

Statement for the Record

By the

AMERICAN BANKERS ASSOCIATION

For the Hearing Before the

Committee on Oversight and Government Reform

United States House of Representatives



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Chairman Issa, Ranking Member Cummings, and members of the Committee, the American Bankers Association appreciates the opportunity to submit this statement for the record for the January 26, 2011 House Oversight and Government Reform hearing entitled, “Bailouts and the Foreclosure Crisis: Report of the Special Inspector General for the Troubled Asset Relief Program.” The American Bankers Association (ABA) represents banks of all sizes and charters and is the voice of the nation’s \$13 trillion banking industry and its two million employees.

There is no question that the banking industry – indeed, the entire country – benefited from the extraordinary actions taken by policy makers in the fall of 2008. It was a time of considerable stress and required decisive action to stop the growing anxiety and uncertainties in markets worldwide. Unfortunately, the purpose of the programs implemented to deal with the crisis were not well articulated, and broadly mischaracterized. This was particularly true for the Troubled Asset Relief Program (TARP).

Originally, TARP, as the name implies, was created for the purchase of troubled assets. Then in a matter of days after enactment, policy makers instead opted to purchase capital in healthy, viable banks through the Capital Purchase Program. The fact that this was a program for generally healthy banks – and one that *promised a significant return to the government* – was lost on the public, and worse, often mischaracterized as a bailout.

More than two years ago, when the Capital Purchase Program (CPP) for banks had just begun, ABA stated in a hearing just like this that the program would return between \$40 and \$45 billion to taxpayers.¹ Following the start of the program, numerous restrictions and disincentives were created for participants, causing many banks to leave the program prematurely and causing many others to lose interest in participating altogether. Despite this, the return from the banking portion remained strong with the Treasury now reporting a *profit of over \$28 billion from the*

¹ Statement of Edward L. Yingling on Behalf of the American Bankers Association before the United States House of Representatives, November 18, 2008.

bank programs. The bank investments have been so successful that they ***yielded 5.5 percent more than the S&P 500*** returned over the same period.²

We were confident that this program would be successful and stressed at every opportunity the need for Treasury to more fully and completely articulate the goals of the program. Unfortunately, the TARP/CPP program was mischaracterized and used to justify the Dodd-Frank Act. The entire act will certainly impose greater costs on all banks – the vast majority of which never had anything to do with the “troubled assets” – and the communities they serve.

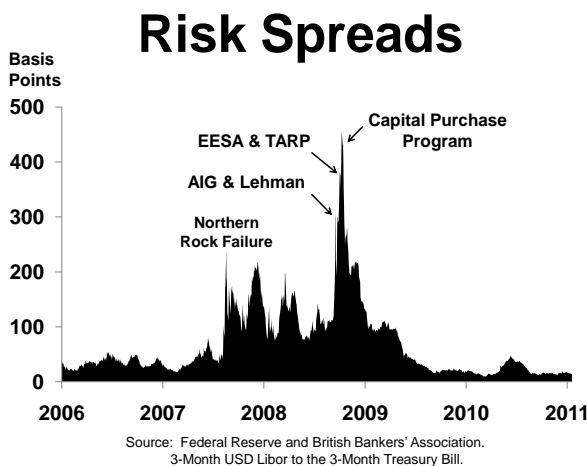
Hearings like this are helpful in providing clarity about the purpose and realities of these programs.

There several key points we would like to make in this statement:

- TARP was successful in stabilizing the financial system and economy;
- The bank programs under TARP are returning large profits to the taxpayers, as ABA predicted; and
- Losses from non-bank programs and TARP’s overall cost continue to decline.

TARP Was Successful in Stabilizing the Financial System and Economy

TARP was an effective response to quell fears in the financial markets and prevent a more severe recession. Widespread uncertainty and fear drove inter-bank borrowing rates up over 350 percent in late 2008, freezing global financial markets that banks and businesses rely on to fund daily operations, payrolls, and expansion plans (see chart). The investment under TARP’s Capital Purchase Program helped reaffirm the stability of our financial system and, in the following months, drove



² “TARP Tracker. 66th Ed.,” Keefe, Bruyette & Woods Inc., July 6, 2010.

rate spreads back to near normal levels, allowing banks and businesses to access funding markets and continue operating.

The broad success of TARP in thawing funding markets and creating stability in the financial system saved the economy from a significantly more painful recession. Without TARP and other government actions, the economy would likely still be in a severe recession. According to one study, without these programs, GDP would still be contracting at a rate of 3.7 percent and unemployment would have reached 16.5 percent.³ TARP was an essential and successful response to what could have amounted to a more brutal recession.

The Bank Programs Are Returning Large Profits to the Taxpayer

Through TARP's bank programs⁴, the Treasury made equity investments of over \$200 billion in viable banks to restore stability in the financial markets. These investments in banks are returning large profits to the taxpayer. The Treasury stated "every one of its programs aimed at stabilizing the banking system...will earn a profit thanks to dividends, interest, early repayments, and the sale of warrants."⁵

According to the Congressional Oversight Panel, through November 30, 2010, Treasury recorded a **net income of \$30.3 billion**, after deducting losses. The bank programs have generated over 93 percent of this income.⁶ The continued recession in many parts of the country has created some losses to the bank programs; however, the profits earned from other bank-TARP participants far outweigh these losses.⁷

The Congressional Oversight Panel reported that the average internal rate of return for banks fully repaying their Capital Purchase Program investments was **8.4 percent**, as of January 3,

³ Blinder, Alan and Mark Zandi, "How the Great Recession was Brought to an End," July 27, 2010. <http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf>

⁴ TARP's bank programs include the Capital Purchase Program, the Targeted Investment Program, and the Asset Guarantee Program.

⁵ U.S. Treasury press release TG-436, December 9, 2009. <http://www.treasury.gov/press-center/press-releases/Pages/tg436.aspx>

⁶ Congressional Oversight Panel January 2011 Oversight Report. <http://cop.senate.gov/documents/cop-011311-report.pdf>

⁷ TARP has recorded \$248 million in losses from banks. The failure of CIT, a large non-bank financial firm, generated a loss of \$2.3 billion.

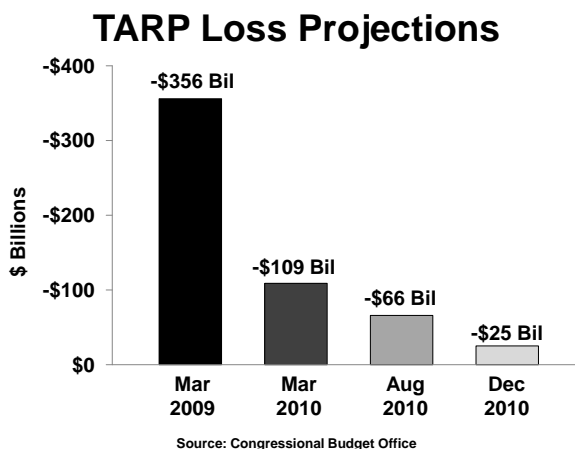
2011.⁸ The bank investments have broadly been completely mischaracterized as “bailouts”; in reality, the Treasury is realizing a significant profit.

Losses from Non-Bank Programs and TARP’s Overall Cost Continue to Decline

While the bank programs have generated large returns, the risk of loss is centered on the non-bank programs. Even with the non-bank programs, the improvement in the economy is increasingly suggesting that those investments will return better results than initially expected. Improvements in the performance of non-bank programs, paired with the profit generated from the bank programs, have continually driven down the expected cost of TARP.

The Congressional Budget Office has steadily reduced its estimate for the cost of TARP, from \$356 billion in March of 2009 to \$25 billion in late 2010, a 93 percent decline in less than two years.

The Treasury expects the cost of TARP to be no greater than the amount spent on the Administration’s mortgage modification programs, initiatives that have no means of generating revenue or return.



Conclusion

The banking industry appreciates the extraordinary actions taken by the government to address the financial crisis. These actions were successful in stabilizing the economy, thawing financial markets, and prohibiting a deeper recession. Unfortunately, poor communication and broad mischaracterizations have caused these programs to be considered “bailouts” when in reality, the investments in banks are returning significant profits to the taxpayer.

⁸ Congressional Oversight Panel January 2011 Oversight Report. <http://cop.senate.gov/documents/cop-011311-report.pdf>. The internal rate of return is the annualized effective compounded return rate that can be earned on invested capital.