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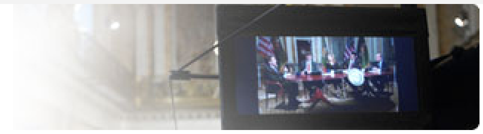

# Written Testimony of Herbert M. Allison, Jr., Assistant Secretary for Financial Stability Domestic Policy Subcommittee of the Oversight and Government Reform Committee

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Chairman Kucinich, Ranking Member Jordan and members of the Subcommittee, thank you for the opportunity to testify before you today regarding Treasury's efforts under the Emergency Economic Stabilization Act of 2008 (EESA) and the Troubled Asset Relief Program.

As a result of our efforts under EESA, confidence in our financial system has improved, credit is flowing, and the economy is growing. The government is exiting from its emergency financial policies and taxpayers are being repaid. Indeed, the ultimate cost of those policies is likely to be significantly lower than previously expected.

While EESA provided the Secretary of the Treasury with the authority to invest $700 billion, it is clear today that TARP will not cost taxpayers $700 billion. We have funded $370 billion to date and, based on current commitments and plans, we expect total disbursements to be around $550 billion. We expect that the overall cost of the program will be at least $200 billion less than the $341 billion that was projected in the August Mid-Session Review of the President's Budget. The financial statements we just published estimate that the ultimate cost of the disbursements through the end of September will be about $42 billion.

With the recent announcements of repayments by Bank of America, Citigroup, and Wells Fargo, banks will have soon repaid nearly two-thirds of the total amount invested in banks under the program. We also expect a positive return from the government's investments in banks. Investments are generating more income than previously anticipated – more than $15 billion in income so far – and we expect substantial additional income going forward.

You have asked me to discuss our common equity investments in American International Group, Inc. (AIG), Citigroup, General Motors (GM), and Chrysler. I will discuss the reasons for these investments, the core principles that guide Treasury's management of these investments, and our strategy for exiting these investments. I am happy to talk with you about these subjects and look forward to your questions after my testimony.

**Background to the Investments**

In mid-September 2008, we were in the midst of one of the worst periods in our financial history. The economy was contracting sharply. Fear of a possible depression froze markets and spurred businesses to lay off workers and pull back from investment and lending.

Immediate, strong action was needed to avoid a complete collapse of the financial system. The Treasury, Federal Reserve, Federal Deposit Insurance Corporation (FDIC), and other U.S. government bodies undertook an array of unprecedented steps to avert a collapse and the dangers posed to consumers, businesses, and the broader economy. However, additional resources and authorities were needed to help address the severe conditions our nation faced.

Recognizing the need to take difficult but necessary action to confront a financial system on the verge of collapse, Congress enacted EESA and granted the Treasury Department authority to restore liquidity and stability to the U.S. financial system by purchasing and guaranteeing troubled assets in a wide range of financial institutions.

*Investments*

Let me now give an overview of the government's investments in each of the four firms you have mentioned, and then discuss the particular issues you have raised.

**AIG**

The government's initial investments in AIG were not made by Treasury but were made by the Federal Reserve Bank of New York (FRBNY) before EESA was enacted. The circumstances that forced the government to act developed extremely quickly. Government officials with the Federal Reserve System, FRBNY, and the Treasury had no intention of providing support to AIG going into the weekend of September 13-14, 2008. After Lehman Brothers filed for bankruptcy on September 15, however, financial markets were shaken, AIG's condition worsened dramatically and the prospects of private sector support for the company vanished. Literally overnight, government officials were faced with a difficult choice, and a choice that had to be made immediately: either let AIG go bankrupt or provide support.

In light of the circumstances at the time, a bankruptcy of AIG would have had disastrous consequences. Chairman Bernanke has stated that it could have "resulted in a 1930's-style global financial and economic meltdown, with catastrophic implications for production, income, and jobs." Credit markets were already frozen, money market funds were already experiencing runs and interbank lending had already ceased. The commercial paper market had stopped functioning. One money market fund had already broken the buck, which triggered withdrawals by many investors from other funds. The dangers could have quickly escalated to a situation where we experienced runs on banks. In those circumstances, the global scope of AIG, its importance to the American retirement system, and its presence in insurance, commercial paper, derivatives and other financial markets all contributed to a situation where the risks of an AIG bankruptcy were simply too great.

Let me be clear on what those risks were. The risk was not simply the direct exposure of other financial firms to AIG or the direct effects of a default by AIG in the financial markets in which it participated. The indirect consequences of a bankruptcy of AIG were also of great concern. In hindsight, it is easy to forget the level of panic and fear that gripped the world that week. A bankruptcy of AIG would have dramatically increased that panic, and in a financial panic, events can quickly accelerate and become very difficult to contain. That was the danger we faced, and the authorities had to choose between acting to try to prevent further panic, or letting AIG go bankrupt and facing the consequences. They chose, rightly, to act.

Thus, on September 15, the FRBNY agreed to provide a credit facility to AIG and also received the right to acquire convertible preferred stock that represents approximately 80% of the voting rights of the common stock. The FRBNY later deposited this convertible preferred stock into the AIG Credit Facility Trust, a new independent trust that was established solely for this purpose. That trust continues to own the stock today for the benefit of the U.S. taxpayer. The trust is run by three trustees who are independent of the FRBNY and the Treasury. We do not control the exercise of the voting rights of that stock or its disposition.

Notwithstanding this intervention, the rating agencies felt that AIG had too much debt, and so in November, pursuant to the TARP authority, the Treasury invested in $40 billion of AIG preferred stock, which was used to reduce the FRBNY credit facility. In April Treasury restructured this investment and provided an additional preferred stock facility of $29.8 billion, of which only $5 billion has been drawn. Today, the Treasury has invested a total of $45 billion and we hold nonvoting preferred stock. The Treasury does not hold common stock in AIG.

**Citigroup**

Treasury invested $25 billion in Citigroup in October 2008. Citigroup was one of the first participants in the Capital Purchase Program (CPP). The CPP was the primary program established by the prior Administration under TARP. It provided for capital infusions into viable banks, and in return the Treasury received nonvoting preferred stock. This program was essential to averting a collapse of our financial system, as has now been acknowledged by many, including the Congressional Oversight Panel in its most recent report. In November 2008, Treasury announced a further investment of $20 billion in Citigroup which closed at the end of December 2008. Treasury also agreed to guarantee certain Citigroup assets, in return for which it received nonvoting trust preferred securities, a transaction which was executed in January 2009. In the spring and summer of 2009, Citigroup consummated a recapitalization in order to strengthen its capital base. Treasury, along with other investors, agreed to exchange preferred stock for common stock. Thus, today, Treasury holds common stock, in which it invested $25 billion and which currently has a market value of approximately $26.5 billion. Treasury also holds nonvoting trust preferred securities in Citigroup. As I discuss below, Citigroup has announced its intention to repay $20 billion of this investment and terminate other governmental assistance.

**GM and Chrysler**

Let me turn now to the automotive industry. Conditions in the credits markets made it hard for many households to finance the purchase of motor vehicles. This difficulty, exacerbated by deterioration in the cyclical state of the broader economy and other factors, led to reduced demand for motor vehicles, causing considerable financial stress to automobile companies, particularly GM and Chrysler.

Outright failure of GM and Chrysler would likely have led to uncontrolled liquidations in the automotive industry, with widespread devastating effects. Importantly, the repercussions of such liquidations could have included immediate and long-term damage to the U.S. manufacturing/industrial base, a significant increase in unemployment with direct harm to those both directly and indirectly related to the auto sector, and further damage to our financial system, as automobile financing accounts for a material portion of overall financial activity. Chairman Bernanke stated that a disorderly bankruptcy of GM or Chrysler "likely would result in material job losses and place further, meaningful downward pressure on U.S. economic performance" and that the state of the Detroit automakers posed "unique financial and economic challenges."

Therefore, the previous Administration provided initial assistance late last year to the automotive companies pursuant to TARP, including loans of $13.4 billion to GM to fund working capital and $4 billion to Chrysler. When the Obama Administration took office, it required the companies to develop long-term reorganization and viability plans before Treasury would provide additional assistance.

The Administration believed that requiring the companies to develop plans to become leaner and more efficient was the only way the companies could become more competitive and the only way to protect taxpayers' investments.

On March 30, 2009, the Administration determined that the business plan submitted by Chrysler failed to demonstrate viability and announced that in order for Chrysler to receive additional taxpayer funds, it needed to find a partner with whom it could establish a successful alliance. Chrysler made the determination that forming an alliance with Fiat was the best course of action for its stakeholders. The first GM plan submitted also failed to establish a credible path to viability, and the deadline was extended to June 1. Treasury loaned an additional $6 billion to fund GM during this period.

Treasury announced an Auto Warranty Program designed to give consumers considering new car purchases from domestic manufacturers the confidence that warranties on those cars would be honored regardless of the outcome of the restructuring process.

After acceptable plans were developed, certain assets of both GM and Chrysler (Old GM and Old Chrysler, respectively) were sold to newly created entities (New GM and New Chrysler, respectively) through the bankruptcy courts in exceptionally fast and efficient proceedings. Under debtor-in-possession financing agreements Treasury provided $30.1 billion to assist GM and $1.9 billion to assist Chrysler through their respective restructuring periods. Prior to advancing these funds, the Administration relied on commercial principles in determining the viability of these businesses and in structuring the terms of its investments. The government provided the minimum capital necessary to these companies to facilitate their restructurings. The new companies are now leaner and more efficient and poised to help further the ongoing economic recovery and the competitiveness of the American automotive industry.

The Auto Warranty Program was terminated after New GM and New Chrysler completed the purchases of Old GM and Old Chrysler assets. The $640 million advanced to Old GM and Old Chrysler under the program has been repaid to Treasury. Chrysler repaid the full amount with interest while GM repaid only principal.

Treasury converted most of its loans to the Old GM into $2.1 billion of preferred stock, a 60.8 percent share of the common equity in the New GM and a $7.1 billion debt security note. $360 million of Treasury's debt in the new GM was immediately repaid with the termination of the Auto Warranty Program, leaving $6.7 billion of loans outstanding.

Today, Treasury holds 60.8% of the common stock of GM, as well as $2.1 billion of preferred stock and $6.7 billion in loans. Treasury holds 9.9% of Chrysler's common stock as well as a loan of $5.1 billion. On or after Dec. 31, 2014, GM may redeem the preferred shares at $25 per share plus any accrued and unpaid dividends, subject to limited exceptions.

## Treasury as a Shareholder

I would like to now turn to your question as to what objectives guide us in exercising our rights as a shareholder.

As noted earlier, Treasury does not own voting stock in AIG. The AIG Credit Facility Trust owns the voting stock, and you may wish to speak to the trustees as to the principles they follow in exercising those voting rights. The principles we follow with respect to our common stock investments in Citigroup, GM and Chrysler are as follows:

First, the U.S. government is a shareholder reluctantly and out of necessity. We intend to dispose of our interests as soon as practicable, with the dual goals of achieving financial stability and protecting the interests of the taxpayers.

Second, we do not intend to be involved in the day-to-day management of any company. Our responsibility is to protect the taxpayers' investment. Government involvement in the day-to-day management of a company might actually reduce the value of these investments, impede the ability of the companies to return fully to being privately owned, and frustrate attainment of our broader economic policy goals.

Third, establishing an effective board of directors that selects management with a sound, long-term vision should restore a company to profitability and end the need for government support expeditiously. Where companies require a substantial amount of new government resources, Treasury reserves the right to set upfront conditions to ensure that our assistance is deployed in a manner that promotes economic growth and financial stability and protects taxpayer value. When necessary, these conditions may include changes to the existing board and management.

Fourth, the government's role as a shareholder is to manage its investment, not to manage the company. We take a commercial approach to the exercise of our rights as a shareholder. We will vote only on core shareholder matters such as board membership, amendments to corporate charters or bylaws, mergers, liquidations, substantial asset sales, and significant common stock issuances.

We have incorporated these principles into legal documents in the case of Citigroup and GM, where we are substantial shareholders.

The Shareholders Agreement between Treasury and Citigroup provides that Treasury will exercise its right to vote only on certain matters. These matters consist of the election or removal of directors, certain major corporate transactions such as mergers, sales of substantially all assets, and dissolution, issuances of equity securities where shareholders are entitled to vote, and amendments to the charter or bylaws. On all other matters, Treasury will vote its shares in the same proportion (for, against or abstain) as all other shares of the company's stock are voted. We do not have any board seats in the case of Citigroup.

We own 60.8% of the common stock of GM. The other shareholders are: GM Voluntary Employee Benefit Association (17.5 percent), the Canadian Government (11.7 percent), and Old GM's unsecured bondholders (10 percent). We have designated ten of the thirteen of the directors. We expect our ownership to decline once GM goes public. The Shareholders Agreement between Treasury and GM provides that after GM's expected public offering, Treasury will exercise its right to vote only on certain matters. These matters consist of the election or removal of directors (provided that Treasury will vote in favor of individuals nominated through a certain pre-designated process, and individuals nominated by the GM Voluntary Employee Benefit Association), certain major corporate transactions such as mergers, sales of substantially all assets, and dissolution, amendments to the charter or bylaws, and matters in which Treasury's vote is necessary for the shareholders to take action (in which case the shares will be voted in the same proportion (for, against or abstain) as all other shares of the company's stock are voted).

In the case of Chrysler, we have 9.9% of the common stock. Approximately 67.7% is owned by the Chrysler Voluntary Employee Benefit Association, 20% by Fiat and 2.5% by the Government of Canada. We have designated three of Chrysler nine directors, and our designees, in turn, have designated one more of the nine directors.

*Oversight and Compliance*

Although we do not participate in day-to-day management of Citigroup, AIG, Chrysler and GM, I'd like to point out several additional protections and enhanced reporting requirements that help ensure accountability and protect the value of our investments in these entities.

*Executive Compensation*

First, with respect to compensation, in June 2009, Treasury published the Interim Final Rule (the "Rule") on executive compensation, promulgated under the EESA as amended by the American Recovery and Reinvestment Act of 2009. The Rule contains distinct requirements for recipients of TARP funding under certain programs, including CPP participants and recipients of exceptional assistance. Citigroup, AIG, GM and Chrysler are all recipients of exceptional assistance subject to these special requirements.

The Rule established the Office of the Special Master for TARP Executive Compensation (Special Master), and provided the Special Master with specific powers designed to ensure that executive pay at these firms is in line with long-term value creation and financial stability. For recipients of exceptional assistance, the Special Master is required to review and approve compensation structures, including payments made pursuant to those structures, for the senior executive officers and 20 next most highly paid employees, and to review and approve compensation structures, but not payments made pursuant to those structures, for all other executive officers and the next 75 most highly compensated employees. The Special Master is supposed to make sure, among other things, that compensation does not result in excessive risk taking, that it is linked to performance, that it is competitive and that the firms whose compensation he reviews can pay back the government for the investments.

The Special Master will automatically approve proposed compensation to employees whose total annual compensation is not more than $500,000, with any additional compensation paid in the form of long-term restricted stock. This "safe harbor" rule is designed to encourage TARP recipients to use compensation structures that link compensation to long-term firm value.

On October 22, 2009, the Special Master, Kenneth R. Feinberg released determinations on the compensation packages for the top executives at these firms. The Office of the Special Master generally rejected the companies' initial proposals for the top 25 executives and approved a modified set of compensation structures with the following features:

- Cash salaries generally no greater than $500,000, with the remainder of compensation in equity.
- Most equity compensation paid as vested "stock salary," which executives must hold until 2011, after which it can be transferred in three equal, annual installments (subject to acceleration on the company's repayment of TARP funds).
- Annual incentives payable in long-term restricted stock, which requires three years of service, in amounts determined based on objective performance criteria. Actual payment of the restricted stock is subject to the company's repayment of TARP funds (in 25% installments).
- $25,000 limit on perquisites and "other" compensation, absent special justification.

On December 11, 2009, the Special Master released his second round of rulings on executive compensation packages for firms that received exceptional TARP assistance. These determinations cover compensation structures for the next 75 most highly compensated employees plus executive officers, who were not subject to the October 22 decisions, and are designed to protect long-term value creation and financial stability,

The determinations cover AIG, Citigroup and GM. Chrysler was exempt from the Special Master's review during this round because total pay for Chrysler executives does not exceed the $500,000 "safe harbor" in the Rule.

The Special Master announced a set of compensation structures with the following features:

- Cash salaries generally no greater than $500,000, except in exceptional cases as specifically certified by the company's independent compensation committee.
- Cash is limited in most cases to 45 percent of total compensation. All other pay must be in company stock to align executives' interests with long-term value creation and financial stability, and therefore taxpayer interests.
- At least 50 percent of each executive's pay must be held for at least three years, aligning the pay each executive actually receives with the long-term value of the firm.
- Incentives may be paid only if the company sets, and the executive achieves, objective performance measures, reviewed by the Special Master, that align executives' interests with those of shareholders and taxpayers
- The total incentives for all of the covered executives will be strictly limited to an aggregate "pool" based on a specified percentage of eligible earnings or other metrics determined by the compensation committee and reviewed by the Special Master. A larger payment to one executive will require a smaller payment to another, so companies will be forced

to make careful assessments as to which executives performed best and deserve a bigger slice of the pie.
- At least half of the incentive compensation must be paid in the form of company stock that must be held for at least three years.
- Any incentive compensation paid to the covered executives will be subject to "clawback" if the results giving rise to the payment do not hold up over the long term or an executive engages in misconduct.

Like all recipients of TARP funds, Citigroup, AIG, GM and Chrysler must also adhere to the general corporate governance standards and limits on executive pay set forth in EESA. These executive compensation requirements state that bonuses or incentive compensation paid to any of the senior executive officers or the next 20 most highly compensated employees based on materially inaccurate earnings must be repaid. No golden parachute payments may be made to a senior executive officer or any of the next five most highly compensated employees, compensation in excess of $500,000 per executive may not be deducted for tax purposes, and the companies must establish a compensation committee of independent directors to review employee compensation plans and the risks posed by these plans.

*Other Reporting Requirements*

Next, with respect to enhanced reporting, Chrysler and GM must provide financial information on a regular basis to Treasury, including a report each quarter setting forth in reasonable detail the actual use of the TARP funding they received upon exiting from bankruptcy. Treasury uses this information to monitor the financial condition of Chrysler and GM.

Chrysler and GM must also report to Treasury if actions occur that could result in the companies failing to meet the minimum funding requirements for their pension plans, or if the companies plan to terminate any of their plans.

AIG and Citigroup, as recipients of exceptional assistance, must maintain and implement comprehensive written policies, approved by Treasury, on executive compensation, lobbying, governmental ethics and political activity, and must maintain internal controls with respect to compliance with these requirements, and provide quarterly compliance reports.

*Other requirements*

With respect to U.S. production volume, Chrysler and GM must produce a portion of their vehicles in the United States. Chrysler must either manufacture 40% of its U.S. sales volume in the United States or its U.S. production volume must be at least 90% of its 2008 U.S. production volume. GM agreed to use its commercially reasonable best efforts to ensure that the volume of manufacturing conducted in the United States is consistent with at least 90% of the level envisioned in GM's business plan. Chrysler and GM must have internal controls to ensure compliance with these U.S. production volume requirements.

*Portfolio Management Approach*

Now, I'd like to turn to your question about our portfolio management approach.

In managing the TARP investments, Treasury takes a disciplined portfolio approach, and employs a mix of dedicated professionals and external asset managers. Treasury employees monitor risk and performance at both the overall portfolio level and the individual investment level, and conduct sensitivity analyses to contextualize the results. External asset managers provide market-specific information such as market prices and valuations as well as detailed credit analysis using public information on a periodic basis.

Treasury tracks the fair market value of the assets in the TARP portfolio, measuring the value of publicly-traded common stock by market quotations, and measuring other assets with market-based valuation models it developed in consultation with external asset managers and in compliance with EESA.

*Risk Assessment*

Treasury has developed risk assessment procedures to identify TARP recipients that are in a significantly challenged financial condition. Treasury's external asset managers review publicly available information to identify recipients for which pre-tax, pre-provision earnings and capital may be insufficient to offset future losses and maintain required capital. Treasury is prepared to take appropriate action in these circumstances to preserve the taxpayers' investment and maintain financial stability. We will work with management and other security holders to improve the financial condition of the company, including through recapitalizations or other restructurings, and take other actions that would be taken by large private investors dealing with troubled investments.

**Exit Strategy**

The TARP investments were not made to make money but to help avert a collapse of our financial system. Treasury used its authority under EESA to make investments that have helped to restore confidence in our banks and restart markets that are critical to financing American households and businesses. Because financial conditions have started to improve, Treasury is now in a position to begin winding down TARP programs that helped put large banks and the auto companies on a sounder footing, and to begin exiting from these investments. Our exit strategy for TARP balances the dual mandates of EESA to preserve financial stability and protect the interests of taxpayers. We will exit these investments, and return TARP funds to the Treasury, as soon as is practicable, consistent with the objective of avoiding further market and economic disruption.

*Exit Strategy – AIG*

Treasury holds preferred stock in AIG. AIG is presently engaged in a restructuring initiative that would allow it to sell AIA and Alico, its international life insurance businesses, in an initial public offering or a negotiated sale to a third party buyer, and use the proceeds to pay off its obligations to the FRBNY.

In anticipation of those sales, AIG and the FRBNY recently completed an exchange of debt for preferred equity interests in AIA and Alico, entitling the FRBNY to the first dollars from the sale of those businesses. We anticipate that those sales will occur sometime in 2010 or early 2011.

Upon the repayment in full its debt to the FRBNY, AIG will then focus on building value in its remaining insurance businesses, Chartis, Domestic Life and Retirement Services and American General and Valic, as well as ILFC, its aircraft leasing business, and American General, its consumer finance business.

AIG is continuing to make progress in the "wind down" of its financial products unit. The unit's notional exposure is now $1.0 trillion, versus $2 trillion in September 2008. It is now anticipated that the wind down process will be substantially completed by the end of 2010.

AIG and Treasury are in active, ongoing discussions with regard to strategies to allow Treasury to monetize its investment in AIG, once the FRBNY has been paid in full.

*Exit Strategy – Citigroup*

Treasury holds common stock in Citigroup. Treasury also holds Citigroup trust preferred securities, which are senior in right of repayment to preferred stock but otherwise have many similar terms. The preferred stock is redeemable, subject to a determination by the Federal Reserve that Citigroup has sufficient capital to repay Treasury.

This week, the Federal Reserve agreed to allow Citigroup to repay Treasury for $20 billion of the trust preferred securities and to terminate its loss-sharing agreement with Treasury.

To facilitate the repayment, Citigroup proposes to issue $20.5 billion of securities, comprised of $17 billion of common stock and $3.5 billion of tangible equity units.

Citigroup also entered into a loss sharing agreement with Treasury, the FDIC and the Federal Reserve Board under which the U.S. government parties agreed to share in the losses on a pool of assets that was initially $300 billion. Citigroup will terminate the U.S. government's obligations under this arrangement, which originally would have run for 10 years. The government will retain $5.2 billion of the $7.0 billion in trust preferred securities issued to the U.S. government effectively as the premium for this 10 year insurance. As a result of the repayment, Citigroup will no longer be deemed to be a beneficiary of "exceptional assistance" under TARP beginning in 2010.

Following completion of the repayment and cancellation of the loss-sharing agreement, Treasury will continue to hold Citigroup common stock with a market value of approximately $26.5 billion. We expect to sell these common shares in an orderly fashion within six to twelve months subject to an initial 90-day "lock-up" period after the secondary offering.

*Exit Strategy – Auto Companies*

Treasury' investments in GM and Chrysler consist of loans and equity investments. The loans must be repaid by certain dates. The GM loan was recently amended to require quarterly mandatory prepayments of $1 billion from existing escrow amounts in addition to the obligation for such funds to be applied to repay the loan by June 30, 2010, unless extended. In addition, the loan matures in July 2015. A portion of the Chrysler loan also matures in December 2011 and the balance in June 2017. Chrysler plans to repay the loan fully prior to maturity.

Treasury holds common stock and preferred stock in GM and common stock in Chrysler. Because the companies are not publicly traded there is no market for the common stock at this time. Pursuant to its operating agreement, GM will attempt a reasonable best efforts initial public offering by July 10, 2010, the one-year anniversary of its exit from bankruptcy. The government is most likely to exit its GM investment by gradually selling shares in the market following a public offering. For Chrysler, the exit strategy may involve a similar gradual sell off of shares following a public offering or a negotiated private sale to a third party buyer.

**Need for Reform**

Treasury and other institutions of government have accomplished a great deal in a short amount of time to achieve financial stability, a necessary precondition to the resumption of economic growth. As we look ahead, we must also not forget the lessons we have learned from this period. We need to reform our laws to provide stronger, more effective regulation of our financial system and to protect consumers. Doing so will decrease the need for future intervention. Reforming our regulatory system in a way that is stronger and better suited to manage risk and ensure safety and soundness must be our highest priority. The Administration has proposed a number of measures in this regard.

To make the system more stable, we have proposed requiring financial institutions to hold more capital and manage liquidity risk more effectively; closing statutory loopholes; requiring stronger federal supervision of all major financial firms; putting the market for over-the-counter derivatives under a comprehensive system of regulation; evolving the Federal Reserve's authority to create a single point of accountability for the consolidated supervision of all large, interconnected firms; and creating a Financial Stability Oversight Council to bring together all regulators to identify emerging risks and coordinate responses.

And to provide the government better tools to respond to future crises like those facing us in the fall of 2008, without disrupting the broader financial system or putting taxpayer dollars at risk, the Administration has proposed giving the government new emergency authority to resolve a significant, interconnected financial institution. The Administration's proposal gives the government a legal mechanism, similar to the authority that the FDIC already has for managing the closure of insured depository institutions, to more effectively manage the wind down of large non-bank financial institutions in a way that protects taxpayers.

**Conclusion**

Ending the financial crisis is not primarily about helping banks, but about restoring the flow of credit to consumers and businesses and alleviating the real hardships that Americans face every day. Healthy and vibrant financial institutions are critical for this, as they are the key sources of a range of financial services that we depend on every day. Without healthy banks, consumers cannot access the credit they need to buy a home, finance an education, manage everyday expenses or make other financial commitments. Small businesses cannot buy the new equipment, raw materials and inventory that they need to expand. Larger businesses cannot make the continuous adjustments required to function in a changing global marketplace.

It is with these goals in mind that we have created the programs under the TARP and the Financial Stability Plan. As I work with my dedicated colleagues in Treasury on these programs, we will continue to manage these investments prudently on behalf of the American people, and dispose of them as soon as practicable.

Thank you.

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