Congressional Oversight Panel Takes Stock of the Financial Rescue

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For Immediate Release

While TARP Helped Stop Economic Panic, Underlying Weaknesses in U.S. Financial System Remain

WASHINGTON, D.C. - The Congressional Oversight Panel today released its December oversight report, "Taking Stock: What Has the Troubled Asset Relief Program Achieved?" The Panel concluded that TARP was an important part of a broader government strategy that stabilized the U.S. financial system. It is apparent after 14 months, however, that significant underlying weaknesses in the financial system remain.

The Troubled Asset Relief Program (TARP) was the centerpiece of the federal government's multi-pronged response to the financial crisis. While it is impossible to disentangle TARP from other rescue efforts, it is clear the program played a critical role in renewing the flow of credit and preventing a more acute crisis. The Panel found that this overwhelming fiscal response, however, created an implicit guarantee for major financial institutions that distorts pricing for capital and encourages excessive risk-taking. Unwinding this guarantee poses a difficult long-term challenge.

In the Emergency Economic Stabilization Act (EESA), the law establishing TARP, Congress established broad goals that went beyond the short-term objective of easing the panic. The Panel's review found that many ongoing problems indentified by Congress remain in the financial markets and broader economy:

Unemployment and Foreclosures Continue to Plague the Economy. Despite the unprecedented government actions to bolster the faltering economy, unemployment remains at its highest level in 25 years. With one in every eight American homes in foreclosure, it appears that TARP's foreclosure mitigation programs have not achieved the scope, scale, and permanence necessary to address the crisis. These core economic problems are exacerbated by banks' continuing reluctance to lend and the continuing reluctance of many small businesses and consumers to borrow.

The Health of Financial Institutions is Far From Certain. A nearly unprecedented number of bank failures this year has put the FDIC in the red for the first time in 17 years. Problems in the commercial real estate sector are likely to inflict further damage on small- and mid-sized banks, while some major financial institutions continue to hold their toxic assets, waiting for a rebound in prices that may be years away.

Markets Remain Dependent on Government Support and Distorted by Moral Hazard. It is unclear whether the market can withstand the removal of the extraordinary government support put in place as a response to last year's crisis. At the same time, the unprecedented government actions taken to stabilize the system have infected the pricing of assets and the measurement of risk.

Once again, the Panel urges Treasury to make both its decision-making and actions more transparent. TARP has gone through several different incarnations with evolving benchmarks and changing metrics for success within the various programs. The Panel concluded, "Transparency and accountability may be painful in the short run, but in the long run they will help restore market functions and earn the confidence of the American people."

The full report is available at cop.senate.gov.

The Congressional Oversight Panel was created to oversee the expenditure of the Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform. The Panel members are: former Securities and Exchange Commissioner Paul S. Atkins, Congressman Jeb Hensarling (R-TX), Richard H. Neiman, Superintendent of Banks for the State of New York, Damon Silvers, Policy Director and Special Counsel for the AFL-CIO and Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard Law School.