 10 minutes, if you need it, but anything that we wish to put into the written record is also available and we will hold the record open for you to have a formal statement there, as well, if you would like.

The Chair recognizes Assistant Secretary Allison.

STATEMENT OF HON. HERB ALLISON, ASSISTANT SECRETARY OF THE TREASURY FOR FINANCIAL STABILITY

Mr. ALLISON. Thank you very much, Chair Warren, and Deputy Chair Silvers, and Superintendent Neiman.

I want to thank you for the opportunity to introduce myself and to discuss Treasury's efforts to repair the nation's financial system, so that it works for rather than against recovery.

Last October, Congress established the Troubled Assets Relief Program, or TARP, and gave Treasury the necessary tools to help break a downward spiral in our financial system that was causing tremendous harm not only to financial firms of all sizes but also to ordinary families and businesses across the country.

Our mandate is twofold: stabilize the system while protecting the financial interests of the taxpayer. Although our work is far from finished, Treasury has accomplished a great deal in a short time.

It has invested nearly $200 billion in 633 financial institutions through the Capital Purchase Program or CPP. It's helped to restart the securitization markets which are vital to enabling consumers and businesses to borrow. It's helped begin the difficult but necessary process of remaking our nation's auto industry, which is at the heart of our industrial base, and it's helped tens of thousands of Americans stay in their homes by securing modifications of their loans at risk, to lower their monthly mortgage payments and make mortgages more affordable.

To manage these complex efforts, Treasury has built the Office of Financial Stability from the ground up. Last October the OFS staff was zero. As of Monday, it numbered 166. There are tentative signs that the financial system is beginning to stabilize and that our efforts have made an important contribution.

Key indicators of credit market risk, while still elevated, have dropped substantially. More than 30 firms have repaid $70 billion in CPP investments. In addition, the taxpayer has received an estimated $5 billion in dividend payments from CPP investments.

There are also some signs that the economy is beginning to mend. Consumer confidence rose to its highest level in eight months in May. Housing starts rose at an annual rate of 17 percent in May, and house purchases have begun to pick up in some parts of the country.

But our financial system and our economy remain vulnerable, with unemployment still rising, house prices falling and pressure on commercial real estate continuing to build. That is why we must remain vigilant. We must press ahead with our financial stabilization and our economic recovery efforts.

At the same time that Congress established the TARP, it established the Congressional Oversight Panel, an independent group drawn from both major political parties, Congress, the states, and public interest groups, to ensure that in every step we take we keep firmly in mind the best interests of the American people.

I applaud the panel for its work to date and look forward to a continued strong relationship.

Let me briefly describe my own background and offer a few thoughts that will guide me in my new assignment.

I believe that my views on finance, management and governance, which have not always been stylish, square with what the crisis has taught us is necessary for a financial system that's both stable and innovative.

I began my career as an officer in the U.S. Navy, spending four years on active duty, including a year in Vietnam. After business school, I joined Merrill Lynch and spent 28 years there, leaving as president in 1999.

I learned from my experiences at Merrill that the long-term success of financial institutions depends on sound corporate governance, including independent checks and balances, tight control over risk, and executive compensation geared to long-term performance on behalf of clients as well as shareholders. I believe that I contributed to strengthening Merrill's governance practices in the 1990s.

Since leaving that firm a decade ago, I've led two other major financial institutions through transitions that were necessary to their long-term success. In 2002, I became chairman and CEO of TIAA–CREF, a leading provider of retirement and asset management services.

We adapted the company to changing markets, created independent risk management, and doubled the company's capital so we could withstand a harsh investment climate. As a result, TIAA–CREF is now one of very few financial companies that carry AAA ratings, and during my tenure TIAA–CREF became the first company in the Fortune 100 to allow its stakeholders an advisory role on executive compensation.

Last September I was named CEO of the Federal National Mortgage Association or Fannie Mae, as that company was placed into government conservatorship. The work of OFS, which I now head, is essential to President Obama's and Secretary Geithner's plans for recovery.

Our economy declined sharply last year in substantial measure because credit stopped flowing. Without access to credit, small businesses cannot buy their new equipment and raw materials and inventory that they need to expand. Larger businesses cannot make the continuous adjustments required to function in a changing global marketplace.

In overseeing the office, I will keep in mind that ending the financial crisis isn't about helping banks. It's about alleviating the real hardships that Americans face every day. I will strive to be a prudent investor on behalf of the American people, to protect the taxpayers who've entrusted us with so much of their money.

In pursuing the goal of being a prudent investor for the public, my top priorities will be the following.

First, I will carefully review the controls over taxpayers' money, giving special attention to complying with laws and directives, managing risks, and conducting internal audits. In doing so, I will work closely with your panel and all other oversight bodies.

Second, I will strive to maximize the effectiveness of financial stability programs, restoring soundness to financial institutions and liquidity to our markets.

Finally, I will emphasize transparency and interaction with Congress, so that, as Mr. Neiman mentioned before, the American people will know what we're doing with their money, why we're doing it, and how it's helping the financial system, the economy, and their lives.

I look forward to your questions and your suggestions.

Thank you very much, Chair Warren.

[The prepared statement of Mr. Allison follows:]

Treasury Department Assistant Secretary Herbert Allison
Opening Remarks to the
Congressional Oversight Panel
June 24, 2009

Chair Warren, Representative Hensarling, Senator Sununu and members Neiman and Silvers, thank you for the opportunity to introduce myself and to discuss Treasury's efforts to repair the nation's financial system so that it works for, rather than against, recovery.

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- Invested nearly $200 billion in 633 financial institutions through the Capital Purchase Program.
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To manage these complex efforts, Treasury has built the Office of Financial Stability from the ground up. Last October, the OFS staff was zero. As of Monday, it numbered 166.

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But our financial system and our economy remain vulnerable, with unemployment still rising, house prices falling and pressure on commercial real estate continuing to build.

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Finally, I will emphasize transparency and interaction with Congress so that the American people will know what we're doing with their money; why we're doing it, and how it's helping the financial system, the economy and their lives.

Thank you. I look forward to your questions.

Chair WARREN. Thank you. I appreciate it, Mr. Allison.

So I'm going to jump right in then with the first question that's right, I think, on target with what you were just talking about. I'm very glad to hear you talk about transparency and accountability. That's what I'm hearing very much in this.

Could you just be a little more specific at this point and let me, if I can, direct you in the direction of where do you see the areas where the most improvement might be needed and perhaps you could furnish us with an example or two of plans you have that are going to improve transparency or improve accountability?

Mr. ALLISON. Thank you for the question, Chair Warren.

I think there are several areas where we can continue improving on our disclosure, especially through financialstability.gov, the Treasury's website.

We have been making progress in providing more reporting on the lending activities of banks. As you know, we were publishing a monthly snapshot on the top 21 banks. We've now expanded our monthly reporting to include all of the CPP recipients, and we'll be working with those banks to try to expand the types of disclosure that we're making about their lending practices.

Secondly, on the very important area of the Making Home Affordable Program, which consists of efforts to allow more homeowners to refinance their mortgages or to modify the terms of their mortgages, we are going—we're looking at ways right now of expanding that reporting and I think you'll see in the coming weeks and few months a much more expanded reporting on that very important activity.

So that's just two examples of where we think we will be able to, as we develop the systems, provide more disclosure, more transparency to the American public.

Chair WARREN. If I could follow up on that just because it's one that we worked on very recently, we had a lot of conversations over the past probably two months with Treasury over the stress tests and at the end of the day continue to have some questions about how the stress tests were structured and about some of the reporting from the stress tests.

In fact, I think if you look at our report that came out last week, or two weeks ago now, you'll see in it we call on Treasury to reveal more information from the stress tests and in fact to consider rerunning the stress tests under more adverse circumstances and considering a longer period of time for them.

Could you comment on that since this clearly involves both transparency and accountability?

Mr. ALLISON. Yeah. I'll be happy to. As you know, Treasury was involved at the beginning in the broad conceptualization of the Stress Test Program. We are not a banking regulator, as you know, and it's the banking regulators who, especially the Federal Reserve, who oversaw the stress test analysis, and we have seen that, as a result of that process, I believe, as well as other financial stability actions that have been taken, that we've seen an increase in the stock prices of those banks. We've seen them increase their own capital. We've seen the spreads or the indications of risk in the banking system come down since then.

So I think there are encouraging signs that the banking industry has been strengthening itself substantially, especially the larger banks where there's more systemic risk, over the last several months.

Chair WARREN. I have to say, Mr. Allison, though, I'm a little unnerved by part of the answer.

If one offered a very gentle stress test and the consequence were that the stock market responded positively to the good news that emerged from that, surely you wouldn't say that that changed any underlying reality.

The question would remain what is the health of the financial institutions and to know that, I would assume that we would try difficult, that is stressful, stress tests for these institutions.

So I'm going to push the question back again to say given some of the concerns that were raised in our most recent report about the stress tests and about ways in which they had not accounted even under the most adverse circumstances for some of the negative economic news that we have now and that the time period that they cover does not reach our particular concerns about what we fear will be the problems in the commercial mortgage market in 2011, 2012 and 2013.

In order to be more transparent, in order to have greater accountability for these banks, why not run the stress tests again under more difficult circumstances?

Mr. ALLISON. Well, as you will see, Chair Warren, in the Regulatory Reform Recommendations of the Obama Administration, there is a provision for an ongoing form of stress testing. Treasury agrees that over time, especially for the larger banks, there should be periodic stress testing by the regulators, and I'm fairly confident that that's going to be taking place over time.

As you know, these are dynamic conditions in the economy. I do think, though, that we've seen that the regulators did develop a stress test based on an economy worse than today. They looked at the reserves that might be required over the next several years, the provisions for loan losses, and we have seen in recent months that there have been some improvements, as well, in the yield curve so that banks have been able to build capital internally as well as attract capital from the outside.

But I do think, and I would agree with you, that there's a need for ongoing stress testing, especially of the larger banks.

Chair WARREN. That's very helpful. Thank you.

Mr. ALLISON. Thank you.

Chair WARREN. Mr. Silvers.

Mr. SILVERS. Thank you. Mr. Allison, I want to pick up on this same thread a bit.

One of the aspects of the stress test that remains a puzzle to me, and I want to ask you to volunteer your thoughts on, is that the result that came out in terms of capital shortfall across the 19 banks was, if you took the date of year-end '08, it was 185 billion, but if you took into account projections of bank earnings, it was a significantly smaller number, 74 billion.

There's been a lot of attention paid to the difference between those two numbers and whether that difference is warranted. I want to focus on a different set of numbers and my puzzlement about the relationship between the stress test and this set of numbers and that set of numbers is the set of analyses that have come out of the variety of sources—the IMF, several Nobel Prize-winning academics, Professor Roubini, who seems to enjoy a certain amount of reputation as an oracle, that estimate bank losses or bank shortfalls, different studies, at anywhere from $600 billion to $2 trillion in the U.S. sector.

Given that the 19 banks that were the subject of the stress test constitute a significant majority of bank assets, I don't understand this set of facts and I would like to ask you to offer your understanding.

Mr. ALLISON. Well, I believe, Mr. Silvers, that there are a wide range of estimates of what the bank losses could be under various scenarios. I believe that those are widely known, that they were available to those who were examining the strength of the banks today.

As I said, this is a dynamic situation. We see signs that the financial system is improving. We see signs that the banks have been strengthening their capital bases. They will be earning, we expect, profits in the next few years and I think, given all those factors, the regulators arrived at reasonable judgments about the likely range of scenarios with which they were dealing.

Mr. SILVERS. If I may follow up on this?

Mr. ALLISON. Yes.

Mr. SILVERS. There was a range of outside estimates prevalent at the time the stress tests were released and they were of an order of magnitude larger than what Treasury came up with.

If this is not an apples and oranges discussion analytically, then somebody is wrong, or do you disagree?

Mr. ALLISON. Well, let me just say that Treasury did not come up with the stress test results. It was the regulators. We have great confidence in the regulators. They know the banks. They receive a great deal of information about the banks. They had many conversations with banking executives as this process went ahead. So I have confidence, as I know the Treasury does, in the capability of the regulators, in their knowledge of the banks that they oversee.

Mr. SILVERS. Given the fact that you started yesterday, I'm willing to take it at that, but I think this is a very important conundrum and it links to my next question for you.

Because if in fact we have banks that actually are under-capitalized, one possible consequence of that, at least in historical and comparative perspective as found in our April Oversight Report, would be financial institutions which, while not literally banging on your door in the middle of the night, are yet unable to fulfill their role as providers of credit to our real economy.

In that respect, both Treasury data and our hearings on the supply of credit in a variety of sectors are cause for concern in my opinion, that we are not seeing that revival of lending from the banking sector that we need to see, and by that I do not mean a return to the practices of the bubble of 2006. I mean prudent lending to viable enterprises and projects.

I would urge you and your staff to take a look at those hearing transcripts and so forth that we have done. They really are, I think, enlightening around this.

What are your thoughts about steps that you may be able to take or that should be taken and connected to that your analysis of the problem I'm describing?

Mr. ALLISON. Yes. Well, we are very concerned that there be more lending. We're concerned that funds be available to small businesses as well as large so that they can grow and create and maintain jobs.

As I mentioned, we're going to measure the success of these programs ultimately by their impact on the American people.

It's, unfortunately, typical during a recession that the pace of lending slows. Many companies are seeing their revenues decline. They're cautious about taking on additional debt and adding to their inventories. For example, they're making new investments in plants and equipment. Banks, understandably, are concerned about the value of collateral underpinning the loans that they're making. They've become more cautious, as well.

What we're trying to do are several things at once. We're trying to ensure that banks have adequate capital and, ultimately, the amount of lending will depend on the amount of their capital.

Secondly, we're trying to restore the securitization markets so that banks can sell off some of their assets through those markets to make room for additional loans in the future.

We've also been active to make sure that the larger banks have additional capital so that they can withstand a possible downturn later and be able to continue lending.

When you look at the lending statistics, as I'm sure you have, you see that actually lending has held up reasonably well in what is a very, very difficult circumstance, but we're not satisfied. We're continually looking for new ways where we might be of assistance.

I think that's also why it's important to have some headroom in the Government's overall Financial Stability Program and in the appropriation that Congress has given us for that, so that if there's a need, we can provide additional capital into the banking system.

Chair WARREN. Superintendent Neiman.

Mr. NEIMAN. Thank you. As I mentioned, I would like to start with the Making Home Affordable Program.

When that program was announced in February, there was a great deal of optimism about the possibilities and the impact it could have on millions of families. Just recently, Secretary of HUD Sean Donovan began to release and refer to some impressive statistics regarding participating servicers having extended offers of nearly 200,000 trial modifications with 40,000 just in the most recent week.

However, at the state level we are quite engaged, both through a large funding program of in fact $25 million to housing counselors around the state as well as changes in our foreclosure process that encourage modifications pre-foreclosure filing as well as a mandatory settlement conferences after the filing of foreclosures.

What we're hearing back from all parties, judges, housing counselors, and directly from borrowers, is that there is a great deal of confusion in the process, continue to be significant delays in the implementation, a lack of uniformity among servicers, delays in responding to calls from borrowers or counselors.

In fact, yesterday I was told by a counselor that one servicer advised them that they shouldn't expect a call for at least six weeks, a response to their call, the same thing with delays in preparing trial modification proposals once documents are received.

Issues surround capacity of the servicers, staffing to be able to handle the volume, and I think the unfortunate part is that these delays and obstacles are very similar to the types of delays and obstacles that were faced by the industry prior to the implementation.

So I'm very interested, is this consistent with your understanding and what would be your assessment of the current status of the program?

Mr. ALLISON. Superintendent Neiman, thank you for the question.

We certainly are concerned. We want to see this program roll out as rapidly as possible. We know that people are eager to learn more about it and to have the opportunity to take advantage of these programs.

I think we need to keep in mind that this is a massive program of a size never before attempted. It was announced by the president on March 4th. The Treasury and others, including HUD, spent the next six weeks or so working with the banks, explaining the program to them, getting their agreements to participate.

So really, the ramp-up has been only in the last two months. It's moving very rapidly, as you said. We have now over 200,000 offers for modifications out there. We are soon going to be, that is the Secretary of HUD as well as the Secretary of the Treasury, meeting with members of the servicer community here in Washington in the near future to understand from them how they're doing and how they can do better.

We're in constant contact with the servicers. We're working very closely with Fannie Mae and Freddie Mac who are administering the program on behalf of the Treasury, and looking for additional ways that we can make sure we're communicating to the public as well as through the servicers to have as many people as possible understand the program, to speak with one voice.

Another example is that soon we'll be conducting a tour of 40 cities around the country to explain to the public directly how this plan operates. We have a lot of material available on the Web that people can go to through financialstability.gov and other websites to learn more about the program.

But let me say again, we're not complacent about this. We're not satisfied. We have to reach millions of people. We have to make sure that the servicer's employees are adequately trained, that they understand these programs and that they can effectively communicate to the homeowners who are so anxious for relief.

So we welcome additional ideas, but I can tell you that the Administration is intent on rolling this program out as rapidly as possible.

Mr. NEIMAN. Who at the federal level has responsibility for day to day oversight? Is it Treasury? My understanding is that Fannie Mae has administrative responsibilities and Freddie Mac has audit responsibilities. Is it HUD? Who is the contact that counseling agencies and state agencies would go to with respect to questions about the program?

Mr. ALLISON. The Office of Financial Stability, which I now head has an Office of Homeownership that's working very closely with both of the agencies, Fannie Mae and Freddie Mac, on this program. We work with other members of the Domestic Finance area within Treasury. We're in constant contact with HUD and together there is a team effort to expand the program as rapidly as possible.

But I want to say again, we share your sense of urgency. People are working day and night to get this program out.

I also want to say that the banks—we now have at least 18 banks that are part of this program—and together they and Freddie Mac and Fannie Mae account for over 80 percent of the mortgages outstanding. So we now have the heft to begin to have real impact.

I think you'll see over the next few months this program continuing to expand rapidly. That's our intention. That's our plan. We monitor this daily and we're constantly working with these banks to make sure that we're clearing away any obstacles to their expanding as rapidly as possible.

Chair WARREN. Superintendent Neiman, if you want to pursue this line of questioning, we're flexible here.

Mr. NEIMAN. That would be great.

Chair WARREN. It's just the three of us here. Please.

Mr. NEIMAN. In fact, when I prepared my remarks yesterday, the number was 18 and when I went on the site this morning, there were 20,——

Mr. ALLISON. Okay.

Mr. NEIMAN [continuing]. Two were added. But I still think that does point—in fact, we've seen websites of banks who are not participating, who have advertised that they are participating in the program. So I am curious about that.

I'm also interested in the fact of the servicers who are not participating and lenders, particularly those prime lenders. I must have counted, of the top 25 prime lenders in the country, at least nine major institutions, like HSBC, like Citizens, like ING, who are not participating in the program and because we are now seeing the greatest rise in foreclosures from prime borrowers as a result of economic trends, this is a great growing concern.

And what do you see as the obstacles why those prime lenders are not participating yet in this program?

Mr. ALLISON. Well, I would say that, first of all, as you said, there are two in the past 24 hours.

We're still working to bring more banks into this program. We'll continue to do that. I don't want to speculate on any one particular bank's reasons why they haven't yet joined the program, but we're certainly not giving up.

We are—also, we have to recognize, I think one of the most important aspects of this program is outreach to as many Americans as possible, giving them direct information about how these programs work, so they're well-armed with information when they go to see their bank or servicer, and so I urge people to get on our website, financialstability.gov, and become familiar with how this program works or they can get on the Fannie Mae or Freddie Mac websites which also have a great deal of information about the program.

But with regard to the banks, we have to—I think, too, there's a need for the banks to recruit more personnel. They have to train the personnel. They have to reprogram their systems in order to be able to administer the details of this program effectively.

So there's been a lot of groundwork that's had to take place and I think in the coming months we'll see more banks taking part in this program, but I want to underline again we completely share your sense of urgency about the importance of this program to the American public.

As was pointed out by Chair Warren, several million people have lost their homes. This is a disaster for those people, for their communities, and really for our country, and there's nothing more important than stabilizing the housing market, keeping people in their homes.

As we know, this crisis began with the decline in house prices and the upsurge in foreclosures, and as we monitor this economic crisis and do our best to try to relieve the pressure on the American public, we're going to be guided by how they're doing, what's the state of jobs, how are housing prices, what's consumer confidence, and we will not rest without expending every effort on their behalf.

Mr. NEIMAN. Your point about oversight and responsibility, to the extent that that can be clarified to the community, specific responsibilities, I may even suggest consideration of an appointment of an ombudsman that people can go to to raise particular issues or concerns about the program.

Mr. ALLISON. Well, thank you for those ideas, Superintendent Neiman. We will take them very seriously, and I'll be glad to get back in touch with you about them.

Mr. NEIMAN. Your point on—if I'm——

Chair WARREN. Of course.

Mr. NEIMAN [continuing]. Able to follow up? Your reference to outreach is really critical because even at the state level where we have required by statute mandatory settlement conferences, still over 90 percent of defaults go through as a default foreclosure, through a default judgment because the borrower still does not come to the table.

So despite the fact that we're funding counselors, despite the fact that we've created an environment with notices and mandatory settlement conferences, borrowers are still reluctant to seek assistance. They don't believe that the lender or servicer will operate in their interests or follow the details of the program.

So I'm asking if there are thoughts at the federal level to address this critical problem about reaching out to borrowers.

Mr. ALLISON. Well, we're actually working on programs in Treasury to better educate the public as consumers of financial services, especially mortgage services.

I also had the experience, of course, at Fannie Mae since last September seeing this crisis firsthand and hearing from people directly who were in danger of losing their homes.

I think it's important that the public realize they don't have to have missed a payment on their mortgage to get help. If they see that they have a problem, if they've, unfortunately, just lost their job or there's a serious illness in their family, they should get in touch with their servicer.

I think, as you correctly said, many people are afraid. They're afraid if they contact their bank or servicer, they'll be foreclosed on, and we have to relieve that fear.

The whole emphasis of this program is to help people and the banks, too. Those banks that have joined this program, they are making an outreach themselves, many of them, and we're working with them on this, to acquaint people that it's all right to come in and talk about your situation with a banker and see, if you quality, if something can be worked out, so that your home becomes more affordable than it is today.

Mr. NEIMAN. And my understanding is that the——

Chair WARREN. Can I just add on that——

Mr. NEIMAN. Of course.

Chair WARREN [continuing]. Since we're back and forth here?

Mr. NEIMAN. Yes.

Chair WARREN. I just want to say, Mr. Allison, I was at a meeting over the weekend and heard once again from lawyers, those are people I tend to hang out with in my spare hours, tells you something about my life, but this same issue came up and I just want to say they were talking about people, their own clients, who said they had called their servicers, they had called their mortgage companies, and I can remember two in particular who specifically said we asked for help because we're running out of options but we've been current on our payments and in both cases, we were told by our servicers stop paying. We will not pay attention to you until you are at least three months in default.

Now, we on this panel like to say regularly that the plural of anecdote is not data. On the other hand, these stories are real and people have no reason to make them up.

What we continue to hear is you can't get a servicer on the phone or when you do get a servicer on the phone, you receive incorrect information and so I just want to ask again the question that Superintendent Neiman is asking. I just want to come behind and push back on it harder.

What are we doing to straighten this out? I feel bad if what comes out of this is you say I want to tell Americans that they need to reach out to their servicers. They're doing it. That's not the solution.

Mr. NEIMAN. And a follow-up.

Chair WARREN. Please.

Mr. NEIMAN. My understanding is that letters that are going out, and I think there's been reference to nearly a million letters that have gone out, my understanding is those letters are only to borrowers who are in default. So it would not include borrowers who are not delinquent.

I don't know if any consideration has been given to a policy to encourage those who send those letters and I don't know how you track those.

Is that information that's tracked by the servicer or by the Treasury? But to the extent that that policy can be developed to encourage the lenders and servicers to communicate with current borrowers who may be at risk is important.

Mr. ALLISON. Let me say again, I fully understand your concerns. We also hear from American citizens who are concerned that they were given the wrong information. We reach out to the banks in question.

I would again point out this program is still relatively new. This is a gigantic effort. It's by far the largest mortgage modification program ever attempted. It's already the most successful, by the way, even at the level it is today, and we're not nearly satisfied.

I think it's fair to say that the banks are training their people. It's only been a couple of months. They've hired a lot of people. They have to retrain the people they already have in how this program works. So I think that this may account for some of the occasional mistakes that are taking place in the communication between banks and homeowners.

I expect that this is going to get better and it's not—we're not just leaving this up to the public to become educated and be their own advocates but that's important, but, secondly, to make sure that the banks are doing all they can to educate their employees and provide the correct information.

I do think that the banks are working very hard on this program, but we're trying to do something that is truly enormous and that is reach millions of people and to try to process mortgage modifications very quickly. And as you know, I'm sure, a mortgage is a complex instrument and there are certain requirements that have to be met and, unfortunately, it takes quite awhile to modify a mortgage and we wish it didn't, but there are legal issues here, credit verifications and so forth. So we're doing our best with a system that wasn't designed for this type of a crisis and trying to make the best of it as it exists and over time, perhaps there will be reforms to the system, as well.

But I want to just leave you with this on that question. We're doing all we can. It's an extremely high-priority for the Administration, for the Treasury Department and for my office to make sure that we're doing all we can and we're as effective as possible, and as I said in my opening remarks, one of my responsibilities is to make sure that we carry out these programs in the most effective, most efficient way and reach the goals that the president has set for us in his March 4th announcement.

Thank you.

Chair WARREN. Is it all right with you if Mr. Silvers also——

Mr. NEIMAN. Yes.

Chair WARREN. Let's stay on the same subject for a minute here. I've got another question on mortgages, as well.

Mr. Silvers.

Mr. SILVERS. Mr. Allison, it's very apropos of you to raise the president's expectations here.

My understanding, and correct me if I'm wrong, is that the letters that have been mailed out describing the program to borrowers who are behind in payments and in foreclosure were sent by the banks. Am I right about that?

Mr. ALLISON. That's my understanding.

Mr. SILVERS. They were sent on bank stationary. You might want to consider or perhaps you have considered, and this is not practical, communications directly from the Government.

If you look at, and I'd welcome your response to this idea, the last hearing we held on the mortgage foreclosure crisis component of our mandate in February in Prince George's County, Maryland, not very far from here, where the type of human tragedy that you spoke, I think, very compellingly about a moment ago is unfolding on a very large scale.

One of the issues that came up at that hearing in a big way, in addition to the issue of borrowers needing to stop paying before anybody will help them, in addition to the issue of borrowers being afraid that dealing with their bank would make things worse and so they ignored communications, both which go to the question of whose stationary is that communication coming under.

There's a third problem, and I have experienced it myself personally as a resident of Maryland, is that not everybody who reaches out to help you necessarily has that in mind. There's a fair amount of fraudulent activity going on, victimizing people once again, vulnerable homeowners once again.

This creates an environment in which communications from lenders may be among the least effective ways of getting to homeowners. You, on the other hand, have one of the—at the moment—one of the world's great brands at your disposal.

I gather you can even swat flies with your bare hand, at least my son tells me that. You might want to think about how to make use of that and, I mean, something as simple as getting those lists from the banks, sending something from the United States Government or from the president himself.

Mr. NEIMAN. Let me just endorse that recommendation because our experience at the state level when we held outreach efforts, daylong sessions, inviting county by county, delinquent borrowers to sit down face to face with servicers, one on one with housing counselors present, that letter came over my signature and the response rate was triple what it was had that letter gone out from the bank.

Now, still triple is still only 10 percent, but it's better than three percent and so it does make a difference because people who are behind in their mortgages are also behind in student loans and they're also behind on credit cards and they're right, those letters are taken without the realization that they're to help.

Mr. ALLISON. Yes. Well, I want to thank you for the suggestion. We're going to consider it very seriously.

I would point out again that we are going to 40 cities around the country. We're also working with community associations across the country, as is Fannie Mae, to try to reach as many people through channels that they trust, with people in their communities who understand the situation.

So there are so many ways that we can reach the American public and we're going to do as many of them as we possibly can. We have to communicate continuously and repeatedly about this and we do have to do more to reach people earlier.

We're also trying to reach people who are in extreme situations, who have very high priority because they're about to lose their homes. It's very important to reach them as fast as possible, and kind of work our way back to those who may be less immediately stressed.

Mr. NEIMAN. So I think focusing on the outreach at the same time, to the extent that you are considering, I'd be interested if you are, considering established protocols to be followed by the servicers, turnaround times, quality control, and what's the process.

Mr. ALLISON. Yes. Well, let me also point out that Freddie Mac is responsible for auditing the program and they'll be making site visits to the servicers to see how things are going.

They also follow up on complaints. They're on the look-out for fraud. We also have the FTC. We have the Special Inspector General for the TARP and others who are very concerned about preventing fraud, which is a problem here.

Chair WARREN. If we could, before we leave the subject of the foreclosure crisis, I'd like to ask a policy question about it and that's the question about the underwater mortgages that are in default.

This is serious both because with the housing market that continues to fall, particularly in some markets, and we're seeing more and more houses, a large proportion of houses that are in foreclosure are also not just a little bit underwater but underwater by a substantial proportion, and at least to the extent we can see some data on what happens when people go through mortgage foreclosure mitigation programs, those who have large overhangs of debt that is unsecured, debt that's larger than the value of the home, tend to have much less successful rates and obviously no one's goal here is to put people through mortgage foreclosure mitigation programs only to have them stay in the house a few more months and then default on the loan and then ultimately lose it. That can't be good for the families and it can't be good for the lenders.

So when we last met with Secretary Geithner, the question at that moment was how to deal with this and the only tool in the toolbox was the bankruptcy proposal and that was passing the cram-down bill that was going to at least give one option for homeowners to go into bankruptcy and at least write their mortgages down to a 100 percent of the value of the property.

Obviously, that has now failed. So far as I know, there are no immediate efforts to revive that bill. If that was Treasury's plan for how to deal with that part of this crisis and if the facts suggest that that part of the problem is growing larger by the day, I want to ask the structural question.

Do we need another piece to the Treasury's mortgage foreclosure plan?

Mr. ALLISON. Well, Chair Warren, there are several initiatives that have been undertaken, and others are being contemplated, but one is to incorporate the Help for Homeowners Program into the Mortgage Modification Program that the Administration has announced, which does allow, if people qualify, for some principal relief.

Chair WARREN. I just want to make sure I'm following you. Is this the voluntary program?

Mr. ALLISON. It's the HUD program. This is the HUD program which is being incorporated into the Making Home Affordable Program, the HAP Program.

Chair WARREN. Right.

Mr. ALLISON. And also, it is possible, at the discretion of the servicers and at the discretion of the lenders, to make principal modifications.

What we're really solving for here, though, is affordability and trying to make the home affordable by reducing the mortgage costs through modifications or in some cases through refinancings, so that people can afford to stay in that home.

I will tell you that we will continue looking at various possibilities to assist homeowners and we are intent on getting the program up and running at this point and we'll be measuring it very carefully.

We're well aware of the underwater situation that many people face and the question is how best to deal with that, but the first step is to allow people to stay in their homes by making the mortgage affordable, if they qualify, and we'll continue to monitor it.

I welcome ideas from the Oversight Panel on other initiatives that we might consider undertaking, and as I hope you'll understand, we're totally open to ideas from any quarter about how we can deal even better with this major crisis that homeowners face.

Chair WARREN. I appreciate that. I will only state the obvious. Mortgage lenders have had the capacity to make voluntary principle reductions throughout this crisis and that obviously has not gone very far towards solving the problems. So we may have to think more aggressively in this area, particularly since the tool that was the only tool that might have taken more stringent efforts has been abandoned.

Mr. NEIMAN. You know, just to support what you're saying, in talking to some servicers as to how they do the mix between interest rate reduction and principal reduction, I've talked to one quite important servicer whose position is that they will do a greater extent of reducing principal. So instead of reducing a rate from seven down to three, they'll reduce it down to four, have the same net present value but reducing principal and they see that in the long run that will change the behavior to reduce the redefault risk.

Chair WARREN. Right.

Mr. NEIMAN. So I think that is something that really should be explored and considered as to move it from beyond a voluntary program.

Chair WARREN. Right. I really commend the notion of looking at why there seems to be so much resistance on the principal reduction side and less resistance on interest since these are fungible dollars we're talking about and the other structural reasons that may underlie this having to do with accounting, having to do with rules about the trust that these are placed in.

If that's getting in the way of solving this crisis and ultimately costing homeowners their homes and investors money, surely our job should be to cut that Gordian knot and something better out.

Mr. ALLISON. Yes. Well, we'll be having continual dialogue with the banks. Again, I'm encouraged that as many banks have joined this program, especially the large ones where most of the mortgages are being administered. That's very encouraging.

And we are also looking at ways of having principal forbearance and that has been utilized already and stretching out the lives of mortgages to provide additional relief.

Again, the first priority is to keep people in their houses by making that home more affordable to them and we will be remaining open to other ideas and I think this dialogue we're having right now is very useful and we'll take this back and once again examine the programs with these ideas in mind.

Chair WARREN. Good. Any more on mortgages? I think it's good to be able to pursue a topic all the way through.

Mr. NEIMAN. No. I think the only last point is obviously you're getting a sense as to this is something important for the panel.

We intend to pursue it. We're anxious to see your metrics and data once that's posted. We intend to put a data request in both to Treasury but as well as to other servicers, particularly servicers who are not participating. We would like to know why they are not participating. We would look for your encouragement if there's any resistance from those servicers or lenders in responding to us and we also intend to follow up with our requests to the banking regulators to see their role in both encouraging participation as well as collection of data.

Mr. ALLISON. Thank you very much.

Chair WARREN. Thank you.

Mr. NEIMAN. Thanks.

Chair WARREN. Thank you, Superintendent Neiman.

I want to welcome Congressman Hensarling. I know he's been doing the people's business and we're glad that you could join us.

We're going to give the Congressman a minute to collect himself and so, Mr. Silvers, would you like to ask the next round of questions?

Mr. SILVERS. Well, thank you. I want to take the conversation we've just been having focused on foreclosures and bring it back to our earlier dialogue about the health of the financial system as a whole.

You mentioned one of your priorities in your opening statement would be to focus on internal controls and risk management. I think that can be understood in both small-scale and large-scale ways and I want to talk about it with you in a large-scale way.

The upside scenario in our current economy and our current financial system, I think, is fairly well understood and you stated it, I think, in certain respect in response to my earlier questions when you talked about the cautious confidence that you have and that the department has that the financial system will see an earnings-driven recovery.

Now let's talk for a moment about risk management and the downside scenario.

The downside scenario, it seems to me, is one in which some of the dynamics we were just describing in the housing market, combined with the failure of bank lending in both commercial real estate and ordinary business lending, combines to be a drag on an already obviously weak economy. On top of that the yield curve development you were describing earlier as positive is not positive in terms of sustaining the mortgage refinancing business that the banks benefited from in the first quarter and is also not positive in terms of what it may be saying about some limits to what we can do in terms of liquidity in the money supply.

If those things turn against us, right, and we face another stress event, my question to you is not to predict whether that's the right scenario or the other scenario is the right scenario. My question to you is what is your assessment of the degree to which both our systemically significant institutions and our financial system remain vulnerable to the kind of domino effect, the kind of interconnectedness, particularly around their interface with shadow markets that appears to have been central to the approach to the cliff that we made last fall, and to what extent, if the bad case scenario unfolds, are we vulnerable to a repetition of the events of last fall?

I would encourage you, if you wish, to reflect on the white paper as part of that answer, if that makes sense.

Mr. ALLISON. Thank you. Well, first of all, the Treasury Department and the Administration are not complacent about the economy. We still see that there are some downside risks and we need to be extremely vigilant in monitoring the health of the banking system and the financial markets as a whole.

We are encouraged by the reaction to the stress tests and the ability of these banks to raise capital. It's certainly a positive that they've been able to do that.

We need to be reviving the securitization markets, which allow banks more liquidity to sell assets into the marketplace, to provide more room for lending, for example, and so while we can't predict the future, we have seen some positive developments. We need to be monitoring the situation very closely and we need to have, as I've mentioned before, head room in the TARP Appropriations so that we can provide additional capital to the banks on an as-needed basis if the situation warrants it down the road.

Mr. SILVERS. How important in your view is it to have resolution authority as proposed, broad resolution authority beyond banks to bank holding companies and other systemically significant institutions as proposed in the white paper?

Mr. ALLISON. I think it's very important and I think that's why it's a pillar of the proposals by the Administration.

Mr. SILVERS. Do I have more time?

Chair WARREN. Yes.

Mr. SILVERS. Okay. All right. Very good. I want to shift now to a subject we haven't touched on at all.

Chair WARREN. Or if you prefer, we can just——

Mr. SILVERS. No. I can keep talking. I can certainly use time.

But you alluded to it in your statement, which is the involvement of the Treasury Department and your office with the auto industry. Can you explain essentially the division of responsibilities here as between you and your team and the Auto Task Force and, to the extent appropriate, to the extent we're asking the right questions of the right person, can you explain in some general strokes, the strategic thinking on the part of your team in terms of what we are trying to accomplish with the auto industry?

Mr. ALLISON. Well, let me start with that second question since that's the ultimate question here.

What we're trying to do is to allow the automobile industry and encourage the automobile industry to restructure so that it is again a highly-competitive sector of our economy and can grow and create more jobs over time and that's the reason why the Administration—actually, they were asked to take part in this. That's the reason why they've decided it was necessary to do so.

The outlook here is very important to the whole economy and I think that's been the underlying reason why the Administration has acted in the way it has.

Mr. SILVERS. Could you get to the first part?

Mr. ALLISON. Yes.

Mr. SILVERS. Who's responsible for what here?

Mr. ALLISON. The Office of Financial Stability houses most of the people working on that program and it's a part of the activities under the TARP which is administered by my office.

Mr. SILVERS. So am I right in understanding that the Auto Task Force answers to you?

Mr. ALLISON. The—Steve Rattner and Ron Bloom work closely with my office and the people under them are housed within the Office of Financial Stability.

Mr. SILVERS. But where do their lines of authority run? Do they run to you or do they run to someone else?

Mr. ALLISON. They run to both of us. The policy and thought leaders have been the leaders of the overall Auto Task Force and we work closely with them.

Mr. SILVERS. So the question about strategy is properly directed to you and to them, it sounds like?

Mr. ALLISON. Yes, it can be, yes.

Mr. SILVERS. Okay. Thank you.

Chair WARREN. Thank you. Congressman Hensarling.

Mr. HENSARLING. Thank you, Madam Chair.

Mr. Secretary, I apologize about being late but we had a series of votes on the House side I had to attend to and I also apologize since I missed a fair portion of the hearing. We may be covering some old ground with my questions and I beg your forgiveness there. You may have answered them to my colleagues but you haven't answered them to me.

The first question I have, Mr. Secretary, is, it is my understanding that Treasury has taken the position that essentially TARP funds, as they are repaid, as they recently have been under the CPP, can, for lack of a better term, be recycled.

There are those who have a different opinion on both the wisdom and the propriety of doing that, but do I have it correct that is the position of Treasury and, if so, is there a legal opinion of memorandum that supports Treasury's view in this regard?

Mr. ALLISON. Congressman, thanks for your question. The Treasury is not recycling the funds. As funds are received, repayments of the Capital Purchase Plan Program, they are deposited in the General Funds of the Treasury Department.

What that repayment does under the EESA Law is to free up additional resources within the appropriation. The law says we cannot have more than $700 billion of investment out at any one time.

So as it's repaid, that 700 billion is a constant under the law and so the repayments that go into the General Funds free up additional head room under the 700 billion and that's strictly according to the EESA Law.

Mr. HENSARLING. To make sure I'm understanding, Mr. Secretary, so it's not necessarily the current policy to expend extra funds under the CPP, but you find it desirable to keep the incoming funds as extra head room. Is that a fair assessment?

Mr. ALLISON. Well, the incoming funds again are paid into the General Account for purposes of making other payments, but the way the law operates under the cap of the appropriation, that provides additional room for us to make new investments but each one is a separate decision and a separate obligation.

Mr. HENSARLING. Again, Mr. Secretary, not that I am necessarily a legal scholar, but others have differed in this interpretation, I believe, from Treasury and so I guess the second part of the question is Treasury's interpretation is based on an opinion of the General Counsel at Treasury?

Mr. ALLISON. Yes.

Mr. HENSARLING. Okay. Thank you.

Mr. ALLISON. Yes.

Mr. HENSARLING. Thank you. A broader question. As you well know, TARP has never quite lived up to its advertising. As you well know, we started out having a Troubled Asset Removal Program advertised. It quickly morphed into a Capital Purchase Program.

What started out as infusing capital into major financial institutions now has included General Motors and Chrysler which has caused many people to become curious, and I certainly include myself among their numbers. I fear to some extent that TARP has morphed from something that was at one time meant for emergency economic stability into what may have become a $700 billion revolving bailout fund.

My specific question is this. Once TARP funds were made available to Chrysler, made available to GM, under the statute, under this Administration's policy, are there any industries, economic sectors, or specific firms that could not potentially qualify for TARP funding?

Mr. ALLISON. The utilization of the TARP funds is at the direction of the Secretary of the Treasury. All of those investments have been made within the ESSA Law and all of the recipients qualify under the law, and I wouldn't want to speculate on what additional investments might be made.

Mr. HENSARLING. Well, Mr. Secretary, then you are not aware of any internal Treasury policy that would disallow any specific industry or any specific firm from receiving funds under TARP?

In other words, at this point essentially the sky's the limit?

Mr. ALLISON. No. I'll be glad to provide a more detailed answer to your question, Congressman.

Mr. HENSARLING. Okay. Thank you. I'd be glad to receive it. I see my time is up for this round of questioning.

Mr. ALLISON. Thank you.

Chair WARREN. Superintendent Neiman.

Mr. NEIMAN. You mentioned commercial real estate in your opening statement and this is a great concern to the panel, as well.

We had a very enlightening hearing in New York City several weeks ago, hearing testimony from some of our largest banks who have analyzed this market as well as from the Real Estate Board representing a number of commercial borrowers.

There seemed to be a great consensus that hundreds of billions of dollars, both on bank balance sheets and in the securitization market, will be coming due over the next several years without any likelihood of being able to be refinanced.

We all understand the impact that expanding TALF can have on the commercial real estate market, particularly with regard to the Legacy assets. I'd be interested in your assessment on the success and likelihood that TALF will address this issue. Or will there be other plans to address this segment of the market?

Unlike the subprime market, this is something where we do have the data with a much greater timeline to address it. So are there options, other than the TALF? So I'd like to hear your assessment of the TALF as well as other possible plans to address the commercial real estate area.

Mr. ALLISON. Thank you very much. Well, obviously as you said, the TALF has been performing well and we've seen a steady increase in the amount of securitization using the TALF in recent months, and we also—of course, the Secretary, now Secretary Geithner announced the Public/Private Partnership Program, and we've been working very hard on that and I'm confident that very soon we'll be launching partnerships and what that should do—and it deals directly with the commercial real estate crisis—is to start providing more liquidity into the securitization markets and as I'm sure you know, much of the commercial real estate financing in recent years has been through the securitization markets, which for some time were pretty much shut down.

So these efforts to act as a catalyst through the PPIP Programs, to restart that market, I think will be very important to enabling refinancing of commercial real estate in the years to come.

Mr. NEIMAN. Can you give us a little more flavor on the timing around the PPIP and any issues that you see that will be impacting the roll-out?

Mr. ALLISON. Well, we've made a great deal of progress and it shouldn't be long before we announce the first stage in that program.

Mr. NEIMAN. Great.

Chair WARREN. End of your time?

Mr. NEIMAN. No.

Chair WARREN. Okay. Good. Well, it's my turn. So I can actually pick up on exactly that issue. We're going to continue to——

Mr. NEIMAN. I think there's some benefit on a topic, to——

Chair WARREN. To the extent we can.

Mr. NEIMAN [continuing]. The extent we can, to incorporate others.

Chair WARREN. To the extent we can. Sticking with the question on TALF and you point out that there's been some rise in securitization, although, you know, as I read the numbers, they are very small relative to where they were before, I'm concerned about testimony we received in our New York hearing that, unlike the home mortgage market where, in effect, the best products were reserved for the banks' balance sheet and the worst products were moved into asset securitization trusts or mortgage-backed securities, that the reverse occurred in the commercial real estate market. That is, it was only the standardized products that already proved that they had a cash flow that supported them that were accepted into the asset-backed securities market, that were put into trusts and then marketed and that what the banks tended to keep, at least according to the testimony we received, were the more speculative undertakings. That is, new construction short-term financing, complete rehabs, the sorts of things that did not yet have an obvious source of payment and that these interest-only loans which produced substantial fees for the financial institutions sit on the banks' books now and that they were often financed at ratios of 90 percent loan-to-value, 95 percent loan-to-value ratios, at a time when the market was very, very high, which means lots of money was put in and so the face value of these notes is very high.

Those notes will be maturing in 2011, 2012, 2013, and at least according to our witnesses on this, the projection is (a) it will be a much lower market, (b) no one is going to take those 95 percent loan-to-value ratio mortgages anymore, lending standards have tightened, so that the estimate was that they were looking at somewhere in the neighborhood of 60 to 65 percent loan-to-value ratio mortgages, which is going to make many of these not eligible for any serious financing opportunity and throw many of them into default if we don't see substantial changes here.

So my concern here, I appreciate that we're seeing a little uptick in asset-backed securities, but my concern here is to hear just a little more about how Treasury plans to wrestle with this problem that remains, as our witnesses told us, on the books of the financial institutions.

Mr. ALLISON. Well, first of all, Chair Warren, we have to take account of efforts to stimulate the entire economy. Commercial real estate is a sector of the entire economy, and so the Obama Administration has been undertaking, as you know, a sweeping program to stimulate the economy in a wide variety of ways. Included in that is the Financial Stability Program, and part of that program is aimed at reopening the securitization markets which will be very important to the banks to provide liquidity, so that they are able to sell marketable securities back into that market and free up balance sheets. And at the same time we need to be making available, in case it's needed, additional capital to these banks which are so important to our economy.

So I think you have to look at this as a multi-pronged effort to try to build the economy in a way that is good for business, good for the American public, and ultimately good for commercial real estate prices and home prices.

So it's, I think, too early to draw conclusions about how serious the commercial real estate crisis will be over time. We're not making predictions about that, but we do know it's very important to restore stability to the financial markets, not just the banks but to the securitization markets, as a way of enabling banks to manage their capital and their asset positions as effectively as they can.

Chair WARREN. Thank you. Congressman Hensarling.

Mr. HENSARLING. Thank you, Madam Chair. Mr. Secretary, I don't want to put words in your mouth, but I think earlier—I want to kind of revisit an earlier line of questioning.

I think you said it was a desirable goal or quality to have head room within the TARP Program for future financial stability efforts. Is that a fair assessment?

Mr. ALLISON. I did say that, yes.

Mr. HENSARLING. Of what you said?

Mr. ALLISON. Yes, sir.

Mr. HENSARLING. Let me ask you this, Mr. Secretary. What is it under Treasury's analysis, what is it that TARP can do that cannot be done by the Federal Reserve under their 13.3 exigent powers?

When you talk about, from a policy perspective, needing the extra head room, why does that head room not already exist with respect to the Federal Reserve at 13.3?

Mr. ALLISON. Yes. Well, I'm not an expert on 13.3, Congressman, but I do understand that what the Treasury is doing is providing a source of capital for the banks, and capital is essential for them in order that they be able to lend and support the assets on their balance sheet and there has been—there was an erosion of capital in a number of those banks.

I think what the program has done is not only to provide immediate capital but to provide competence in the banking system and among investors and among——

Mr. HENSARLING. I'm not here to debate that at the moment, Mr. Secretary. I'm just trying to figure out again what is it that can be done under TARP that can't be done under 13.3, and again not necessarily expecting you to have that expertise immediately, but is this a matter that you would be willing to send a written answer?

Mr. ALLISON. Sure.

Mr. HENSARLING. I'd love to have Treasury's opinion on that matter.

Mr. ALLISON. Yes. Certainly.

Mr. HENSARLING. Next question, Mr. Secretary. The Congressional Oversight Panel, I believe in July, will hold a hearing dealing with GM and Chrysler—the auto bailout, controversial in a number of different ways.

There was a press report on May 1st, I believe I have the source right, a CNBC interview, I could be wrong on the source, where an attorney for the Chrysler bond holder said, "One of my clients was directly threatened by the White House, in essence compelled to withdraw its opposition to the deal under threat that the full force of the White House Press Corps would destroy its reputation if it continued to fight."

Are you aware of this press report and allegation?

Mr. ALLISON. No, sir, I have no awareness of that.

Mr. HENSARLING. Is it something that—do you have any knowledge if Treasury has investigated this allegation?

Mr. ALLISON. I have no knowledge of the issue at all.

Mr. HENSARLING. In your capacity, would you be willing to have Treasury investigate this allegation?

Mr. ALLISON. I'll be happy to follow up with my colleagues in Treasury on your question.

Mr. HENSARLING. Thank you. Moving to a different subject, the subject of the next report of the Congressional Oversight Panel will be dealing with the valuation of warrants under the CCP Program.

Number one, it's my assumption but I'd like it confirmed. I assume Treasury intends to adhere to the terms set forth in the Securities Purchase Agreements in divesting warrants.

Mr. ALLISON. We intend to and we must adhere to the agreements we had with the banks when we advanced the Capital Purchase Program funding.

Mr. HENSARLING. And is it your understanding or position that Treasury may transfer, sell, assign, or otherwise dispose of these warrants at any time? In other words, they need not necessarily be held to maturity? Is that the position?

Mr. ALLISON. After the bank has repaid its——

Mr. HENSARLING. Yes.

Mr. ALLISON [continuing]. Preferred——

Mr. HENSARLING. Yes. I'm just—yes, just speaking of the warrants.

Mr. ALLISON. Under the contract, Congressman, the bank has the ability shortly after the repayment to bid to repurchase its warrants. That's part of the contract.

So the first element is their decision whether to bid to repurchase their warrants. If they decide that they're not going to repurchase the warrants, then we have the ability to sell the warrants over time.

Mr. HENSARLING. I see my time's out for this round. Thank you.

Chair WARREN. Mr. Silvers.

Mr. SILVERS. Well, there's certainly a nice symmetry to today's hearing because I want to also talk about warrants. That way we at least don't keep you moving around from topic to topic, and I want to talk about warrants as part of a larger inquiry into the general theme of protecting the public's financial interest as we go through this program.

There are many ways of pricing things. Some of them can generate controversy. There's been some controversy around the warrant repurchases that have occurred. Without pre-judging that matter, one way people often find as a way of resolving controversies around value is through an auction.

I wonder if that is an option for how to deal with warrants—for how to deal with warrants that are held after the return of the money, of the Capital Purchase Preferred Stock funds, and what your thoughts are in that regard.

Mr. ALLISON. Thank you for the question, and let me again point out that there is—there are provisions in the contracts with the banks as to how they can repurchase their warrants themselves. We must honor the contract. As you correctly said, if the bank decides not to repurchase the warrants, we have some choices to make about how we might dispose of those.

We have been studying this issue very carefully over a period of time and will soon be publishing on our website our approach to valuing the warrants and, if it comes to that, disposing of the warrants.

Mr. SILVERS. I wanted to make a suggestion. The Treasury finds itself in the unique circumstance with respect to these warrants, which is that typically a holder of a warrant or an option is worried about the downside.

When one takes the current market price with downside risk built into it because one is concerned because you're exposed to the downside. There is an argument, it seems to me, and I would like to call it to your attention, that the Treasury Department in this circumstance, at least with respect to the potential for a repurchase from the bank itself, does not have that same downside exposure. Consistent with complying with the contracts, it is in Treasury's interests to sell right now, that the reason you would sell right now, even though there's a potential upside if the stock price rises, is because you would be concerned about that downside.

But if the downside environment develops, you don't want to sell because you don't want the cash to leak out of the bank, and I would commend to you and your staff that you think carefully about that set of circumstances, so that consistent with the fact that there may be circumstances in which you are compelled to sell, that to the extent you have a choice, it may be both in the public's financial interests and in our policy interests not to do so.

Let me move from there—I have a little bit of time left. I want to move from there to the question of the Public-Private Investment Program.

As you may know, we've had some discussions with Secretary Geithner about this matter as they were initially described. I am extremely concerned that in their initial description, that program constituted a wealth transfer from the public to various private entities.

I had the impression from the Secretary that he was contemplating in a final or operational version making certain adjustments, particularly with respect to the cost of government-provided debt or debt guarantees, to ensure that this program really was essentially an investment or at least neutral vis a vis the public purse, much as Secretary Paulson promised that the Capital Purchase Program would be.

As you know, our February report suggested, that didn't turn out to be true, but Secretary Geithner was suggesting that with respect to the PPIP certain changes would be made.

Since you noted that you were moving forward with the PPIP, can you comment at all on your plans to ensure that the PPIP, in whatever form it actually rolls out, is financially fair to the public?

Mr. ALLISON. Let me answer that question, first of all, with a general comment that applies both to the warrant valuations and disposition of warrants as well as the PPIP.

We're acutely conscious of the fact that we are acting as fiduciaries on behalf of the taxpayers and we want to do what we think is in the best interests of the taxpayers, the American public, and that's how we approach the decisions on how we might administer both the warrants and the PPIP.

When we make the announcement of the PPIP, we will be making disclosures that should allow you to evaluate the diligence of the Treasury in protecting the interests of the taxpayers to the rates that we're charging, the structure of these transactions, and I can assure you that a great deal of thought has gone into that, strictly from the standpoint of how best to protect the interests of taxpayers.

Mr. SILVERS. My time has run out. Thank you.

Chair WARREN. I'm going to exercise for just one second the prerogative of the Chair and particularly of the staff that's working on a report right now on valuing the warrants.

I just heard you mention that Treasury will soon issue guidance on the pricing of the warrants. I don't think I knew about that.

Could you tell us about when it is that you plan to issue that?

Mr. ALLISON. We'll be disclosing the methodologies in a general sense that we're using and as soon as we can, which——

Chair WARREN. Could you just maybe be a little more specific? You see, let me be clear. Let me be clear on this point, Mr. Allison. You will understand the intensity behind this question.

We are required by law to issue a report every 30 days and that means we have a deadline by which we need to write about the valuation of the warrants.

Mr. ALLISON. Yes.

Chair WARREN. So it would be helpful to know what your plans are vis a vis explaining what you're doing with the warrants.

Mr. ALLISON. Chair Warren, we're as eager as you are to have this announced, and we will do that as soon as we possibly can, and when I say soon, I mean I'm hopeful it will be very soon.

Chair WARREN. As opposed to only slightly soon?

Mr. ALLISON. Well, I'm not going to check my watch, but it should be very soon. I'd like to be more helpful to you, but——

Chair Warren. You could.

Mr. ALLISON. I'm sure I could.

But in all fairness,——

Chair WARREN. I thought I just did. Yes, we have a date.

Mr. ALLISON. And what is your date, if I may?

Chair WARREN. Our date—our report must be—we must have a final draft of our report by the 5th of July, is that right?

Mr. SILVERS. Yes.

Chair WARREN. But we are hoping we will have finished the work by then.

Mr. ALLISON. I'm very hopeful and I'm very confident we'll meet your deadline.

Chair WARREN. And give us time to analyze it. That will be very helpful.

Mr. ALLISON. Yes, it will certainly be aware and mindful of your deadline.

Chair WARREN. Thank you. I appreciate it, Mr. Secretary.

Mr. ALLISON. Let me also, if I may, go back to Mr. Silvers' question about the PPIP, and as I said, we're very concerned about taxpayers' interests.

Under the law, we're required, as I mentioned in my opening remarks, to really have two goals. One is to help stabilize the financial system and the second is to protect the interests of taxpayers.

We've also had to be mindful of that first goal, stimulating the financial markets, stabilizing the financial system, and so we've been balancing both of those objectives as we look at the structure of the PPIP and the pricing and so forth.

And I think that—I'm hopeful that you will see when we publish this, that a lot of thought has been given to it.

Chair WARREN. I do want to say, Mr. Allison, notwithstanding the fact that we spoke with some jocularity there, I know that we want to work together on this and I know that you don't want our staff and all of us who work here heading in the wrong direction if you have—you obviously do have plans about valuation of the warrants.

I think to the extent we can share those, even in less than final form, and, if necessary, on a confidential basis, ultimately it's good for Treasury, it's good for oversight and that makes it good for the American public.

Mr. ALLISON. Let me say, Chair Warren, I fully agree with you, as do my colleagues in Treasury.

Chair WARREN. Good.

Mr. ALLISON. We are eager to move this forward and to provide that disclosure.

Chair WARREN. Good. Thank you.

Mr. ALLISON. Great.

Chair WARREN. Superintendent Neiman.

Mr. NEIMAN. And I will follow up. This is an area, as I think you heard from Damon, a sense of where he's coming from regarding the policy and timing of the sale of the warrants.

This, as you're probably not surprised, is one of several issues where there's not a consensus view on the panel. I have a view of having a public policy of disposing of those warrants as soon as practical. I'm concerned about Treasury trying to time the sale of those warrants, the cost of maintaining those, and I'd like to give you an opportunity, since your staff spent a great deal of time with us last week in explaining that and that was the policy I heard, but I'd like to give you an opportunity to reiterate that, to the extent that you wish.

Mr. ALLISON. Well, in determining our policy on the warrants, we have to consider both the timing of the sales, should we hold the warrants for a long period of time, or try to sell them off as fast as we can, and also what should be the manner of sale, if it comes to a sale, by the Treasury Department.

There are many different alternatives. There are also many—there's another question, which is what is the right price for the warrants? Well, there is a wide divergence of opinion. There are many different ways of valuing warrants. There are many considerations, without getting too wonky here, in valuing warrants. So we've had to examine many different approaches and then the pros and cons, the probabilities and so forth.

We're trying to come up with an approach that we think again best serves the interests of the taxpayers and best serves the stability of these markets.

When we do disclose, I'm sure there's going to be a wide range of opinions about the approach that we're taking. Therefore, we have to be thorough in the manner in which we explain what we're doing. So that's one reason why we're being careful to be prepared as we make our disclosure so we can provide the types of useful information that the public will need as it examines our planned approach.

Mr. NEIMAN. Okay. We'll look forward to that.

Mr. ALLISON. Thank you.

Mr. NEIMAN. I think the discussion of the policy regarding timing and disposal of those warrants as soon as practicable, I think, was a separate issue from the process that was going to be used and I assume that's the details of which will be forthcoming.

Mr. ALLISON. We'll be describing the process, how this whole process works, and the decisions we're making about if a bank is not repurchasing the warrants, how we would dispose of them, both in the timing and the manner.

Mr. NEIMAN. One area, following up on that, as we do look at both the repayment, policies around repayment, as well as policies around the warrants, I'm interested in whether you have any intent to calculate the total investment return, including dividends received on those preferred investments. I think that would be useful information——

Mr. ALLISON. Thank you.

Mr. NEIMAN [continuing]. To the public to get a real sense of the return to the taxpayer.

Mr. ALLISON. Yes. Yes, we've been looking at that, as well. Yes, sir.

Mr. NEIMAN. Staying on metrics, it was really the focus of my questioning of Secretary Geithner when we had that opportunity, to press the Secretary on expanding the scope of the metrics that are posted, make them both broader and more readable on the website.

I think it's something that our panel can provide. There's certainly real challenges to it because of the causality features as to what actions you can really attribute to these factors, but I think it is meaningful information to Congress and to the public to get an understanding of markets, of equity, of interest rates.

So to the extent that you can share with us some ideas of where you are going, it will help us to try to identify are there other areas that we should be exploring to report on a regular or periodic basis.

Mr. ALLISON. Yes. Well, I very much agree with the importance of disclosure, as I mentioned before, and we are working on coming up with additional disclosures that we think would be useful in analyzing the success of the program and we're developing internal measures, as well, and we're involving a number of areas around the Treasury Department on that project.

So I share your interest in seeing more disclosure and having it done in a thoughtful way and I would welcome feedback from this panel about our disclosure and specifically the kinds of information that you would like to receive, and I think we're going to get a lot of feedback from others, too, among the public.

So we are working on behalf of the American public, obviously, and we are accountable to the Congress and this panel and others, and we want to be as responsive as we possibly can and be as open as we possibly can, but we want to do it in a responsible way and so we're working hard on that and I hope to have progress to report to you before long and that is evident to you on our website, as well.

Mr. NEIMAN. Great. Thank you.

Chair WARREN. Thank you. Despite the name, Troubled Assets Relief Program, we have almost since the inception veered away from dealing with the troubled assets and now it seems more than ever that the banks continue to hold what we were calling troubled assets last October and the Legacy loan part of the Public-Private Investment Program seems not to be in an active phase.

So I want to ask, are you concerned that the banks continue to hold troubled assets?

Mr. ALLISON. Well, I think we would all like to see a more liquid market, so that the banks could be disposing of more of those assets and have turnover in their asset base so they can continue to provide new sources of lending and other forms of finance to the economy.

What has to be considered is what is the most effective way of accomplishing this and so we have an approach that's really threefold.

First of all, to assure that the healthy banks, especially when the markets are in an extreme condition, have access to capital which is essential to maintain lending.

Secondly, the stress tests were aimed at assuring that the major banks, the largest banks, will have adequate capital if they undergo additional stress out in the marketplace because of continued difficulties in the economy.

And thirdly and very importantly, it's to reopen the securitization markets.

All these need to be achieved in order to hasten a return to normal markets where the private sector is operating effectively, and it's not any one of those measures that's going to get us there and some of this is going to take time.

As I said, we are working on the PPIP Plan. We've been encouraged by the success of TALF so far, by the rapid growth in that, and by the reduction in spreads in those asset classes which is the market's indication that the TALF is having a positive effect, and I think the announcement of the PPIP Program, as it's called, also has had a positive effect.

So I think we have to give some of this a little more time to operate. These are complex programs. They need to be carefully designed, but I think we're making progress in terms of the roll-out of the PPIP Program in the near term.

Chair WARREN. But, Mr. Secretary, it worries me a little bit. You describe this in terms of liquidity, that the only problem we have here is the liquidity problem, suggesting that the banks that are holding these troubled assets would sell them if only there were more liquidity in the marketplace.

I just want to ask if you've considered an alternative scenario and that is, that it's really a pricing problem, that since we first described these assets as troubled, there have been more foreclosures and bigger drops in the housing market which would suggest to me that if they were troubled in October, they should now be described—I don't know what the right word is—deeply troubled, but they are in worse shape and that the real issue is that if they were sold for their current market value, that the price they would fetch would suggest that the banks were in much more serious trouble than they are and that, in effect, they are—they need not acknowledge that, so long as they hold these assets on their books, particularly with changes in accounting rules.

So I'm concerned—I appreciate the point about liquidity—but I want to hear if Treasury is considering an alternative scenario that could be far more disturbing.

Mr. ALLISON. Well, let me offer thoughts on why liquidity is closely related to the problem you just pointed out of asset values.

It's our belief that when markets are illiquid and a bank tries to sell assets, they're selling at fire sale prices because it's a highly-inefficient market. The idea is that if we increase liquidity, if we can act as a catalyst to get these markets going, we will see the spreads between bid and ask declining and there will be more activity, more sales by banks, more investment by individuals in a self-reinforcing process. But we have to, we think, play a role in jumpstarting sectors of the securitization market so that can happen.

In other words, there is a gap and has been a gap between what the banks are willing to sell the assets for because of their own internal analysis of what they're worth and what the market has been willing to pay.

Chair WARREN. But the problem we've got, Mr. Allison, is that the same set of known facts could be described by two different causes. One could be liquidity, as you rightly describe it. The other could be that the banks simply do not want to acknowledge the losses that even a flush market would put on packages of subprime mortgages, even prime mortgages now that are experiencing astonishing default rates and a housing market that continues to fall.

Mr. ALLISON. Well, on your point, and I understand your point and it's a thoughtful one, in my opinion, the answer may be provided in part by launching the PPIP Program and let's see how much demand there is for that program. It's just a start, but we had the same issue with asset-backed securities and what we've seen is that for sectors of the asset-backed market, in recent months we've seen spreads decline and more activity taking place away from TALF.

So there's no magic quick solution to this. It's going to take some time. I think your point is a very thoughtful one. I think the answer is in launching this program and seeing what the demand is, seeing who the sellers and buyers are, and with the beginning of this, we've already seen the spreads come down to some extent since this program was announced, in anticipation, I think, of the program, but I think we need to let it work.

We're mindful of your concern. As I've said, we don't think this crisis—that we're totally out of the woods here. There are still risks in this economy. You pointed to one. I think we all have to be mindful of it. We have to continue this dialogue.

I certainly respect your viewpoint here and we are considering all aspects of this problem.

From the standpoint of how do you stimulate financial stability, how do you protect the interests of taxpayers, from those two standpoints, what kinds of programs make the most sense? We've looked at a wide range, but what we think is worth focusing on, at least for the immediate moment, are the plans that we're rolling out now, but we are willing to take input from all sources. We're continually thinking about these issues. We want to try to continuously improve effectiveness in dealing with this problem.

Chair WARREN. Thank you, Mr. Secretary. Congressman Hensarling.

Mr. HENSARLING. Thank you, Madam Chair. Mr. Secretary, how are we going to know when the system is stabilized?

Mr. ALLISON. I think that's a very profound question, Congressman. Let me tell you how I view it.

As I said in my opening remarks, this problem isn't really about banks. It's about the American people. It's about the hardships that they're facing right now with housing prices falling, with loss of jobs, with difficulty getting credit in many cases, and I think that we'll judge the success of these programs in terms of how they're affecting people's lives.

What's happening with consumer confidence, what's happening with housing prices, are creditworthy borrowers able to borrow, small businesses, large businesses, and individuals?

Mr. HENSARLING. Well, Mr. Secretary, it gets back to again how does one measure success?

Mr. ALLISON. Right.

Mr. HENSARLING. And I think in terms of the overall challenge of oversight of this panel, there are several challenges. Number one, it has been disappointing to me that roughly seven months into this process, this is the second time we've had a hearing with somebody from Treasury. Our fault, Treasury's fault, nobody's fault. That has been disappointing. I understand we now have a commitment from Treasury going forward, greater access. I thank you for that.

Another item of effective oversight not only is access to you and the Secretary, it also has to do with other bodies, including ourselves, involved in the accountability and transparency process.

I'm sure that you are painfully aware that the Inspector General for TARP, Neil Barofsky, wrote on April 7th a memo to then Acting Attorney General of the Treasury regarding Treasury's intention to seek a legal opinion from the Justice Department on SIG TARP's independence from Treasury.

Now that has concerned a number of us on the panel about frankly what is going on here. Is there some assertion of attorney-client privilege that ultimately might deny SIG TARP access to materials and documentation?

So I ask the question, do you know why this Justice Department memo has been sought? What is the purpose?

Mr. ALLISON. Well, what I do know is that this question first came up last December by non-political career staff within the Treasury because of the peculiarities of the EESA Law. It was unclear who's responsible, for example, for IT security for the SIG TARP, where does the SIG TARP's budget go and so forth. They're more administrative issues. We have provided Neil Barofsky whatever information he wants. I meet with him.

Mr. HENSARLING. And going forward, will that be the policy at Treasury?

Mr. ALLISON. Absolutely. When he asks for information, I would invite you to ask him the same question. I have met with him and my predecessor met with him weekly. I've met with him more than weekly. I met with him yesterday, as a matter of fact, and we talk on the phone, as well.

Mr. HENSARLING. Let me move on, if I could then, to another challenge we have in oversight.

Mr. ALLISON. Sure.

Mr. HENSARLING. Clearly, we've spoken about the access to Treasury officials, ensuring that there's access to documentation, information.

Mr. ALLISON. Yes.

Mr. HENSARLING. When I ask you the question of how do we know what stabilization of the system looks like, I mean to some extent, it's we're going to kind of know it when we see it. I don't want to put words in your mouth, but we don't have a tangible metric there.

I'm curious, and maybe this was covered earlier, but, you know, what is the exit strategy today with respect to Chrysler, with respect to GM, with respect to AIG? How as an oversight panel are we to provide oversight if Treasury does not articulate—what is the metric? How do you manage what you cannot measure?

Mr. ALLISON. Yes.

Mr. HENSARLING. And if you have plenary powers to essentially pick winners and losers in the economy, choose to infuse capital or bailout GM, Chrysler, or choose not to bail out, for example, Pilgrims Pride, the second largest poultry producer in the nation near my congressional district, if we don't know what financial stability looks like, all the access that we have to you, all the access we have to documentation.

Again I get back to the central question, how do you convince the American people that this hasn't simply turned into a $700 billion revolving bailout fund? Can you not tell the American people this is what we're going to achieve with your $700 billion investment, this is when you know we have achieved it, and this is how we plan to go about returning you your valuable capital?

Mr. ALLISON. First of all, let me go back. As I said, ultimately, the success of all these programs, including financial stimulus, depends upon how well the American public is doing.

Now, we have a lot of measures, we were discussing that when Mr. Neiman asked his questions, in terms of the health of the financial markets themselves. For instance, what's happening to credit spreads, how much risk is seen within the economy, within the financial markets? What's the state of the banking system? What's the volume of loans being granted today? Is it growing? Is it shrinking, et cetera?

There are many metrics that we are monitoring. As was said earlier, and I agree, it's hard to attribute cause and effect. There are associative relationships that we think are also important, however, and in terms of the end game or how we're going to exit from all this, the TARP Program calls for expiry of Treasury's ability to provide new funding at the end of this year, or with the discretion of the Secretary of the Treasury. That can be extended until October of 2010.

Mr. HENSARLING. Does he intend to ask for an extension?

Mr. ALLISON. I think it's too early for him to make that determination. I'm sure he'll be watching the status of the markets, the economy as a whole, and at some later point he'll make that determination.

In terms of the actual investments, these investments either have termination provisions or the dividend rates charged become prohibitive and so it has an automatic wind-down feature to these programs.

These were not intended to be permanent programs. It's not intended that the office that I manage is a permanent office within the Treasury, and we are, as the president has said, as the Secretary of the Treasury has said, we are very reluctant shareholders in corporations. We don't want to be in that position, and there are—there's work being done in terms of General Motors, AIG, and so forth on exit strategies, and the debt holders in GM will end up with about 10 percent of the shares.

They'll eventually register and sell those shares. We are hopeful that there will be an IPO from General Motors, perhaps next year, and so we are working with those companies to try to move them to the point where they can stand on their own or make other adjustments and enable the U.S. Government to get out of the business of being a shareholder in those corporations.

Chair WARREN. Mr. Secretary, if I could, would you be willing—I know we had agreed on 4:30, but to even this out at least a little bit to let Mr. Silvers and Superintendent Neiman each ask one more question?

Mr. ALLISON. I'll be happy to.

Chair WARREN. Thank you very much. I appreciate your indulgence and then we'll wrap this up. We'll be a few minutes over. Thank you.

Mr. SILVERS. Thank you for this and the generosity of the time provided today. You have a few other things going on, I'm sure.

I want to come back to the thread of questioning that our Chair was on because it seems to me, as this hearing winds down, that an awful lot of what we have asked you has actually been about one thing. It has appeared not to be about one thing. Questions about dealing with principals, principal reductions in mortgages, questions about the capital, real capital strength of the 19 banks subject to the stress tests, questions about the PPIP and the pricing issues.

These are actually all the same thing, and I think that there are two theories operating here and I would like you to comment as to whether you agree that there are two theories and how certain you feel that the one that Treasury has embraced is correct.

The first theory is that there is a substantial set of losses unrecognized on the books, some recognized, some unrecognized on the books of our major financial institutions, that the gap between the real losses and what's been recognized, is driving the refusal of the financial institutions to voluntarily restructure mortgages because then you'd have to recognize it. That drives increased foreclosures.

The real state of the banks' capital structures are weaker than has been formally acknowledged. Therefore, they're not lending because they know what the real state is, and that the decreased spreads that you were referring to, and the increased confidence in the equity markets is fundamentally nothing more than their reaction to this perception they have that we, the public, have guaranteed these institutions and not only have guaranteed them against bankruptcy but through the statements associated with the stress tests have effectively stated that there's not that much risk of further dilution on the equity side or any possibility that, like the bond holders in GM and Chrysler, they might face some form of restructuring of their debt positions.

If I'm an investor or participant in those markets and I have that guarantee, I get very relaxed, spreads close, equity is saleable again. That's one story.

The other story is the one that you have told us today and that's a story of—and by the way, the first story I just told leads to, at best, a W in terms of economic recovery. It's a story in which those large banks that dominate our credit system are unable to play their role and there are macro economic consequences and they're not good. That story has a name. It's called Japan.

The other story is the story that bank earnings, driven by improvements in the real economy, are sufficient to recapitalize the banks and that either the losses aren't real, that those houses in Las Vegas that we saw, our committee, that those houses are actually worth what people said they were worth in 2006, either those losses aren't real or they will be made up by earnings off of credit cards and mortgages and so forth and that we don't have anything to worry about.

Those seem to me to be the two narratives. Do you disagree that they are the two narratives, and how confident are you in the narrative that you've given us today?

Mr. ALLISON. Well, I—first of all, I think that your concerns are certainly ones that people consider today.

Mr. SILVERS. Mm-hmm.

Mr. ALLISON. I think there's concern about that. I'm not sure it's a case of one theory or another theory.

Mr. SILVERS. That's fair enough.

Mr. ALLISON. I think one of the best ways to resolve the question of what the assets of the banks are worth is by restoring price discovery in the marketplace.

Mr. SILVERS. Can I stop you there?

Mr. ALLISON. Go ahead.

Mr. SILVERS. The marketplace, the marketplace, the financial markets today are not cash-deprived. The private equity funds, the hedge funds that you're seeking to attract with the PPIP have lots of cash. They're sitting on mountains of it. Their refusal to deploy—your recipe, your prescription raises the fear in my mind of a hidden subsidy to that transcription in which case it won't do what you say it's going to do.

Now I understand that you said earlier that that's not the game plan, but the story about liquidity, given how much cash is sloshing around right now, doesn't seem credible to me.

Mr. ALLISON. Let me just give you my experience when I was heading TIAA–CREF.

Mr. SILVERS. Right.

Mr. ALLISON. We were one of the largest investors in the United States in both the debt and the equity markets. We—as we saw the markets freeze and they started almost two years ago, we, as a cash—what's called a cash investor—became very reluctant to invest because we couldn't see price discovery. We didn't know what was the right price, and we—I've been outspoken on that question in various forums in the past—there was a need to restore the secondary markets.

Now, we can have different opinions about this. We can have our theories. In the last analysis, that's why you have financial markets. You have to have liquid interchanges and then the truth will out as to what the assets are actually worth.

I think under any scenario, under any concern that anyone has, it can only benefit the country if we can try to restore these markets and that will lure back those holders of cash. There are trillions of dollars of cash out there. I totally agree with you.

How do you bring them back into the market and that's what we are attempting to do, and these programs start out relatively modestly. We want to be, as I call it, a catalyst to bring others back into the market.

Mr. SILVERS. If the Chair will indulge me for 10 seconds——

Mr. ALLISON. Yes, sir.

Mr. SILVERS [continuing]. I agree with you, that if you design PPIP so it's not a back door subsidy, right, that it will be a very sharp test of this little colloquy we've had.

Mr. ALLISON. It will be.

Mr. SILVERS. But if you design it so it's a back door subsidy, it will not be.

Mr. ALLISON. Well, I await your judgment on that and we should soon find out, and I would certainly like to get your views once the terms are announced and we'll see how the program progresses.

Mr. SILVERS. Thank you.

Chair WARREN. Mr. Neiman, I want to be fair. Superintendent Neiman.

Mr. NEIMAN. I would like to follow up on that because one of the programs to attract cash back to the market is the PPIP Program, including the Legacy Loan Program, and with the announcement that that program is delayed, I'd like to understand, you know, your sense of the reasons for that, that it's no longer a priority.

We've read that it's the reluctance of financial institutions to sell assets. We've read that the changes in mark to market may have impacted it. There are others who say that the results of the stress test may have taken off some of the priority.

From your perspectives, what are they?

Mr. ALLISON. I think it would be presumptuous of me to speak for the FDIC. I would simply ask that you wait for developments there, but I don't think I should speak for the Chairperson of the FDIC.

Chair WARREN. Okay. Good.

Mr. NEIMAN. Thank you.

Chair WARREN. I want to thank you. I appreciate your staying longer.

Mr. ALLISON. Thank you very much.

Chair WARREN. We appreciate your coming, Secretary Allison. We're going to hold the record open for seven days so that if panelists have additional questions, they can be asked and they will be made part of the record.

Mr. ALLISON. Thank you. Thank you, Chair Warren, for asking me to be here, and I look forward to working with all of you very closely and to be as responsive as possible to your questions and concerns.

Chair WARREN. Thank you. This meeting is adjourned.

Mr. ALLISON. Thank you.

[Whereupon, at 4:37 p.m., the hearing was adjourned.]

[The responses of Assistant Secretary Allison to questions for the record from members of the Congressional Oversight Panel follow:]

Questions for the Record from the Congressional Oversight Panel
Congressional Oversight Panel Hearing on June 24, 2009

Questions for the Honorable Herbert M. Allison, Jr., Assistant Secretary for Financial Stability and Counselor to the Secretary, U.S. Department of the Treasury

Question for the Record from Panel Chair Elizabeth Warren

1. ***On May 14, 2009, twenty-five Members of Congress sent Secretary Geithner a letter about the importance of ensuring the broad-based participation of minority and women-owned firms in administering TARP funds. I know that Treasury will follow up separately with those Members, but could you tell us whether this is something you have thought about, whether you have collected any information on this issues, and how you intend to address these concerns in your new role?***

On May 14, Members of Congress asked the Treasury about our specific efforts to engage and minority- and women-owned firms under our Public-Private Investment Program (PPIP). We responded to that request detailing our efforts to promote the participation of diverse firms in PPIP, including our efforts to encourage minority- and women-owned firms as well as other small businesses including veteran owned firms, to partner with other private asset managers in order to meet the PPIP eligibility criteria. On July 8, 2009, we announced our selection of nine fund managers for the PPIP program and also announced that those nine firms would collectively partner with nine small-, minority-, veteran-, and women-owned businesses. Their roles would include asset management, capital raising, broker dealer, investment sourcing, research, advisory, cash management and fund administration services.

Beyond the PPIP selection, I believe that it is essential that TARP programs be structured in a manner that facilitates the participation of small businesses, including minority-, veteran- , and woman-owned businesses, in the execution and administration of these programs. [To date, the Treasury engaged a number of businesses, including nine small, minority- and woman-owned businesses as contractors or financial agents to the Treasury in carrying out the administration of programs under the TARP. In addition, in cases where the Treasury has engaged the services of a large business, the Treasury has required or otherwise encouraged in the contract or financial agency agreement that the business engage one or more small businesses, including minority- or woman-owned businesses, to provide a meaningful portion of the services under the arrangement. As a result, more than 28 small, minority-, veteran-, and woman-owned firms are currently engaged or have been engaged as subcontractors to the Treasury. In this way, the Treasury is actively promoting the inclusion of small, minority-, veteran-, and woman-owned business in all aspects of the administration of the TARP.

We will continue to actively encourage the participation, and to provide meaningful opportunities for small, minority, veteran, and women-owned businesses, in close cooperation with, and with the assistance of research into corporate capabilities from, the Treasury's Office of Small and Disadvantaged Business Utilization as well as the Small Business Administration (SBA). We will continue to ensure that public notices and other solicitations for services are designed to elicit responses from as many sources as practicable, to target small, minority, veteran, and women-owned businesses as part of our competitions and to promote subcontracting opportunities to small, minority-, veteran-, and women-owned businesses.

Questions for the Record from Panelist Richard Neiman

1. *Under the Emergency Economic Stabilization Act, Treasury is charged with the responsibility to take measures to help prevent foreclosures, and I commend you for announcement of the Home Affordable Modification Program (HAMP). Because the Panel was also given a specific mandate to report on foreclosure mitigation efforts, I wish to have a better understanding of the implementation of your foreclosure prevention efforts. Specifically, I would like to request a clear description of who is responsible for the implementation and oversight of HAMP.*

   First, please provide a clear description of implementation and oversight responsibilities by office or program. Please delineate the separate roles, responsibilities and authorities of the Office of Financial Stability, the Office of Homeownership Preservation, Fannie Mae, Freddie Mac, and any other program or office with a notable role in foreclosure implementation or oversight.

   Second, please provide a clear description of the individuals responsible for implementation and oversight of HAMP. Please include their name, title, program or office, and their specific role in HAMP.

   Third, please identify who is responsible for ensuring servicer compliance, resolving program questions, and solving program problems. Please delineate this responsibility both by program or office and by individual name and title.

   Within Treasury, implementation and policy development of the HAMP is a collaborative process with input from a number of parties and departments. The Treasury Department created the Homeownership Preservation Office within the Office of Financial Stability (OFS) to oversee HAMP. The Office of Homeownership Preservation, under the direction of Nancy Fleetwood, Chief Homeownership Preservation Officer, oversees operations, data analysis, marketing and outreach to servicers and borrowers, policy coordination within Treasury and government and industry relations.

   Treasury's Office of Domestic Finance, which includes OFS, participates in the formulation of policy decisions regarding the HAMP and the Administration's broader housing policies.

Other offices within Treasury, such as the Office of Economic Policy and the Office of Tax Policy also participate in the development and implementation of housing policy in light of their specific expertise and responsibilities. Policy is also developed in consultation with the NEC, HUD and various other agencies. HUD is a very important partner in program implementation and is playing the key role in integrating the Hope for Homeowners program into the HAMP framework.

Since $50 billion of potential funding for the Home Affordable Modification Program has been allocated under TARP authority, expenditure of those funds is subject to the same oversight of expenditure as any TARP funds under EESA. Use of TARP funds and compliance with EESA is overseen by OFS.

Treasury retained Fannie Mae and Freddie Mac as financial agents to implement the program, and the Homeownership Preservation Office oversees the administration of the financial agency contracts. Under Fannie Mae's financial agency contract, it is responsible for administration and implementation of HAMP, including signing contracts with participating servicers, data reporting, providing guidance on implementation and following up on consumer complaints regarding implementation of the program. OFS is responsible for oversight of the flow of funds from TARP to Fannie Mae, so that Fannie Mae can make incentive payments to participants in the HAMP.

Freddie Mac is responsible for carrying out compliance operations through data reviews, off-site audits, and on-site audits of the participating servicers. These operations are overseen by the Homeownership Preservation Office. Oversight is coordinated through weekly, monthly, and quarterly reports that allow HPO insight into Freddie Mac's findings. Results of Freddie Mac compliance reviews are examined by the entire HPO management team to assess plans of action and resolve issues.

2. *The Panel's March report offered a checklist of items necessary for any successful foreclosure mitigation program, including whether the plan can be scaled up quickly to deal with millions of mortgages. I remain concerned about the ability of HAMP to satisfy this point. What is being done to ensure that servicers have sufficient capacity to handle HAMP and how is the capacity being verified?*

Participating servicers' ability to expand their capacity and execute efficiently will be critical to the success of the HAMP. The program's success-based payments are designed to provide servicers with the financial incentive to scale up their operations quickly, as payments are only made once trial modifications are successfully completed. We know that servicers are already responding to these incentives by adding staff in significant numbers to support call centers and sending hundreds of thousands of mailings to borrowers who may be eligible for the program. However, it is clear that more must be done.

In order to address capacity challenges, Secretaries Geithner and Donovan recently wrote a joint letter to the CEOs of all of the MHA-participating servicers and called on them to devote substantially more resources to the program in order for it to fully succeed. They also requested that the CEOs designate a senior liaison, authorized to make decisions on behalf of the CEO, to work directly with the Administration on all aspects of MHA and attend a program implementation meeting with senior HUD and Treasury officials on July 28, 2009.

In addition, as compliance agent for the MHA program, Freddie Mac is conducting readiness reviews of participating servicers, and will continue to do so, in order to provide guidance on how to improve capacity to meet the demands of the MHA program. Freddie Mac will report to Treasury on the results of these readiness reviews.

3. *What is Treasury doing to sign up additional servicers? When does Treasury expect full implementation of HAMP by participating servicers? How are participants being held accountable for the implementation timeline? What are the standards and protocols, including the timeline for handling modification requests? Again, how are participants being held accountable for these standards? Until such time as the program is fully implemented, how is loss mitigation being handled? How are you monitoring data across companies?*

<u>Signing Up Additional Servicers</u>

As of July 13, 2009, 27 servicers had signed agreements to participate in the Home Affordable Modification Program (HAMP). These 27 servicers, along with the government-sponsored enterprises (GSEs), service roughly 86 percent of the mortgages that we estimate are eligible for consideration. Servicers have signed up at a rapid pace. In addition, negotiations with servicers are constantly ongoing, and we expect that servicers will continue to sign up for the program as these negotiations continue to move forward.

Fannie Mae, as administrator of the HAMP, has focused its efforts on signing up servicers with large numbers of loans eligible for consideration under the program. Efforts include one-on-one meetings and presentations during which Fannie Mae personnel outline the program benefits, as well as requirements. Subsequent to the introductory meeting, members of the Fannie Mae HAMP team are assigned to serve as points of contact for prospective servicers, providing more detailed information, answering questions, and keeping in touch on a regular basis. We expect that this approach will result in the addition of more servicers to the program in the coming days and weeks. Fannie Mae also provides program training and tools designed to make servicer implementation as efficient as possible. Since the HAMP was announced, more than 300 servicers have downloaded packages from the Fannie Mae website. Fannie Mae will continue to actively solicit additional servicers for participation in order to maximize program impact.

<u>Implementation Timeline/Loss Mitigation</u>

Timelines for servicers of non-GSE loans will vary. The pace with which participating servicers are currently evaluating borrowers for eligibility and offering trial modifications depends in part upon the date they sign the Servicer Participation Agreement, their current systems technology and operations, and the changes required for them to accommodate the HAMP. Most servicers are still working to incorporate program features in their systems and procedures, adding new program requirements as they are introduced. We expect the pace of modifications to continue to increase throughout the summer and into the fall.

In addition, servicers of mortgages owned or guaranteed by the GSEs are taking steps to update their data reporting capabilities in order to begin reporting their HAMP modifications to Treasury's database, and some servicers have already completed this process. Because the pace of implementation for GSE servicers is to some extent dependent on their ability to collect and report new data, a third-party data aggregator has been engaged to provide tools to accommodate data collection and lead outreach efforts to approximately 1,500 GSE servicers. We currently expect that data aggregation will launch by the end of the third quarter.

After signing a servicer participation agreement, a servicer may not foreclose on any borrower that is potentially eligible for the MHA program until the servicer has evaluated the borrower for eligibility under MHA. This will cause servicers to ramp up quickly or be required to have a foreclosure moratorium in place for all loans until the servicer can bring its MHA compliant systems online. This structure provides an incentive for servicers while providing flexibility needed to implement the system and staffing changes necessary for the MHA program.

In June, Fannie Mae began deploying integration-support teams for participating servicers. These teams work onsite with servicers to expedite program adoption by helping with data and technology questions that tend to arise during program set-up. Tithe integration-support teams monitor the implementation timeline through daily discussions with the servicers' project team members and weekly calls with the servicers' senior management. Servicers are incented to complete implementation because compensation for HAMP modifications can only be paid on mortgages that are tracked in Treasury's reporting system.

In addition, participating servicers must report summary and loan-level program information to Treasury, and data from these reports will be made publicly available in the future. The transparency of the program is designed to provide additional incentive for quick implementation and solid performance.

Also, Freddie Mac, as compliance agent, will audit servicers to confirm that they have fully adopted program standards and policies as normal business practices and are complying with them.

Servicers are expected to follow the standards, policies, and protocols outlined in the Treasury Supplemental Directive and GSE guidelines for handling modification requests. Under the directive, servicers fielding calls from borrowers inquiring about HAMP should respond in a manner that fosters good customer relations, and any modification offered subsequent to a determination of eligibility must be communicated in a manner that minimizes confusion. The directive also requires servicers to have adequate staffing, resources, and facilities to handle HAMP-related inquiries and documents. Under the directive, servicers must see that borrower inquiries and complaints are given fair consideration in a timely fashion.

Fannie Mae and Freddie Mac have also begun collaborating on a best-practices manual that would, among other things, establish servicer timelines for resolving customer inquiries, from initial inquiry through completed modification, where achieved.

Data Monitoring

Treasury is focused on continued transparency and servicer accountability to maximize the effectiveness of the HAMP. Under the terms of the program, participating servicers have agreed to provide detailed loan-level data on all their loans that meet basic MHA eligibility requirements. Beyond this requirement, we are planning to take three additional concrete steps to enhance transparency in the program:

First, by August 4th, we will begin publicly reporting servicer-specific results on a monthly basis. These reports will provide a transparent and public accounting of individual servicer performance by detailing the number of trial modification offers extended, the number of trial modifications underway, the number of official modifications offered and the long terms success of modifications. They will give servicers additional incentive to ramp up operations and improve their results.

Second, we will work to establish specific operational metrics to measure the performance of each servicer. These performance metrics are likely to include such measures as average borrower wait time in response to inquiries, the quality of information provided to applicants, procedures for document processing and review, and response time for completed applications.

We are also planning to deploy a data reporting tool that will contain over 130 data elements and will be able a comprehensive assessment of the program at the loan, servicer, and mortgage market levels. This will enable the program to be effectively measured against specific performance benchmarks.

Third, we have asked Freddie Mac, in its role as compliance agent, to develop a "second look" process pursuant to which Freddie Mac will audit a sample of MHA modification applications that have been declined. This "second look" process will be designed to minimize the likelihood that borrower applications are overlooked or that applicants are inadvertently denied a modification.

4. *While borrower outreach is critical, as acknowledged in the Panel's checklist for a successful program, are you concerned about efforts to press forward with massive borrower outreach when servicer capacity is already insufficient to meet existing demand? Are you concerned that this could ultimately hurt the public perception and credibility of the program? In what ways are you managing borrower expectations? In what ways are you specifically working to increase servicer capacity to meet the demand you will generate through outreach efforts, such as your 40 city tour?*

As Secretaries Geithner and Donovan noted in their letter to CEOs of participating servicers, capacity is key to the success of HAMP, and we believe that there is a general need for servicers to devote substantially more resources to this program for it to fully succeed and achieve the objectives we all share. Despite current capacity issues and challenges of implementing a new national program, servicers have extended more than 325,000 modification offers and roughly 160,000 trial modifications are already underway. As described in question two above, we are taking a number of specific actions to expedite servicers' efforts to scale up their operations, even as we continue progressing toward full implementation of compliance and reporting systems.

In their joint letter, Secretaries Geithner and Donovan called on servicers to take specific steps to increase capacity, including adding more staff than previously planned, expanding call centers beyond their current size, providing an escalation path for borrowers dissatisfied with the service they have received, bolstering training of representatives, developing extra on-line tools, and sending additional mailings to borrowers who may be eligible for the program.

They also requested that CEOs designate a senior liaison, authorized to make decisions on behalf of the CEO, to work directly with the Administration on all aspects of MHA and attend a program implementation meeting with senior HUD and Treasury officials on July 28.

Additionally, Treasury intends to work with servicers to set more exacting operational metrics to measure the performance of the program, such as average borrower wait time for inbound borrower inquiries, the completeness and accuracy of information provided applicants, document handling, and response time for completed applications. This will provide additional incentive for servicers to quickly improve overall borrower experience.

Finally, as compliance agent for the MHA program, Freddie Mac is conducting readiness reviews of participating servicers, and will continue to do so, in order to provide guidance on how to improve capacity to meet the demands of the MHA program. Freddie Mac will report to Treasury on the results of these readiness reviews.

Together, we believe that these steps will have a meaningful impact on servicers' operational capacity and allow us to capitalize on the increased awareness generated by our borrower outreach efforts.

5. *On the Making Home Affordable website, PNC Financial Services, U.S. Bancorp, Sun Trust, Fifth Third Bank and Sovereign Bank are not listed as participating servicers. Do you have signed contracts in place with any of these institutions? If not, are you concerned that these companies are promoting HAMP on their websites in such a way as to give the impression that they are participating? How can the public be sure which servicers are authorized to participate in HAMP?*

Servicers that have signed contracts to participate in HAMP are listed on the Making Home Affordable website (makinghomeaffordable.gov), and the public can be certain that any servicer listed on our website is indeed a participating servicer. Any servicer not listed on the website is not currently a participating servicer. In addition, servicers who have signed contracts to participate in HAMP will be listed in transaction reports posted on financialstability.gov as part of the Obama Administration's commitment to provide transparency for expenditure of all TARP funds. Any servicers that display any information that is fraudulent or misleading to borrowers are subject to regulation and prosecution by various agencies, and any form of predatory lending or fraud will be vigilantly prosecuted.

On April 6, 2009, the Obama Administration announced a new coordinated effort across federal and state government and the private sector to target mortgage loan modification fraud and foreclosure rescue scams that threaten to hurt American homeowners and prevent them from getting the help they need during these challenging times. The new effort aligns responses from federal law enforcement agencies, state investigators and prosecutors, civil enforcement authorities, and the private sector to protect homeowners seeking assistance under the Administration's Making Home Affordable program from criminal actors looking to perpetrate predatory schemes. The U.S. Department of the Treasury, the U.S. Department of Justice (DOJ), the Department of Housing and Urban Development (HUD), the Federal Trade Commission (FTC), and the Attorney General of Illinois have undertaken new initiatives to coordinate information and resources across agencies to maximize targeting and efficiency in fraud investigations, alert financial institutions to emerging schemes, step up enforcement actions and educate consumers to help those in financial trouble avoid becoming the victims of a loan modification or foreclosure rescue scam.