TARP ACCOUNTABILITY: USE OF FEDERAL ASSISTANCE BY THE FIRST TARP RECIPIENTS

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

FEBRUARY 11, 2009

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TARP ACCOUNTABILITY: USE OF FEDERAL ASSISTANCE BY THE FIRST TARP RECIPIENTS

Wednesday, February 11, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Kanjorski, Waters, Maloney, Gutierrez, Velazquez, Watt, Ackerman, Sherman, Meeks, Moore of Kansas, Capuano, Hinojosa, Clay, McCarthy of New York, Baca, Lynch, Miller of North Carolina, Scott, Green, Cleaver, Moore of Wisconsin, Hodes, Ellison, Klein, Wilson, Perlmutter, Donnelly, Foster, Carson, Speier, Minnick, Adler, Kilroy, Driehaus, Kosmas, Grayson, Himes, Peters, Maffei; Bachus, Castle, King, Royce, Manzullo, Jones, Biggert, Miller of California, Capito, Hensarling, Garrett, Barrett, Neugebauer, Price, McHenry, Marchant, McCotter, McCarthy of California, Posey, Jenkins, Paulsen, and Lance.

The CHAIRMAN. The hearing will come to order.

Before the clock starts, let me make some procedural announcements. I don't know why I said, "let me." Since I am in charge, I will just do it.

First of all, this is not an audience participation event. There are police officers here. We expect this to go well, but we will not have disruptions.

I am a great believer in free speech, but there are time and place restrictions that are totally consistent with a free-speech absolutist position. Interruptions and shouts will interfere with the discussion. People are totally free to go outside and to other places during the meeting time and say rude things about any or all of us, but not during the hearing, and I will enforce that.

I also will urge people to withhold applause, forced laughter, and other interjections, in part because this is a larger committee than I wish that it was, and we have a great deal of interest in this subject, and I do not want to lose time that we would otherwise be able to put to these constructive purposes. I regret the fact that I have to take up this time now.

I will also make the members aware that I am going to be enforcing the 5-minute rule; and this means the following. After yesterday, I remind you of this: Members are entirely free in their use of the 5-minute rule to use 4 minutes and 54 minutes speaking, and then announcing at minute 4, seconds 55, that they have a question, but do not expect an answer. If you leave 8 seconds for a complicated answer, you probably won't get it here.

I will say, in defense of some of the witnesses, it may be necessary, if it appears you are unable to answer the questions, it will be because haven't left the time to do it. We will, of course, take those answers in writing.

So I would urge members, if you are asking a question to which you want an answer, please leave some time for there to be an answer. If you just want to say something and ask a rhetorical question, that is your right. It is in the House rules. But I do want to explain that I am not going to be allowing people to extend their time by leaving a question of some complexity with only a couple of seconds to be answered.

With that, we will begin. I will now start the clock for my own strictly enforced 5 minutes.

The separation of powers becomes relevant here. There is a great deal of anger in the country, much of it justified, about past practices, and a number of people can legitimately be criticized. There is also a concern that there may have been things done for which there should be some action, civil recoveries. In some cases, people have been talking about prosecution, although I do not mean to imply that anyone here faces that.

The role of the Congress, however, is different. We are not the Executive Branch with enforcement powers. We are not the Securities and Exchange Commission or the Comptroller of the Currency. We are not ourselves regulated.

We formulate regulatory policy. I believe our major function and the purpose of this hearing is to help formulate policy going forward. Understanding what happened, why it happened, and what didn't happen are essential elements of formulating policy going forward. So, yes, this hearing will focus on what has happened, but that is in the context, I believe, given our legislative function, of trying to devise what we do going forward.

Now, we have this dilemma. Because I believe an absence of sensible regulation—not deregulation, but non-regulation—a series of new financial activities and, in some cases, entities grew up in our country, and those activities did a lot of good. But as will happen when you have a total absence of regulation, they also did some harm, more harm than almost anybody had anticipated. In consequence, we are now in a very serious negative economic situation.

We have two roles. One is to adopt rules that will make it much less likely that we will have a repeat of this, and I think that is the easier job, intellectually, and I even think politically, because of the view in the country.

But we have to get out from under where we are now, and here is the dilemma: There is in the country a great deal of anger about the financial institutions, including those represented here. There is anger about us. There is anger about the Executive Branch. There is a great deal of anger.

We have this dilemma. It is essential if we are to reverse the economic negativism that we now confront that we, among other things, get the system of extending credit back into its fullest operation.

I suppose, theoretically, you could junk the current system and start a whole new one. The amount of time and effort that would take would, obviously, make that totally impractical. We have no option if we are to get credit flowing again in this country other than to work with the existing institutions, not every institution as it was originally constituted but with the existing institutions. And the problem is that there is a great deal of anger at the institutions, and it is impossible to get the credit system working again without doing some things that will be seen to benefit the institutions.

I have said this is the opposite of that terrible problem in warfare of collateral damage, when innocent people are injured in the course of trying to obtain a military objective. One of the problems we have, gentlemen, is that you are the recipients of collateral benefit. That is, in an effort to get the credit system functioning, things will be done that will be to the benefit of the institutions over which you preside because there is no alternative.

But you need to understand, as I think many of you do, how angry that makes people, and in the interests of getting the system working again, I urge you strongly to cooperate with us, not grudgingly, not doing the minimum, but understanding that there is a substantial public anger. And alleviating that public anger not with mumbo jumbo but with reality is essential if we are going to have the support in the country to take the right steps.

I admired much of Secretary Paulson's tenure. But beginning last September when he asked us for the $700 billion authorization, and I raised the compensation issue, he was very resistant, and I must tell you that he blamed you to some extent, not you individually, but you as a profession. He said that if we put strict compensation restrictions on people, they won't cooperate.

I hope that is not true. I hope the argument that people would put their own economic self-interest in the narrow term ahead of a necessary program to get the country back isn't the case. We need to look at that. We need to talk about it. I think some of you have been laggard in understanding that.

I urge you going forward to be ungrudgingly cooperative and understand that these are extraordinary times. We are going to be taking and have been taking extraordinary measures which will be to the benefit of some of the institutions or all of the institutions over which you preside. There has to be on the sense of the American people that you understand their anger, their frustration, and that you willingly cooperate and in fact are willing to make some sacrifices so that we can get this whole thing working.

The gentleman from Alabama.

Mr. BACHUS. Thank you, Mr. Chairman.

Gentlemen, we in Congress, I think, have screwed up health care pretty badly, and K through 12 through our involvement, and now we are turning our attention to you, and may God help us and help you and all the American people as we do that.

I think that together it is important that we don't engage in name calling or the blame game, that we take a forward look and that we together try to do what is best for the American people.

And to a certain extent that is going to be on your part and our part, as the chairman said, winning back their trust and their confidence, and we can best do that by doing it as partners. I hope that the questions focus on how we can get this economy moving and what your institutions can do.

I do want to say this as a word of caution. These are several different institutions, eight different institutions. Some wanted the money. Some didn't want the money. I am not sure the American people, I think they are going to look at you as a unit, but I hope they don't do that, because that would be a mistake. Because you are all in a different situation. Your financial condition is different, and you should not be treated as one.

I think you and I both agree that we need to get the government and government investment out of the banks as soon as we can and get about the business of you doing what you do well and with a minimum of unnecessary influence and interference from us.

Thank you very much for your presence.

The CHAIRMAN. I used 5 minutes. The gentleman used 2 minutes. Do you want to go to Mr. Royce? A minute-and-a-half.

Mr. ROYCE. Thank you, Mr. Chairman.

In the United States, the mortgage-backed securities market was kick-started and has been sustained here by the activities of what we call government-sponsored enterprises. And the first Ginnie Mae guaranteed mortgage-backed security was issued back in 1970, Fannie Mae securitized its first pool in 1981, and Freddie Mac issued the first CMO backed by 30-year-fixed mortgage rates in 1983. Now, the pool was refinanced with the issue of three classes of securities that matured sequentially.

We have all watched this evolution as we watched the leveraging of 100 to 1 by these institutions and the warnings to us by the Federal Reserve that something had to be done, otherwise, it was going to create systemic risk. Indeed, we have also watched the demand on these institutions, the 10 percent of that $1.5 trillion going to loans to people who wouldn't have the capacity to pay them back, and, indeed, we had at least a trillion lost out of Fannie Mae and Freddie Mac just out of that.

National mortgage conduits such as Fannie Mae and Freddie Mac do not exist in Europe, and without depth and liquidity of MBS, ABS, asset-backed markets, securitization is not as valuable. It cannot be as popular, especially when banks have alternative techniques for refinancing their mortgage portfolios there.

For example, in the U.K., it strikes me that is the largest market in Europe, for these types of securities, 6 percent of U.K. mortgages are securitized. In the United States, right now, it is 60 percent—60 percent. And one of the questions I have, and we will listen to the testimony here, but to what extent was the securitization process—

The CHAIRMAN. The time allocated—let me be clear. This is an allocation that the Minority gave me. The gentleman was given a minute-and-a-half. I cleared this with the Minority. This is not arbitrary. He has other people he wants to deal with. When I do rap the gavel, I hope people will understand we are operating within the limits of other members getting a fair chance.

So the gentleman's time has expired. The gentleman used an extra 38 seconds.

I will now recognize the gentleman from Pennsylvania for 2 minutes.

Mr. KANJORSKI. Mr. Chairman, today we will learn how some of the richest and most powerful men in America are spending billions of dollars of taxpayer money. Because some of my colleagues will probably ask our witnesses to explain their enormous bonuses being issued in a time of great national suffering, I will not do so.

And because my colleagues will likely inquire as to their ownership of numerous vacation homes while millions of Americans face foreclosure on the only home they have, I will leave that subject alone.

Because some of the members will undoubtedly seek to understand how you can underwrite frivolous junkets when most Americans would almost do anything to get a job, let alone a vacation, I will defer that question, too.

Instead, I want to know where the money has gone and why it went there. My constituents in Pennsylvania regularly ask me why you needed their money and how you are using it. This is your opportunity to explain to them just exactly what you are doing, and for anyone who contends that you do not need the money and that you did not ask for it, please find a way to return that money to the Treasury before you leave town.

As executives at large companies, you once lived in a one-way mirror, unaccountable to the public at large and often sheltered from shareholder scrutiny. But when you took taxpayer money, you moved into a fishbowl. Now everyone is rightly watching your every move from every side. Millions are watching you today, and they would like some degree of explanation and responsibility. I do, too.

The CHAIRMAN. The gentleman from Texas, Mr. Hensarling, is recognized for 1½ minutes.

Mr. HENSARLING. Thank you, Mr. Chairman.

I believe I will have plenty of opportunities to disagree with our President in the next several years, not the least of which is a piece of legislation known as the stimulus package that I believe will stimulate big government much more so than the economy. But let me make a point where I do agree with our President.

In announcing the executive compensation limits, our President said, "This is America. We don't disparage wealth, we don't begrudge anybody for achieving success, and we believe success should be rewarded. But what gets people upset, and rightfully so, are executives being rewarded for failure, especially when those rewards are subsidized by the U.S. taxpayers."

I hope that this committee hearing does not turn out to be a time for class warfare, but I do hope it becomes a time and an opportunity for taxpayer accountability and taxpayer transparency. I believe in the hours to come that you gentlemen before me will certainly have lots of opportunities to be criticized, castigated, second-guessed, and otherwise publicly pillared.

I have a couple of observations. Number one, some of that will be richly deserved. My other observation is that many who dish it out to you are also partially responsible for the mess in which we find ourselves now. Outside of the soft money actions of the Federal Reserve, no matter how noble the intentions, Federal registration—

The CHAIRMAN. I thank the gentleman.

Mr. HENSARLING. I took the chairman at his word.

The CHAIRMAN. Well, I certainly don't want to discourage that as a precedent, so I thank the gentleman.

The gentlewoman from California for 2 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman.

This is an important hearing today. The question has been asked over and over again, what did the banks do with the taxpayers' money? The taxpayers of America are very, very upset about the fact that they allowed the banks to borrow their money, the taxpayers' money, in unprecedented amounts, billions of dollars, and when the taxpayers went back to the banks to say, may I have a loan, may I have a loan to buy a car, may I have a loan to pay my student fees, may I have a loan for a mortgage, the banks are saying no.

To add insult to injury, the banks have sent out notices to credit card holders, taxpayers again who have loaned money to the big banks, the banks are saying to the credit card holders, oh, we are going to increase your interest rates. We know you were paying 13, 14, 15 percent already, but now it is going to cost you 18, 19, 20 percent.

So the taxpayers have lent their money to the big banks, who are supposed to be big business persons, expertise in business management, who are failing. They have gone back to ask for some assistance. They are being denied.

In addition to that, Mr. Chairman, I want to talk a little bit later on when I question about the fact that these banks not only took huge amounts of money from the taxpayers under the banner of TARP, they then charged and made money, the banks, on the money that we gave them, in fees. We have not talked about the fees that these banks have made as they processed our money, but I am going to reveal here today that they took the money and they earned more money on the money that we gave them, instead of allowing that money to be managed by others who were waiting to participate.

I yield back.

The CHAIRMAN. I thank the gentlewoman. She almost met the gentleman from Texas' standard. Very close.

The gentleman from South Carolina, Mr. Barrett, for a minute-and-a-half.

Mr. BARRETT. Thank you, Mr. Chairman.

Gentlemen, normally, I would strongly oppose the nature of this hearing. There are few things more dangerous to me than letting government run our banks or having a bunch of politicians make your business decisions. But now that you have received hard-earned taxpayer money, you owe my constituents some explanation on how you have gotten yourselves into this position and how you spent their money.

Like other States, South Carolina is struggling and too many of my people are losing their jobs due to your actions which have driven this economy into the ground. Small businesses back home, people I know, friends I go to church with, are closing their doors, losing their jobs, and they are not getting bailed out. My folks simply haven't seen the evidence that the money that you were given is working or making their lives better.

So I look forward to this hearing today, and I hope that you gentlemen will provide us the answers that we all need.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentlewoman from Illinois for a minute-and-a-half.

Mrs. BIGGERT. Thank you, Mr. Chairman, and thank you for holding today's very important hearing.

Last year, in December, nearly 2 months ago to the day, I joined Republican Leader Boehner and 81 other House Republicans and signed a letter requesting this hearing. I am glad that this has finally happened.

We should have had a hearing before passing legislation on the Floor to reform TARP. TARP was a rush job. When Congress passed the financial rescue passage, it was to stave off a dire and immediate threat to our entire economy, and we are by no means out of the woods yet.

Treasury needs to provide much greater transparency and show us where the American taxpayers' money is going before requesting more and before rolling out a new plan to use trillions, let me repeat, trillions, more of taxpayer dollars.

Have the funds been used to get credit flowing again, not just to financial institutions but to consumers and small businesses? How do we know additional TARP money is needed? Who needs it? How much more will be used?

Only today, for the first time, have we had the opportunity to publicly hear about the first $350 billion that was used by the aid of the 362 firms, excluding two of the big three auto companies across the country that received taxpayer TARP funds. What went wrong? Who is to say that we are not putting good money after bad? I hope today's witnesses will shed some light on these looming questions.

And let me be frank: My constituents in Illinois are angry, and so am I. We don't believe that taxpayer money has been spent wisely. We don't have the answers that we need.

Thank you, and I yield back.

The CHAIRMAN. The gentleman from Georgia, Mr. Scott, for 1 minute.

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

I think it is very important that you gentlemen represent the heart of our system, the very foundation of our system, and it is shaking at the roots. The confidence of the American people is at a low ebb. I think if there is one thing that you gentlemen can do today it is to illustrate very firmly that what has happened in the past, $18 billion of this money, of taxpayer money going out to you, is an aberration and to send a very important message to the American people that you understand this is not the Congress' money, it is not your money, this is money that is coming directly from the pockets of American taxpayers, but, more importantly, it is coming from our grandchildren and our children's indebtedness.

The future foundation of our economic system is going to weigh on this hearing today. Because at the heart of it is confidence. If we leave here today knowing that we have restored the confidence of the American people, then this hearing will be most certainly worth it.

Thank you.

The CHAIRMAN. The gentleman's time has expired.

The gentlewoman from Kansas for 1½ minutes.

Ms. JENKINS. Thank you, Mr. Chairman.

Our economy continues to lag. Every day, Americans struggle to pay their mortgages and put food on the table while their home values drop. Businesses have had to scale back, forcing massive layoffs and furloughs. There is no question times are tough.

Congress has had to act quickly to make difficult policy decisions in uncharted territory, yet those circumstances do not give government a blank check. Times like these call for increased scrutiny before rushing to spend billions of hard-earned taxpayer dollars on programs which may not effectively address the root of the problems we face.

Today, we will hear from institutions that received billions in government aid. The question remains, was $700 billion in TARP funds a wise use of taxpayer dollars and effective in its mission to return stability to financial markets, and this on top of actions by the Federal Reserve, the FDIC, and others with a price tag well into the trillions?

My constituents in Kansas sent me to Washington with a clear mandate to protect the dollars they send to Washington. Being tight-fisted with taxpayer dollars should not lead to inaction but to increased accountability, transparency and scrutiny. Congress injected hundreds of billions in TARP dollars. I am eager to hear from today's witnesses on progress or lack thereof on reviving our struggling economy and financial markets.

I yield back the balance of my time. Thank you.

The CHAIRMAN. The gentleman from Texas is recognized for 1 minute.

Mr. NEUGEBAUER. I thank the chairman.

I look forward to this panel today. I think I can maybe call this a shareholders meeting, because, although I didn't vote for the TARP program, the American taxpayers have put money into your entities. So I think what they are going to be looking forward to hearing from the CEO's who are managing their money is how are we doing.

I think one of the things that concerns me is that there was a lot of criticism of the GSE format in our country of government-sponsored entities, where we had basically competing interests. We had shareholders, and we had basically political interests. Unfortunately, that was a flawed model, but yet we have now employed that model for the rest of the financial industry.

So instead of calling you GSEs, I am going to call you TSEs, and that is taxpayer-supported entities. I don't support that model. I think it is a flawed model because it is a competing interest. But now that the American people are your shareholders there is a new accountability structure that will come, and I hope today you will be able to articulate how this money that the American people have invested in your entities has benefited you. But, more importantly, what they want to hear is what it is doing for them. So I look forward to the testimony today.

The CHAIRMAN. Finally, I ask for a unanimous consent request for the gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

I ask by unanimous consent that H.R. 387 be placed in the record, the TARP Accountability Act, which will deal with transparency in lending as it relates to the TARP funds.

The CHAIRMAN. Without objection, it is so ordered.

That I believe is the bill that passed as an amendment before the House by the gentleman, Mr. LaTourette.

Mr. GREEN. Yes, Mr. Chairman, that is correct.

The CHAIRMAN. We will now hear from our witnesses.

I will begin—I don't know what order. It appears to be alphabetical. Yes, it appears to be alphabetical, so no one will read any significance into it.

I will begin at the top of the alphabet with Mr. Blankfein.

STATEMENT OF LLOYD C. BLANKFEIN, CHIEF EXECUTIVE OFFICER AND CHAIRMAN, GOLDMAN SACHS & CO.

Mr. BLANKFEIN. Chairman Frank, Ranking Member Bachus, and members of the committee, I appreciate the opportunity to appear before you.

It is abundantly clear that we are here amidst broad public anger at our industry. Many people believe, and in many cases justifiably so, that Wall Street lost sight of its larger public obligations and allowed certain trends and practices to undermine the financial system's stability. We have to regain the public's trust and do everything we can to help mend our financial system to restore stability and vitality. Goldman Sachs is committed to doing so.

We take our responsibility as a recipient of TARP funds very seriously. We view the TARP as important to the overall stability of the financial system and, therefore, important to Goldman Sachs.

We serve a number of important roles, including that of advisor, financier, market maker, asset manager, and co-investor. Our business is institutionally dominated, with the vast majority of our capital commitments made on behalf of corporations and institutional investors. We are not engaged in traditional commercial banking and are not a significant lender to consumers.

As a financial institution focused on this wholesale client base, Goldman Sachs actively provides liquidity to institutions which helps the capital markets function. In short, our businesses require that we commit capital, and our ability to do so has been enhanced since receiving this investment under the Capital Purchase Program.

As a financier, clients frequently expect our advice to be accompanied by access to the capital necessary to make that advice actionable and practical. For instance, we often provide backstop or contingent credit, such as a commitment to make a bridge loan, until other sources of more permanent capital can be arranged.

Since receiving the $10 billion of capital on October 27th and through January, 2009, Goldman Sachs has committed over $13 billion in new financing to support our clients. This compares with

$4.5 billion in the 3 months prior to receiving the government's investment.

For example, we put our capital to work on behalf of Sallie Mae to allow them to provide more than $1.5 billion of student loans. We made a significant investment in the C.J. Peete Department's housing complex, a mixed-income housing project in New Orleans. We also committed capital to Verizon Wireless, Pfizer, and a number of other significant corporations.

As a market maker, we provide the necessary liquidity to ensure that buyers and sellers can complete their trades. In dislocated markets we are often required to deploy our capital to hold client positions over longer term while the transaction is completed. Last month, for instance, we provided short-term liquidity to a portion of the mortgage market through a large agency mortgage transaction. This significant extension of our capital helped keep mortgage rates from increasing by allowing billions of dollars of mortgage securities to be financed.

We also are an active co-investor with our clients. Over the summer, we established a $10.5 billion senior loan fund which makes loans to companies in need of capital. The fund invests both our own capital and that of our clients. Already, it has made approximately $5 billion in commitments.

The committee has also asked us to address our compensation policies and practices. Since we became a public company, we have had a clear and consistent compensation policy. We pay our people based on three factors: the performance of the firm; the performance of the business unit; and the performance of the individual. We believe this approach has incentivized our people to act in a way that supports the firm as a whole and to not be narrow-minded about their specific division or business unit.

More broadly, it has produced a strong relationship between compensation and performance. From 2000 to 2007, Goldman Sachs' earnings grew twice as fast as our aggregate compensation expenses. For our 9 full years as a public company, which includes an exceptionally difficult 2008, the firm generated an average return on equity of 21 percent for our shareholders.

While the firm produced a profit of $2.2 billion in 2008, our revenues were down considerably. End-of-year bonuses were down an average of 65 percent. Our most senior people, the firm's 417 partners, were down 75 percent. The bulk of compensation for our senior people is in the form of stock which vests over time.

I would also note that Goldman Sachs has never had golden parachutes, employment contracts, or severance arrangements for its executive officers.

We also recognize that having TARP money creates an important context for compensation. That is why in part our executive management team requested not to receive a bonus in 2008, even though the firm produced a profit.

Mr. Chairman, our firm recognizes the extraordinary support the government has provided to the financial markets and to our industry. We will live up to the spirit and letter of the responsibilities our regulators, the Congress and the public expect of us, and we will do so whether we still have TARP funds or not.

We appreciate that the TARP funds were never intended to be permanent capital. When conditions allow and with the support of our regulators and Treasury, we look forward to paying back the government's investment so that money can be used elsewhere to support our economy.

Thank you.

[The prepared statement of Mr. Blankfein can be found on page 113 of the appendix.]

The CHAIRMAN. Next, Mr. Dimon.

STATEMENT OF JAMES DIMON, CHIEF EXECUTIVE OFFICER, JPMORGAN CHASE & CO.

Mr. DIMON. Chairman Frank, Ranking Member Bachus, and members of the committee, my name is Jamie Dimon. I am the chairman and CEO of JPMorgan Chase. I look forward to today's discussion and ask that my complete written statement be entered into the hearing record.

The CHAIRMAN. Without objection, all statements and any supporting material from any of the witnesses will be made a part of the record.

Mr. DIMON. I would like to highlight a few key points to my written testimony.

First, JPMorgan is lending. Through our 5,000 branches in 23 States, we continue to provide credit to tens of millions of customers, including individual customers, nearly 2 million small business clients, large corporations, other banks, not-for-profits and States and municipalities.

While we did not seek the $25 billion TARP funds we received on October 28, 2008, it strengthened our already strong capital base which is the foundation of all of our lending activities. We are putting that money to use in a way that respects the spirit of TARP while maintaining the safe and sound lending practices and strong balance sheet that has helped to make and to keep JPMorgan a healthy and vibrant company, a company that employs 224,000 people worldwide, gives away $100 million a year to charity, and pays approximately $10 billion in tax to State, local, and the Federal Government over the last 10 years each.

Over 50 million Americans own our stock, and our stockholders include people from all walks of life: retirees; teachers; union members; and our own employees. We feel a deep obligation to honor this faith in us, including the investment the government made to us in TARP, by maintaining prudent underwriting standards.

In the fourth quarter, despite reduced customer demand for credit, we made over $150 billion in new loans. In addition, we lent an average of $50 billion every night to other banks.

Also during the fourth quarter, we purchased almost $60 billion of mortgage-backed and asset-backed securities, which had the benefit of supporting the agency debt markets and promoting liquidity in the housing capital markets.

Overall, in the fourth quarter, our consumer loan balances increased by 2.1 percent compared to the third quarter, while overall personal consumption expended in the country decreased by 2.3 percent. That is to say we lent more even as customers were cutting back their spending during the quarter.

Second, JPMorgan is committed to keeping borrowers in their homes by making sustainable, properly underwritten loan modifications, in some instances even before a default occurs. We have extended our modification efforts to cover not only the mortgages we own but also the investor-owned loans that we service, about $1.1 trillion of loans. We believe we will avert 650,000 foreclosures by the end of 2010.

We believe it is the right approach to the consumer and for the stability of our financial system as a whole. Homeowners should have equal access to a sustainable mortgage modification without having to resort to bankruptcy and put their credit histories at risk. We urge Congress and the Administration to help adopt a uniform national standard for loan modification programs.

Third, JPMorgan has been willing to take very significant actions to help stabilize the financial system, and we stand ready to do our part going forward. In March of 2008, at the request of the U.S. Government, we worked to prevent an uncontrolled collapse of Bear Stearns. In September of 2008, we were the only bank prepared to acquire the assets of Washington Mutual after the FDIC seized that institution. Taken together, these two transactions saved nearly 40,000 jobs and prevented further market instability.

Finally, it must be said that today's economic crisis is the result of a lot of mistakes made by a lot of people and all of us who are here today, and many who are not here, bear some measure of responsibility for the current state of the financial markets. The ongoing financial crisis exposed significant deficiencies in our current regulatory system which is fragmented and overly complex. There is a great deal we need to address to overcome these weaknesses.

We agree with Chairman Frank that Congress and the President should move ahead quickly to establish a systematic risk regulator. In the short term, this will allow us to address in our system and fill the gaps in regulation that contributed to the current situation.

There are tremendous challenges facing the financial services industry and the American economy, but the United States has faced serious problems before. The measure of strength for a country and a company is not whether or not there are problems. It is how they deal with those problems, overcome them, identify them, and move on. I am confident that we will do this again and we will all emerge better because of it.

Thank you. I look forward to your questions.

[The prepared statement of Mr. Dimon can be found on page 120 of the appendix.]

The CHAIRMAN. Next, Mr. Robert Kelly.

STATEMENT OF ROBERT P. KELLY, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BANK OF NEW YORK MELLON

Mr. KELLY. Mr. Chairman, Ranking Member Bachus, and members of the committee, my name is Bob Kelly. I am chairman and CEO of The Bank of New York Mellon. I appreciate the opportunity to speak with you about our participation in the Capital Purchase Program.

The business model of The Bank of New York Mellon is quite different from a traditional retail or commercial or investment bank. In contrast to most of the companies here today, our business model does not focus on the broad retail market or commercial banking or investment banks, and we don't focus on mortgages, credit cards, or auto loans. In fact, we don't do typical lending to corporate businesses.

A good way to think of The Bank of New York Mellon is we are a bank for banks. We are an infrastructure bank. The lion's share of our business is dedicated to helping other financial institutions be more successful around the world. We invest mutual fund and pension monies, and we administer the complex back-office processes. We also provide critical infrastructure for the global financial markets by facilitating the movement of money and securities through the markets. Finally, we provide some financing to other banks so they can make mortgages and other loans and other instruments available to consumers and businesses.

You should know that we were profitable every quarter last year, and we paid over $4 billion in income and other taxes globally. While some of our assets were invested in mortgage-backed securities which did incur losses, they have been more than offset by our profits throughout the year. We continue to have the highest debt ratings of U.S. banks rated by Moody's, and we have the second highest rating by Standard and Poor's.

In October, the Treasury allocated to us $3 billion of the $350 billion allocated to date. The financial markets were very dangerously in total gridlock at the time and deteriorating rapidly. We were in a deep financial crisis at that time. We understood that a clear goal at the time was to have a range of institutions, including relatively healthy companies like The Bank of New York Mellon, participate in the Capital Purchase Program, removing any stigma that might be associated with accepting Treasury capital and helping reassure the markets of the stability of the financial system. We were strongly encouraged to participate, and we did very quickly.

In exchange for the $3 billion investment, the U.S. Government received preferred stock and warrants, and we agreed to pay the government $150 million a year in dividends until we repaid the $3 billion. The $3 billion in capital that we received from Treasury allowed us to do quite a bit more than we would have otherwise to improve the movement of funds in the financial markets.

We purchased $1.7 billion in mortgage-backed securities and debentures issued by the U.S. Government through the government-sponsored agencies. This helped to increase the amount of money to lend to qualified borrowers in the residential housing market.

We purchased $900 million of debt securities of other healthy financial institutions to improve liquidity and help them lend to consumers and businesses.

And we used the remaining $400 million for interbank lending to other healthy financial institutions. Again, it was both liquidity, funding, and stability.

We have not used any of the funds to pay dividends, bonuses, or compensation of any kind, nor will we. In fact, we will not use any of the funds to make acquisitions either.

We still have a long way to go to get the credit markets and the U.S. economy functioning properly again. Bank capital must be rebuilt, low-quality assets must be sold or written off, sound lending must occur, and confidence in our system must be restored. The Bank of New York Mellon will not only repay the $3 billion to the Treasury, but we also fully intend to deliver a very good return on investment for taxpayers.

Thank you.

[The prepared statement of Mr. Kelly can be found on page 125 of the appendix.]

The CHAIRMAN. Mr. Lewis.

STATEMENT OF KEN LEWIS, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BANK OF AMERICA

Mr. LEWIS. Thank you, Mr. Chairman, Congressman Bachus.

I would like to start by making two key points: First, all of us at Bank of America understand the responsibilities that come with access to public funds. Taxpayers want to see how we are using this money to restart the economy and want us to manage our expenses carefully. These expectations are appropriate, and we are working to meet them.

Second, as we manage our business going forward, we are doing our best to balance the interests of customers, shareholders, and taxpayers. But the fact is, it is in all of our interests that banks lend as much as we responsibly can, maximizing credit while minimizing future losses. That is how consumers and businesses can prosper. It is how investors, including taxpayers, can earn returns.

Bank of America serves more than half of all U.S. households and millions of businesses. We know that the health and strength of our company depends on the health and strength of the U.S. economy. We have every incentive to lend and, despite recessionary headwinds, we are lending.

In the fourth quarter alone, we made more than $115 billion in new loans to consumers and businesses. We also renewed about $70 billion in credit lines and made some bulk purchases of loans to reach a total of $181 billion in total lending activity, which was included in our TARP report. We also reaffirmed three 10-year, nationwide goals that are critical to the health of our communities: $1.5 trillion for community development lending, $2 billion in philanthropic giving, and $20 billion in environmental lending and investment.

We are working to keep people in their homes. While Bank of America exited subprime lending in 2001, we inherited a substantial portfolio when we acquired Countrywide. We modified 230,000 loans in 2008 and have more than 5,000 associates working full time with homeowners to meet our target of up to 630,000 loan modifications. We remain committed to investing in our communities and are proud of our six consecutive CRA outstanding ratings.

Last fall, at the urging of the U.S. Government, Bank of America accepted $15 billion in TARP money. Additionally, the government agreed to provide $10 billion to Merrill Lynch and an additional $20 billion to enable the closing of our acquisition and thereby prevent another shock to the financial system. We will make our first dividend payment to the Treasury of more than $400 million next week, we will pay about $2.8 billion in interest for the year, and we intend to pay all the TARP funds back as soon as possible.

But we understand that taxpayers are angry, and they deserve to know how their funds are being used. We recently announced that we will regularly make a full report to the public about our business activities in 10 categories that are important to the Nation's economic recovery. The $115 billion in new loans we made last quarter is a good example. But it is obviously not the whole story.

The real issue I believe is this: Taxpayers feel, and rightfully so, that if a bank is receiving public money, all its financial decisions should signal a conservative, sober, and frugal approach to the financial health of the company.

I will simply say this: Bank of America has for years been the most financially efficient large bank in the country. When we expend resources, we do so only after careful analysis of how that expenditure will strengthen our business and generate returns for investors, now including U.S. taxpayers. Our core business is strong. Even in the midst of a deepening recession, we earned more than $4 billion last year. Even so, that performance was disappointing, and I therefore recommended to our Board of Directors, and they agreed, that we would pay no year-end compensation to me or any of our most senior executives for 2008. Executives at the next tier down had their year-end incentive payments cut by an average of 80 percent.

The financial services industry is undergoing wrenching change. Now is a good time to remind ourselves that we play a supporting role in the economy, not a lead role. Our job is to help the real creators of economic value—people who make things and people who use them—get together and do business. We bankers should find some humility in that.

This is also a time for getting out there in the marketplace and making every good loan we can to boost the economy and restore confidence to the markets. It is a time for determination in the face of our generation's greatest economic challenge.

Thank you.

[The prepared statement of Mr. Lewis can be found on page 129 of the appendix.]

The CHAIRMAN. Mr. Logue.

STATEMENT OF RONALD E. LOGUE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, STATE STREET CORPORATION

Mr. LOGUE. Mr. Chairman, Ranking Member Bachus, and members of the committee, thank you for inviting me here to testify today. I appreciate this committee's critical role in overseeing the taxpayers' investment in State Street, and we are pleased to have an opportunity to describe our use of that investment.

State Street Corporation is one of the world's largest providers of services to institutional investors such as mutual funds, pension funds, endowments, and foundations. Unlike more traditional banks, we do not directly provide ordinary retail banking services, including mortgages, credit cards, or other consumer credit. We have no retail branches.

Our loan activity primarily relates to the provision of credit and liquidity to our core customer base of institutional investors. Our role enables the investment process to run smoothly and as intended and ultimately to help our customers' customers, citizens with savings, average Americans, to be able to access their investments when they need to.

With this unique role, even prior to the receipt of the Capital Purchase Program funds, we were responding to the market turmoil following the collapse of Lehman Brothers in September by increasing our provision of liquidity and credit to our core institutional investor customer base. And even with the increased challenges presented to the post-Lehman financial markets, State Street was profitable in all four quarters of 2008, and we also expect to be profitable in 2009.

I believe State Street was asked to be one of the first banks to participate in the Capital Purchase Program because of our unique and critical role as the back office for the global securities industry. Our $2 billion investment from the Capital Purchase Program was announced on October 14th, and shortly afterwards, I set a goal to immediately deploy $2 billion in additional capacity to our institutional investor customers.

For example, following the collapse of Lehman Brothers, many mutual funds faced increased demands for redemptions. Our provision of liquidity to these funds helped to ensure that investors in these funds had access to their money when they needed it. As of the end of January, we have approved more than $1.5 billion in liquidity requests for 19 customers representing hundreds of mutual funds, and we can and do account for every dollar.

Let me state categorically that we have not used Capital Purchase Program funds for employee compensation or dividend payments. We have also implemented all applicable executive compensation restrictions and requirements. In recognition of the unprecedented circumstances the industry is facing, I am foregoing incentive compensation for 2008 along with six other members of our leadership team. We have also imposed a salary freeze and reduced by 50 percent overall incentive compensation for all but our most junior employees.

In conclusion, we believe our use of the Capital Purchase Program funds follows the intent of Congress consistent with our role in the marketplace. Specifically, we focused on providing badly needed credit and liquidity to our core institutional customer base, which in turn helps to enable individuals to have access to their investments or retirement funds during this time of unprecedented turmoil.

I would be pleased to answer any questions.

[The prepared statement of Mr. Logue can be found on page 134 of the appendix.]

The CHAIRMAN. Mr. Mack.

STATEMENT OF JOHN J. MACK, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, MORGAN STANLEY

Mr. MACK. Mr. Chairman, Ranking Member Bachus, and members of the committee, I appreciate the opportunity to speak to you today about our role in the TARP program—

The CHAIRMAN. Could you turn your microphone on?

Mr. MACK. I was trying to pull a fast one. I am sorry. I will skip the prelims then.

Thank you for having me here. I look forward to answering questions and really talk about how we use our TARP capital with this credit squeeze that is hitting the American economy. Also, I would like to discuss some of the changes we are making at Morgan Stanley as well as the broader reforms we would urge you to restore confidence in our industry and the markets.

The events of the past months have shaken the foundation of our global financial system, and they have made clear the need for profound changes to that system. At Morgan Stanley, we have dramatically brought down leverage, increased transparency, reduced our level of risk, and made changes to how people are paid.

We have maintained a high level of capital through the crisis. Before the TARP investment, our Tier 1 capital ratio, a key measure of regulatory capital, was approximately 15 percent, one of the highest in the industry. We also delivered positive results for 2008 to our shareholders.

But we didn't do everything right. Far from it. And make no mistake, as head of the firm, I take responsibility for our performance. I believe that both our firm and our industry have far to go to regain the trust of taxpayers, investors, and public officials. As a recipient of an investment from the U.S. Government, we recognize our serious responsibilities to the American people. It is our goal and our desire to repay the taxpayers in full as soon as possible.

Morgan Stanley's business, in contrast to some of our peers, has always been focused primarily on institutional and corporate clients, and our business model is less about lending than about helping companies raise debt and equity in the capital markets.

Between October and December, we increased the total debt raised for clients as lead manager nearly fourfold. Indeed, during the fourth quarter, we helped clients raise $56 billion in debt to invest in their business, including American companies like Pepsi and Time Warner Cable. We have also helped clients raise $40 billion in equity to fund their businesses, including a major capital raise for GE, and we made $10.6 billion in new commercial loans. In our much smaller retail business, Morgan Stanley made $650 million of commitments to lend to consumers during the last 3 months of 2008.

I have told you how we are putting TARP capital to work, and we are also filing monthly reports with Treasury detailing our use of capital. But I should also tell you what we haven't done with TARP funds. We have not used it to pay compensation, nor did we use it to pay any dividends or lobbying costs.

I know the American people are outraged about some compensation practices on Wall Street. I can understand why, and I couldn't agree more that compensation should be closely tied to performance.

At Morgan Stanley, the most senior members of the firm, including myself, did not receive any year-end bonus in 2008. I did not receive a bonus in 2007 either, and I have never received a cash bonus since I have been the CEO of Morgan Stanley. The only year-end compensation I have ever received was paid in Morgan Stanley equity, so my interests are aligned with shareholders.

We also were the first U.S. bank to institute a "clawback" provision that goes beyond TARP requirements. It allows us to reclaim pay from anyone who engages in detrimental conduct or causes significant financial loss to our firm, and we are tying future compensation more closely to multiyear performance.

We have much work to do in our industry and across the markets. Real problems remain that are preventing economic recovery. We need to find ways to increase lending and restore consumer and market confidence. Perhaps most importantly, we need to enact reforms to the most fundamental issues laid bare by the recent turmoil:

First, we need to fundamentally improve systemic regulation. Our fragmented regulatory structure simply hasn't kept pace with the increasingly complex and global market. I agree with your proposal, Mr. Chairman, to create a systemic risk regulator.

Second, we need greater transparency in our financial markets, both for investors and regulators. To regain trust in the markets, investors and regulators need a fuller and clearer picture of the risks posed by increasingly complex financial instruments.

Morgan Stanley shares your desire to restore faith in our financial markets and get the American economy going again. We know that won't be easy, and we know it will take time, but we are committed to working closely with you as well as our regulators and other market participants to achieve these important goals.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Mack can be found on page 139 of the appendix.]

The CHAIRMAN. Mr. Pandit.

STATEMENT OF VIKRAM PANDIT, CHIEF EXECUTIVE OFFICER, CITIGROUP

Mr. PANDIT. Mr. Chairman, Ranking Member Bachus, and members of the committee, I am Vikram Pandit, chief executive officer of Citigroup, and I appreciate this opportunity to speak with you today.

Americans from all walks of life are facing crippling economic hardship. Foreclosures, lost savings, and widespread layoffs are having a devastating impact on millions of Americans. Institutions are searching for ways to respond to this crisis.

Against that backdrop, the American people are right to expect that we use the TARP funds responsibly, quickly, and transparently to help Americans. They also have a right to expect a return on this investment.

I know that the TARP funding decision was difficult for Congress, but I intend to make sure that, when it comes to Citi, you will look back on it and know that it was the right decision for the Nation and also for the American taxpayers.

Last week, we published this report. This describes exactly how we are using TARP funds to expand the flow of credit. We posted the report on online, and we will update it each quarter.

In late December, utilizing TARP capital, we authorized our line businesses to provide $36.5 billion of new lending initiatives and new programs. These programs are expanding mortgages, personal loans, lines of credit for individuals, families and businesses, and creating liquidity in the secondary markets. Our TARP report explains these efforts in detail, and I would ask to submit it as an addendum to this testimony.

More generally, in the fourth quarter of 2008, we provided approximately $75 billion in new loans to U.S. consumers and businesses, a significant commitment given the difficult economic environment, and we will continue our lending activities in 2009 in a responsible and disciplined way.

Since the start of the housing crisis in 2007, we have worked successfully with approximately 440,000 homeowners to help them avoid foreclosures. We are also adopting the FDIC's streamlined model for loan modification programs. In the last year, we have kept approximately 4 out of 5 distressed borrowers in their homes. We have extended our foreclosure moratorium to help millions of other eligible homeowners whose mortgages we service, and we continue to reach out to homeowners who may be experiencing financial difficulty despite being current on their payments.

These efforts demonstrate that we are committed to supporting American businesses and helping families stay in their homes.

Equally important, we are committed to providing the American public with a return on its investment in Citi. We will pay the U.S. Government $3.4 billion in annual dividends on that investment, and our goal, my goal, is to make this a profitable investment for the American people as soon as possible. The best way for us to make this happen is to return our company to profitability.

When I became CEO a little bit more than a year ago, I demanded accountability. I removed the people responsible for Citi's financial distress. I formed a new management team. I restructured the company. I streamlined our core businesses. I installed new risk processes and new risk personnel. And I will continue to make the decisions necessary to put the company on a strong footing.

Mr. Chairman, the world is changing very fast, and we need to acknowledge and embrace this new world very quickly. We understand that the old model no longer works and the old rules no longer apply.

I would also like to say something about the airplane that was in the news. We did not adjust quickly enough to this new world, and I take personal responsibility for that mistake. In the end, I canceled delivery. We need to do a better job of acknowledging and embracing the new realities. Let me be clear with the committee, I get the new reality, and I will make sure Citi gets it as well.

One final note, Mr. Chairman. Our responsibility is to promote the recovery of our financial system and benefit our shareholders. We will continue to do everything we can in that regard at this critical moment in history. We will hold ourselves accountable, and that starts with me. I am personally accountable. My goal is to return Citi to profitability as soon as possible, and I have told my board of directors that my salary should be $1 per year with no bonus until we return to profitability.

Thank you, Mr. Chairman. I look forward to your questions.

[The prepared statement of Mr. Pandit can be found on page 142 of the appendix.]

The CHAIRMAN. Mr. Stumpf.

Before the gentleman—this is a very important subject. We are getting kind of a buzz of conversation. It accumulates. I would ask people to please keep down the conversation. I am talking about us up here. If you have to talk, go somewhere else. It is getting a little distracting.

Mr. Stumpf?

STATEMENT OF JOHN STUMPF, PRESIDENT AND CHIEF EXECUTIVE OFFICER, WELLS FARGO & COMPANY

Mr. STUMPF. Mr. Chairman, Ranking Member Bachus, and members of the committee, I am John Stumpf, president and CEO of Wells Fargo & Company.

Our company has been serving customers for going on 158 years. We are virtually in all businesses, and our team members are in all different States of the United States. We are a community bank. We have 281,000 team members. They live and work in thousands of communities, big and small, across North America. I have been a community banker with our company for almost 3 decades. I personally have lived and worked in places in Minnesota, Colorado, Texas, and now California.

Across the country, many of our customers are facing difficult times. We are very proud that Wells Fargo has been open for business for our customers. In the last 18 months, when many of our competitors retrenched, Wells Fargo made $540 billion in new loan commitments and mortgage originations. Last quarter alone, we made $22 billion in new loan commitments and $50 billion in new mortgages, a total of $72 billion in new loans. That is almost 3 times what the U.S. Treasury invested in Wells Fargo.

With the merger, we have reopened lines of credit to some Wachovia customers who previously had been denied credit. We do business and lend money the old-fashioned way: responsibly and prudently. As a result, we earned a profit last year of almost $3 billion.

We understand the very important responsibility that comes with receiving public funds. We are always careful stewards of our shareholders' money. The investment by the government is being used in the same prudent way. We have never been wasteful. We spend money to support business and make profit for our investors, and we are frugal.

Last year, our overall corporate expenses actually declined 1 percent while our revenue rose by over 7 percent. We said from the start that we will use the government's investment to help make more loans to credit-worthy customers. We said we would use the funds to find solutions for our mortgage customers who are late on their payments or facing foreclosure so they can stay in their homes. We also said we would report on our progress. We have done just that.

We recently announced our first dividend payment to the taxpayers of more than a third of a million dollars. We are Americans first, and we are bankers second. So we see this taxpayer investment first and foremost as an investment in the future economic growth of our country. We are proud to be an engine for that growth. In the last quarter of 2008, we had double-digit loan growth in areas like student loans, agricultural loans, middle market commercial loans, SBA or Small Business Administration loans, and commercial real estate loans.

Now, as to mortgages, last year we made $230 billion in mortgage loans to 1 million customers—half for purchases and half for refinances to lower mortgage payments. At year end, we had $71 billion of mortgages still in process, up three-fold annualized from the third quarter, a sign of strong momentum going into 2009.

Our mortgage lending is built on solid underwriting and responsible servicing. Because of that, 93 out of every 100 of our mortgage customers are current on their mortgage payments. That performance is consistently better than the industry average.

In 2008, we nearly doubled our team dedicated exclusively to helping customers stay in their homes, which improved our outreach. Because of that, we were able to contact 94 of every 100 customers who are 2 or more payments past due on their mortgages. Of those we contacted, we were able to work out a solution for 7 out of 10 of those we contacted.

This resulted in our being able to deliver 706,000 solutions to Americans, avoiding foreclosure, during the last year-and-a-half alone. That is 22 percent of the 3.2 million solutions reported by the industry. Last quarter alone, we provided 165,000 solutions to our mortgage customers. That was 3 times as many as the last quarter of 2007.

Across the country, we are partnering with real estate agents, cities, and nonprofits to speed up the selling of bank-owned properties so they can become once again owner-occupied.

Mr. Chairman, and members of the committee, thank you, and I would be happy to answer your questions.

[The prepared statement of Mr. Stumpf can be found on page 189 of the appendix.]

The CHAIRMAN. Mr. Stumpf, before my time starts, let me just—I think you said a third of a million and you meant a third of a billion.

Mr. STUMPF. A billion.

The CHAIRMAN. It was $371 million. Let me just make sure we have that corrected.

Let me announce before, again, I get to my questions, I think this will be as important today in dealing with the economy of this country as we are likely to have, in many ways, short of voting on major things. I am, therefore, going to ask the witnesses—my intention would be—it is a large committee, there is a great deal of interest. I appreciate the forthcoming nature of the testimony. My intention would be to take a break at about 12:30 to 1:15 and then ask people to come back and stay. I mean, I assume, from your standpoint, the day is shot anyway. And if you could come back, and maybe we can stay till 5 o'clock. It may be an imposition, but I think, given the importance of what we are all trying to do together, that is justified. And I want to maximize the ability of my colleagues to be able to ask questions.

So, with that, I will now—one other thing. We have a statement submitted to me by the Reverend Jesse Jackson on behalf of the RainbowPUSH Coalition—I ask unanimous consent to put it into the record—talking about the need for home foreclosure, for opening the credit markets, for student loans and minority participation. And I ask that this be made a part of the record. Without objection, it will be made a part of the record.

Now, as to my questions, let me begin—and this is something I discussed with my colleague from Ohio, Mr. Driehaus.

Mr. Dimon, you said that you hoped the Administration will be adopting a uniform mortgage modification program. Mr. Geithner had said that he plans to do that. Let me say this. I have been unwilling to join in general calls for moratoria on foreclosures when they were open-ended because I wasn't sure that they would be helpful or even applicable. We wouldn't know who they would be applicable to.

But it does seem to me here we have the commitment of Secretary Geithner that he will be putting at least $50 billion, in addition to other resources that are already available—Fannie Mae, Freddie Mac, and IndyMac, etc.—at least $50 billion additional funding into a sort of system-wide effort to do mortgage modification. I believe that we are going to be pushing for even more. If that works, there could be more.

I would ask all of you now to please make sure that we have a moratorium in effect until we get that program and until you know if people can qualify. We know the tragedy of the people who get killed or injured in a war after a ceasefire. Having someone suffer foreclosure because 2 weeks hadn't gone by for this program would be unacceptable. So I urge you and I will urge everybody who is in this business to withhold foreclosure until we get Mr. Geithner's program. And then we can—and, again, I would assume no one would be foreclosed who could meet that.

The second point I want to make—and I understand that not everybody volunteered for the money. In some cases—let me acknowledge, Bank of America, I understand an administration which was, I think, severely affected by the negative reaction to their allowing Lehman Brothers to go under, I understand they were eager for you to go ahead with the Merrill Lynch purchase. And I do think it is fair to note that the second round of TARP funding was in conjunction with your taking on a purchase that they very much wanted you to do.

But we are now talking about some restrictions, and including—and I hope you will—you know, legally, there are limitations on what we can do retroactively, but there are no limitations on what you can voluntarily do retroactively. We are going to be imposing some restrictions, going forward. There are going to be some tough requirements coming from the Inspector General, Mr. Barofsky, to ask you for some very specific accounting.

I just want to make this very clear. In the bill that passed the House involving the second half, we have a provision that says, if you don't like the conditions, and if you think you are being ill-treated by our requests that you tell us how you spent it, we will take it back. If you are ready to give us back all the money with an appropriate interest rate and your regulator doesn't have a problem with that, then—that wasn't yet in the law, but let me tell you, if you want to give back the money, we will take it. And if there are any obstacles to your giving it back legally, we will undo those obstacles. I believe there would be great support for doing that.

Now, let me ask you, on the incentive—and I am glad to say that many of you are not taking bonuses. But I have to say this. If you believe in bonuses, then is that something bad? I mean, I guess the question is this. You have bonuses over time. If, in good times, you were told you weren't going to get a bonus, what part of your job would you not do? I mean, if you weren't getting a bonus, would you, like, leave early on Wednesday or would you take longer lunches? Would you bypass a certain class of investors?

You say and somebody said, well, your incentive comes in shares that align your interest with that of the company. Here is one of the problems: Why in the world are some of the most highly paid, talented people who have jobs that are fun—let's be clear, it is not always fun, this is not amusement park time—why do you need to be bribed to have your interests aligned with the people who are paying your salary?

And this is part of the problem. I know it is a problem with people at the lower end who get bonuses, and that has been built into their compensation. But at your level, again, why do you need bonuses? Can't we just give you a good salary or give yourselves a good salary—you are in charge of that—and do the job? This notion that you need some special incentive to do the right thing troubles people.

Anyone who wants to answer, please go ahead.

Mr. MACK. I will try, Mr. Chairman. It is a good question, and it is complicated.

At least from the investment banking perspective, we all grew out of small partnerships. It was historical. Morgan Stanley did not go public until 1986. When I joined the firm, there were 325 people and probably 20 partners. They took very low salaries. And at the end of that, you got a bonus if the firm did well.

I think what we have seen, at least from investment banking, is a carry-on of that methodology. And, without question, given the kind of risk that we take today, the global nature of our business, and the size of our business, all that has to be looked at again.

To answer your question specifically, at least at my level—and I think my colleagues here would say the same—we love what we do. If you gave me no bonus in the best year, I would still be here.

The CHAIRMAN. I appreciate that answer, and I thank you very much. So it does seem to me, if there weren't bonuses, we would still get our money's worth. So I will not bill you for my services as an efficiency consultant, and I appreciate the answer.

The gentleman from Alabama.

Mr. BACHUS. Thank you.

The chairman mentioned this being a very important day. I agree, not because of the vote on the stimulus package. I believe it could be a very important day because I think this hearing and the testimony today could go a long way towards restoring confidence in our financial services industry and in the people who run it.

If they publish the right story tomorrow—you never know what the story will be. But what I heard—and a lot of this I know, but I don't think most of the American people know it—is that we gave taxpayers, or you gave taxpayers, an equity share in your businesses at depressed prices. And, as many of you have said, there is going to be, in some cases, a handsome profit and, others, a profit. And, as with all investments, there may be some losses. But I truly believe, unless there is a worst-case scenario for the next 5 or 10 years, the taxpayers are going to—actually, this is going to be one of their best investments.

You paid a dividend of 5 percent, and a lot of people would love to have that today. You have made mortgage modifications by the millions. Government efforts, on the other hand, have almost been very unsuccessful. And you did that at no expense to the taxpayers. You underwrote the losses. So you kept millions of Americans in their homes, families. You assumed failing institutions at the urging of the regulators. And, in most cases, if not all cases, this was a great benefit to the taxpayers, who insure those deposits. That is a real plus. As Mr. Mack said, you have reduced risk and leverage, something that has to be done. It is a necessary thing. And, as I have heard, you have maintained a high level of charitable contributions. And so I commend you on all of that.

Now, the thing that we need to talk about is lending. But I will tell you that, in an economy as bad as our economy is and in a challenging time and with deposits in some cases eroding and an economy in certain areas in shambles, I was simply shocked that lending wasn't down 10 or 15 percent across America. And when it came out that it was down 1 percent across the board, I thought that was wonderful news. That our economy could go through that type of shock and lending would go down 1 percent, I almost don't believe that. But it is a very good number. And I thought it should have been a wonderful, positive story. And I think that the capital injection cases, in some case, made a difference, although I don't know how much.

I have one question, one urging. I hear from responsible borrowers who are not in default and who are paying their payments on time, their interest payments in some cases, that their principal is being called, that they are being asked to do a 10 percent call-down on their principal, or that their credit lines are being restricted. And I know, in some cases, that this is probably a good lending practice because you are seeing some deterioration.

But I would ask you, can we do a better job in that? And can the regulators assist you in that, or is there something that we can do to avoid those cases? Because there are people who can make interest payments now, but they cannot begin to pay down principal. It is just the wrong time.

So, to any of you who would like to answer that question. Or I will call on Mr. Lewis. Or, Mr. Stumpf, you didn't want the money, you took it, and you wish you didn't, I am sure. And we are going to make money on that investment, but you can answer the question.

Mr. STUMPF. Well, thank you. And we have clarified our statements. We are happy to have the money. It strengthened the industry, and that is good—

Mr. BACHUS. But, yes, I guess what I meant is, first you said, we don't need the money. But I appreciate it.

Mr. STUMPF. With respect to borrowers, in our company, frankly, we have been growing loans the last 18 months. As I mentioned in my testimony, many others have retrenched. And we think these are actually good times to make loans to credit-worthy borrowers.

We make money when we make loans. That is our business. We want to serve customers, help them educate children, buy homes, help small businesses to develop products and services that they can sell and serve other customers. In some cases, it is prudent. You have to cut back on a line, but we have not done it system-wide. It has been very much individual, one customer at a time, working with them. And we want to stick with them if we possibly can. But also, unfortunately, not every borrower who wants or needs money can afford it today. And we have to be prudent—

The CHAIRMAN. If the gentleman would yield briefly, that is such an important question that so many of us have been asked to get answers to. I would ask those to whom it is relevant—obviously, not Mr. Blankfein or Mr. Kelly or Mr. Logue or Mr. Mack, but for the commercial bankers who are before us, if you could answer in writing, that would be very helpful. I think we would all like that, because I think that is one of the most frequently asked questions we have. So for Mr. Dimon, Mr. Lewis, Mr. Pandit, Mr. Stumpf, if you would answer that in writing, that would be very helpful.

Mr. STUMPF. If I could add one other thing? We have about $175 billion of untapped lines of credit—home equity lines, credit card lines—that are not in use.

The CHAIRMAN. The gentleman from Pennsylvania.

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

I am going to take the opportunity—having eight of the world's finest financial minds lined up before the committee is too great an opportunity not to ask some simple, but I think important, questions.

We are going to be called upon constantly to relook at re-regulation, and the common expression is "Washington," so this never happens again. And how often we have heard that as we go through history. Well, I am not quite that optimistic that we have the capacity to stop the natural adjustment of the marketplace from never happening again.

But I do wonder—and anyone can take the question to start with—when did you first realize that the economy was in trouble? What actions did you take, either privately within the corporation or publicly, to alert those of us in government and the leadership of government? And just when was that? And why does it appear to the general public that all the finest minds in finance missed the most obvious—this disaster, if you will?

I do not want you to stampede now in wanting to answer that question.

Mr. LEWIS. I will start, sir.

Mr. KANJORSKI. Good, Mr. Lewis.

Mr. LEWIS. To Secretary Paulson's credit, I can vividly recall him calling me in August of 2007 when things really started to melt down. And so, late July to early August or mid August was kind of the timeframe that we saw real challenges in the economy—

Mr. KANJORSKI. Let me stop you there. I am going to try to jump in, because I am really interested in this question.

That is when the marketplace and subprime loans started to disintegrate?

Mr. LEWIS. Correct.

Mr. KANJORSKI. But everybody was starting to see it then. Was that the first inclination you had as a banker that we had trouble?

Mr. LEWIS. It was for us, in terms of capital markets. We were not in the subprime business, so we don't make subprime loans, and so we wouldn't have seen that. But the capital markets meltdown in August was the first time that we began to see the severity of what was going on and became very concerned. And there was a lot of communication with Treasury and the Fed by that time.

Mr. KANJORSKI. So is it right for me to conclude that you thought everything was going to continue and go along at the level of leverage that existed in our system and there wasn't going to be any repercussions from that?

Mr. LEWIS. I think more so we did not see the economy—we thought the economy was in relatively good shape going into the third quarter of 2007. And so that was more, as a commercial bank, was our focus than necessarily the leverage and the capital markets piece.

Mr. KANJORSKI. Mr. Blankfein, you are out there in the cutting edge of putting money out. Is that approximately the same time you saw this?

Mr. BLANKFEIN. Yes. We had some signals before that, with respect to the market. But if you remember—and this kind of commentary came out of the Central Bank, our Central Bank and other places, and commentators—there was a bifurcation that was in the air at the time: These are problems of Wall Street, not problems of Main Street.

When there were conversations about whether we needed an interest rate cut or not, the conversation was, should we do something that helps Wall Street maybe that is contrary to the interest of Main Street? Because it was thought at the time that these problems in subprime and real estate were mostly of securities and an isolated problem and were the problems of Wall Street.

I think one of the lessons we learned is that was kind of a foreshadowing, the problems that we saw in the securities market were directly related to—because they all sprang from the real estate sector. It was a foreshadowing of what we saw in the real economy. But, for a long time, people made the bifurcation and separated Wall Street from the real economy.

And I think one of the lessons we learned now is they are inextricably wound together. Wall Street can't prosper with Main Street in poor economic health, because we lend money and we need to be paid back for sure. And, obviously, we know now, absent credit and liquidity, the real economy suffers. And so I think that is one of the lessons learned from this incident.

Mr. KANJORSKI. Okay. I have very little time left, but I am going to ask the question anyway. What do you see in the future? Have we seen the worst of this thing? Have we failed to describe the problem adequately for the American people and for the public generally? And if we have failed to do that, is it important that we describe this problem in as great a detail and dramatically as possible so we get everybody signed onboard? And if we do that, do you have any fear that will precipitate a further negative reaction?

The CHAIRMAN. I am afraid there won't be time for that question to be answered.

The gentleman from Texas.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

One of the things that—there has been a lot of focus on all of the bailout activities. The TARP plan was primarily directed at toxic assets. That is the big topic. And somehow, if we fix the toxic assets, we fix the economy. I don't necessarily agree that is the case.

But one of the things that I hear from a lot of other people that I talk to is that the reason that nobody is selling their assets is because they don't like the price, that there is a market for some of these assets out there, and that there is a reluctance on the sellers because they keep hearing people from government say, you know what, we may have a plan to help you. And so nobody wants to go out and start taking those hits that they have hopefully written down on their books and then find out later on they missed out on a good deal.

The other piece of it is that everybody's solution is to somehow sanitize these toxic assets with taxpayer money. I don't think that is necessarily in the shareholders' or the taxpayers' best interest.

Is it time for the government just to kind of step back and let the markets work through this? If you have these assets written down appropriately, then it shouldn't be affecting your balance sheet that much; it is just going to affect your liquidity.

And, at the same point, we are taking some of these very extreme measures, and we are really not asking your bondholders or your shareholders to get in the game with us.

But, more importantly, the primary question that I want to know is, at what point in time do we say, you know, this is enough and the market just kind of has to work this thing out and we back off of the government intervention? Because the deeper we get into this, the tougher the exit strategy is going to be. And how we ever get the markets, quite honestly, back to where they were will take a long, long, long time.

So, Mr. Blankfein, do you want to start with that?

Mr. BLANKFEIN. Again, as a commentator—because, again, we are not in the consumer businesses as such, and we are under a mark-to-market accounting regime, so we are required to mark at the fair-value price that is in the market today. But, as a commentator, I would say that accounting regimes, I think, for banks—and people can comment on this—allow people to mark securities where they are generally—certain kinds of instruments that they have on their balance sheets—essentially where their expectation will be that those assets will be economically valued over time.

Right now, because of the lack of capital in the market, those assets couldn't be sold at that price even though, if held on the balance sheet, a bank can reasonably expect that they would get value for that at a higher price. But if they tried to sell it today, there is really no risk capital that would pay that price. The supply and demand would only cross at a much lower level.

So I think banks would generally say, we are going to hold these securities, earn the fair value over time, and not hit a bid where it would clear today. That is disadvantageous for the system, because I think what the system would like is for banks to sell. But there is no incentive to sell at a price that they perceive as too low, because that low price is generated by the fear and the general crisis in the environment and the lack of risk capital coming in.

Mr. NEUGEBAUER. Well, some people would say that one of the reasons that they don't want those transactions to start is they are probably going to start at a much lower level than they have actually been marked on the books.

Mr. BLANKFEIN. Well, that is correct. It would be lower.

Mr. NEUGEBAUER. And so then there is this fear that now I am going to have to actually write down my assets more, and I would rather just sit here. And now that the government is propping up my balance sheet, I can sit here and kind of ride this storm out.

The question is, how does that stimulate the economy? I say it probably doesn't.

Mr. Pandit, do you want to take a shot at that?

Mr. PANDIT. I will. Congressman, we have sold a lot of assets. We sold half a trillion of assets just in the last year, of which $150 billion is what you would call these challenged assets. Every time there was a market, we took advantage of it. And we have been continuing to do that where there is a market. Although we continue to do that as well, we, too, mark to market. And those marks are reflected in the losses that we have taken, as well as in our income statements and balance sheets.

The reality is that, as we speak about what is going on, it is not only an issue of credit not flowing, lending not flowing. There is not enough funding out there in the marketplace for people who have risk capital to step up and say, I want to buy a lot of these in size. To say there is always a market, that is a tautology. I can sell a $100 bill for a dollar. But the point is that when we look at some of the assets that we hold, we have a duty to our shareholders. And the duty is, if it turns out they are marked so far below what our lifetime expected credit losses are, I can't sell that. That is not right for our shareholders to sell it. I am not going to sell them at a dollar.

So everything you are working on is just right. It is about credit starting in the marketplace. It is about funding flowing. It is about capital flowing. When that happens, you will get a real bid. In the meantime, when we find one, we are always there to sell these assets and get them off our balance sheet.

Mr. KANJORSKI. [presiding] The gentlelady from California, Ms. Waters.

Ms. WATERS. Thank you very much, Mr. Chairman and members.

Let me just say to our captains of the universe who are sitting here before us that it seems that, all of my political life, I have been in disagreement with the banking and mostly financial services community because of practices that I have believed to be not in the best interest always of the very people that they claim to serve.

I have been through the red-lining fights. I have been on the fights of discriminatory practices over the years and a lack of business lending and available capital to small and minority businesses. I have been through and still, I suppose, am engaged in a fight about predatory lending. And so I come to this with very, very strong opinions about what we need to do to regulate this industry.

Let me just ask a few questions. And I won't ask you to expound on them. But I would like to know if any of you or all of you, any of you, since you received TARP money, increased the amount of interest on the credit cards by sending out letters to the consumers, to your credit card holders indicating that this was part of the contract, even though it may have been in small print, and you now have the ability to do it.

Did anyone? Did any of you do that?

Mr. LEWIS. Let me start, Congresswoman.

Ms. WATERS. I would just like to ask each of you. Bank of America, I suppose—did you do this?

Mr. LEWIS. Yes, I was volunteering.

First of all, I feel more like corporal of the universe, not captain of the universe, at the moment.

Ms. WATERS. Did you increase your credit card interest rate?

Mr. LEWIS. In 2008, we increased rates on 9 percent of our customers.

Ms. WATERS. Okay, thank you very much.

Did anyone else increase their credit card rates after you received TARP money? Anyone else? If so, would you just raise your hand?

Thank you. You sent out the letters that I am trying to describe, saying that you have the authority to do that.

Did any of you reduce the amount of credit that was available to credit card holders because they shopped at certain stores? Just raise your hand if you did.

None of you did. Let the record reflect no one raised their hand.

On loan modifications, where you claim to do such a good job, I disagree with you. Many of you know that I help to implement loan modifications, working with my constituents. I would like to thank Wells Fargo for the response that you gave me when I brought to your attention how poor your loan modification work is under your servicing company.

I have not heard from Bank of America, even though they know that I have spent hours on the phone trying to connect with their loss mitigation department.

Bank of America, do you still have loss mitigation departments offshore, where you are using foreign companies or individuals to respond to our taxpayers?

Mr. LEWIS. If we have a loss mitigation department offshore, I do not know about it.

Ms. WATERS. I am sorry, I can't—you do have them offshore, who are supposed to be doing loan modification work or loss mitigation work for you, is that correct?

Mr. LEWIS. I do not know that we have or we haven't. All I know is that we have 5,000 people working on the issue.

Ms. WATERS. Thank you. So you do have offshore loss mitigation work going on.

Now, we have many of our constituents who try to get to you to get a loan modification before they get in trouble. How many of you have a policy that says you have to be 2 months or more behind before you will deal with them on loan modifications?

None of you require that you must be 2 months or more behind before you can get loan modification from your banks, is that right?

Mr. PANDIT. Congresswoman, I would speak on behalf of Citi. We have a new program where we are reaching out to half-a-million customers where we reach them even if they are current in their payments. It is not about whether you are behind on your payments for a couple of months. This is a—

Ms. WATERS. I just want to know, sir, how many of you require that you have to be behind for 2 months?

Okay. We will get—if I may, Mr. Chairman, I just want to also say that I think it is important for us to understand why you paid yourself fees on the money that we gave you.

As a matter of fact, Bank of America, you paid yourself $30 million in fees just to accept our TARP money.

Citigroup, you paid yourself $21 million in fees. Why did you do that?

Mr. LEWIS. I don't know what you are talking about.

Ms. WATERS. Do any of you understand what I am talking about, in terms of processing the TARP money that you got and the fees that you have—yes?

Mr. PANDIT. May I answer, Congresswoman?

Ms. WATERS. Yes.

Mr. PANDIT. I think you are referring to the $17 billion of debt we issued under the FDIC-guaranteed program on which we paid underwriting fees to underwriters, us and a lot of others. We have to raise that money in the market, and we have to follow the practices by which we raise it, which is to underwrite that debt, and we have to pay the underwriters to raise that money. I think that is what—

Ms. WATERS. You do the guarantees. You get guarantees. But you absolutely collect fees to do the work to place the money, is that right?

Mr. PANDIT. We have to pay underwriters and other people who sell those bonds.

Ms. WATERS. But you are not paying anybody. You are keeping the money yourself.

Mr. KANJORSKI. Ms. Waters, I am just going to have to call you down, because, when the chairman gets back, he is going to penalize me. And I don't know what that penalty—

Ms. WATERS. I appreciate that very much. But let the record reflect that we need to find out why they are paying themselves fees on the money that we give them. And we need to have a roundtable discussion with them to find out what they are going to do to discontinue this practice.

Mr. KANJORSKI. All right.

Gentlemen, you heard the question. If I could make a request, perhaps individually for your companies, you could respond in writing to Ms. Waters' question.

And next, we have Mr. Castle.

Mr. CASTLE. Thank you, Mr. Chairman.

Gentlemen, this all seems to come in waves, and I sort of see another tidal wave behind the mortgage foreclosure and the other waves, and that is the area of credit cards.

There are many economists and others who believe that, with the breakdown of the economy, that we are going to have multi-trillion-dollar losses as far as credit cards are concerned. And this could actually lead to a situation in which we have bankruptcy in the industry. And a lot of this, obviously, relates to the unemployment rate and the people just not having the ability to pay who had the ability to pay before.

My question—and perhaps I will ask Mr. Dimon and Mr. Lewis this question—is, are you prepared for that? Or perhaps you disagree with the premise that this is going to happen. But there are many who do speculate in the next few months to 2 or 3 years that we are going to have significant problems in the credit card industry. And I don't know what your level of preparation for that is.

Mr. LEWIS. It is clear that this year, in particular, is going to be the year of consumer credit losses, because it is so intertwined with the performance of the economy. With regard to credit card losses, the general rule of thumb is at a percentage point to the unemployment rate to get your loss rate, at least in our mix of portfolios. And so, clearly, this is going to be an awful year for the credit card industry and for all credit card portfolios. There is no doubt about it, because the more optimistic views are unemployment at 8 or 8½ percent, and that would cause very high loss rates in the credit card portfolios.

Mr. CASTLE. Are you prepared to manage that?

Mr. LEWIS. We are doing everything we know to do in our loss mitigation efforts, in our call center efforts, to mitigate as much as possible and to cut expenses as much as possible.

Mr. CASTLE. Thank you.

Mr. Dimon?

Mr. DIMON. I think it is not as dire as that because I think all credit card debt in America is maybe $1 trillion. And when you have a credit card business, you know that there are going to be cycles. It usually follows unemployment; it will get worse when unemployment goes up.

We expect, and we have told our analyst community, that our losses will be probably 7½, maybe 8 percent this year. It will be worse than that—8 percent of total outstanding, that is well over $10 billion of losses. And, yes, we are more than adequately prepared to deal with that. We are properly reserved for it. And that is one of the costs of being in the business.

Mr. CASTLE. Thank you.

Mr. Pandit, you and actually others who testified indicated that you are handling your mortgage foreclosures, that you are actually hopefully doing a good job with respect to those who have mortgages with you.

We have had a plan put forth in legislation by Congress which has not been particularly successful to this point. We have had discussions of other plans. Mr. Geithner yesterday mentioned that as part of his plan, which a lot of people feel is a little bit ill-defined at this point.

My question to you is, are you satisfied with what you and other bankers are doing? Or is there a plan that we should be adopting, maybe not with respect to the companies represented here but to other not only banking interests but mortgage interests created for that purpose that weren't particularly well-funded, etc., and helping those who are going into foreclosure, that we should be doing? Do you have a precise recommendation with respect to that?

Mr. PANDIT. Congressman, what I would say is that when we can talk to the individual who is in the home, we have a very, very high percentage of success in keeping that person in the home. The challenge is, when times get tough, people don't want to own up and say, hey, I am going to have an issue. And so people put their heads in the sand and they don't own up, and that is really a bad place to be.

What we find is half the foreclosures that we enter into are for people we have never talked to. Anything you can do to have more community service, more effort to say to people, you know what, there is no shame, there is no stigma, we are going through this together, open up, figure out some way to go talk to your lenders, that would be good for us. Because we think we can help those people.

Mr. CASTLE. I assume, of all the commercial banks here, that you are in the same basic position; if you talk to the people, you will try to work out a plan to help them with their foreclosure circumstances. You all represent large, pretty well-capitalized entities that, according to your reports today, are doing reasonably well. But I am more concerned about the mortgages that were created by mortgage banks that are no longer in business and perhaps have been assigned to or sold to other entities at this point and which are going to be true foreclosures.

Do any of you have any ideas about what we, as a government, should be doing to help in those circumstances? And I appreciate what you are doing individually as companies.

Mr. DIMON. I think one of the legitimate issues is that people, if they don't know who their servicer is and they don't know who to call, that there are some great ways to modify loans. We should find ways to make sure that all loans are modified that way. And we have shared with the Treasury, the FDIC, the OCC, which several banks here have best practices, and we think that everyone should follow its best practice, and we will do the best job we can for everybody. It has been haphazard in the last year.

The CHAIRMAN. The gentlewoman from New York.

Mrs. MALONEY. Thank you.

First, I would like to welcome the panelists, some of whom are headquartered in the district I am honored to represent. And I particularly would like to thank Bank of America for deciding to build a major headquarters in New York in the dark days after 9/11. It was very important for our morale. Thank you.

But, Mr. Lewis, as a New Yorker, I followed the Bank of America-Merrill Lynch merger with great interest. Earlier this year, I believed that the government intervention to add $45 billion to get the merger done, along with $188 billion guaranteed for the bad loans of Merrill, was in the interest of the American taxpayer and our economy. But recently, Secretary Geithner said that we were shoring up banks not for the sake of the banks, but for the sake of American taxpayers.

But, in the case of this merger, some alarming facts have come out in a report that was recently issued by Attorney General Andrew Cuomo. In it, he points out that bonuses to Merrill employees—they doled out over $3.6 billion just days before Bank of America bought the collapsing firm with the help of taxpayer money.

Also, we learned that Merrill moved up the timing of these bonuses for the fourth quarter of 2008 to December 8th, a full month before the fourth quarter earnings came out on January 16th. And Merrill's fourth quarter earnings were terrible. They lost over $16 billion, capping a year in which they lost a jaw-dropping $27 billion.

I can understand paying bonuses for outstanding performance, for building jobs, growing the economy. But how can you justify paying bonuses to managers who were running their company into the ground to the point that they were forced into a merger?

Also, we learned that the $3.6 billion in bonuses was not distributed fairly or over the board to all the employees, but was highly concentrated to the top. The top 14 employees received about a quarter of a billion dollars. The top four employees received a combination of $121 million, and the top 30 about $20 million apiece. So that those who were most responsible for the losses were the most richly rewarded.

And, for me, the worst aspect of this business is that Merrill paid these bonuses out just before the January 1st merger with your bank. Couldn't this reasonably be described as looting the company prior to the merger?

And since Merrill's contribution deteriorated in its condition so much in November and December, even those bonuses were paid out—when they were paid out, the government had to inject $45 billion to make the merger happen. So it appears the American taxpayers, they are the ones who are stuck with the bill for paying huge bonuses to the very people whose poor judgment and mismanagement cost this country billions of dollars.

So my question to you is, did you know how big those bonuses were going to be? Did you know that they were going to be paid? Did you discuss it with anyone prior to the merger? And were you aware that government, taxpayers were going to have to pay for these bonuses for the losses to the company?

Thank you.

Mr. LEWIS. Thanks for the question, and thanks for the first comment.

My personal involvement was very limited, but let me give you my general understanding of what happened.

First of all, I do know that we urged the Merrill Lynch executives who were involved in this compensation issue to reduce the bonuses substantially, particularly at the top. I will remind you, though, that they were a public company until the first of this year. They had a separate board, separate compensation committee, and we had no authority to tell them what to do, we could just urge them what to do. So we did urge.

There was some feedback, in that, to your point, at the very top there were some contracts that were of tens of millions of dollars to several individuals that were legal contracts that Merrill had made to those individuals. And it is my understanding those skewed these amounts pretty substantially.

I can only contrast that to Bank of America's policies. First of all, as I mentioned, nobody on my management team received any incentives. Nobody on my management team has a contract or a golden parachute or severance. And then finally, we pay our bonuses on February the 15th of the following year.

So major changes will be made, but we could not make them until we owned the company.

Mrs. MALONEY. Okay. Thank you. My time has expired.

The CHAIRMAN. The gentleman from New York.

Mr. KING. Thank you, Mr. Chairman.

I want to thank the witnesses for their testimony today.

I would like to direct my questions to Mr. Dimon and Mr. Mack. Our chairman, Mr. Frank, has proposed the creation of a systemic risk regulator. And in your testimony, Mr. Dimon, and yours, Mr. Mack, both of you endorsed the concept of a systemic risk regulator. I would like to ask you several questions and then just turn it over to you for the balance of the time.

If we do establish this systemic risk regulator, which existing regulators would this replace? Do you have concerns that the regulator would be created in such a way as to impede our competitiveness with the rest of the world?

And secondly, how would this regulator have worked? Looking back at the last several years, how would this regulator have mitigated or even prevented the current situation we have?

And, with that, I ask Mr. Dimon and Mr. Mack if they could answer the question.

Mr. MACK. Well, Congressman, the world has turned into a global trading market. So the idea of a systemic risk regulator, I think, is critical. Our businesses are much more complex than they were 40 years ago when I first got in the business. And I would argue, and you heard from Secretary Paulson, that, if you go back, some of our existing laws were written right after the Depression. We had Glass-Steagall at that time. It was a real separation of risk-taking. So, on one hand, you had the Federal Reserve with regulatory authority, clearly, with the banks and the SEC with the investment banks.

There needs to be, I believe, a coming together of regulatory oversight. So that is at the first level. And I think it is up to a number of hearings and discussions on how that takes place, but I would like to see a combination of some of our regulators.

If you go back a very short time ago, the New York Stock Exchange had a regulatory arm and ASD had a regulatory arm, and they put it together as FINRA. I think that consolidation of regulatory authority needs to continue.

I think there needs to be some type of global regulatory coordination much more efficient than we have today. And, again, that is complicated because each country, especially the major companies where we are doing trading or sales—and not just for the investment banks, but clearly for the banks also—the coordination, I think, is critically important.

I also think, you know, as you look at the different jurisdictions, whether now that we report to the Fed and the SEC, you are also involved with the commodities business, you are involved with the FDIC. We need to have a coordinated super-regulator for the financial service business. How we put that together is going to be a number of conferences and meetings, but I do urge all of you to pursue that. And we will be as helpful as possible in trying to help define what the issues are.

Mr. KING. Okay.

Mr. Dimon?

Mr. DIMON. Yes, so, first, I want to start by saying that there are a lot of things that need to be fixed in the regulatory system. They were not to blame for all the things that happened. So I am not trying to push the blame to anyone else. But we should recognize these issues and problems and fix them if we want to fix these problems going forward.

We have a Byzantine alphabet soup of regulators that get involved in systematic regulation. And I also should point out, by the way, a lot of companies that were heavily regulated have problems, and a lot of companies that were not heavily regulated have problems. So it isn't quite clear that was the solution.

But the OTS had enormous problems with WaMu and Countrywide, who are no longer here and were acquired by some that are coming to the table. Fannie Mae was regulated by the—I forgot the name at the time, but it has a different name today. We have the SEC, the CFTC, the OCC.

A lot of unregulated businesses caused some of the problems, like the mortgage business. The unregulated mortgage part of the business was far worse than the regulated part, which was in the commercial banks. And I think it would have been good to have taken a good look at that. And some other problems that were caused by insurance companies that really weren't under the jurisdiction of a regulator that was into the global capital markets like AIG and some of the monolines.

So I think it would be a tremendous benefit to have one regulator looking at anything that can cause systemic risk that is constantly looking for things like that and trying to look around the corner. And it should be a U.S. system and globally coordinated. But it doesn't have to, obviously, be exactly the same in every single country.

I think there is a regulator who, kind of, does a lot of this already, which is the Federal Reserve. I think if you try to invent a new one it will take a long time. I think they do have the capability, the people, the knowledge, and maybe should have a broadened mandate to do this too.

Mr. KING. In the few seconds that are left, are any of you opposed to having a systemic risk regulator?

Okay.

Mr. Chairman, I yield back.

The CHAIRMAN. The gentleman from Illinois, Mr. Gutierrez.

Mr. GUTIERREZ. Thank you, Mr. Chairman.

First, I would like to begin by thanking Mr. Pandit for coming and visiting with me yesterday. It was a good meeting and very helpful.

And then ask him, how do you see, going forward, what it is we do in terms of pricing the assets that you have on your books so that we can figure out, going forward, what it is we do with them and thereby begin a real recapitalization of your financial institutions and other financial institutions?

How do we get a market price so that we know the depth of our credit crunch right now? When we had Paulson come before us in the beginning, he said he was going to go and buy or somehow take toxic assets. And then, a couple of months later, much to my surprise, after we had authorized the money, he simply infused money into financial institutions, took $350 billion, and spread it out.

How do we get to a pricing so we know what our economic situation truly is?

Mr. PANDIT. Congressman, I appreciate that question.

Let me start by saying that the first and foremost line of attack has to be do everything we can in the capital markets to improve liquidity, improve credit flowing, improve private capital coming in, because that can unfreeze the markets. And maybe that is a way in which you get these assets out in the marketplace. So that is the front line. And we heard some of that yesterday from Treasury Secretary Geithner, as well.

The valuation question is, of course, difficult because we own all kinds of assets. There are mark-to-market assets, and there are assets that are called accrual assets, where you take losses as they go.

Mr. GUTIERREZ. So if we took the largest 50, starting with the 8 of you, and the largest 50 and we took all these assets, so that we know—so that the investment community can come in and say, "Okay, we know what the standing of Bank of America is, JPMorgan Chase is, we know what you have on your books," how would we do that?

Mr. PANDIT. It is an extraordinarily difficult question, but, on the other hand, there have been countries around the world who have addressed that.

One way in which countries have addressed that is by saying, we will take these assets, we will accrue the losses we take on these, and we will send you a bill when we get to a more stable economy. And that has been the prevalent approach that has been taken in the Netherlands, that has been taken in the U.K., that has been taken in a variety of different parts of the world, which is rather than to address where to price them today because today's prices are affected by so many things—lack of liquidity, etc.

Mr. GUTIERREZ. I don't think anybody can price them, right?

Mr. PANDIT. Exactly. And so you have to say, let's put them on the side, take them, create a bill of the losses, and then come back to the banks and recover those losses at the back end. That has been a popular—

Mr. GUTIERREZ. Let me ask you then, is there a formula, is there a mechanism, are there discussions between the Federal Government and the banking community to get that done, in your opinion?

Mr. PANDIT. We have not had those discussions, Congressman. We think that at the right time—and hopefully now that Treasury Secretary Geithner has laid out his framework, it may be an appropriate time to start talking about different ways in which we can do that.

As I said, again, we don't necessarily need to reinvent things. They have been done around the world today, and we should be able to take a look at that. But we welcome that dialogue.

Mr. GUTIERREZ. Let me just say to all eight of you who are here before us this morning, I would like for all of you to just kind of put in writing so that we could have it on the record—and I don't expect the answer here this morning—if each of you could just tell us how much your bank has paid itself on FDIC-guaranteed or other government-guaranteed financing, and what percentage of those finances were completed solely for the purpose of funding your bank.

An example: I won't name the bank, but you go out and you take $3 billion in one deal, and you go out with FDIC insurance, and you go to the market and you sell $3 billion worth of bonds in order to give yourself more liquidity. And they are FDIC-insured. Are you then paying your own investment banking firm—I am sorry, Mr. Chairman.

The CHAIRMAN. Finish the question.

Mr. GUTIERREZ. Are you then paying your own investment banking firm? And how much are you paying your own staff, in terms of underwriting fees for selling what a kindergartner could sell out in the market today?

The CHAIRMAN. Let me just say, as we conclude this, we will take these answers in writing. Also, all members have the right to submit further written questions. I think this is important. There will be some clarification. So we will be submitting some further written questions, as well.

And next, Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman.

I will go to Mr. Dimon and Mr. Stumpf for a question, and this would go back to my opening statement that I was raising, sort of the root causes of the problem we are in.

I recall in 2005 the Federal Reserve testifying before us saying that Fannie Mae and Freddie Mac were creating a systemic risk to the U.S. financial system. So I will go back and pose this question.

To what extent was the securitization process, led by the GSEs, part of the problem here in terms of the bubble? We had leveraging 100 to 1 at these institutions. They had a portfolio of $1.5 trillion that they arbitraged to get to. That was a loss of eventually $1 trillion in that sector. So was there a market perception because government-backed corporations were at the heart of the U.S. housing sector that this was a safe and secure investment and did this play a role in ballooning up this market and creating the moral hazard problem that some economists argue came into play?

Mr. STUMPF. Congressman, thank you for the question.

Let me just say that I think this problem started a lot earlier than 2007. Back in 2002 and 2003, Wells Fargo was the number one mortgage company in the country and we saw crazy things happening, things about the so-called liar loans, leveraged risks to subprime borrowers, the so-called negative ARM loan. We didn't negative ARM any loans in our business, and why would you ever do that for a homeowner, for probably the most important asset they will ever have, where they can owe more later in the mortgage than what they started with.

So I think there are a lot of issues. So we backed out. We didn't do any of those loans. We didn't see how it would be helpful to our customers and ultimately to our shareholders, so we didn't participate in that.

There is no question that Fannie and Freddie played a part. I don't know what percentage it was. I know that credit became too available and too inexpensive, and the risk and reward got separated through innovation.

The day I got my first mortgage, the bank that made it put it in their portfolio, and if they had enough bad ones, they probably fired the banker. Now you would have people originating the mortgage who were separate from the person who packaged it, who was separate from the person who owned it, and the risk and reward got separated.

Mr. ROYCE. One of the things that struck me was who would have bought some of the Countrywide subprime loans except Fannie and Freddie; and Congress had given them an allocation or a goal that 10 percent of their portfolio would be a certain type of loan, typically Alt-A or subprime.

Let me go to Mr. Dimon for his thoughts on this.

Mr. DIMON. Albert Einstein says keep things as simple as possible, but no simpler, so I am going to give you three root causes.

Housing in total. There was a bubble, and a lot of things added to that. Securitization of very low interest rates. I wouldn't blame the GSEs, but I would put them in the category. Most importantly, bad underwriting on the part of some banks, on the part of a lot of mortgage companies and under-regulated businesses. A lot of companies here didn't do option ARMs, but option ARMs obviously sunk Countrywide, and probably Wachovia and WaMu. So the whole housing issue is one.

I think when the economists talk about what caused some of the lower rates and things like that, I would put in the category the excessive trade deficit and Fed policy over an extended period of time created a little bit of a speculative bubble. And I would put in the category excess leverage, and that excess leverage was in consumers, it was in hedge funds, it was in banks, it was in investment banks, it was in European banks, and it was pretty much around the world.

Some of these things, by the way, were known in articles talked about, but no one predicted the ultimate outcome. Maybe people just thought we would have a regular type of recession and this stuff would clean up on its own.

Mr. ROYCE. Mr. Blankfein, I saw your piece in the Financial Times on the rating agencies. What role did they play?

Mr. BLANKFEIN. Well, one of the big problems is that people subcontracted risk management out to rating agencies. And I think we have all done that to some extent. We are all culpable for that. So we join the rating agencies in the problem. But, obviously, they got these things quite wrong and never reinvestigated, and they were too much relied upon by institutions.

So, for example, when loans were packaged and resold, once they bore the stamp of a rating agency at a certain level no more investigation was done and that certainly contributed to the accumulation of assets on people's balance sheets that they wish weren't there.

Mr. ROYCE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentlewoman from New York, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Pandit, last January, we learned that Citigroup was supporting legislation that would let bankruptcy adjust mortgages for at-risk borrowers. I would like, since you are quite a convincing person, that you provide the rationale for supporting that legislation so that your colleagues who are sitting at the table understand why it is important to support that type of legislative initiative.

Mr. PANDIT. Thank you very much, Congresswoman.

None of these decisions are easy. Let's start there. But these are unusual times. They need unusual tools, and we have to admit that. What we found is that when we talk to homeowners, we can figure out a way to keep them in their homes. So when we go back to this particular legislation, to us what was important was to say let's apply it retroactively, meaning it is for loans that have been made up to now. It is not about the future of the market.

Ms. VELAZQUEZ. So what you are telling me is what you are doing in supporting bankruptcy cramdown is a better answer than foreclosure.

Mr. PANDIT. To me, the proposal that is in there that says the homeowner has to have had a negotiation with the bank or mortgage owner for 10 days before bankruptcy gives us the opportunity to talk to them and renegotiate that. We think that is good for America.

By the way, if they do go into bankruptcy, we have enormous confidence in the judicial system in America.

Ms. VELAZQUEZ. I would like to go down the table here, starting with Mr. Blankfein, and ask you, would you be supportive?

Mr. BLANKFEIN. I agree with what Mr. Pandit said about in difficult times you can make difficult decisions, and I would say we would not be supportive in general because these things have consequences. And if you allow these contracts to be changed in bankruptcy and admit the vagaries of that kind of uncertainty, one of the consequences we may find that may be unwanted is that less capital flows into these markets.

Ms. VELAZQUEZ. So are you implying that Citigroup lost their mind?

Mr. BLANKFEIN. No, as I started out by saying, you can come out on either side of the line.

Ms. VELAZQUEZ. I just want a yes or no answer. I don't have much time.

Mr. BLANKFEIN. If they have, it is not because of this issue.

Mr. DIMON. No, we don't agree.

Ms. VELAZQUEZ. Next, Mr. Kelly.

Mr. KELLY. Limiting foreclosures is incredibly important, I think, to America, and we have to solve that, but cramdown legislation is problematic.

Ms. VELAZQUEZ. Mr. Lewis.

Mr. LEWIS. We think something could be worked out, but we want encouragement for the borrower to talk to the lender for some period of time, first.

Ms. VELAZQUEZ. Mr. Logue.

Mr. LOGUE. We agree that anything that we can do to help in the area of mortgage foreclosure is good. However, we do think there are also consequences to the proposed legislation that may not be beneficial.

Ms. VELAZQUEZ. Mr. Mack.

Mr. MACK. I would agree with my colleagues on the right. We need to negotiate and try to work things out.

Mr. STUMPF. And I agree also we need to work without bankruptcy. I think bankruptcy has some really negative consequences.

Ms. VELAZQUEZ. Thank you.

Gentlemen, there have been talks about a $68 billion merger between drug giants Pfizer and Wyatt. About $22.5 billion, or about a third of this transaction, will come from bank loans and especially banks that are taking TARP money. While you are giving away money to corporate giants, the Federal senior loan officer survey showed that over 74 percent of respondents reported tighter credit lending standards on loans to small firms in the last quarter of 2008. And I heard some of you saying that you are lending to small businesses. But let me just say that the numbers don't lie. This is the Federal Reserve's own survey. Credit for small firms is lower than it has ever been in the history of the Fed survey.

So can you explain why your institutions are finding money to fund a multi-billion dollar merger that will produce 19,000 job losses but will not find more money to lend to small businesses?

Of course, you are not going to provide an answer.

Let me just say, here is the case of a businessman, a responsible businessman from Florida, who was paying his loan on time to a bank that received $3.4 billion in TARP money last year, and he asked for an extension on the maturity date of his loan to continue to make payments until the markets settled, and he was denied. The bank took their properties. That is what we have here on this table.

The CHAIRMAN. The gentlewoman from West Virginia.

Mrs. CAPITO. Thank you, Mr. Chairman. I would like to thank the gentleman.

I have two questions, I hope, in the time I have allotted.

I have several constituents I have heard from. We all have heard from constituents about the credit card debt issue. One gentleman, a minister, 77, holds a Chase card. His rate has just been jacked up on him. He now thinks he has to get a second job to be able to pay for his medicines. He never missed a payment. He is not delinquent on anything.

Another is a woman who had a Citigroup card for 14 years. She never missed a payment. She called Citigroup and they said, you have never abused your account; we are not going to raise your interest rate. Her interest rate was raised from 6.74 to 24.99 percent. Her payments now—she doesn't pay her whole balance, obviously, every month, but she has never missed a payment in 14 years.

These folks feel—and I think that when I saw Citigroup's, your report to Congress, you mentioned here since receiving the first installment of TARP, Citi has made plans to expand its lending activities further and extend affordable credit to lower-risk borrowers. Well, that is not what I am hearing from my constituents.

Can you please help me with this and help them? Because they feel that their good credit and their good faith and their good practices, that it is on the backs of them not only as taxpayers but also as creditors, they are being asked to pay more.

Mr. PANDIT. I appreciate that, Congresswoman.

We did not raise rates on cards for 2 years. Our funding costs went up, as did everybody elses. Credit costs went up dramatically. The question was one of keeping credit flowing. So we finally decided that, in order to keep credit flowing in a responsible way, we had to change rates on these cards.

What I would also tell you is, together with that program, we also expanded our forbearance program. Our forbearance program is in talking to individuals and customers to lower their rates where it is appropriate. So we kept the credit flowing, but we also created a mechanism for either people to opt out and/or to change the rates on those cards on a case-by-case basis.

Mr. DIMON. Congresswoman, I think, first of all, JPMorgan Chase tries to uphold the highest standards, and several years ago we got rid of universal default, double-cycle building. Universal default allows you to raise rates on someone for something like a change in a FICO score. There are very limited rate increases. There are also rate decreases. So both take place, but they are very limited. And whenever we hear about a circumstance like this, if we did the wrong thing, we should fix it. Send it to me, and we will take care of it. Sometimes I hear this and the facts aren't what you were told.

Mrs. CAPITO. Well, I think we are hearing it across the country.

Mr. DIMON. Well, send them all to me, and we will deal with them one by one, and we will treat the client in the proper and appropriate way.

Mrs. CAPITO. Thank you for your response.

Last question. Many of your institutions over the years have had significant acquisitions, and one of the stated intents was to spread the risk so if one part of your business is not doing as well the other parts can hold it up. We have a whole new lexicon here in the last several years in the financial services business, but one that I don't think was set up for financial institutions is now "too big to fail."

Are you too big to fail and how do you respond to that? Mr. Pandit?

Mr. PANDIT. We are a large bank, and we are in 109 countries. We help American businesses around the world, we help Americans at home, and there is a size that comes with that.

What we found, Congresswoman, is that in the environment we are going through, nobody has been spared. People talk about decoupling. There is no decoupling. Every asset class has been linked. So diversification has not necessarily been the driver of why Citi is the size it is. The driver has been what do our clients need and how do we provide them those services, and that has led to the size of the operations that we are at.

Having said that, for our own sake, we have reduced the size of the company. We have reduced the assets, and we are restructuring Citi into two parts. One is going to be our ongoing business, which is a lot simpler than the business we had before and a lot smaller.

Mrs. CAPITO. How much time do I have left?

Ms. WATERS. [presiding] You have a couple of seconds left.

Mrs. CAPITO. Anybody else?

All right. Thank you.

Ms. WATERS. The gentleman from North Carolina for 5 minutes.

Mr. WATT. Thank you, Madam Chairwoman.

I am actually going to follow up on the question that Mrs. Capito has raised here, and I want to follow it up with Mr. Lewis and Mr. Stumpf, because they are the two banks that have the largest presence in my congressional district. But I suspect it is a question that is applicable to all of these folks. Because if you were asked to take TARP money, then you probably fit into the category of too big to fail.

I think I started this discussion with Hugh McCall some years ago around the issue of deposit caps and became convinced of the merits of having banks large enough to be worldwide competitive, and so I understand that aspect.

I have had the discussion with Ken Thompson and even back to John Medlin when they were saying that Wachovia didn't have to worry about that because it didn't have a nationwide footprint, but now Wells Fargo, the owner of what used to be Wachovia, does have a nationwide footprint.

Then, most recently, yesterday, Secretary Bernanke started to raise more concerns about this whole question of too big to fail.

So I guess my question is whether, in that context, an even more aggressively regulated framework for larger banks, and maybe even not only banks but institutions that have systemic risk potentials, might be appropriate? What is your assessment of that, Mr. Lewis and then Mr. Stumpf? And the rest of you all can respond in writing, I guess, because we won't have time to hear from everybody.

Mr. LEWIS. Well, on the positive side, I think if, instead of looking at size, you look at the beauty of diversity, the beauty of diversity of people, products, and geography—despite the fact that this has been an incredible timeframe in terms of a recessionary environment, it seems like the diverse companies certainly have done better than the monolines and the ones that were so focused on wholesale funding. So I think there has been some strength admitted or obvious in this time from banks that have that diversity.

The size thing, I think, is more an issue of not size but what your role is in the capital markets and markets in general and, therefore, do you pose a systemic risk no matter what your size it is. We saw some of that when we saw the Lehman failure and the things that happened from there.

So I don't know if it is "too big to fail" as an issue, but if you are systemically important, the consequences of an institution failing is pretty severe.

Mr. WATT. And should you then have a more aggressive regulatory framework? Or how would you address that, I guess is the question I am trying to get to the bottom of.

Mr. LEWIS. I think that therefore calls for an overlay of supervision beyond what we have now.

Mr. WATT. Mr. Stumpf.

Mr. STUMPF. Thank you, Congressman.

I think success and failure is more a condition of culture and leadership and values than it is as it relates to small or large. In our case, we have a strong culture. We were able to buy a firm, merge with a firm using our own money.

Mr. WATT. I don't want to cut you off, but I know where you are going, and I am not sure that is going to address the public necessity, because then that leaves it to the individual goodwill, good intentions or good execution, which, if it is a systemic problem, may work out well, may not work out well.

Let me ask one other question going back to credit card risk and the impact on the economy in general. Is it your estimate—and you can submit this in writing—that the size of this stimulus is sufficient to serve the purpose for which it is being represented? I will let you respond to that later.

Ms. WATERS. Thank you.

The gentleman from Texas, Mr. Hensarling.

Mr. HENSARLING. Thank you, Madam Chairwoman.

Gentlemen, if there is one overarching message from a number of us, it is what you do with your money is your business; what you do with the taxpayer money is our business. Having said that in my opening statement, I spoke about the Administration's executive comp proposals. I am still studying every comma and semicolon within it. But although sometimes life is full of lousy options, I tend to err on the side of the taxpayer.

One thing that did concern me was a front page article in the Financial Times, I think it was yesterday. The headline is, "Deutsche Bank chief says U.S. pay curb could spur defections. President Obama's sweeping restriction on pay at U.S. banks could push their best staff to defect to overseas rivals, Joseph Ackerman, Chief Executive of Deutsche Bank, Germany's biggest bank, predicted yesterday."

Clearly, there must be some balance here. But are you concerned at the loss of talent through this program?

Anyone who cares to comment, we will take the first volunteer.

Mr. MACK. Yes, Congressman. I think at the most senior levels I am not as concerned, but at levels below that—and we are seeing it already with some of our European managing directors and executive directors. Some of the European banks have already gone out and put packages and multiyear guarantees in front of them. So it is a competitive issue. But I think it is for that group of individuals below the most senior management. I am concerned about it, though.

Mr. HENSARLING. A second question: I think a number of you have indicated that, in retrospect, perhaps you didn't exactly volunteer to take the capital infusion from the Federal Government, and if you had your druthers you would pay it back. Aside from market conditions, which we are all painfully aware of, is there a legal impediment—I don't have the wording of these investment vehicles in front of me, but is there a legal impediment—if Congress wanted to allow you to pay the money back and you wanted to pay the money back, what is it that is preventing that? Mr. Dimon?

Mr. DIMON. Part of the agreement was that if you pay it back before the end of 3 years, which is now somewhat less than that, you have to replace it with an equivalent type of capital. So a lot of the firms that might want to pay it back don't want to go raise all that capital which they don't necessarily think they need. So this is a legal impediment at this point. Chairman Frank mentioned that may get changed, but that has not been changed yet.

Mr. HENSARLING. Any other comments?

Seeing none, we will go on to the next question.

I want to echo some of the sentiment that I have heard from my colleagues and a lot of angst from my constituents in the Fifth District of Texas who don't understand about their credit limits being limited, capital that was previously available to them.

I am curious, as you continue to hear a message from many in Congress saying loan, loan, loan, I continue to hear anecdotes from bankers I know saying they are hearing the opposite message from their regular interests, saying contract, contract, contract. Now all of this evidence I am hearing is anecdotal. But could somebody speak to that dynamic? Perhaps my anecdotal evidence is—Mr. Stumpf?

Mr. STUMPF. Congressman, maybe I will take a shot at that.

Clearly, all of us want to make good loans; just making loans for loans' sake is not going to help anyone. Actually, we are finding opportunities to make good loans, and the regulators are not, at least in our case, any different than they were before, concerned about safety and soundness as they should be. But we are not being encouraged by them not to make loans.

Mr. HENSARLING. Anybody else wish to comment on that?

If not, speaking for myself and many others, if you don't think they can repay it, please don't loan them the money. It is kind of what got us into this economic crisis in the first place.

I want to go back to the issue of a systemic regulator. Some of us still have concerns that with institutions that are deemed systemically significant, it becomes a self-fulfilling prophecy that they are too big to fail. Witness Fannie and Freddie. Chairman Greenspan—I didn't agree with everything he said and did—but for years and years and years, he warned that one of the greatest points of systemic risk in our economy was Fannie and Freddie, yet many Members of Congress fought for years and years and years to make sure they didn't have any regulation. Many said that Congress would never bail them out, and now we have bailed them out. So does that not become a self-fulfilling prophecy?

Ms. WATERS. The gentleman's time has expired.

The gentleman from New York.

Mr. ACKERMAN. Thank you, Madam Chairwoman.

Sometimes some of us think we are living in two different worlds. One world is here; and we listen to the group of you giving us very calm assurances that everything is okay, under control, and there are no problems, that you are lending out all this money and that everything is hunky dory. And then we leave here and go home to our districts all over America, and I think we all hear basically the same thing, and that is the voices from the other world, the real world, where people can't get loans, where people can't refinance their homes, where people can't buy automobiles, can't send their children to college. And we listen to you and we hear words, words, words, and no answer.

It seems to me, and to some of us, that this money hasn't reached the street, that you are not loaning it out. When the press makes inquiries as to what you did with the first tranche of money that we gave you, many billions of dollars, your answer is it is none of your business and we don't have to tell you because we weren't required to and if you want new restrictions on what we do and what we have to do, then put it in the next tranche of money.

The fact that we heard from so many of you that you have made so many loans in the past year is not reassuring, because that is what you are supposed to do. But what did you do with the new money? That is not really anything that many of you have addressed today.

It seems to me that of the $302.6 billion that have gone out in TARP, the 8 firms that you represent have received $165 billion, much more than half of all the money we have lent, lent almost 300 institutions across America.

How do you explain that?

Mr. DIMON. Can I take a crack at that, Congressman?

First, I think what I heard is that every person up here believes the government absolutely has the right to ask the question about the TARP money, what we are doing, that we are doing things in the best interests of the company.

Mr. ACKERMAN. Why didn't we get answers? Why didn't the press get answers? Why didn't anybody get answers?

Mr. DIMON. I can't explain with the press. I am telling you everyone here has said that and is doing everything they can to do it right.

There is something that explains part of the difference of what you are saying. Bank lending is kind of flat year over year, up a little bit or down a little bit, and one of the other Congressmen mentioned it. There is a huge amount of non-bank lending which has disappeared, which is the same thing to the consumer, finance companies, car finance companies, mortgage companies, Countrywide, funds, money funds, bond funds, that did withdraw money from the system and make it much harder in the system. That created some of the crisis we have.

Mr. ACKERMAN. Can you give us a list of what you did? How many billions did your company get?

Mr. DIMON. We got $25 billion.

Mr. ACKERMAN. Can you tell us what you did with $25 billion? Not what you did with all your other money but with that $25 billion?

Mr. DIMON. I believe that we lent out, probably exclusively because of that, probably $50- to $75 billion within a couple of weeks of that, most of that being in government and not-for-profit, $1 billion to the State of Illinois, interbank lending, the purchase of mortgage securities.

Mr. ACKERMAN. Why can't people get mortgages?

Mr. DIMON. I believe that we did $35 billion in mortgage originations.

Mr. ACKERMAN. What did you do last year, and the year before?

Mr. DIMON. In this same quarter, I don't remember the number, but I would say approximately the same.

Mr. ACKERMAN. So with $25 billion more, you gave out the same as you did the year before. So there is no increase.

Mr. DIMON. In that product. Some products were up, and some products were down.

Mr. ACKERMAN. But if you did $35 billion last time, you did $35 billion this time, we gave you $25 billion more to do it, nothing of that went out then.

Could you each send us in writing what you did with all of those billions of dollars that you got? Is anybody unwilling to do that at this point? Is anybody going to say, it is not your business; we don't have to? We will expect that from each of the eight of you in writing then.

Okay, the $165 billion that we have put into your companies shows that we have some degree of confidence in what you are going to do with that money and that you are going to be around. Each of you are individually wealthy. Could you go down the line and just give us a number, how much of your personal money you have invested in your company in new money during the last 6 months? And zero is a number.

Mr. Blankfein? I can't hear you. Just a number.

Mr. BLANKFEIN. My wealth is in my company, because that is how I get compensated. In new money that went in, zero, because that money is already in my company.

Mr. ACKERMAN. Mr. Dimon?

Mr. DIMON. $12 million.

Mr. KELLY. I did not put any new money in.

Mr. LEWIS. I have bought 400,000 shares, and I have forgotten the amount. But I bought 400,000 new shares.

Mr. LOGUE. Nothing.

Mr. MACK. Nothing.

Mr. PANDIT. $8.4 million.

Mr. STUMPF. Nothing new. All of it is in.

Mr. ACKERMAN. Thank you, Madam Chairwoman.

Ms. WATERS. Thank you very much. On that note, we will recess until 1:15. So I would like to ask all the members and our witnesses to please return promptly at 1:15 so that we can continue our questions. Thank you very much.

[recess]

Mr. MEEKS. [presiding] The committee will come to order. The Chair recognizes Mr. Garrett of New Jersey for 5 minutes.

Mr. GARRETT. I thank the Chair, and I appreciate the fact that we are holding this hearing today, although some may argue that we are holding it a day late and a dollar short. A number of us requested such a hearing back in December before we released the second round of $350 billion of TARP, the idea being that before we authorize the expenditure of $350 billion for a second time, maybe we should know how we spent the first one. Unfortunately, that is not the way we operate here in Congress.

Secondly, I would like to make the point to thank the chairman for advocation for the committee with regard to the cause of why we are here today. And he said in his opening statement that it was not deregulation, but nonregulation or the absence of regulation that helped bring us to where we are today. That is significant because many times we have heard from the other side of the aisle that there was rampant deregulation occurring over the last decade or so, opening up the marketplace to allow all sorts of other activity to occur. I appreciate the chairman edifying us that it was, in fact, as many of us have said, not deregulation, but perhaps some gaps and lack of regulation.

Turning then to some questioning. Mr. Blankfein, I would ask with regard to your company and your information that you can enlighten me on the situation with AIG. Some people say that when the Federal Government stepped in and helped bail out AIG, what they really were doing was saving the counterparties or saving the banks in their relationship with AIG. I wonder if you could just sort of enlighten us as to what your relationship is with or was with AIG, and what your position with as far as counterparty obligations, what the dollar amounts may have been at that point in time.

Mr. BLANKFEIN. Sure. AIG was a very large, obviously very large, company. It also was a very large player in the credit markets insuring credits. We and many people on Wall Street and many businesses who would have had exposures would have dealt with AIG.

In our dealings with AIG, we were always subject to a collateral arrangement, and so that with respect to our dealings with AIG, we were always fully collateralized and had de minimis or no credit risk at any given moment because we exchanged collateral. So we had outstanding positions, as did most people, but we had no credit exposure because we had collateral from them and in some cases other kind of credit mitigants.

Mr. GARRETT. I have heard rumors or stories in the paper and what have you as far as a position dollar amount. Can you give us a ballpark figure?

Mr. BLANKFEIN. Our total outstanding, if you look at the nominal amounts of positions, would have been $20 billion worth of nominal positions. That wasn't the exposure. The exposure was substantially less. And we exchanged collateral.

I do know where the source of the rumors were. There was a New York Times story that was partially retracted that made the statement that AIG was being saved for the benefit of the counterparty. Now, to some extent AIG had obligations to a lot of people. Had they defaulted on their obligations, they would have gone bankrupt, and that would have triggered. And in a particular statement they said Goldman Sachs had a huge obligation, which we immediately denied. Our CFO and our earnings call said to the world that we had no significant credit exposure to AIG, and I repeat that to you now.

Mr. GARRETT. So if they were fully collateralized, then what was then, A, the point as far as the statements made by some that Federal dollars that actually went through AIG to you would not be a correct statement, because they were already fully collateralized?

Mr. BLANKFEIN. We were collateralized.

Mr. GARRETT. If you were collateralized, then what was the necessity for the Fed to step in at that point to bail them out?

Mr. BLANKFEIN. AIG had exposures. It wasn't being driven in any way by its exposures to Goldman Sachs.

Mr. GARRETT. My time runs quick. Were you hedged on the way down as well for that?

Mr. BLANKFEIN. We had a collateral—yes, the answer is yes, we always had hedges. Sometimes the hedge—I am sorry. Sometimes the collateral would lag, and we would also take out credit insurance against their exposure. So it was always our intention. We manage all our risks, including our credit risks.

Mr. GARRETT. Help me understand this in 15 seconds. Does that mean that you can sort of win on the way up and on the way down, too?

Mr. BLANKFEIN. No, no, no, no. It just meant that we were insured against losing money because of their default.

Mr. GARRETT. So you benefited on the fact that they were collateralized?

Mr. BLANKFEIN. We had transactions with them, and if they had gone the wrong way, they would have owed us money. We assume they would pay it, but if they defaulted, they wouldn't pay us. We insured against that default. We didn't win money from it. We wouldn't have made money, but we protected our downside.

Mr. GARRETT. I appreciate that. My time has run out. Thank you.

Mr. MEEKS. Mr. Sherman of California.

Mr. SHERMAN. Thank you.

Several of the witnesses have said that they have not used taxpayer money to pay bonuses and dividends. Gentlemen, money is fungible; don't insult our intelligence. It is a rather silly claim to say, well, we just used the depositors' money or the investors' money to pay the dividends and the bonuses, and then we put the taxpayers' money in our vault pending the day when those depositors want to make a withdrawal.

The issue is what dividends and bonuses did you pay or will you pay while you are holding taxpayer money? The chairman correctly states taxpayers want their money back ASAP, which is why it is outrageous that some of you have paid, all of you have paid, dividends or had stock repurchases. You had extra money, and instead of loaning it to the economy, instead of repaying it to the taxpayers, which is what you should have done, you sent it out as dividends to your shareholders; 8 out of 8 of you have paid dividends since October 1st, and 7 out of 8 of you have paid dividends after you got the TARP money. So I want you to provide a statement on your dividend policies for the record.

But for now, I would like you to just raise your hand unless you have adopted a policy that prevents future dividends and future stock repurchases until the taxpayers are repaid. Please raise your hand unless you have such a policy.

So I see only the first two witnesses, Blankfein and Dimon, have raised their hand. The rest of you have adopted such a policy?

Do you have a policy against paying dividends to your common shareholders while you are holding taxpayer money?

Mr. LOGUE. Congressman, we have reduced our dividend to one cent.

Mr. SHERMAN. Is that a policy? Does anybody else have—I will give you 1 cent a share? Does anybody other than Mr. Logue have a policy against paying dividends in excess of 1 cent a share for so as long as you hold the taxpayers' money?

Mr. PANDIT. That is where we are as well, Congressman.

Mr. SHERMAN. So I see Mr. Lewis and the gentleman from Citicorp raising their hands. The rest of you ought to adopt such a policy.

Next is a question insisted upon by three new friends I have in Detroit. I would like you to provide for the record a detailed statement about planes and perks, but for now I would like you to raise your hand if your company currently owns or leases a private plane.

Let the record show all the hands went up except for the gentleman from Goldman Sachs.

Gentlemen, we know that it is extremely expensive to operate these planes, that you could sell them and generate capital for your company, and that capital could be used to repay taxpayers immediately. The big show of not buying one particular new plane flies in the face of how you are really flying.

The third issue. The first $254 billion of TARP money was invested, and all parties announced that this was at par, that the Treasury was getting securities worth as much as the Treasury was investing. The Congressional Oversight Panel last Friday distributed this chart which is behind me, which shows that the taxpayers were screwed to the tune of $78 billion, much of it by the firms represented here.

I would like you to raise your hand if you plan to suggest to your board of directors that they issue additional preferred shares and warrants to the taxpayer to fully compensate for the shortfall demonstrated by the Congressional Oversight Panel.

Let the record show no hands went up, and that all of the witnesses are content to leave a situation where the taxpayers have been undercompensated to the tune of $78 billion.

So I will ask the gentleman from Citibank particularly, you received $45 billion in cash. It has been demonstrated, I think conclusively, by the Congressional Oversight Panel that you only delivered securities, preferred stock and warrants with a value of $25½ billion, shorting us to the tune of $19½ billion. Are you content to just sit there and say, sorry, we gave you too little securities, we are happy that we gave you so little, and we are not going to give you more?

Now, before you answer, don't tell me that the securities could go up in value and could be worth hundreds of billions of dollars. Trust me, if I sold you General Motors stock today for $10 a share, you would call that an unfair transaction because the market says today it is worth about $3 a share. So why are you unwilling to issue additional securities to make the taxpayers fully compensated?

Mr. PANDIT. Congressman, I haven't looked at this analysis. We would like to look at the numbers. And I haven't done that. I don't know exactly where all these numbers come from.

Mr. SHERMAN. That comes from the Congressional Oversight Panel in the hearings of last week.

Mr. PANDIT. I appreciate it. Ultimately, my goal is to make this an extremely profitable investment for the U.S. Government. I plan to pay it back. In the meantime, we are paying $3.4 billion annually as dividends on this investment.

Mr. MEEKS. Mr. Barrett of South Carolina for 5 minutes.

Mr. BARRETT. Thank you, Mr. Chairman.

Thank you, gentlemen. Thank you for being here today.

Gentlemen, I believe in the power of the free market, I believe in entrepreneurship, I believe in risk, I believe in innovation. But I want you to understand, and I know you do, that your decisions have real consequences, and when we stray away from making good commonsense business decisions and moral decisions, that we put a lot of things in jeopardy. And I know you know this, but we have people in America and people in this Congress that if you don't get it right, they are going to take control, and they are going to get it right, and that scares the fire out of me, because I believe that our free market and our capitalistic society is at stake. And I am not trying to be overdramatic, but it rests on you, so please get it right.

Mr. Pandit, thank you for your report today. I look forward to taking a look at that, and I applaud you for getting that. I hope that you get all 435 Members that information.

I keep hearing from a lot of people that stability and consistency, certainty is what we need. What can the Federal Government do right now, in your opinion, that can help the stability and the certainty of the market today, or is there anything we can do?

Mr. PANDIT. Congressman, we are in the midst of a once-in-a-many-generation economic event, and it really is about GDP and unemployment. We need to arrest that, and the plans that have been talked about so far, I think, are responsive.

We have to stabilize housing. It started there, we need to fix it there; keep people in their homes, avoid foreclosures, try to get that destabilized. We need to make sure we get credit flowing again, and that is clearly a very important part of what the Federal Government and the Federal Reserve Bank can do. And we need to create jobs. I think those three are still the goals.

We were pleased to see Treasury Secretary Geithner's report yesterday, but we are all awaiting a lot more details to see exactly how it is going to work.

Mr. BARRETT. To your point, the Federal Government has done some things, and there is talk about spending this next $350 billion with Secretary Geithner. Do we need to take a wait-and-see approach, a little more measured approach now, Mr. Pandit, and say let some of this stuff percolate before we commit anything else?

Mr. PANDIT. Congressman, that is a very good question, and, again, there are no easy answers to that. Let me tell you that we always deal with economics, but there is also an issue of confidence. And I don't have a formula as to how to fix confidence. We know what we can do economically. I think confidence is up to all of us here in this room, including the Treasury Secretary and the President and everybody else. And one thing we do know about confidence, when broken, you get to fixing it really fast.

Mr. BARRETT. Mr. Dimon, the same question. Is there anything that you know that we can do to bring some certainty into the market, the Federal Government?

Mr. DIMON. I think it is a combination. There is no one thing. But I think very well-designed fiscal stimulation. I know something got voted on in the conference today. I can't evaluate the effectiveness of all of that because I am not capable of doing that, but that is one piece.

I think the Secretary of the Treasury yesterday spoke about four different types of things: TALF, which I think will be helpful and important; financing mortgages, making them both cheaper and more affordable, and we spoke earlier today about making mortgage modifications easier to do and quicker; the public-private bank; and the stress testing; and additional capital of banks. If these things are done, they are done quickly, coordinated, consistent, fairly, I think they will have a very good effect and start to turn this around.

Mr. BARRETT. Thank you, sir.

Mr. Lewis, do you believe that this TARP program has permanently changed the face of the free-market system in the United States?

Mr. LEWIS. It certainly is the most unusual thing I think we have ever done, at least in my almost 40 years in this industry, but I don't think it has to. I think you could have a scenario where the economy does improve, that the banks within the 3-year period do pay it back, and that we get back to normal. So I am not so skeptical to say that we have turned the corner on that point.

Mr. BARRETT. Mr. Kelly, the same question.

Mr. KELLY. I would say the system is not permanently changed. I think there are a number of learnings in that we have had the worst economic downturn since the 1930's. I think there are very good learnings on this. They are complicated. There are a lot of things we have to do. I do think we have a very good chance to as a group, as an industry, to repay the TARP money and for the taxpayers to ultimately make a lot of money on it.

Mr. BARRETT. You guys fix this thing so we can get out of this stuff.

Thank you, Mr. Chairman.

Mr. MEEKS. I yield myself 5 minutes.

Chairman Frank initiated talking about we look back so that we can make sure we can go forward. Barack Obama is now the President of the United States because he said there should be change in Washington, and I think that there is one thing that we have in common, that is, those in the financial services industry and those of us who sit in Congress, is that right now both of us, your industry and mine, have a credibility problem with the American people. There is enough blame, there is a lot of blame to go around, but we both have a credibility problem, and that is the kind of change that we are talking about. And when I think about this crisis that we are currently engaged in, there are some things that I think surely that we should have done probably as Members of Congress. And maybe we should say to the American people that we are looking to get it right this time and apologize to them for not getting it right the first time. In regards to a lot of the investments that was made, clearly there are some things, some bad investments that were made.

So my first question is, do you feel that the industry has anything to apologize to the American people for so that we can try to have some reconciliation to move forward and gain some credibility back? Does the industry have anything that we should apologize to the American people for because we didn't catch this, and now we are in this terrible situation? Anyone.

Mr. MACK. That is a tough question, so let me just say that as an industry, clearly we made mistakes, whether it is leverage—at least speaking of my company, at one point we had 32 times leverage—whether it was in loans that we made that we shouldn't have made, whether it was in some of the complex instruments. So I think from Morgan Stanley's point of view, if you go back and play the clock over again, you definitely would do it differently.

I think the entire industry shares some of that responsibility, and for that we are sorry for it. I am especially sorry for what has happened to shareholders, and the knock-on effect to that has been what has happened to the American people. But clearly as an industry we have accountability, and we are responsible. It is much broader than just this group of people, but we all have responsibility. I will take that responsibility for my firm.

Mr. MEEKS. Thank you.

Let me move forward and to try to get to this question that I think was asked by Ms. Waters earlier, and, yes, we were talking about, I believe, the underwriters' fees, when you heard that question before, that I guess internally you will pay the underwriters within your companies, etc.

Let me extend that to ask this: When you are talking about the—whether it is the FDIC or the TLGP program and the underwritings, is there any opportunity or have any of you utilized any small or minority- or women-owned firms? I know that in listening to Mr. Mack earlier, he said a lot of folks initiated from small firms before they got to big firms. But looking at the fees that were paid internally, or so it appears to me, I am wondering whether or not anyone has given any money or utilized that to give it out to some underwritten by small or minority-owned firms or women-owned firms?

Mr. STUMPF. I might take that. In our company, and I believe it is in many of the companies we have, minority vendor programs were not only Tier 1 but Tier 2, so we put our products and services out for bid for whatever it might be.

Mr. MEEKS. I am talking now specifically about the TARP and/or the FDIC Temporary Liquidity Guarantee Program and the fees that would be utilized by underwriters therein. I think that Mr. Pandit talked earlier about that; the money that is legal, that you have to—by law you have to have it underwritten.

My question is, there are also opportunities there for it to be farmed out to others or contracted out to other minority firms or small firms, and I was wondering if anyone has done it with any of those fees specifically, with public dollars.

Mr. STUMPF. Yes, we have done that.

Mr. PANDIT. Congressman, I don't have the facts. I can get you the facts. I believe we do that, but let us get you the information.

Mr. MEEKS. I would like to get the information from everyone else.

Finally, let me ask Mr. Blankfein, I think that I caught the word in your testimony that you said you are a wholesaler, and therefore you don't get into the housing market. However, it would seem to me that since housing is the—and foreclosing, keeping people in their homes is most importantly, is there anything as a wholesaler that you in your company can do to make sure that we are keeping people in their homes?

Mr. BLANKFEIN. Thank you, Congressman.

We are not an originator of mortgages because we don't deal with the consumer, however, we own a mortgage servicing company that is responsible for interacting on behalf of the owners of mortgages, and that is Litton Servicing. That company has been very foresighted and innovative in the way it has approached its dealings in modifying mortgages.

Mr. MEEKS. I have to cut you off. Can I get that in writing?

And I would move to Mr. McCotter from Michigan.

Mr. MCCOTTER. Thank you, Mr. Chairman.

Coming from Michigan, the reports about the failure of the Wall Street bailout to date has caused a lot of concern. There is a lot of suffering going on in Michigan; high unemployment, highest in the country, a very difficult time finding credit. It is so difficult for them to get credit despite the Wall Street bailout that they were told would work that they are beginning to think they are being redlined by banks. I simply bring this to your attention without my own comment on it.

The question that I do have regarding the auto industry is, we are seeing the UAW, we are seeing the auto executives, we are seeing suppliers, car dealers, everyone coming together to make sure that the American-based auto industry survives. I would like to know what your view of the survival of the American auto industry is, and if as stakeholders in that process you are willing to help ensure that the restructuring process is successful.

Mr. MACK. Congressman, we have—and clearly not just my firm—we have relationships with the Big Three automakers. We have loans on our books to them. One of the things that hopefully we will be able to do as markets open up for them, as we have done in the past, raise either debt money for them or preferred or find foreign investors who will put money in with them. So from my perspective, we couldn't be any more focused and committed not only in spirit, but on our balance sheet.

Mr. STUMPF. Congressman, we are closer to the customer end of that situation. We finance and do business with many of the 20,000 different auto dealers there are in the Nation. We are buying about $1.5 billion of consumer auto paper a month in our company, and we view that as good credit, and it helps hardworking Americans buy cars.

Mr. LEWIS. I would say that, number one, we are working with GM as we speak to convert their debt to equity; secondly, that we like automobile loans, and actually in January they were up 7 percent over January of 2007—2008.

Mr. MEEKS. Mr. Moore of Kansas for 5 minutes.

Mr. MOORE OF KANSAS. Thank you, Mr. Chairman.

I have a series of questions I would like to ask, and ask each of you to respond, and start if we could with Wells Fargo, Mr. Stumpf at the end, and just move this way, if you would, please.

How much taxpayer money did your company receive in the past 5 months? Number two is how much salary did you receive in 2008, and how much, if any, bonus or other financial consideration did you receive? And I would like to go down the line with those two questions, please.

Mr. STUMPF. We received $25 billion. My compensation in 2008 was—I am embarrassed, but I think it is 850—I can't remember the exact number; let us say $850,000. And as far as bonus, our company, our board of directors makes that decision in February regarding 2008, but there is no mystery there. Unless we reach at least a 15 percent internal rate of return or 235 earnings per share. We don't qualify. And we didn't make either of those. So there will be no bonus.

Mr. MOORE OF KANSAS. Thank you, sir.

Mr. Pandit with Citigroup.

Mr. PANDIT. Congressman, we received $45 billion of TARP money. My compensation for the year 2008 was my salary, which is $1 million. I received no bonus. And as I stated earlier, I plan to take $1 a year in salary and no bonus until we return to profitability.

Mr. MOORE OF KANSAS. Thank you, sir.

Morgan Stanley, Mr. Mack.

Mr. MACK. Congressman, $10 billion in TARP funds. My salary is $800,000 in salary and zero bonus.

Mr. MOORE OF KANSAS. Thank you, sir.

Mr. Logue, State Street Corporation.

Mr. LOGUE. Congressman, we received $2 billion in TARP funds. My salary is $1 million, and my bonus is zero.

Mr. MOORE OF KANSAS. Thank you, sir.

Bank of America, Mr. Lewis.

Mr. LEWIS. 2008, $15 billion in TARP money, $1.5 million salary, no incentive.

Mr. MOORE OF KANSAS. Thank you, sir.

Mr. Kelly, Bank of New York Mellon.

Mr. KELLY. $3 billion in TARP money, Congressman, and my salary is $1 million and zero bonus.

Mr. MOORE OF KANSAS. Thank you, sir.

Mr. Dimon, JPMorgan.

Mr. DIMON. We got $25 billion in TARP money. My salary is $1 million, and there was no bonus paid for 2008.

Mr. MOORE OF KANSAS. Thank you, sir.

And Mr. Blankfein, Goldman Sachs.

Mr. BLANKFEIN. $10 billion in TARP money, $600,000 in salary, no bonus.

Mr. MOORE OF KANSAS. Thank you, sir.

Again, start at this end this time and go back the other way. How much salary will you receive in 2009, has that been determined; and what do you expect to receive, if any, in the way of bonuses in 2009?

Mr. BLANKFEIN. 2009 salary is still $600,000, and we are a long way from bonus time.

Mr. MOORE OF KANSAS. Okay. Mr. Dimon.

Mr. DIMON. My salary is $1 million, and we are a long way from bonus time, too.

Mr. MOORE OF KANSAS. Instead of going through all this, is there anybody whose salary will have changed from last year?

Mr. PANDIT. As I said earlier, Congressman, I told my board I will take $1 a year in salary.

Mr. MOORE OF KANSAS. Thank you, sir.

Anybody else?

Okay. I would like to start now, and begin down here, if you would, please, with Goldman Sachs, and ask, will you expect that your company will be able to pay back taxpayer funds by 2012?

Mr. BLANKFEIN. It is my hope to do that well before that. Markets are uncertain. If it can be, we will.

Mr. MOORE OF KANSAS. Thank you, sir.

Mr. Dimon.

Mr. DIMON. Yes.

Mr. MOORE OF KANSAS. Mr. Kelly.

Mr. KELLY. Yes.

Mr. MOORE OF KANSAS. Mr. Lewis.

Mr. LEWIS. Yes.

Mr. MOORE OF KANSAS. I am having trouble seeing a little farther on down there.

Mr. LOGUE. Yes.

Mr. MOORE OF KANSAS. Yes, sir.

Mr. MACK. Yes.

Mr. MOORE OF KANSAS. All right.

Mr. PANDIT. Yes.

Mr. STUMPF. And yes for Wells Fargo.

Mr. MOORE OF KANSAS. Very good.

Thank you, Madam Chairwoman, and thank you to the gentlemen on the panel.

Mrs. MALONEY. [presiding] The gentlemen yields back.

Mr. Lance from New Jersey is recognized for 5 minutes.

Mr. LANCE. Thank you very much. And good afternoon to all of you gentlemen.

Mr. Stumpf and the entire row, as a follow-up to the question that was just asked, how many of you would be able to pay back the TARP funding early and not related to the 3 years, but perhaps early? And I know there may be legislation that is being written so that you don't have a penalty for paying back this money early. So how many of you could expect to pay it back early?

Mr. STUMPF. In Wells Fargo's case, it would depend on the credit markets more than anything else.

Mr. LANCE. Mr. Pandit.

Mr. PANDIT. Congressman, we are all dependent on the markets, market conditions. As soon as possible.

Mr. MACK. Given that I think the markets have improved, we think maybe not the entire amount by 2012, but some portion of it prior to that.

Mr. LANCE. Thank you. Mr. Mack.

Mr. LOGUE. Congressman, I would agree with my colleagues that it will depend on the markets. Hopefully we will be able to give it back prior to 2012.

Mr. LEWIS. I would agree, markets and the economy, and we would like nothing better than to pay it back early.

Mr. KELLY. And I agree with my colleagues.

Mr. DIMON. We hope to pay it back earlier, and that would just be in consultation with our regulators and the Secretary of Treasury.

Mr. BLANKFEIN. Same. And the expectation, present expectation, is that it would be early.

Mr. LANCE. Thank you. And following up on a line of questioning from Congresswoman Maloney earlier in the hearing. And this is to you, Mr. Lewis. And I recognize that you are Bank of America and not Merrill Lynch, and there was a great deal of pressure on Bank of America to merge with Merrill Lynch, but we are all disturbed about the level of bonuses from Merrill Lynch. Was Bank of America aware of the contractual nature of those bonuses?

Mr. LEWIS. Yes. As we got on in our due diligence, we saw the contracts, yes.

Mr. LANCE. And are those contracts a matter of public record, or can they be made a matter of public record?

Mr. LEWIS. I don't know the answer to that, but there were—as I mentioned, there were two or three that were very, very large and were contractual obligations of Merrill Lynch.

Mr. LANCE. I certainly would be interested, and I imagine the committee would be interested, in whatever information is available as a matter of public record regarding that. I believe that TARP funding is, of course, fungible, and that from our perspective those bonuses are really from TARP funds.

Now, you state quite accurately in your testimony that as a practical matter, we cannot tell you whether the next loan we make is funded by TARP or from preferred stock placed with other investors, etc., and I certainly respect that point, Mr. Lewis. But from the perspective of those of us in Congress, we are deeply concerned about the level of bonuses of Merrill Lynch, and I would hope that in your responsibilities that you could impress upon your colleagues who have come to Bank of America from Merrill Lynch, to an even greater extent than you have done already, that I think it is the consensus of Congress that this is precisely what the American people find objectionable with the first portion of TARP.

Mr. LEWIS. Sir, we have owned Merrill now for 42 days, and things have changed. We are in charge now.

Mr. LANCE. Thank you very much, Mr. Lewis.

I yield back the balance of my time.

The CHAIRMAN. I thank the gentleman.

And the gentleman from Massachusetts is recognized for 5 minutes. After the budget discussion, we just have 5 minutes or a little more. He is on the Committee of House Administration.

Mr. CAPUANO. Thank you, Mr. Chairman.

Gentlemen, you have been asked a lot of questions, and you seemingly answer them honestly to me. I have a couple of more detailed questions.

Just by a show of hands, how many of your banks either directly or indirectly—and by indirectly I mean by loaning money to people that you knew would be using this money to invest in credit default swaps. How many of you engage in that?

Mr. MACK. We engage in credit default swaps, but when you are asking the question are we lending money for them to do that, I have to come back and give you specifics. I cannot tell you.

Mr. CAPUANO. Fair enough.

How many of you directly engage in purchasing or investing in credit default swaps? How many of you directly or indirectly engaged in CDOs? How many of you have—

The CHAIRMAN. Excuse me, we have a very good recorder, but recording raised hands doesn't work, so we will need some oral responses.

Mr. CAPUANO. We can fill that in later. That is fair.

And how many of your banks had or currently have special investment vehicles, those off-the-books, somehow unregulated subsidiaries of the bank or sister corporations?

Mr. MACK. We have SPVs

Mr. LEWIS. We do, too.

Mr. CAPUANO. So basically all or most of you engaged in all or some of the activities that actually created this crisis, in my opinion, because every one of those activities, especially the SIVs, especially the SIVs—to me, I think they are illegal. I cannot believe no one has prosecuted you on this. But then again, we have had no prosecutorial action whatsoever the last Administration, and the new Administration has a little time to figure this out. We will find out whether anybody really cares. How can possibly any regulated bank have something on its books that is totally unregulated, for all intents and purposes does the same thing the bank does? That is for your lawyers to answer, and my hope is that you will be answering those questions in court someday. We will find out later on.

But basically you come to us today on your bicycles, after buying Girl Scout cookies and helping out Mother Teresa, telling us, we are sorry, we didn't mean it, we won't do it again, trust us. Well, I have some people in my constituency who actually robbed some of your banks, and they said the same thing, they are sorry, they didn't mean it, they won't do it again, just let them out.

Do you understand that this is a little difficult for most of my constituents to take that you learned your lesson? And it is all the same people doing this, the same people who created SIVs, who created CDOs, who created credit default swaps that never existed a few years ago. You created them. You created the mess we are in. And you are not the only ones, don't get me wrong; you just happen to be the only ones here today. I can't wait to get the credit rating agencies here someday again. And now you are saying, sorry, trust us, and by the way, we don't even want the money. Interesting. No one has ever come to me and say, you must take billions of dollars.

And as I heard it earlier, you have an option. Basically they said you have to capitalize better because we no longer trust your books. You can either take this money and do it, or you can do it on your own. If you don't want the money, you can give it back, you just have to come up with the capital. As I understand it, if you can't do it, I think many of us would be happy to change that law.

You have to understand, I don't really have a question, but I was told that I can use the 5 minutes, because the questions I have, you have answered them, and you are going to continue to answer them, and that is all well and good.

The problem I have is that, honestly, none of us, America doesn't trust you anymore. I, for one, between myself and my various campaigns and my own personal business stuff, I get a lot of money to put in banks. I don't have one single penny in any of your banks, not one, not one, because I don't want my money put into CDOs and credit default swaps and making humongous bonuses, me personally. Until that changes, none of us really believe—I won't say none of us, I don't believe anything will change until you change the people who brought you into SIVs.

Who was the brilliant person who came and said, let us do credit default swaps? Find him. Fire him. Tell me you fired them. Get out of CDOs. Start loaning the money that we gave you. Get it on the street. And don't say, oh, well, we are not using that money for bonuses. Come on. Money is all of a sudden not fungible in your entity. It is fungible everywhere else, but not in your entities. Get our money out on the street. And if you don't want to give it back, don't come in here and tell me you can't. Yes, you can, as long as you live up to the requirements that are put under you now in the new world that you created and we have to clean up.

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

The CHAIRMAN. The gentleman from North Carolina, Mr. McHenry.

Mr. MCHENRY. Thank you, Mr. Chairman. And thank you all for testifying today. As a taxpayer, and I guess now a stockholder, we appreciate it. There has been a lot of discussion and debate.

The CHAIRMAN. I apologize to the gentleman. Start the clock over. The gentleman is recognized.

Mr. MCHENRY. Thank you, Mr. Chairman.

There has been a lot of debate here in Congress about what the TARP funds went to: Was it consumer lending, or was it safety and soundness? There has been a lot of debate, and part of the reason why is the former Secretary of the Treasury did a great sales job and said if we obligate taxpayer dollars for your financial institutions, whether you liked it or your board liked it or your investors liked it or not, that it would increase consumer lending. It was nothing more than a sales job, as I think is pretty evident.

But my question to you, and we could just go in alphabetical order, just yes or no, is your first obligation to your depositors, to your board, to your investors; is your first obligation the safety and soundness of your institution?

Mr. Blankfein.

Mr. BLANKFEIN. I think so.

Mr. DIMON. Yes.

Mr. KELLY. Yes, safety and soundness.

Mr. LEWIS. Safety and soundness.

Mr. LOGUE. Absolutely safety and soundness.

Mr. MACK. Safety and soundness.

Mr. PANDIT. Yes.

Mr. STUMPF. Yes.

Mr. MCHENRY. Thank you.

I think we have completely resolved whether the TARP funds were for you to simply lend or for the safety and soundness of our financial system, okay.

I have a question. Mr. Blankfein, Secretary Geithner has outlined his TARP II proposal, and again, we just have an outline. What are your general thoughts on this proposal, and will it work?

Mr. BLANKFEIN. Again, I have just seen the outline, and I probably haven't read it even as closely as you have, given my traveling in these past couple of days.

Mr. MCHENRY. Well, the train is a much more efficient way to travel, right?

Mr. BLANKFEIN. It is relaxing, and you can read.

My feeling is that they are committed to trying a lot of things, and they are taking a lot of initiatives. And I think here there is nothing ideological. There are a number of different things like insurance, like an aggregator bank, like extending credit for other institutions. And I think they are trying all of them in some way, shape, or form. And I think that is actually what the situation kind of calls for, because we are not really sure what will work, but I think they will be in a position to emphasize those that are getting traction.

Mr. MCHENRY. Are you comfortable with more transparency and disclosure of where the funds go and how they are used?

Mr. BLANKFEIN. Well, I have heard the intent, and of course we have seen the outline, but certainly all signs now are that they are really committed to transparency.

Mr. MCHENRY. Mr. Dimon, what are your thoughts on the new Geithner proposal?

Mr. DIMON. I think the important part is that all of these things be done well. The devil is in the details and how they get executed. Some we know about. The fiscal stimulus plan got passed today. I am not an expert in that.

Mr. MCHENRY. It didn't get passed.

Mr. DIMON. I mean, the conferees agreed to it. I think the TALF plan will work and serve a purpose. I think guarantees will work and serve a purpose. I don't know yet about the mortgage plans. It is important that take place with modifications and make it cheaper for Americans. And I have to see more detail on the stress tests and capital injections. I do think if all these things are done well and properly, it will have a very big beneficial effect on this country.

Mr. MCHENRY. And opening up to CNBS, do you all agree? If you could both touch on that. Is that healthy?

Mr. DIMON. I think that helps, yes.

Mr. MCHENRY. Is that necessary, Mr. Kelly?

Mr. KELLY. There is no question that the real estate market is under—commercial real estate market is under a great deal of stress, and it is going to continue to be, and it will probably be worse a year from now than today. So I have certainly heard from a number of real estate executives that they need access to funds, and I would think that this would be helpful.

Mr. MCHENRY. Mr. Lewis, I just live in the suburbs of Charlotte. Your institution is vital to us as was, is Wachovia and now Wells. The question I have to you is about transparency and disclosure.

I think your institution has been hammered on the street because of a lack of transparency and disclosure as to what the government funds are for. What is the reasoning the government has given you these extraordinary sums of money? Would you be comfortable with greater transparency and disclosure of the decisionmaking of how government obligates funds?

Mr. LEWIS. Yes. I don't know exactly what you are talking about in terms of what more needs to be done, but, of course, as of use of the TARP money, we have voluntarily said that each month we are going to show what we are doing with it, how we are using it. Each week I meet with my executives to talk about what more can we do. So we are very focused on lending money.

Mr. MCHENRY. Well, no. The disclosure of how government makes the decision on giving you funds. I am asking from a government perspective, should we disclose more there?

Mr. LEWIS. Correct. I think I have, but if you want more, you certainly can have it.

The CHAIRMAN. The gentleman's time has expired, and the gentleman from Missouri is recognized.

Mr. CLAY. Thank you, Mr. Chairman.

Since last October, the taxpayers have injected more than $300 billion into the financial system to stabilize key institutions, including yours. With the exception of Citibank, which has at least made an effort at honest disclosure, the rest of you haven't seen fit to follow suit. The American people are now your partners, and your partners have a right to know where their money went. So on behalf of the taxpayers who now own a portion of your institutions, what did you do with the money? And I will start with Mr. Stumpf.

Mr. STUMPF. Thank you.

Now, the question with respect to what we did with the money?

Mr. CLAY. Yes, what did you do with the money?

Mr. STUMPF. Well, we have about $100 billion of capital in our company. There is $25 billion added to that, and as I stated in my testimony, we use those funds and the funds of our other investors to run our business on behalf of our communities, our team members, our customers, and our shareholders. Last year we made a $3 billion profit doing that, and we have had a long history of using our capital to advance the kinds of businesses we do, and making loans is a big part of it.

Mr. CLAY. Have you modified any mortgages?

Mr. STUMPF. Sure. We have modified 706,000 mortgages in the last year-and-a-half, 22 percent of all the mortgages that were reported by the industry in modifications.

Mr. CLAY. One of the most frustrating aspects of this crisis, that every time we think we understand how bad things are in the financial sector, something that one of you failed to disclose comes to light, and the situation gets worse. So I want all of you to look us in the eye, give it to us straight, and tell this committee how many more potential losses are out there? What do you see on the horizon? What are you forecasting?

Mr. STUMPF. To me, it is all about jobs. I started out in this industry 35 years ago as a collector, and the same four things that affected a consumer delinquency are the same four today. It is death, divorce, an unscheduled medical payment, and a job loss.

Nothing has happened to the first three. Job loss is the key, so this is all about jobs. And if you can tell me what is going to happen to unemployment, I probably can tell you what is going to happen in credit. But I think we are still having a very challenging time, and I commend you and the rest of Congress who are working on ways to help this economy going with jobs, and we want to participate in helping you with that.

Mr. CLAY. Thank you for that response.

Mr. Pandit, what do you see in the forecast?

Mr. PANDIT. Congressman, I have to agree with the fact that when it comes to consumer banks or commercial banks, profits and losses are completely tied to GDP and unemployment. That is what determines where things are. One thing that is different about this cycle is that it is not tied in the same way as it was before, which means that it becomes difficult to forecast completely. Having said that, anything we can do to be on the plan to keep people employed and increase the amount of employment can only help us.

Mr. CLAY. Do you envision credit being freed up? I mean, I just had a group of commercial developers come to my office and say they cannot build any new developments because they don't have access to credit. Now, when does that change?

Mr. PANDIT. Everything you are doing, the plan that the Secretary of Treasury talked about yesterday, all of these are steps to help increase the flow of credit in the U.S. economy. We are doing everything we can. And as you pointed out, clearly we have made an extreme effort to account for every dollar of TARP money that we received, and we are tracking it, and we are going to do our part.

Mr. CLAY. Thank you for your response.

Mr. Mack, what do you see in the forecast?

Mr. MACK. Well, it is not unlike what my colleagues to the left have said. The only thing I would add to that, if you go back into right after the failure of Lehman Brothers in September and into December, we are finally beginning to see the capital markets open up where we can raise money for corporations to help them invest in their business. We are beginning to see investors come in where they will invest in businesses.

Mr. CLAY. Excuse me. How about extending credit?

Mr. MACK. We are doing that. But again, we are very small in the consumer business.

Mr. CLAY. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Let me say I think we can probably get two more questions in. People need to go vote. It is the first vote. We will be coming back. There are three votes. So, gentlemen, I appreciate this. I think this has been very important.

The gentleman from Minnesota, Mr. Paulsen, for 5 minutes.

Mr. PAULSEN. Thank you, Mr. Chairman.

With some of the retroactive rules for TARP recipients, and also more pending stabilization programs from the Treasury and the Fed that are yet to come, and the uncertainty now about future regulatory reform, I am just wondering how concerned are you or are you very concerned that those factors or these factors are going to potentially drastically discourage injection of private capital into your institutions that really could help you shore up your balance sheets rather than the government providing that capital? I mean, how concerned are you about that?

Mr. BLANKFEIN. Which retroactive changes are you referring to?

Mr. PAULSEN. I am just saying in terms of, like, the retroactive rules that have gone forward, the pending stabilization programs coming forward, uncertainty about new regulatory reforms. I mean, how concerned are you about those issues addressing private capital coming into your institutions right now as opposed to sitting back and waiting for these other things to take place?

Mr. BLANKFEIN. They have certainly created some uncertainty. That is not there, and so that is a deterrence. On the other hand, you have to balance it against the fact that there are some things that need to be fixed. And so any uncertainty is disliked by the market. On the other hand, we know that we he have to make changes, so we are going to go ahead and have these changes.

Mr. PAULSEN. And maybe I can just follow up, Mr. Chairman.

Some of you have already said you feel that you have not been given a very clear directive from Congress or the government how to use the money that has been provided that has come directly from the TARP funds. Aside from that directive, what other recommendations do you have for the government or for future disbursements now of those funds either to your companies or the other recipients that may get them in terms of just good advice to make sure it flows more smoothly?

Mr. LEWIS. Frankly, I think the issue is more the economy and creating demand than any other single item. As I mentioned, lending money is at the core of what a commercial bank does, and we don't optimize our profits unless we lend money. So we need to have more demand, and the critical thing there is for the economy to turn around.

Mr. PAULSEN. Maybe I can ask one other question. As we consider the regulations for the financial markets, because we are going to be doing that now to sort of get rid of the crisis that we are in, prevent another one from happening or deepening this crisis actually, what are the largest concerns about overregulating, going down the road of Sarbanes-Oxley in terms of moving in that direction, and stepping too far where we are intending to be helpful, but actually it could be very harmful? Is there anything specific you can draw out that we should be very cautious of?

Mr. LEWIS. I think my main concern around compensation, for instance, is it is okay to do the things that are being talked about at the very top, but if you start to go too low in the organization, you will run off key talent to foreign competitors.

Mr. PAULSEN. Is that a shared view among others?

Mr. KELLY. It is one of our greatest worries.

Mr. STUMPF. Yes, there are many businesses that we are in that are commission-based, for example, and if we limit across-the-board or whatever, we could lose some of the most productive people and some of the most important parts of our business.

Mr. PAULSEN. Thank you.

Mr. STUMPF. It is widely dispersed.

The CHAIRMAN. While the gentleman yields back, let me take advantage, because I am going to ask you to submit in writing, I understand the argument you make about foreign competition. It has been my impression that people here have generally been better compensated than people in these other countries. So I would ask you to submit to me some cross-national comparisons. I am, frankly, skeptical from what I have seen that they are paying so much more in other places. Certainly not at your level. So I would be interested in those cross-national comparisons.

You are going to have to prove to me that you are really at risk there if there is some moderation.

The gentleman from California.

Mr. BACA. Thank you very much for holding this hearing, and I want to thank all of the CEOs for coming here.

One of the questions that I have, here in the hearings, a lot of you indicated that you have a responsibility to the stockholders. I agree that you have the responsibility towards your stockholders. Well, we have a responsibility to the American people, and that is why we are having this hearing right now, is the American people lack trust and confidence in the banking industry, especially with what is going on right now.

I want to ask a couple of questions. One is, how do you feel about the bailout? Do you feel that the bailout was necessary? Any one of you.

Mr. BLANKFEIN. I didn't necessarily think it was necessary at the time, and this was said at the time. They were looking ahead at an emerging recession that was going to get worse, and for prudential reasons, it was necessary for the systemic and safety and soundness, and as subsequent events have borne out, I think it has provided safety and soundness and taken some of the risk away from the system.

Mr. BACA. Anyone else want to attempt to answer?

Mr. LEWIS. I actually agree. I know at the time, we did not feel like we needed the $15 billion, but I think in light of the severity of the recession and in light of the speed in which the economy deteriorated, I think we have lent more money because we had the TARP funds and that level of capital.

Mr. BACA. Well, apparently, the consumers out there feel that there hasn't been enough money that has been lent out. There are a lot of small businesses in my area and throughout a variety of different areas right now that can't obtain loans right now, don't have access. Even developers. I know that my colleague just asked that question a while ago.

Why is it they don't have access to credit right now, and why isn't it available for small businesses and developers? Because we need to turn this economy around, and if they can't employ and can't get the money, and you are somehow reviewing and extending before you make any kind of decisions, you are hurting us at the same time. Can any one of you answer why not?

Mr. LEWIS. Well, I would say that the single biggest factor both for the small business and consumers, particularly relating to real estate, is the declining home values and loan-to-value issues with that. A small business, usually most of the equity that a small business owner has is home equity, and as those values come down, you have loan-to-value issues.

Mr. BACA. Anyone else want to answer that?

Let me ask another question. A lot of you said earlier that part of the problem has been the credit line. Well, a lot of the problems that came out in the credit lines that were offered and credit cards that were given out, most of you are guilty of that; all of you that offered a lot of these credit cards to many individuals, students, student loans, others that went out in different areas. I know my child during that period of time—she is an adult now—got a little thing: Apply for a credit card.

Now the credit cards have led to a lot of the problems because you are going to end up losing. You are the ones who made the mistake in offering and giving those credit cards. You should be responsible. The American people and the taxpayers should not be responsible for the mistakes you did in going out and trying to get so many consumers to tie into credit cards.

How do we answer and how do we deal with your problems in trying to attract many individuals to get into the credit cards? I know all of you want to make a profit, and you do make a profit by going to individuals who are applying for these credit cards. These are students. These are a lot of our kids who are solicited by your industry to apply, and yet you know the interest rate goes up. It continues to go up on them. Some of them who started, some of them can't even buy a car. Some of them want to end up buying a home, but it is the credit cards, and you are the ones, and we are the ones who have to bail you out because of what you have done and the losses there. Anyone who would like to attempt that?

Let me ask another question then. Some of you mentioned best practices. What do you mean by "best practice statement" and what needs to be done? Most of you say you follow best practices.

Mr. MACK. Well, I am not aware of what exactly people have said, but best practices from our point of view is in every discipline we are in. So, in risk management, as an example, to make sure that we have an independent risk management that reports to the CEO and chairman but not to some trading group. That would be an example of best practices.

That is one, I think, if all these firms had had that established, there is a possibility some of this wouldn't have been as bad as it ended up being.

The CHAIRMAN. The time of the gentleman has expired.

We have to vote. We will come back after the vote. It will be about 20 minutes. I thank you for staying with us. We are now in recess for this vote and 2 more 5-minute votes.

[recess]

The CHAIRMAN. Let's get started.

We will now turn to the gentleman from North Carolina.

Mr. JONES. Mr. Chairman, thank you very much, and I want to thank you for holding this hearing. I agree with you in your statement this morning that this might be one of the most important hearings that we could hold to help the American people to know why this Congress passed the TARP bill and how their, meaning the taxpayers, how their life is going.

I want to start with Mr. Pandit. This might have been asked before, but I am going to ask it in a different way. I am looking at a New York Times article, November 15, 2008: Despite pledge, Citigroup to raise credit card rates, blaming difficult requirement.

Citigroup is reneging on a promise it made to tens of millions of credit card customers in good times.

In April of last year, I joined Mrs. Maloney in her legislation to bring sunshine to the charges on credit cards. I wrote to Mr. Bernanke and I received this on April 16, 2008. Bank card revenues in billions of dollars: In 2006, after tax, those banks that issued credit cards or get fees and interest from credit cards made, in 2006, $18.37 billion.

Now, since the the taxpayer has done so much for you and your banks, is it even possible, and I will go back to Mr. Pandit, is it even possible when the average penalty interest rate averages 24.51 percent, I am not saying that is Citigroup, I don't know, but when the taxpayer is hurting so badly and he or she has helped you out from making bad decisions, could there be a period of time that you would say to the American credit card holder, no longer am I going to ask you to pay 24 percent so I can make billions of dollars. What I am going to do for the good of the American people is say 9 percent. Why can't you do something like that?

This country is in a recession, headed for a depression, and these poor taxpayers in my district, the Third District of North Carolina, a family of 3 or 4 has an income of about $37,000 gross, and most, like myself, have a credit card. Why can't you do something for them? Can you reduce that rate for a year or two?

Mr. PANDIT. Congressman, on the credit cards, we did not change our rates for 2 years. We changed our rates in response to keeping credit flowing because credit costs and funding costs have gone up dramatically. We also gave every one of the cardholders an option to opt out of that.

We have also, in addition to that, created forbearance programs. We talk to card members one on one. We talk to them about their rates. We figure out what is affordable, what is not. We keep doing that.

But the problem goes beyond that, Congressman. You know that. It is about not only cards; it is about housing. We continue to help people with their housing, too. We have taken mortgage rates down to 4 percent. We have extended maturities to 30 or 40 years. We have forgiven principal, and we continue to go down the path.

What you are asking for is right, a lot of forbearance, and we are with you on that.

Mr. JONES. Well, I have one more question that will be for Mr. Lewis, Mr. Chairman.

But, at this time, to help the image of the banking industry, show compassion. Show compassion for that American citizen who is out there losing their job, having a cut in pay. Because, believe me, the majority of the people are not members of the country club, and I am not saying you are. But the image of the banking industry is about as low as it has ever been, and I think with what I have suggested or not, you need to nationally speak to some of these things, all of you, if you issue charge cards, and say that, yes, we are going to suck it up, too, by the way, Mr. Taxpayer, and we are going to take less in interest, so you can have a better quality of life and maybe meet some of your bills.

In the time I have left, Mr. Lewis, I am going to read an e-mail.

The CHAIRMAN. The gentleman has 10 seconds left. You may have to get your answer in writing.

Mr. JONES. I talk so slow, I can't do it.

Will there be another round, Mr. Chairman?

The CHAIRMAN. Possibly. We will get it in writing if we can't get it otherwise. Ask the question, sure.

Mr. JONES. This is the e-mail, and I am going to make it real quick, Mr. Chairman: The original course of action to be taken by Congress to save our economy was to buy up toxic loans from financial institutions as a way to free up these banks to make loans.

The last point: The bank that I have been dealing with for 31 years basically told me that they wanted my children to personally endorse all loans. They have decreased just about every loan-to-value ratio so that it would take more equity, raised my internal rate, raised my fees.

Mr. Lewis, when you all leave here today, for God's sake, do whatever you can to free credit to the people across this Nation, because they are suffering and they are hurting.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Texas, Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Mr. Chairman. I want to say thank you for having this hearing and I hope that many of my constituents down in deep south Texas are listening to this important and informative hearing.

Regarding back mortgages that your institutions hold, I want to know if your personnel attempted to contact homeowners who have mortgages with your institutions to determine their financial status and whether they will be able to hold on to their homes?

In a nutshell, what type of outreach have all of you and your companies made to help homeowners on the verge of losing their homes? I will start with the first presenter.

Mr. BLANKFEIN. We are not an originator, but we are a servicer of mortgages, and our mortgage servicer, Litton, has been very aggressive in reaching out to homeowners to modify loans, to take the debt-to-income ratio to the lowest level of 31 and even to forgive principal where that will help the homeowner stay in his home.

Mr. DIMON. We work extensively to contact anyone who is in default, and we also try to contact those that we think might have a problem based upon some analytics we do. We do it all the time, consistently, and we have been doing it well over a year-and-a-half.

Mr. KELLY. Congressman, we are not in the mortgage business.

Mr. LEWIS. Congressman, we do have an outreach program. We have had it for some time. As I mentioned, we have 5,000 people working on loss mitigation. We take about 80,000 calls a day in our call centers. So we are very focused on the outreach and getting to the issue before it becomes a critical issue.

Mr. LOGUE. Congressman, we are also not in the mortgage business.

Mr. MACK. Congressman, we are very small in the mortgage business through Saxton Mortgage, and we do have an outreach program in trying to work with homeowners in keeping their homes, reducing principal, and lowering their rate.

Mr. PANDIT. Congressman, not only do we make mortgages, we service mortgages. We have been able to talk to mortgage servicers, and we have consent from 90 percent of them to allow us to modify mortgages that they have given us.

In addition to that, we have something called the CHAPS program. We are reaching out to half-a-million homeowners, not because they are delinquent or can't make the payment. This is an early warning system. We are not waiting for fire alarms to go off. We have installed smoke detectors. In a sense, we need to know they might get in trouble. We are doing all of that.

In addition to that, we have kept 440,000 people in their homes who would otherwise be distressed borrowers and, last year, that was 4 out of 5 people we talked to we have kept in their homes.

Mr. STUMPF. Congressman, we service one in seven mortgages in America. We have doubled our staff to 6,000 people who make thousands and thousands of calls a day contacting people who are either past due or potentially would become past due. And we have learned that when you talk to them early, it is much better than not talking to them at all.

We talk with 94 of every 100 customers who are 60 days past due or more. And when we do talk to them, as I said in my testimony, for 7 out of 10, we find a solution. We have done 706,000 solutions in the last year-and-a-half.

Mr. HINOJOSA. Citi was probably one of the first who agreed to the possibility that bankruptcy judges might be able to make some changes on the terms of the loans, and then others, even in my district, agreed to that. Is that something that is already in place that allows the bankruptcy judges to change and alter those terms? Is that something—I am going to ask Citi to answer that question.

Mr. PANDIT. Congressman, that legislation has not yet been passed.

Mr. HINOJOSA. It has not been passed. That is what I thought.

Do those of you who answered that you do have home mortgages believe that would possibly stop the numbers that are falling off the cliff and falling into foreclosure? Because listening to Chairman Bernanke yesterday, things are going to get worse before they get better, and I think that we really need to hear some answers on how we can stop this.

The CHAIRMAN. I would say not every member can be here at all times, and at times, I am absent myself. The panel was polled by one of our questioners as to where they stood on the bankruptcy issue, so we do have it in the record, their views on whether or not we should do the bankruptcy bill.

Mr. HINOJOSA. Thank you, Mr. Chairman.

The CHAIRMAN. It was behind in the early returns.

The gentleman from Massachusetts.

Mr. LYNCH. Thank you, Mr. Chairman, and the ranking member.

There has been a lot of criticism here today and probably well-deserved, but I do want to point out, Mr. Logue, I read your testimony regarding State Street, and I am pleased that you were straightforward. You took the $2 billion in the TARP. You lent that out directly, which was the purpose of the program, and also I noticed that in capping executive compensation, you went right down the line all the way except for your most junior employees, and I think that was commendable.

A number of the witnesses today have talked about support for a new regulatory framework to help us get out of this situation, and I do want to point out that the last major dislocation we had in the markets like this was back in 1929, the crash, and I asked this question yesterday of Chairman Bernanke. Back then, the leaders on Wall Street of the major banks and investment houses got together with Members of Congress, and in order to pay for the new regulation that had to be put in place to stabilize the markets, they came up with an idea called transaction fees.

What they did, the leaders of the financial services industry back then and Members of Congress, is they imposed a transaction fee of 1/300th of 1 percent of every share traded on the major exchanges in the United States at the time. At that point, back in 1929 and 1930, there were only about 5 million shares a day being traded. Today there are 5 billion shares, on a good day, although we haven't had a good day in awhile.

I want to ask you, we have had this money going out the door left and right here, trillions, and no one has come forward with a way to pay some of this back. I have about 40 percent of my district that doesn't have money in the stock market. They don't have 401(k)s, they don't have any investment at all in the market, yet they are being asked to bail the banks out, you folks out, and they have no hope of return.

What I am asking you, each of you, do you support the idea of a small, and I mean, look, this could be microscopic, given the volume of trades every day, and I would not leave out the bond market either; they would have to be assessed at some point, but is there any appetite out there to look at transaction fees as a way to pay some of this back, rather than putting the entire weight of all this support, all these bailouts, on the backs of the American taxpayer?

Mr. LOGUE. Congressman, I think it is something that definitely could be discussed with the exchanges. It is an idea that I haven't heard yet, but I think it is something that could be explored.

Mr. LYNCH. Mr. Pandit?

Mr. PANDIT. Congressman, I have not looked at that in a long time. Different countries have done that in different time periods. This is an unusual time period. We should look at it, and if you don't mind, let me think about it a little bit more. If you like, we can come back to you.

Mr. LYNCH. Mr. Dimon?

Mr. DIMON. We would have no problem paying some fees to help bear the costs of I think you mentioned regulation or something like that.

Mr. LYNCH. Right now, we have a continuing process of doing that, and I believe the money comes directly to Congress, but we use it to fund the SEC.

Mr. Lewis?

Mr. LEWIS. I had assumed that the banking industry was going to pay for it one way or another. I just hadn't thought about the way. But, of course.

Mr. LYNCH. Mr. Mack?

Mr. MACK. I think we should consider it, but at the same time I think we need to become careful. Exchanges have become global, and we need to be sure that we do not drive volume out of the United States into other countries. Other than looking at that, I think it makes sense to consider it.

Mr. LYNCH. All right.

Mr. Chairman, I yield back my time.

The CHAIRMAN. Let me take the gentleman's remaining time, because he is on to something. Let me remind people, in the TARP bill which we passed, we adopted an amendment sponsored by our colleague on the Ways and Means Committee from Tennessee, Mr. Tanner, which says that, at the end of 5 years, 5 years from October, the President then in power, that is after the next Presidential election, is mandated to send to Congress a proposal; he is to get from CBO the net cost of the TARP, of the $700 billion, whatever the net cost is to the Federal Government, and send to the Congress a piece of legislation that would pay for that by some combination of fees and taxes on the financial industry. So that is in fact in the law that is being sent to us.

People can say, well, he is going to send it to us. I will tell you, 4 years from now, I don't think it is going to be any different. I don't think Members of Congress are going to say, no, no, no, no, we don't want to do that to our good friends in the financial industry. Let's do it somewhere else.

So something like that is mandated for a President to send us 4½ years from now.

Mr. LYNCH. Mr. Chairman, I am just fearful that the urgency that we have around this issue right now, if things start to get better—

The CHAIRMAN. I appreciate that. If the gentleman will yield, I think that is a good point. I should have phrased it more explicitly. I think on the side of that argument is to say to the financial community, look, you are going to have to do this some years from now, why not start doing it now, because, in fact, if you begin to phase it in, there is less likely to be a big bump at any time.

The gentleman from North Carolina. You want to wait?

The gentleman from Georgia.

Let me just say this. I am looking at the members here. We can finish this—I am sorry, Mr. Posey is back, and we will get to him after the gentleman from Georgia. We can probably finish it in a little over an hour if we have their indulgence. Our colleague, the gentlewoman from Ohio, is going to have to leave at 4 o'clock to go preside over special orders. So I would hope the members would not object if I took her out of order. We will then be able to reach everybody, and anybody who has to sit and listen to special orders deserves a certain consideration.

The gentleman from Georgia, then the gentleman from Florida, and then the gentleman from North Carolina.

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

I certainly appreciate you all being here. It is a very, very important hearing.

But I believe we have a unique chance today to do something very special for the American people. You all have come under great attack for selfishness, for greed, not you collectively, but the banking industry. And I want to ask you to do something that Abraham Lincoln suggested we do that worked very good back then when he said, at certain times in our history, we need to allow the better angels of our nature to shine through. And we have such a time that you could do this with millions of Americans watching this on television across this country.

We are losing 7,200 homes to foreclosure every day. There is nothing more draining. Yesterday, Secretary Geithner came up with his plan, so-called plan. Many people have questioned that. But I think he did a wise thing, especially when it comes to home foreclosures.

I am asking you at this time to commit to this committee and to the people across America that you will do something here that will manifest your better angels of your nature, and that is to commit to having a moratorium on all foreclosures that each of your banks and affiliates deal with until the Treasury Secretary can put together this package.

Now, mind you that this committee and the TARP bill has put forward up to $100 billion. So far, the Obama Administration has said they are willing to look at it with $50 billion—that is a lot of money—and that he would only require a need of doing this in about the next 3 weeks. But I think that would be a tremendous gesture, to say you will not foreclose on any American's home until we put the plan in place. That is the fair thing to do.

Will you do that? Could I get a yes-yes here, because the record needs the yes?

Mr. LEWIS. Actually, if we could put a timeframe on it, and not just leave it open-ended, and say it is 2 weeks or 3 weeks, we would do that.

Mr. SCOTT. Okay; 3 weeks.

Mr. LEWIS. We would do that.

Mr. SCOTT. That is good news.

Mr. Pandit, could you concur with that for 3 weeks?

Mr. PANDIT. There are two types of homeowners. There is the investor, and there is the person living in the home. We will commit to making sure that the people stay in their houses as a moratorium.

Mr. SCOTT. Thank you.

Mr. Stumpf?

Mr. STUMPF. Yes, we have already put a moratorium in or on those homes where we are the investor through Wachovia, especially their pick-a-pay portfolio. We have contractual arrangements with our investors, because most of what we service is for someone else. And I can't commit to you. I will look at what that language looks like.

The CHAIRMAN. If the gentleman will yield for 1 minute to say, and I will give you back your time, I hope fairly soon to have legislation passed on a bipartisan basis that will give you some protections against those lawsuits, assuming you are doing it in their economic interests. So help is on the way in that regard.

Mr. SCOTT. Well, thank you all for that commitment to forego the foreclosures, and I thank you, on the parts of all Americans who need this help to get some confidence.

Really quickly, there is an issue that is going to be coming before Treasury regarding FAS 157. I think you all know what that is in terms of the instrument that is used to assess the value, the fair market value of your liabilities and assets. But there is an unequal application of that, because there is a FAS 114, that is more applicable and causes a more severe situation to your smaller banks, your community banks.

Would you not agree that if the Treasury is going to change FAS 157 that affects your larger banks like yourselves, wouldn't you think that same application should be true for the change to FAS 114?

Mr. DIMON. I don't think everyone here is familiar with FAS 114.

Mr. SCOTT. What FAS 114 does is it requires the value of the loan be set at the fair market value of the collateral or market-to-market. So, in other words, there really is no difference, except that it makes it much more difficult, say, when you are dealing with a home foreclosure, where most of these assessments are made basically on a case of what we would call a willing buyer to a willing seller. But in foreclosure, neither party is willing. They are forced. So when they accumulate the value of their assets, I mean, it is a false way of doing it.

But at any rate, there will be this change coming forward. The community banks, the smaller banks are very much aware of it. All I am simply saying is the smaller banks should be fed out of the same spoon as the larger banks when it comes to assessing their assets.

Thank you very much for the commitment on going forth with the foreclosures.

The CHAIRMAN. Before going to the gentleman from Florida, I ask to put into the record, I know I have general leave, but I thought I would announce this. The Office of Thrift Supervision dated today urged OTS-regulated institutions to suspend foreclosures on owner-occupied homes, as Mr. Pandit indicated, until the financial stability plan's home loan modification program is finalized in the next few weeks.

So the Office of Thrift Supervision has now joined in the call for a moratorium until we see the plan from Mr. Geithner on owner-occupied homes. This will be in the record.

The gentleman from Florida.

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

I don't want to beat a dead horse, and my dad always told me, you should never ask somebody how much they made, but since somebody already asked that and the door is already opened, one question that kind of begs for an answer is the question of what your compensation was before the train wreck, not necessarily the last year, but what it was the year before?

If we could start at one end, salary and bonuses for 2007?

Mr. BLANKFEIN. In 2007, $600,000 of salary and something like $67 million worth of shares and some cash at the values that pertained in 2007, which wouldn't look familiar to you now.

Mr. DIMON. For the year 2007, $1 million of salary and $29 million of cash and stock. Again, the stock is not worth what it was then.

Mr. KELLY. Congressman, in 2007, it would have been $1 million salary, and with all the long-term option type compensation in total, it was around $20 million.

Mr. LEWIS. You said 2007; 2007 would have been around $14 million, all inclusive, including stock and cash.

Mr. LOGUE. Congressman, I believe it was $1 million in salary, and total compensation of about $20.5 million, if my memory serves me well.

Mr. MACK. Compensation was $800,000 and zero bonus.

Mr. PANDIT. $250,000 in salary and $2.5 million in stock.

Mr. STUMPF. I had $800,000 in salary, $4.2 million in cash bonus, and $3.2 million in stock, in option value, which today, of course, is worthless.

Mr. POSEY. I think that might help give us a little more insight into the train wreck.

Mr. Dimon, there are some arguments on both sides about this cramdown. Can you tell me the effect the cramdown would have on your institution?

Mr. DIMON. Let me just start by saying that we are deeply in favor of having solutions for modifications. We have done 300,000 already. We expect to do 650,000.

Mr. POSEY. That is the next question. But right now, if there was an arbitrary cramdown, if the judge could reduce the amount—

Mr. DIMON. We believe an arbitrary cramdown would greatly increase the cost of mortgage losses and that it would also increase the cost of all unsecured credit as you gave an incentive for people to declare bankruptcy.

Mr. POSEY. Does anyone beside Mr. Pandit agree with that? I mean, it is logical. It makes sense to me.

The next is, I gave an example talking to the Treasury about some constituents. They have about a $400,000 loan on a house that is now worth about $250,000. They lost their jobs, couldn't make a couple of payments, got behind, started a little business, and were able to catch up. And their company, and at the time I didn't want to mention it because it would be indiscrete, but it is Countrywide, refused to accept any payments unless they got caught up in full.

So their CPA advised them, give the doggone house back and go buy a short sale down the street. You will $150,000 better off. I understand that, perhaps, whoever is servicing the Countrywide paper may be concerned about some liability, and that is the only possible excuse for not using the good judgment of trying to mitigate such a stupid, horrendous, upside-down loss.

Would the ability to have servicers modify mortgages without liability be appealing, and do you think that would lead us toward a solution to this foreclosure crisis? We can start at the end with Mr. Blankfein.

Mr. BLANKFEIN. I think doing something about the liability would be helpful. We are modifying these mortgages without that protection now, and so we would welcome the protection.

Mr. POSEY. Is it your own loans, or loans you might service?

Mr. BLANKFEIN. If it was our own loans, we wouldn't be worried about it at all. It is other people's loans that we are servicing.

Mr. POSEY. And you are modifying loans you are servicing now?

Mr. BLANKFEIN. Yes, we are, and reducing principal, because we think that is the best way of recovering value. People tend to stay in houses and support their payments when they have equity. So we believe we are carrying out a duty to our investors if we in fact cut principal down and keep people in their homes and let them have positive equity in their homes.

Mr. POSEY. Mr. Lewis, you are Mr. Countrywide, Mr. Bank of America?

Mr. LEWIS. No, I am not Mr. Countrywide. But we are being very aggressive in doing modifications with loans that we service. We have changed the policies at Countrywide, but it would help if we got some help on that issue.

Mr. POSEY. But you have already changed the policy, like these people should be getting some kind of response rather than walking away?

Mr. LEWIS. I can't imagine we would do that under our policies, because that would be a perfect loan modification situation.

Mr. POSEY. It is a no-brainer. Maybe I can get my staff to get one of your cards or something and they can contact you directly to see that gets taken care of.

Mr. LEWIS. I will.

Ms. WATERS. The gentleman's time has expired.

Mr. Miller.

Mr. MILLER. Thank you.

I am against arbitrary cramdown, too. However, judicial modifications based upon the very clear, well-established legal standards based upon a wealth of case law says bankruptcy courts can modify every other kind of secured debt, I think would be a great advantage in modifying mortgages.

In the Washington Post article this morning on the Geithner plan, buried two-thirds of the way into the story on the inside after the jump from the front page, there are these two sentences: Many financial analysts have concluded that the current values banks have assigned to these assets are much higher than they are worth, but if banks wrote them down to their actual value, many of the firms would collapse.

There are two versions of what is wrong with the banks now. One is that there is a liquidity problem, that you have assets that are hard to value, for which there is no active market, and the uncertainty about how much your assets are really worth is a financial constraint. The other is that there is a solvency problem, that the assets aren't worth much, and if they were placed on a market, the reason there isn't an active market is that no one who owns them is selling them, and they really aren't worth much and a great many financial institutions are in fact insolvent.

Now, all of you have said that you all don't have a problem, that you are safe and sound. But a lot of analysts think that some others in the industry apparently might have a big problem. Probably most credulous of financial institutions, valuations of their assets is IMF. They estimate assets are overvalued by about $500 billion. The least credulous, the most skeptical, not surprisingly, Nouriel Roubini, Dr. Doom, estimates they are overstated by $3.6 trillion.

Mr. Blankfein, your economists are in between. They estimate they are overvalued by $1.1 trillion. A total loss of $2.1 trillion, about $1 trillion of that has been written down at that point, and I have heard that described as the consensus estimate. So there appears to be a problem out there.

If there are banks that are in fact insolvent, can you think of any reason, based upon economics or ethics, that loss should be borne by taxpayers instead of by shareholders and unsecured creditors, as is usually the case when a corporation becomes insolvent?

Mr. Blankfein?

Mr. BLANKFEIN. Well, I think the point here is that, when you talk about a health or solvency issue, you are talking about marking them to what level.

Mr. MILLER. My question is, who should bear the loss? If they are insolvent, who should bear that loss? Is there any reason based upon ethics or economics or any other rationale that the loss should be borne by taxpayers, not by shareholders and unsecured creditors?

Mr. BLANKFEIN. Again, it is a political decision. But I just want to definitionally say again, we are a mark-to-market firm.

Mr. MILLER. That is not my question.

Mr. BLANKFEIN. I think that people would quibble about what the real mark of that should be. In other words, if they stayed on the balance sheet, those marks might not be ever taken.

Mr. MILLER. Mr. Dimon, do you have an answer to the question I asked?

Mr. DIMON. I think the shareholders should pay for the losses, if possible.

Mr. MILLER. Mr. Kelley, shareholders and unsecured creditors or taxpayers?

Mr. KELLY. Shareholders.

Mr. KELLY. Mr. Lewis?

Mr. LEWIS. Shareholders.

Mr. KELLY. Mr. Logue?

Mr. LOGUE. Shareholders.

Mr. KELLY. Mr. Mack?

Mr. MACK. It should be shareholders and unsecured creditors, but I also think you need to look at, is there a chain reaction? If there is no chain reaction, no danger to the system, shareholders should be wiped out along with unsecured creditors.

Mr. MILLER. Mr. Pandit?

Mr. PANDIT. I would want to make sure that we seriously look at whether their insolvency is a result of credit or whether liquidity. These are fundamental issues. And if it is on the basis of credit, I think the answer is what Mr. Mack just talked about, you should let the shareholders take it, unless there is a systemic issue.

Mr. MILLER. Mr. Stumpf?

Mr. STUMPF. I agree with my colleagues.

Mr. MILLER. Now, obviously, everyone has spoken of a problem with confidence in the industry, and Chairman Bernanke yesterday compared the proposal for a stress test to the bank holiday in 1933 in the New Deal, a comparison that occurred to me as well.

Do your current safety and soundness regulators have the capacity, the sophistication, the expertise, to do a credible stress test, or what do we need to do to make sure that any stress test is credible and we know that any bank that gets a clean bill of health is in fact safe and sound?

Mr. BLANKFEIN. I believe they are capable. I have only had a 3-month relationship with my new regulator.

The CHAIRMAN. We will have to take the rest of the answers in writing.

The gentleman from Texas.

Mr. GREEN. Thank you, Mr. Chairman, and I thank the witnesses for appearing.

The CHAIRMAN. Believe it or not, you are at this point, the only Texan in the room.

Mr. GREEN. That is a rare, rare occasion when I am the only Texan in the room. It is an honor—

The CHAIRMAN. I take it back. Mr. Hinojosa is here. I am wrong.

Mr. GREEN. Thank you.

The American people are exceedingly angry, and I have the opportunity of hearing and visiting with many of these angry people. And if they are angry about one thing, it is a lack of intelligence as to what happened to the money. They really want to know what happened to the money, and I am not sure, that after today, they will have any less anger. My suspicion is, when I visit with my constituents, they will still tell me they are concerned as they have great consternation about what happened to the money.

To this end, I would like to know from you, first, is it possible to ascertain the amount of increase in new lending attributable to TARP? Is it possible to ascertain the amount of new lending attributable to TARP? And if you think that it is, we will do this en masse, will you kindly raise your hands? Can your accountants, the people to whom you pay large amounts of money, ascertaining the amount of new lending attributable to TARP. If so, kindly raise your hand.

New money. All right, let's see. I will show that all of the hands have been raised saving—ok, saving, Mr.—with Goldman Sachs.

The CHAIRMAN. They are not in the lending business.

Mr. Mack and Mr. Blankfein are not in the lending business.

Mr. GREEN. If you are not in the lending business, raise your hand, please.

Mr. BLANKFEIN. We are not in the consumer lending business.

Mr. BACHUS. This is going to be a good Saturday Night Live skit.

Mr. GREEN. Bad question, good answers. How about that. So here is where we are. If you are lending money to consumers, can you ascertain the amount of new consumer lending attributable to TARP? If so, raise your hand. And you are lending money to consumers.

If you are lending money to consumers and you cannot, would you kindly raise your hands. Anybody. Can you tell me why you cannot, sir?

Mr. STUMPF. Yes. We are lending. Our consumer loans are up. In fact, we were lending through this whole crisis.

Mr. GREEN. Without telling me they are up, can you tell me why you can't ascertain?

Mr. STUMPF. Because it is all part of the same capital pool. I don't segregate a certain amount of capital against one loan. So when we financed $1.5 billion worth of auto loans in the month of December, I can't tell you where that money—

Mr. GREEN. Let me ask this. Can you ascertain the total amount of increase in new lending?

Mr. STUMPF. Yes, we can do that. Yes, absolutely.

Mr. GREEN. So all of you who are in the business of lending to consumers, you can do one of two things. You can either tell us the amount of lending attributable to TARP at new lending, or you can tell me the amount of new lending that you have.

Mr. STUMPF. Absolutely.

Mr. GREEN. Mr. Chairman, I beg that I be allowed to pass the document that was entered into the record earlier, the bill that I have introduced along with—in fact, I shouldn't say along with, the bill was actually introduced by Congressman LaTourette, and I am a proud cosponsor; that is H.R. 387.

Thank you, Mr. Chairman. The reason I would like for you to have this is because this piece of legislation would mandate exactly what I have just talked to you about. Either you would tell us in your quarterly report the amount of new lending attributable to TARP, or the increase in your new lending. Is there anyone who can find any reason why we should not have you as lenders do this? Anyone?

Let the record reflect that there are no hands up. So let me reverse the question quickly?

Yes, sir?

Mr. MACK. Congressman, we do that to the Federal Reserve in our TARP filing. It shows all categories.

Mr. GREEN. So it is not a problem for you, is what you are saying.

Mr. MACK. It is not a problem at all. I think it is being done.

Mr. GREEN. If you can do this and you see no problem with it, kindly raise your hand. I want the record to be clear.

All right, for the record, all can. I thank you. Mr. Chairman, I yield back.

Mr. BACHUS. Could I ask a question? Do you factor in the deterioration in the economy and the drop in demand for credit? I don't know how you factor in all those.

The CHAIRMAN. Let me say I think that is a reasonable question for us to ask each other.

I did want to clarify one point. When we talk about consumer loans, that is your business. We are talking about retail loans. Just to be clear, we are not just talking about credit cards or automobiles. If it is for the inventory for a business, that is also covered. I want to be clear on that.

The gentleman from Missouri.

Mr. CLEAVER. Thank you, Mr. Chairman. I have about seven pages of questions that were sent to me from my districts. I represent Kansas City, Missouri, and Independence, Missouri.

"How dare you!"—Judy from Kansas City.

"Why are you squeezing us dry with fees and increasing credit card rates but lining your own pockets?"—Alice from Raymore.

"Since you are the experts with the big pay, why did you screw up?"—Ben.

"How big is your yacht?"—Michelle.

"Do you really believe that you are that smart?"

I read those only because I think everybody has already conveyed to you that people are angry. I don't think I need to reinforce it, but I do think I do need to reinforce it.

What I want to talk to you about is not that. I want to talk to you, Mr. Blankfein, first of all. Do you believe that warehouse lending is safe and profitable?

Mr. BLANKFEIN. I am sorry, warehouse lending? Against a physical warehouse?

The CHAIRMAN. No. Any one of the retail bank people, they know what we mean by warehouse lending and probably ought to take that.

Mr. CLEAVER. Well, some Wall Street banks are involved in warehouse lending. Warehouse lending is when you issue a line of credit to an originator, usually it is for about 30 days, and then they, of course, sell the mortgage somewhere else.

Mr. STUMPF. We are familiar with the business. We do very little of it, if any, anymore, primarily because we would rather make loans, our home loans, ourselves. We have a set of auditors. We have a set of principles, values, so we make sure the mortgage is for the benefit of the customer. They understand the terms and conditions. It helps them and so forth. So it is hard to control when you are a warehouse lender.

Mr. CLEAVER. So most of you don't do warehouse lending, which is one of the problems. That is one of the problems. If a mortgage company in my district is making loans, or trying to make loans, and the liquidity is not available, and it has been constrained a great deal recently, it is difficult for them to originate the loans because they don't have access to the capital, and with more and more people avoiding warehouse lending, it is hurting local mortgage companies. Wouldn't you agree?

Mr. STUMPF. We have been out of the warehouse lending business for 5 or 6 or 7 years, and the reason we got out is because we saw them doing crazy things that we wouldn't do ourselves, so why do we want to be a part of that? It was too risky for us.

The CHAIRMAN. Will the gentleman yield, and I will give him some extra time, because he is on to a central issue that I have heard a lot of complaints from my colleagues about. And one of them is, it is one thing to say we are not going to take on any new warehouse lending, but we have been told there are people who had accumulated an inventory based on their ability to do warehouse lending, and they were cut off in the middle. So there is a considerable degree, we have heard this from several members, there are people who had a warehouse lending relationship and had made certain commitments on the assumption that they would have that capacity, and it was cut off before they could sort of wind down the business in a reasonable way.

I wonder if there is anybody familiar with that issue, because that is a particular form of it that I have heard a lot of complaints about, from builders.

Mr. STUMPF. I am not an expert in warehouse in mortgage lending, but there are two kinds. One we actually finance, you give them a line of credit. Another one is where they do their own mortgages, and you buy them, and then you process them. I don't know which one it is.

The CHAIRMAN. The one where I think we have had the problem, there were developers, people who had accumulated property, and then they were counting on the line of credit to be able to finance these purchases and were shut down in the middle. That is the specific complaint that I have heard. I don't know about the gentleman from Missouri.

Mr. CLEAVER. Yes, that is precisely it. And one Wall Street investment bank at one point not long ago had a $250 million line of credit just for one originator. So all that has dried up. How in the world are we going to deal with the housing crisis, the home builders and the Realtors, if warehouse lending is being evaporated? You are the only one that participates in it, and yours is at a minimum. I needed to just say that, because it is a problem in every community, and my community is no less being hit.

The final issue I want to raise is that I am woefully unimpressed with the diversity of this panel, of not only the panel but the folks who sit behind you. I don't know how many rows deep we would have to go to have some diversity.

Thank you, Mr. Chairman.

The CHAIRMAN. Let me say, and I appreciate the gentleman raising that, I would ask that you give us in writing a response, because the gentleman raises a very important question. I will tell you, we hear a lot of this from our colleagues. It is the cutting off of the warehouse lending relationship in the middle of the movie, when there is inventory of some kind that was going to be financed by the warehouse lending and is cut off.

I would ask you to talk to your people and give us answers in writing, and I would hope the answer would be that, well, yes, that is a problem, and even if we don't want to take open any new commitments, we will allow for the orderly unwinding of the existing commitments. I think that is the focal point we have heard.

The gentlewoman from Ohio is going to do special orders. We will be able to finish everybody, because we will stay until 5 p.m., so ould anybody object if I took the gentlewoman from Ohio for 5 minutes?

Ms. Kilroy.

Ms. KILROY. Thank you, Chairman Frank.

Mr. Lewis, you went on record recently with CNBC's Maria Bartiromo stating very publicly that the Bank of America will fully refund the taxpayers, and that you expect, "that this company is going to be a thing of beauty as we get to the other side of this and it will be the envy of the financial services industry in terms of market share."

Do you stand by that statement?

Mr. LEWIS. Yes.

Ms. KILROY. So we can fully expect that the $45 billion in TARP funds will be repaid?

Mr. LEWIS. Plus the $3.8 billion in interest a year.

Ms. KILROY. You stated as well that categorically, Bank of America will not need additional government funding. Is that correct?

Mr. LEWIS. Correct.

Ms. KILROY. So that means no further TARP funds?

Mr. LEWIS. Correct.

Ms. KILROY. That means no loan guarantees?

Mr. LEWIS. Correct.

Mr. KILROY. That also means no purchase of bad loans or toxic assets by an aggregator bank?

Mr. LEWIS. Pardon me, I don't know because I haven't seen the program, but that would be something that would be at a market or would be available to everyone, I would presume.

Ms. KILROY. Well, these other funds may be available to everyone as well. Purchase of a toxic asset at less than a fair value, that would be government funding to the bank, would it not?

Mr. LEWIS. If it were less than fair value, and that is the issue that people are dealing with, and that is why it is so complicated.

Ms. KILROY. I am pleased to see that you have this commitment to repaying the very angry and worried taxpayers that you have heard about, and you certainly have set a standard here for your colleagues today in setting the bar. So I would like to ask each of you to go on record before this committee and before the public to answer the question, can each of you assure me that you will also be fully paying back the government funds, the taxpayer funds, and that you will not be back to the government again asking for money that many of us and many of our anxious and worried and angry Americans feel is corporate welfare? Or do you expect your institutions to also be things of beauty when all is said and done?

Mr. BLANKFEIN. That is my expectation.

Ms. KILROY. That you will be able to pay us back.

Mr. BLANKFEIN. It is my absolute—my expectation.

The CHAIRMAN. You are not under oath, guys, so—

Ms. KILROY. Is it your expectation also that you will not need any additional infusions of government funding?

Mr. BLANKFEIN. We are users of the FDIC program, but it is not our expectation to have to sell assets at a higher-than-market value.

Mr. DIMON. We categorically expect to pay back the TARP funds.

Ms. KILROY. And do you anticipate requests for additional TARP funds before we get to the end of this, to the thing-of-beauty stage?

Mr. DIMON. If it is, it won't be me.

Ms. KILROY. Mr. Kelly.

Mr. KELLY. We also expect to be able to pay back the TARP funds hopefully within 3 years and hopefully gain even sooner than that. And we will not need additional funding. That is not our expectation.

Ms. KILROY. You will not need additional funding. Thank you.

Mr. Lewis—excuse me, Mr. Logue.

Mr. LOGUE. We expect to pay back the TARP funding as well, and we would expect that we will not need any other funding.

Mr. MACK. I will pay back the TARP funds, but we do use the FDIC guarantee in erasing debt.

Mr. PANDIT. We will pay back the government TARP funds. I don't know what the rest of the program is going to be used for. If you come to us and say, do it this way, and by the way that increases loans that are made and it is also good for our shareholders, how are we going to turn that down?

Mr. STUMPF. We will pay back the funds at the stated interest rate. And we stated we will not, as we are positioned today, need any more TARP funds.

But I also agree with Mr. Pandit. I don't know what plans will be for the future. I don't know what is in store. But the way we see it today, we can pay it back, and we need no more funds.

Ms. KILROY. So you may anticipate the government purchase of bad loans or toxic assets.

Mr. STUMPF. I don't know what the Geitner plan will look like. I don't know what is coming down. But our plan is what we see today, what we know today, we need no more funds.

Ms. KILROY. Thank you.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The gentleman from Minnesota.

Mr. ELLISON. I would like to ask a question of the gentleman from Bank of America. Have any of the TARP funds you have been given so far been used to lobby?

Mr. LEWIS. No.

Mr. ELLISON. Are you familiar with a posting that was in the Huffington Post that would seem to indicate that there was a Financial Services Roundtable conversation in which someone from your office indicated that the Employee Free Choice Act should be rapidly opposed by the members of the Financial Services Roundtable?

Mr. LEWIS. I don't go to the Financial Services Roundtable, so I would not know.

Mr. ELLISON. Do you agree with me in principle that any company that gets TARP funds, those funds should be used to either recapitalize the bank or to otherwise promote solvency within the bank and promote lending and not to try to impact or try to defeat any measures in Congress to promote union organizing?

Mr. LEWIS. For use of the TARP funds, yes.

Mr. ELLISON. Okay. And so can I take it, can I have your insurance that no TARP funds have been devoted to lobbying?

Mr. LEWIS. Correct.

Mr. ELLISON. Do you think it is appropriate while in receipt of TARP funds to be trying to defeat measures such as the Employee Free Choice Act?

Mr. LEWIS. I think doing what is in the best interest of your company is always the best thing to do. So I wouldn't point to any one thing and say, just because you have TARP funds, you can't do something.

Mr. ELLISON. But, as has been pointed out already, money is fungible. What you don't use one place you can switch and use other monies for that while you are using TARP funds. Wouldn't you agree that your company needs to be using those funds for their intended purpose—

Mr. LEWIS. Yes.

Mr. ELLISON. —and not trying to defeat union organizing?

Mr. LEWIS. And $45 billion is in the context of $230 billion in equity. So you have to think of it in the context of a much larger number.

Mr. ELLISON. Right. Well, I just wanted to put into the record, have unanimous consent to have entered into the record, this letter from Change to Win to Mr. Steve Bartlett, who was with the Financial Services Roundtable. In it, he describes a conversation in which several companies which received TARP funds were having some fairly frank conversations about lobbying. I find it pretty disturbing, and I would like you to respond to this letter, if you would, sir, because it specifically mentions your company.

The CHAIRMAN. We have general leave, so it will be made a part of the record.

Mr. ELLISON. I would also like to give voice to the people in my district who sent me a number of questions to ask all of you. I will just give you a sense of how these questions go.

One is, aren't bonuses to award productivity, not failure? That is Ann J. from Minneapolis. Whatever happened to banks being risk averse? That is Pat B. from Minneapolis. And it goes on and on and on.

I just wanted to give voice to it because it is true that there is a general concern about the state of our financial services industry. And to the degree that we give you a benefit that our constituents think you shouldn't have, we run afoul of them. So I hope you bear that in mind as you go about the use of your TARP funds.

I also want to have something put into the record, and I do recognize there is general leave to have things put into the record. It is an article written by Adam Levitin, who talks about how securitization of credit card debt has contributed to the financial malaise that we find ourselves in. So I will have that in there as well.

Mr. Pandit, I would like to ask you a question about solvency at Citi, and I would like to have the—actually, both the gentlemen from Bank of America and Citi, both these questions might apply to you. Could you share with me what you feel the solvency of your firm is at this time?

How about you, sir?

Mr. PANDIT. Congressman, our Tier 1 capital ratio is 12 percent. That is an enormously high capital ratio, well above whatever the regulators consider to be well-capitalized banks; and that is the risk capital that supports all our depositors, all our creditors, all our bondholders. That is a very, very strong ratio. We feel well-capitalized as a company.

Mr. BACHUS. Will the gentleman yield just for one minute?

Mr. ELLISON. Yes, I will yield.

Mr. BACHUS. In the questioning before that—and I know the gentleman is thoughtful. We very much as a body respect the freedom of association and the freedom of speech. And I know the gentleman—

Mr. ELLISON. Reclaiming my time, if the gentleman wants to—

The CHAIRMAN. That is really a debate on the gentleman's issue.

Mr. ELLISON. If he wants to debate the issue, he can get his own time for that.

Mr. BACHUS. I apologize. But I am just saying I didn't want them to get the wrong—and I know you didn't—

The CHAIRMAN. Let us—

Mr. ELLISON. I hope that does not come out of my time.

The CHAIRMAN. No, it does not.

Mr. ELLISON. From Bank of America, what is your Tier 1 capital ratio?

Mr. LEWIS. It is about 10.6. And, remember, we made money in 2007, we made money in 2008, about, in the total of those 2 years, $19 billion. We did not lose money like some banks across the world did. And so to ask me that question is amazing.

Mr. ELLISON. Well, I mean, I have asked the question. You have answered it.

Tell me, how has Merrill Lynch—the acquisition of Merrill impacted your Tier 1 capital ratio?

Mr. LEWIS. That was the reason that we took the injection to do the deal, and so it actually helped it, because we filled the hole that was caused by the loss.

Mr. ELLISON. And what about Countrywide? How does that impact your—

Mr. LEWIS. Countrywide is not big enough to affect us in any big way.

The CHAIRMAN. Can I just say, when you say "the injection" that is the second TARP funding, not the first, but the second injection.

Mr. LEWIS. The second.

The CHAIRMAN. Go ahead.

Mr. ELLISON. Now, there has been wide speculation that some of our larger banks around the Nation may end up being nationalized. Do you feel that your bank should be considered one of those banks at risk?

Mr. LEWIS. Are you talking to me?

Mr. ELLISON. Yes.

Mr. LEWIS. Absolutely not. I don't know why you would ask the question.

Mr. ELLISON. And I am curious about Citi as well. Is there any worry that—will we be here in a few months talking about the demise of Citigroup?

The CHAIRMAN. This answer will end your time. The gentleman got extra time.

Mr. PANDIT. Congressman, I intend to make sure that is not the case.

The CHAIRMAN. The gentleman from Ohio.

Mr. WILSON. Thank you, Mr. Chairman.

Gentlemen, I have a question for all of you. If I came to you as the owner of a failing business and I asked for a loan to take my staff on a spa trip to Las Vegas, would any of you grant that loan?

Mr. BLANKFEIN. No.

Mr. DIMON. No.

Mr. KELLY. No.

Mr. LEWIS. No.

Mr. LOGUE. No.

Mr. MACK. No.

Mr. PANDIT. No.

Mr. STUMPF. No.

Mr. WILSON. Thank you. I didn't think so.

But help me explain to the people back home what has happened with their tax money that went out in the first part of this TARP which my understanding is all of you are recipients of it.

The CHAIRMAN. I would just say to the members that this is not a day in which you are going get a lot of volunteers. So if you want to get an answer, you probably want to pick somebody.

Mr. WILSON. Okay. Maybe I can rephrase my question, Mr. Chairman.

There are a lot of people in Ohio who are really upset about the way things have been handled, the arrogance, the way things have been done, what has happened, the PNC purchase of National Citi with TARP funds, on down the line. It could go on and on. But what have we done to restore the confidence in the financial community that is going to help small businesses like I represent in Ohio to be able to get their line of credit to be able to buy goods for the spring and for the summer selling season? What has been done with the TARP money?

Mr. Dimon, could I address that question to you?

Mr. DIMON. I think we put in the record a lot of what has been done with the TARP money. We have lent in the last 90 days I believe it was $250 billion; $90 billion to corporations, $50 billion to consumers, net and increased credit lines; $50 billion in interbank markets; $60 billion in the purchase of MBS or asset-backed securities. I do believe—and it is an estimate. I do believe that probably $75 billion of that would not have happened without the TARP money.

We are also a very large small-business lender in Ohio. And I don't remember exactly the numbers, but I believe year over year, small business loans are up in the Nation. I don't have Ohio's numbers. Government, not-for-profit, hospitals, university lending is up year over year. And we will be happy to make all that part of the record.

We are still lending in Ohio and other parts of the country and try to do exactly what you want us to do with the TARP money, which is to fulfill our obligations in regards to this country and the communities we serve, which is to help in every single way possible.

Mr. WILSON. A follow-up question on that, Mr. Chairman, is, do you think the TARP money is starting to work as it is intended?

Mr. DIMON. I think the question that neither I nor anyone will ever be able to answer is what would have happened had it not been injected when and how it was injected. We will never know. We will debate it the rest of our lives.

I personally don't spend much time guessing about things like that. It could have gotten much worse. So it may very well have created a situation where it stabilized things so that we can move forward, as opposed to having a lot more problems. And I just don't know.

Mr. WILSON. Thank you. Thank you, Mr. Dimon.

Another question I have—and I will address it to Mr. Lewis, if I may—banks versus—banks who took TARP versus banks who did not, why do some banks turn their back and say I don't want any more TARP funds—I don't want any TARP funds. I don't want to live with the problems of government money, of taxpayers' money. What is the rationale there? Could you help me with that?

Mr. LEWIS. Yes. The reason is they don't want the government involved in their business. It is as simple as that.

Mr. WILSON. Well, thank you. I am glad it was a simple answer to a simple question.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I thank the gentleman.

Mr. Dimon saying we will never know did remind me, and I think we all ought to keep this in mind when we are trying to be absolute about past judgments. In the Knickerbocker's History, Washington Irving says—he describes a boat crash. And he said the boat went around the bend, and a wind came up and blew it on the rocks, and we will never know what happened because there were too many survivors. And I think that is part of our problem.

The gentleman from Colorado.

Mr. PERLMUTTER. Thanks, Mr. Chairman. Just a couple of questions, and thank you all for your testimony today.

We have been dealing with a lot of sort of dire circumstances. We have had a chance to have Mr. Bernanke come and testify in September when things were really on the precipice, again in November and then yesterday, and I am hoping that we have turned the corner on stabilizing the financial markets. We still have to restore confidence in the markets and rejuvenate the economy to avoid the job losses that Mr. Stumpf was talking about, and I think we are on track to do those things.

But I want to come back to how we got here. And I look back to the sort of bankers that I can sort of reach back to, Dick Van Dyke and Mary Poppins. No offense. But, you know, a stable guy who had certain things. Jimmy Stewart and then whoever Mr. Potter was. And I don't know if there was a Barrymore or somebody.

But what I am concerned about—and Mr. Dimon heard me say this one time—is the size and the scope of your institutions is so far-reaching globally and just in terms of the products that you handle. And I just—I am concerned about the effect on the system. That, in some instances, your institutions are bigger than the FDIC insurance we have in place, or the Federal Reserve had $800 billion at some point last year to assist the market. I mean, is there a point where you are too big and that the system itself is in jeopardy?

Mr. Mack, do you have any opinions on that?

Mr. MACK. I can only speak to our firm. We are not too big, and we still plan to grow, so we don't find that as an issue for ourselves.

Also, as I sat here and listened, 2 years ago we owned a credit card business. We didn't think it was one of our core competencies, and we spun that off. So we have grown, but, at the same time, we have gotten rid of businesses that do not fit.

Mr. PERLMUTTER. Let me switch it a little bit. Do you think that you can get too far-flung in the types of businesses under your umbrella? Whether they might be insurance or, you know, own real estate, I don't know.

Mr. MACK. Yes. And I think that is an issue. Especially as we grow our businesses not only here in the United States and develop new products or globally, that is an issue. That is something we look at. We look at it through our audit committee. We look at it through our chief risk officer. We look at it through our strategy and planning. That is an issue.

Mr. PERLMUTTER. Do you think the regulators in this arena have been focused enough on the breadth of business that you might have? Or, Mr. Dimon, if you have an opinion or Mr. Stumpf. Mr. Dimon, if you would.

Mr. DIMON. I think if I was in your seat I would want large, successful American corporations that do business around the world, some of which by their nature have to be big because they are large—they have huge data center systems, diversified credit exposure, etc.—and I have never seen in my experience that large itself is the bad thing. I have seen bad large companies and bad small companies. I have seen good large companies and good small companies. And the United States military, which is a magnificent organization, isn't bad because it is large. You want it to be large and use the benefit of its size for the state of the government. So I always separate is it good or bad and do you have the systems and people to handle the size and/or the complexity.

Mr. PERLMUTTER. Let me narrow it just a little bit.

Back in September, when the Treasury Secretary and the Chairman of the Federal Reserve came to us, I mean really in an urgent, emergent fashion, they said, this is the banking system. It is different than everything else. You have to help. If you don't, we will have trouble in everything else.

Is the banking system different than just a corporation, in your opinion?

Mr. DIMON. Are you asking me?

Mr. PERLMUTTER. Yes.

Mr. DIMON. Well, yes, I think you have special obligations and you do have risks. You have to serve the countries and the communities you operate in. So I think it is special to that extent. And I think it is special to the extent that you not uniquely—there are probably other ones which I have not thought about—but uniquely could cause systematic risk, and that should be eliminated. You don't want that to be the case. There are ways to handle that.

Mr. PERLMUTTER. Thank you.

The CHAIRMAN. The gentlewoman from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Based on all of your testimony today, it sounds like your institutions are doing okay. So why are we here? And I think one of the things that we need help in is, how can you help restore investor and consumer confidence? I don't know who wants to address that. Any volunteers? How can you help to restore investor and consumer confidence?

Mr. Dimon, how about you?

Mr. DIMON. You are being unfair now.

Mrs. BIGGERT. You are the name I know.

Mr. DIMON. I think that every person at this table is doing everything they can with all their brains and might to fix this situation. I also think that Congress is doing that, the Secretary of Treasury, the Administration. And I think all of us, working really hard, we will beat this thing.

And we are still, I would say, bruised and battered but still standing and fighting. We have a ways to go. But, if we do it right, this country will do what it has always done. It will learn, it will reform, and it will move on. I am completely comfortable that will be the case this time, too.

Mrs. BIGGERT. Mr. Stumpf.

Mr. STUMPF. I will also add a couple of things to that.

We have talked about mark-to-market accounting before, which has really destroyed capital in this industry. We think things have intrinsic value that are very different from the market clearing value, and we have to write those things down. Also, the way we do reserves for loans in our industry. We reserve at the time when we are least able to afford to do it. It is procyclical. That is not particularly helpful.

One thing that the chairman is actually helping on is this FHA foreclosure issue. We have a very difficult time. Ten percent of all the loans we service are FHA and VA loans. They are almost impossible to restructure. And again called the 601 program. So there are a number of things like that will be helpful.

But I think at the end of the day serving more customers, helping them and partnering with you and Congress to create jobs in the public sector and private sector, neither of us can do this alone, is the real key.

Mrs. BIGGERT. Well, if you were in my shoes and you were sitting up here, and your customers were as angry as some of my constituents, what would you tell them? What would you do if you were here? What would you do to help them restore their confidence?

We want to do the right thing, and so far we have tried so many things, and it really hasn't worked. Are we doing too much? Should it be more of the free market? Are we doing too little?

If you have just one or two things that you think that the Congress should add to our repertoire to see if we can solve this problem. I know you have been here a long time.

Mr. LEWIS. Well, I will begin. I don't know if I know all the answers. Obviously, I don't.

But you are soon to pass the stimulus package. There is some quick hits which will help immensely. The modification on mortgages is incredibly important to get that in the TARP package. And then, thirdly, we have to keep mortgage rates down so that we can continue to have refis, which are, in essence, a kind of a tax break.

I think over time with those three things you are going to have an impact on the economy.

Mrs. BIGGERT. How many of you think we should do away with the mark-to-market?

Anybody else? Just one? That is interesting.

Mr. STUMPF. I should say don't do away with it. When markets are not functioning, it is no longer mark-to-market. It is mark-to-craziness. We ought to look to a different mark-to-cash flow then when those markets are not functioning. There is nothing wrong with the mark-to-market per se.

Mr. LEWIS. I would agree. Extraordinary times like this, there should be another alternative.

Mrs. BIGGERT. You know, I hear from so many customers of yours that they can't get to the lender. Or, if they do, they talk to somebody, then they get somebody else, and it goes around in a circle. I would hope that you would make sure that these people really get answers to their questions and see what you can do to help them. But it sounds like—are things improving? Do you see any ray of sunshine that we are going to solve this?

Mr. BLANKFEIN. The credit markets have been improving steadily.

Mrs. BIGGERT. Thank you.

The CHAIRMAN. Your time has expired.

But if I can get the indulgence, I was distracted. I distracted myself. Nobody's fault.

Mr. Stumpf, you talked about the FHA/VA issue. Would you give me that one again?

Mr. STUMPF. About 10 percent of the loans that we service are FHA and VA, and these are sometimes for new home buyers and so forth. The way the loan works, we make a loan, the government guarantees it, they get a guarantee fee, and the asset goes into a Ginnie Mae pool. And whatever the customer pays us a month is indifferent. We have to pay the pool for the full amount of the mortgage, and we can't restructure.

The CHAIRMAN. I would ask you to—

Mr. STUMPF. It has been very helpful.

The CHAIRMAN. I will say this. With regard to the bankruptcy, which I know many of you don't like, but we did do a separate piece to that so that in cases of FHA or VA the government would take the hit and not the owner.

Mr. STUMPF. I understand.

The CHAIRMAN. But we should be able to work it out short of that. Please be in touch with our staff, and we obviously want to be helpful—

Mr. STUMPF. You have been wonderful in that.

The CHAIRMAN. —and unravel all that. Thank you.

The gentleman from Indiana.

Mr. DONNELLY. Thank you, Mr. Chairman.

I have the privilege of representing Elkhart, Indiana, which is where President Obama went about 2 days ago. And what has happened there is that the credit has completely disappeared so they can't do floor plan financing and that consumers can't buy the recreational vehicles that are made; and, consequently, unemployment has gone up to 15.3 percent.

And I know—I heard Mr. Lewis—I know you don't want us in the banking business; and, believe me, we don't want to be in the banking business. But until we get to the other side—when the folks in Elkhart and the rest of my district come back home from work, and they are not sure if the place is going to be open the next week, with the factory they are working, and some of their money comes out of their paycheck for TARP, they just want to know that there is going to be good judgments made with it.

And I know some of the stuff you want to tear your hair out when you read it as much as we do. But what we need you to do—and I know that you want to achieve this as well—is that our great generals like Omar Bradley and them, they always made sure that the troops were bedded down and that everybody was fed before they were fed.

Mr. Stumpf is the one who talked about a culture of values and leadership. And we really need you guys. I know that is your goal, too, to do the same thing. So that when you see some of this crazy stuff—

I mean, look at it from my perspective back home in Indiana. If you look at it from that instead of Wall Street and you look at something and you go, this would be crazy to the folks back home in Indiana, please don't do it. Because when that happens it makes it much tougher to try to get them to understand why the second part of TARP is needed.

So you are absolutely critical to the success of this country. If things don't work with your banks, it is going to be awfully tough. So we are in this together, and we are counting on your good judgment as we move forward. And I hope I am looking at three, six, eight or more Bradleys over on the other side of the table.

The other thing I want to ask you is this. And, Mr. Stumpf, again you said we want to work with companies if we possibly can.

I have small businesses back home. That is the heart and soul of my district. They have lines of credit, and they are based on hitting certain profit numbers, inventory numbers, all of those things, and it is tough right now, and some of those numbers may be a little bit off. And they have come to me and said, "Hey, Joe my number is off; they are going to call the line." They have made every payment, but their ratios are off now.

Does it make sense to try to work with those companies? I mean, that is one of the toughest things we have back home, is good companies, still profitable, but their ratios are off a little. Can't we work with them?

Mr. STUMPF. I think the answer is absolutely yes. And I think I believe in our company's case we have stuck by our customers during the difficult times.

Every situation is different. Not every customer is created the same, not everyone has the same possibilities and opportunities and so forth, but to the extent that we can and balance it off with safety and soundness for all of our customers and for our stockholders that is where the secret sauce is.

Mr. DONNELLY. We heard Mr. Hensarling. We don't want to make loans to people who can't pay them. But to people who can and are going through a tough time now, just like your banks have, they want to come out the other side just as well. They will sell their car to make the payment to the bank. And so I would encourage all of you to stick with them and to try to work with them.

The other thing that we found back home is what you talked about, that some of the companies, nonbank, that used to be there are no longer there. Financing for RVs was primarily done by GE Financial and Textron and Key Bank. All three are gone. I mean, not gone technically gone, but they have pulled out of the market.

So you have companies that have worked nonstop and they look up and all the companies they have worked with have said, we are not into this anymore; you know, this doesn't interest us. That makes it extraordinarily difficult to conduct your business.

So I just wonder if you have any ideas on how to fill that hole for those financial companies who are not around anymore. Mr. Lewis, I will ask you first.

Mr. LEWIS. I don't know a lot about the RV business, but we are looking for opportunities, and if they are good ones, then our point is make every good loan we can make.

Mr. DONNELLY. So there is money out there to be loaned then.

Mr. LEWIS. This not a question of liquidity. At least our company has never been this liquid in our history. This is about an issue of demand and the economy.

Mr. DONNELLY. I will bring you the demand, sir. Thank you.

The CHAIRMAN. Thank you.

I want to go back to Mr. Stumpf, because you were more right than I was, apparently, at the initiative that you brought to us. We have language in the bill that we voted out last Wednesday of this committee which we hope to get passed at some point which deals with that FHA/VA problem. So we do think, thanks to your good staff and mine, that we were able, working together, there was bipartisan agreement on that piece of it. There may be some objection—but as it came out of here that is in our whole service of piece, and that has been done.

Mr. STUMPF. Thank you. You have been very helpful. I appreciate it.

The CHAIRMAN. The gentleman from Illinois.

Mr. FOSTER. Let's see, I have a couple of questions.

The first ones have to do with stress testing going forward and the conditions under which you may or may not stay solvent and may or may not continue to exist. If you take the slightly, hopefully, significantly pessimistic but realistic assumptions of maybe 11 percent unemployment, 25 percent further decline in real estate prices and comparable problems in the commercial real estate, which a lot of people tell me are not that unrealistic, without being specific could one of you give an estimate of how many of the eight of you would still survive without a Federal cash infusion under those sort of pessimistic but realistic conditions?

Mr. MACK. We would survive. I mean, we have a very high Tier 1 ratio. We have reduced our balance sheet dramatically from $1.1 trillion to a little less than $600 billion. We have taken our leverage from 32 times down to about 12½ times. It would be very painful and very upsetting if those numbers come true as you are saying, but we would make it.

Mr. FOSTER. Do you regard those as unrealistic numbers, things that are very unlikely to happen or not?

Mr. MACK. Well, I think some of those things can happen, especially in the commercial market you were talking about. I think we have not seen how difficult that can be, and it is just beginning. I do not think it will be at the same level or intensity of a downslide that we saw in residential, but there is a lot of pain to come in the commercial market.

Mr. FOSTER. Then maybe I will try putting you on the spot. If you would give an estimate for how many of the eight would survive—without pointing. Don't look or point but just make a guess.

Mr. MACK. I am not going to guess at that, Congressman.

Mr. FOSTER. Is anyone feeling more brave? You are shaking your heads. You won't do it.

Mr. BLANKFEIN. I can speak for ourselves. We would survive. But the nature of uncertainty and given enough time and the unpredictability of markets, look where we are and look how we wouldn't have foreseen it. So you have to prepare that anything can happen, even things worse than that. And then we have to build in expectations, and that is the world we are in.

On the other hand, at this point, given expectations are so low, it is worth pointing out the same way we have been in a bubble that is to the upside, we could very easily have been in a downward bubble. At this point, there is 100 percent of the world that is 100 percent pessimistic; and that may not turn out to be the case, either.

Mr. FOSTER. Well, do you routinely game out situations like I described to say what is our survival strategy under these things?

Mr. BLANKFEIN. Yes.

Mr. FOSTER. Everyone is nodding.

Mr. DIMON. What are your numbers again?

Mr. FOSTER. 11 percent unemployment, 25 percent further decline in real estate, and comparable problems in commercial real estate.

Mr. BLANKFEIN. That and beyond.

Mr. FOSTER. And beyond. Okay, so you actually think about downside things.

Mr. BLANKFEIN. We do the math, and our regulators observe us doing the math.

Mr. FOSTER. And have you in the past gamed out a 25 percent drop in real estate prices or was that just off your planning horizons?

Mr. BLANKFEIN. I am just not that conscious of it. But our plan, for example, in equity assumed a 50 percent drop in the equity market.

Mr. FOSTER. As of a year ago, you were thinking in those terms?

Mr. BLANKFEIN. Absolutely. We look in terms of standard deviations and percentage moves, and, yes, they would be very extreme.

Mr. LEWIS. We had 30 percent decline in real estate prices about a year ago.

Mr. FOSTER. So you saw this thing coming and were relatively quiet about it for quite a while.

Mr. LEWIS. No.

Mr. FOSTER. You gamed out a survival strategy.

Mr. LEWIS. Right.

Mr. FOSTER. That is different.

The other question I have has to do with alignment of incentives. And my attitude on that is I was a small businessman for many years, and it is now rather successful. But for about 20 years, I carried an unlimited personal guarantee in order to get the operating loan. And so that means if our company went under, I lost my house and everything else. You gentlemen are not in that situation.

And I was wondering, well, first off, have you ever heard of a compensation scheme that you think couldn't be circumvented is one question. When these things get suggested, I think the immediate thing—I know that—I certainly say, hey, you could game it this way or that way or the other way. Are you personally optimistic that if we chose to somehow limit compensation schemes that a way wouldn't immediately be found around it?

Mr. BLANKFEIN. Well, our goal isn't—the goal is we are the leaders of our firm. Our legacy is how well our firms do. We want to keep the alignment of our people with the fortunes of the firm. And we have suggestions for how to do this, especially as you climb up the letterhead and you get to the more senior people, paying people in relationship to how the whole company does and making them keep that payment, the bulk, in stock.

Mr. FOSTER. But do you believe that has been done so far in the industry? I mean, I think there seems to be almost a consensus that there is a misalignment of incentives issue that is largely—

Okay. I will give you follow-up written questions, actually.

The CHAIRMAN. The gentleman will do written questions.

I was very pleased with the gentleman's question about survival and your answers. But I am afraid that some time later in the evening, I am going to be seized by the image of the eight of you standing up singing, "I will survive," and I hope that I am not.

The gentleman from Indiana.

Mr. CARSON. To add on to my colleague's point, as you know, this committee will address the issue of moral hazard and regulatory reform in the coming months. Some of the reform provisions mentioned by Chairman Frank for this legislation are critically important in my view because of the incentivized high-risk behavior within this particular industry that helped fuel the market downturn, as we know.

While we looked for your companies to exhibit tremendous leadership in this crisis, to Congressman Donnelly's point, we heard reports of bonuses and acquisitions and sponsorships and so forth. As you all know, the public—to Donnelly's point—I am from Indiana as well—the public doesn't believe that you guys have learned from your errors. And before you answer, keep in mind that over 100,000 Hoosiers lost their jobs last year, and much of the TARP assistance will be paid for in part by my constituents.

Now, the question for me becomes I want to know how—what specifically will your companies do to better monitor internal risk assessments and reform your compensation policies?

Mr. MACK. Well, Congressman, in our case, on the risk assessment, we have just completed a risk assessment with an outside consultant working with our audit committee. We have enhanced our credit risk controls and market risk controls. I think we have added an additional 67 people since about 6 months ago. So we are very focused in looking at risk, how we manage risk, how do we learn from mistakes we have made.

On compensation, the thing that we have introduced is a clawback. One of the things that has frustrated me is that oftentimes you come to year end, you pay someone on record revenues for their area, only to find out 3 months later or 6 months later that position ends up losing money. So we have a 3-year clawback.

And I think as we look at our business all of us are going to try to figure out how do you continue to tie performance compensation to the overall firm and making sure that people are vested in the firm on a long-term basis, not year to year. I think that is the goal of all of us to do that.

Mr. CARSON. Thank you, sir.

The CHAIRMAN. The gentlewoman from California.

Ms. SPEIER. Thank you, Mr. Chairman.

Thank you, gentlemen, for your testimony today.

Mr. Blankfein, there is a question I wanted to ask you for months. In September, when Secretary Paulson and Chairman Bernanke met that weekend and made the decision to save AIG and to allow Lehman Brothers to fail, and I think Bank of America picked up Merrill at that point, there was reference made to the fact that you were there. And there were subsequent discussions as to whether or not Goldman Sachs was a counterparty. And, if so, I would like to know how much money you received back from AIG for credit swaps.

Mr. BLANKFEIN. First of all, AIG was a big counterparty. Many firms were a counterparty.

I said—in response to another question, I pointed out that we had no credit exposure to AIG because we had a collateral arrangement and credit mitigant bonds. So we had no exposure to AIG.

As far as participating in meetings at the Fed, we are a very big advisory firm, we have particular expertise in financial institutions, and we were called by the New York Fed to lend assistance to try to look for a private market solution for AIG. This is following the Lehman Brothers weekend.

Ms. SPEIER. All right. Thank you.

The Congressional Oversight Panel has put out a chart that suggests that, for most of you, the taxpayers are now subsidizing you, that the value of the contract that was let is one now that is underwater. In fact, $78 billion worth of a subsidy.

The question I have and I think the question a lot of my constituents have—in fact, I have gotten plenty of questions to ask you today, much like many of my colleagues—is if I am subsidizing you—I, the taxpayer—am subsidizing you to the tune of $78 billion because what we have loaned you is now not valued at the same amount, why is it I have to pay an interest rate for my credit cards at 18 or 20 percent? Why is it you can get money for 5 percent from TARP, and I am paying 18 percent, and I am subsidizing your business?

So my question to you, each of you, is are you willing to reduce the credit card rates that you charge your customers as being a TARP participant?

Mr. BLANKFEIN. We are not in the credit card business.

Ms. SPEIER. Mr. Dimon.

Mr. DIMON. Every business has its own financial dynamics.

Ms. SPEIER. I am just asking the question, yes or no.

Mr. DIMON. The answer would be no.

Ms. SPEIER. Okay. Mr. Kelly, you are probably not in the business, correct?

Mr. KELLY. We are not, no.

Ms. SPEIER. Mr. Lewis.

Mr. LEWIS. No.

Ms. SPEIER. Mr. Logue.

Mr. LOGUE. No, we are not in the business.

Ms. SPEIER. Mr. Mack.

Mr. MACK. We are not in the business.

Ms. SPEIER. Mr. Pandit.

Mr. PANDIT. Case by case.

Ms. SPEIER. Mr. Stumpf.

Mr. STUMPF. No.

Ms. SPEIER. So what is the interest rate you are charging, for those of you in the business on credit cards?

Mr. LEWIS. It is a range. It is a range of 9 or 10 percent to 20-something percent.

Ms. SPEIER. To what, 27 pecent?

Mr. LEWIS. 20-something percent.

Ms. SPEIER. 20-something percent.

Do any of you believe that we should have a law in America that has a usury rate? Do you think there is ever a rate that is usurious, that is obscene, that shouldn't be charged, 36 percent usurious? Could you answer that?

Mr. DIMON. I think there should be a usurious rate, yes; and I believe there are by State. I mean, you can decide. I think it is a different number in different businesses, but I think there should be a usurious rate, yes.

Ms. SPEIER. There is a GAO report that just came out in December of 2008, and it talked about the number of the biggest financial institutions both in size and in their bailout receipts and that they maintain revenues in offshore tax haven countries where there are no or nominal taxes and minimal, if any, reporting. According to the Department of the Treasury reports, the U.S. Government loses $100 billion a year in tax revenue from these tax dodges from all sources, including these firms.

For instance, Citigroup claims 427 different overseas locations or tax jurisdictions, 90 in the Cayman Islands alone. And, by the way, you are receiving a 38 percent subsidy from the taxpayers right now.

Morgan Stanley has 273 locations of which 158 or well more than half are in the Cayman Islands. Again, Morgan Stanley has about an 18 percent subsidy from the taxpayers right now.

Are you willing to bring those offshore tax havens home to America?

Mr. MACK. Congresswoman, I would have to give you the exact details and come back to you. I think a number of those are either partnerships or vehicles we have made structured for clients or structured for an offshore business. I cannot give you the complete answer, but I will give you the answer when I return.

Ms. SPEIER. Thank you.

The CHAIRMAN. The gentleman from Florida.

Mr. GRAYSON. Thank you, Mr. Chairman.

Gentlemen, I received over 500 e-mails from my constituents concerning this hearing. Let me read two of them to you.

Barbara Ruffo of Winter Garden writes, “One executive bonus could build one school. Imagine what all that bonus money could do.”

Frank Kruszewski of Orlando writes, “Put them all in jail, which is where I would be if I robbed a financial institution.”

I would like to go back to Mr. Green's earlier question about where all the money went, and I would like to focus specifically on a deal the government made several months ago with Citigroup. I provided a copy of the Section 129 report on that deal, which, of course, you already have, to Mr. Pandit at lunchtime. So you have had several hours to examine the details of the deal itself. Let us talk about where all the money went.

Mr. Pandit, that was a $306 billion deal, correct?

Mr. PANDIT. $301 billion, Congressman.

Mr. GRAYSON. Well, let us take a look at page 3 under heading number 2. Treasury and the FDIC also have agreed to share with Citigroup losses on a designated pool of up to $306 billion in primarily mortgage-related assets. What is the difference here? 301? 306?

Mr. PANDIT. 301 is the number, Congressman.

Mr. GRAYSON. Well, you know, a billion here a billion there. Soon you are talking real money, Mr. Pandit.

Mr. PANDIT. I understand. I just want to make sure that we are speaking of the same number.

Mr. GRAYSON. All right. Now, in this deal, Citibank took the first $29 billion in losses, and then the taxpayers take 90 percent of the remainder, is that correct?

Mr. PANDIT. The first $30 billion of the losses and then Citigroup takes the remaining 10 percent.

Mr. GRAYSON. Well, further down in that paragraph, which we have extra copies of if anybody wants to see it, it says, under the terms of the guarantee arrangements, Citigroup will first bear responsibility for any losses on these assets that exceed the company's current reserves and marks up to a maximum of $29 billion. Do you see that?

Mr. PANDIT. I do. The number is $30 billion, Congressman.

Mr. GRAYSON. Are you saying the number 29 is the number 30?

Mr. PANDIT. The only thing I will say to you is that this was put out—I don't know when this was put out. But what I do know is we finalized the terms of this thing with the Federal Reserve Bank and the government I think about a month ago, and some of those things did change. I just wanted to bring that to your attention.

Mr. GRAYSON. Well, the bottom line—you can correct me if I'm wrong, Mr. Pandit—that the government has assumed liabilities here for this designated pool that amount to $250 billion more or less, isn't that correct?

Mr. PANDIT. Congressman, we bought insurance from the U.S. Government. We paid a little bit more than $7 billion for buying insurance. That allowed us to take the first $30 billion of losses and then 10 percent of losses after that.

Mr. GRAYSON. You call it insurance, but that word does not appear anywhere in this document, does it?

Mr. PANDIT. You did give this to me at lunch. I have to apologize. I didn't get the time to read it that carefully, but it was insurance.

Mr. GRAYSON. So the government gets $7 billion in preferred stock, and the government is on the hook for $250 billion in losses, is that correct?

Mr. PANDIT. We are on the hook first for the losses we talked about; and the $7 billion of insurance is for losses beyond that, not unlike every other insurance contract. Whether you buy insurance on your house, your car, you know, you pay insurance premiums. You are on the hook for your deductible, and then, of course, the insurance company is liable for the value beyond that.

Mr. GRAYSON. You tell me, Mr. Pandit, where I can get a deal like this, where I can get $250 billion in insurance, as you put it, for toxic assets that barely have a bid in the marketplace and only pay $7 billion for that. You tell me where I can get a deal like that.

Mr. PANDIT. Congressman, the only thing I will say to you is that these aren't necessarily toxic assets at all. The government has gone through these assets very carefully. They have gone through what the expected losses might be on this. They did their work. And I think that is an important aspect that is not in this document.

Mr. GRAYSON. Well, if it turns out that they are not truly toxic and there is an upside, who gets the upside?

Mr. PANDIT. The losses and the profits are netted on this pool, off assets, and if there are profits beyond that, they are Citi's profits.

Mr. GRAYSON. Right. So you get 100 percent of the upside and the government gets 90 percent of the downside, correct?

Mr. PANDIT. That is what the insurance contract is designed to do.

Mr. GRAYSON. Have you heard the phrase, Mr. Pandit, "Heads, I win; tails, you lose?"

Mr. PANDIT. I appreciate that, Congressman. I don't think it applies here.

Mr. GRAYSON. Is this on your balance sheet, this arrangement?

Mr. PANDIT. Yes, it is, Congressman.

Mr. GRAYSON. Do you know if it is on the Federal Reserve's balance sheet they are responsible for $234 billion of losses? Do you know if the Federal Reserve put it on its balance sheet?

Mr. PANDIT. Congressman, I couldn't tell you. I think there is—some of this is with the FDIC. Some of this is with the Treasury. Some of this is with the Federal Reserve. I don't know the exact details. I will be happy to get back to you.

The CHAIRMAN. The gentleman's time has expired.

The gentleman from Connecticut.

Mr. HIMES. Thank you, Mr. Chairman, and thank you to all of you for appearing before this committee today.

You are on the hot seat today and rightly so. And I am pleased that many of you to a lesser or a greater extent have acknowledged that your institutions took risks that might be charitably characterized as imprudent. But, of course, you are a part of the problem.

We find ourselves where we are today as a result of a willing suspension of disbelief by lenders and borrowers around the world and as a result of a massive failure of our regulatory apparatus. I am not sure we can legislate against a willing suspension of disbelief, and we will see whether we can recraft a regulatory structure that makes sure we never find ourselves here again.

So that brings me back to the question of risk and really the heart of two questions that I have. We will get less involved I think to the extent that risk resides with those who take that risk, to the extent that you all and your organizations eat your own cooking. And I get really interested in ways that we can make sure that is true.

I have heard a lot about compensation. I will just ask this question because I want to get on to a different question. Are any of you unwilling to affirmatively commit to this committee that you will research, consider, and implement compensation structures that reward your people for good, long-term value creation and that guard against taking excessive risk?

Let the record show that nobody is raising their hand.

Mr. MACK. We will.

Mr. HIMES. Mr. Mack.

Mr. MACK. Yes.

Mr. HIMES. Okay. Thank you.

On to another topic I am very interested in. In the spirit of eating your own cooking, mortgage brokers issuing more underwriting, issuing mortgages and then bearing no risk, people underwriting IPOs that 2 years later crater securitizations, that find their way through a long chain of ownership but the original underwriters bear no consequence for their ultimate failure.

My question—and let me start with Mr. Pandit, as a very large issuer of securities and lender. What if we started thinking about asking issuers of securities, whether we are talking about underwriters of IPOs or mortgage brokers issuing mortgages, to retain a very small top loss position, an equity position, if you will. And I know that will cut liquidity in lots of markets, and I know that will put a burden on your capital. But I am okay with that as a matter of principle, given where we are. As an idea, good, bad, should we pursue it?

Mr. PANDIT. Congressman, there are established markets with established standards and established protocols; and then there are markets that are newer.

You talk about the mortgage market. Owning part of what you originate is one solution. There are lots of other solutions. Those solutions could be around regulation. It could be around standards that you impose on origination. I think we should look at the whole package and then come to a decision, but we do need to do something to change the structure that was in place.

Mr. HIMES. Thank you.

And let me open this up. Is there any good reason why we shouldn't—and by "good reason," I mean a reason that would put taxpayers at risk in the future—look at structures which, if you put together a massive securitization, fine, sell 98 percent of it, retain 2 percent; if you underwrite an IPO, fine, sell 98 percent of it, retain 2 percent. Is there a good counterargument against that kind of thinking?

Mr. MACK. Well, if you were in a market—let us go back to the Internet boom that we had in the mid-1990's all the way up into 2000, 2001. The volume of new issues that came from banks and Wall Street would have been so large that I think you would put a burden on balance sheets if you had that 2 percent retention.

Clearly, in a market when volume is very low, that would not be an issue. Oftentimes I think the focus should be much more on the diligence, the due diligence that is done other than retaining it. And also there are today, I think SEC, when we price a new issue, we have to distribute it. If we hold it back, we can hold it back, but it is for sale and not to be retained on a permanent basis.

Mr. HIMES. Thank you, Mr. Mack. That is a fair point. But I think your Internet example is a good one. I might suggest—and

I would ask if you agree—that perhaps, given what happened to the Internet underwritings, perhaps that is not the best example. Perhaps if there had been a retention of some top loss position, volume would have been down, but perhaps risk would have been reduced.

Mr. MACK. Well, in many of the companies that we underwrite, and not only are we doing the equity deal but we have loans to them, we are very much involved. This is not price an issue and walk away from it.

So I would say there are better ways. I think Mr. Pandit was right. I think you need to look at a number of ways in how to ensure that when we do underwritings we are bringing you something that has really been scrubbed down, is a viable business or concept. There is no simple way of doing it. But I think we need to look at the whole package and how can we do it better.

Mr. HIMES. Thank you.

Mrs. MALONEY. [presiding] The gentleman's time has expired.

Mr. BACHUS. Madam Chairwoman, it is my understanding that we are going to cut this hearing off at 5 o'clock. Is that correct?

Mrs. MALONEY. That is correct. And we have two more gentleman who wish to question—three.

The Chair recognizes Mr. Peters for 5 minutes.

Mr. PETERS. Thank you, Madam Chairwoman.

I have a question. I don't want to belabor this, because you have all heard from many Members of Congress already talking about the inability to get credit in their respective districts all across the country.

But I represent the State of Michigan, and I am going to follow up a little bit on a colleague of mine who talked about this problem that I am hearing constantly from my constituents, is that we understand that credit is tight all over the country, but there is a feeling from people in Michigan—and Michigan, in particular, because we lead the country now in the unemployment rate, as well as the problems with the auto industry—that loans, in particular from money center banks, are simply not available to small businesses. And the businesses that could get credit in the past, even if they can get it, it is at prices that simply just make it unaffordable.

I don't expect detailed answers now, but I know, Mr. Dimon, Mr. Lewis, you have substantial operations in Michigan. Maybe first off, is there a basis for that, that your lending operations in Michigan are less than other States? And would you be willing to provide me with actual numbers that would let me go back to my constituents and say that Michigan is not being singled out, Michigan is not a State that is a more difficult place to do business, therefore leading to the spiral downward that we are experiencing in our State?

Mr. LEWIS. Well, first, absolutely, redlining or whatever you want to call it, it is not the case. We want to make every good loan anywhere we can make it. Obviously, if you lead the Nation in unemployment, then we will be lending less there than we would somewhere that had a better employment rate. But our attitude toward Michigan is no different than any other State. We want to make every good loan we can.

Mr. DIMON. Yes, I agree with Mr. Lewis. We look at loan by loan, industry by industry. There is no redlining of a State. We do a lot of business in Michigan, and we have a deep appreciation of how difficult it has been there. And we also have enormous exposure to the car companies, the auto companies, auto finance in Michigan today.

Mr. PETERS. Well, I want to follow up on that. And I appreciate both your comments, but is it possible to get numbers so I can just get a sense of how the loan volume is different in Michigan than other States? Would you both be willing to provide that information?

Mr. DIMON. I would be happy to do that, yes.

Mr. LEWIS. Yes.

Mr. PETERS. Mr. Lewis, as well. We will follow up on that.

I want to get back to the auto industry, because obviously we have a very strong concern in the auto industry. And, surely, the impact of the credit crisis has hit the auto industry more than most industries, and the repercussions could be dramatic, not just in Michigan, but all over the country. Millions of jobs are at stake.

But also, if you look at the recovery of the economy, there isn't anything that is more powerful a stimulus in the economy than to get people buying automobiles, get the auto industry going. It has picked this country out of many recessions in the past, has the potential to do that again if managed well.

And you know that right now we are in a very precarious situation. In fact, the auto companies will come back to this committee on February 17th with their viability plans, and a part of those plans have to be plans that they have made with the stakeholders, both labor as well as the creditors.

How many of you are creditors to the auto industry, have substantial loans or substantial debt instruments of some form or another?

Basically all of you, except Mr. Stumpf. Everybody has it. Well, then, how many of you have received proposals from the auto companies?

Mr. MACK. When you say proposals, requests?

Mr. PETERS. Proposals from the auto companies to restructure that debt, which, as you know, is a condition that has placed on it to have substantial concessions from debt holders to renegotiate that debt. How many of you have already received specific proposals from the auto companies?

Mr. MACK. Congressman, I would have to check. We have a very active dialogue with the auto industry. And I will check when I am back and let you know exactly.

Mr. PETERS. I would appreciate that.

Mr. LEWIS. We are actually advising one of the companies on doing that. So we are in the middle of the execution of that, of the conversion from debt to equity.

Mr. PETERS. You are currently in negotiations?

Mr. LEWIS. We are currently executing on the game plan that we advised on.

Mr. PETERS. Oh, okay. So you are really, definitely down the road. Given that we have 6 days left before this plan, so you feel pretty good at where you are, Mr. Lewis?

Mr. LEWIS. We feel the pressure.

Mr. PETERS. You feel the pressure.

Any other gentleman as to where we are on that?

Mr. DIMON. We have had conversations with some of the companies, but I am not up to date on them.

Mr. BLANKFEIN. The same.

Mr. PETERS. Because it is critical. And there is a sense, in some meetings that we have had, that some of the creditors to the auto industry may believe that bankruptcy is a better option. That is something that I have very strong feelings about, that bankruptcy is not an option for the auto industry, given the warranty situation and also given the cascade effect that could occur for auto suppliers and hundreds of thousands of jobs around the country.

I want to get a sense, of those of you debtors to the auto companies, what is your sense? Are they better in bankruptcy? Or are you willing to step up to the plate and say, no, we will take considerable haircuts in order to save this industry, save these jobs, and get the American economy moving forward?

Mr. Dimon?

Mr. DIMON. Yes, I don't think it is an either/or. Okay? I think that all the things that need to be done need to be done whether it is in bankruptcy or not in bankruptcy. And I assure you, at the end of the day, it will cost us money; we will not make money on it.

Mr. BLANKFEIN. And there will be haircuts in either case.

Mr. DIMON. In either case, there will be haircuts, yes.

Mr. PETERS. Is one worse than the other?

Mr. DIMON. It depends on how they get structured.

Mr. PETERS. Okay. It is difficult to get financing in bankruptcy. It is going to be very difficult for these.

Mrs. MALONEY. The gentleman's time has expired.

Mr. PETERS. Oh, sorry. Thank you.

Thank you, gentlemen.

Mrs. MALONEY. Congressman Klein is recognized for 5 minutes.

Mr. KLEIN. Thank you very much, Madam Chairwoman.

And, gentlemen, it has been a long day. We understand that. It has obviously been a long number of weeks and months for the American people, which is why we are all collectively trying to get this right. And we appreciate the effort to get it right.

As I was listening to your presentations this morning and reading some of the background material, if I sort of got the impression, the impression was that we are doing our part, we are trying. Some statistics show there is some lending going on.

And I would certainly recognize and acknowledge right up front that you are all in different positions. Some of you are probably doing more than others. Some are deeper in a debt problem than others.

But what is clear to me, and I think what you have heard over and over again today, is, throughout the United States, when we speak to people at the local level, it is not translating through. It is not translating through in the form of access to credit for businesses. It is not translating through in access to credit for consumers.

I am from Florida, from south Florida, and I will tell you in a very dramatic way that there are some community banks that are certainly trying to do their best. There are some regional banks that are trying to help out with syndicates for lending and refinancing. But a whole lot of concern about the next round of problems is going to be real estate financing, shopping centers, office buildings, lots of things that either are getting called right now on technical defaults or their terms are up and they are being told you either have to put another $20 million into this thing or $1 million or $500,000 into this or we are not even going to take up the loan or consider it. Other situations—and I know many of these borrowers. They are very credit-worthy people. They are being given packages that just don't make any economic sense.

So I am expressing this because there is great concern in the greater economy once again. We have, already, problems with residential loans. We are now moving to the next round of understanding credit card debt. We are now talking about commercial loans and how this plays out.

So there is this great concern, and I don't know what the answer is. And I am hearing that, yes, you are doing more. And I am speaking to our community bankers, and they are trying. And I am hearing about the tension between the FDIC and mark-to-market issues and things like that. I am not hearing solutions. And I don't know where to take this conversation today to come up with some solutions.

I also want to express—and I know some of you have said the idea of, well, we will give the money back. Maybe we didn't want it in the first place; we will give it back. Some of you expressed that.

And I just want to point out that it is not just the TARP money. Many of had received great benefits with the Federal Reserve taking certain emergency actions. And those have been a bolstering on behalf of the United States and the taxpayers of the United States. So it is not just a question of we will write a check and then we are free of the concerns of the Federal Government. As taxpayers, we are all concerned about where this goes.

So maybe to start out with Mr. Lewis, or if a couple of you just want to comment, where do we go with the connection, the translation of, yes, we are lending, but nobody seems to be feeling it in the smaller-scale businesses and the residential consumers, as well as even the larger commercial transactions that may be occurring, certainly in Florida. And I appreciate the gentleman from Michigan and other places around the country.

Maybe, Mr. Lewis, if you can start.

Mr. LEWIS. Well, we seem to be looking for a very short-term quick fix. And all of us, I promise you, would like it. And the last 19 months has been unpleasant for the economy and the American people. And I think a number of things have to happen before we start to see us getting out of this.

And, as I mentioned, we have to be very focused on foreclosures. We have to get the housing prices to settle. We have to keep rates down on mortgages to keep the refi boom going. And we have to have this stimulus kick in to get the economy going and to create more demand and to get those marginal borrowers in better shape so that banks can lend to them.

Mr. KLEIN. Do you believe that this is more a question of that there really aren't enough borrowers out there that are credit-worthy? Because I am hearing from many of them, "We have a very strong balance sheet. I have had a relationship, banking relationship, with these lenders for many, many years. Things really haven't changed that much for me. But I am getting term sheets that come back that are just off the charts, and I can't do the deal, and it doesn't make any economic sense to do the deal."

Mr. LEWIS. Yes, I can't say that we could test and be perfect in every case. But, obviously, with our desire to make loans, we are trying to be as accommodative as we can. Usually when we hear the individual situation, there is something around loan-to-value, something in that area, that causes it not quite to be just the FICO score, for instance, on an individual.

But, again, the industry, at least in the big banks, are probably as liquid they we have ever been. We want to lend money, we have the capital, and so there is no reason to not make a good loan.

Mrs. MALONEY. The gentleman's time has expired. Congressman Maffei is recognized for 5 minutes.

Mr. MAFFEI. Congratulations, gentlemen, you have reached the last questioner.

I appreciate what all of you are saying. I do want to say that, you know, look, as a policy-maker, I am not sure if any of us care particularly about any of your individual institutions, but we want the system to go well. And, like my colleague from Florida and my colleague from Michigan, we have seen an awful lot of problems with the rubber hitting the road.

I do want to say that I think some of the questioning that you have gotten that has been a little bit leading has sort of been unfair. Many of you are reformers in your field, frankly, and you have been, to some extent, held responsible for the sins of your corporate fathers. And I don't want to do that.

But I am sure you can hear the frustration, and I am going to jump on the bandwagon in the same way, because, just like in Florida and Michigan and it seems many other parts of the country, people in my district are not seeing the benefits of the TARP program. If anything, they are having as difficult a time getting loans for everything from homes, small businesses. One bank not represented here I believe has probably frozen almost all the home equity lines of credit. And my district, my city, Syracuse, currently is, according to Forbes magazine, the second-best real estate market in the country. Our property isn't losing value because we never had the bubble so our bubble never burst.

So I do want to ask you again—and I will start with Mr. Dimon, because you do have facilities in my district. But do you have any suggestions for either the Administration or us, in terms of how do we craft a TARP program that will lead to more loans on the bottom?

I know the Federal Reserve says that you are loaning more. I am not saying it is necessarily your fault or anything. This is not normative. But what can we do to get more loans? You know, we are giving money to Wall Street; we need more loans on Main Street.

Mr. DIMON. All right. So I will just start by saying you know we are continuing that project at Syracuse University and the technology center, and we are not stopping that because of this crisis or anything like that. That will lead to jobs and education in your wonderful city.

Mr. MAFFEI. I am very excited about that, and I do think that it is exactly what we need in terms of the stimulus.

Mr. DIMON. So I think something we mentioned before is that a lot of non-banks did pull out of the system. So we have this little dichotomy where it wasn't all banks who pulled. There was a little confusion on what TARP was going to do.

I do believe, if we finish the stimulus package, if we finish the TALF, if Secretary Geithner finishes properly the mortgage financing, we finish the mortgage modification, we get some of these other programs in place, deeply understood, verify banks' balance sheets and capital—because I think that is the purpose of the stress test—and if we do it in a coherent, consistent, coordinated, intelligent way, it will work.

It will not work if we don't deal with all these issues and it is not coherent, it is not consistent, it is not well thought through, it is not synchronized. It will not work that way. And we have been suffering a little bit with that in the last 6 months or so.

Mr. MAFFEI. Mr. Lewis, you also have a lot of banks in my district. Do you have that same—

Mr. LEWIS. I agree with Mr. Dimon.

Mr. MAFFEI. Okay.

Mr. Pandit, Citi, the same thing, we have projects in my district that, frankly, seem as viable now as they were before, but they are having more and more trouble keeping their loan status. And some of those are Citi loans.

Mr. PANDIT. Banks are not the only institutions that have been lending money in the past. There have been finance companies, and also there has been funding that has been provided, loans that have been provided through securitizations.

Mr. MAFFEI. No, I understand that. But how can we make up for the lack of the securitization market? In other words, how can our TARP funds help you make up for some of that? I am not saying that—right, the problem isn't you, necessarily, but it is a problem.

Mr. PANDIT. The finance companies are finding it difficult to fund themselves in order to turn around and make loans. The securitization market is basically not there in the form that it was before. And I will speak for ourselves too: If we had more funding, we would go around and make more loans.

And the reality is the funding markets are very tight. Everything we borrow, we put out. Every deposit we get, we make a loan on. TARP capital we put out. If we had more availability of funding, we would make more loans too.

Mr. MAFFEI. But would those loans reach, sort of, the street level? I mean, isn't it easier to do the bigger loans than the smaller loans? You know, a small family or a student in college, that is where I am missing it.

Mr. PANDIT. And we see a lot of demand out there. Even through discipline and all other rigors, there is still a lot of demand out there. There is a shortage of funding in the marketplace to make loans.

Mr. MAFFEI. Gentlemen, thank you very much.

I yield back the balance of my time.

Mrs. MALONEY. Thank you very much for your testimony.

This hearing is adjourned.

[Whereupon, at 5:02 p.m., the hearing was adjourned.]

A P P E N D I X

February 11, 2009

Statement by Rep. Michele Bachmann
House Financial Services Committee Hearing
"Tarp Accountability: Use of Federal Assistance by the First TARP Recipients"

February 11, 2009

Thank you, Mr. Chairman.

I'm afraid that today's panelists have been invited to come before our Committee a little too late. It would have been more productive to have had them testify, as the Detroit automakers did, *before* $700 billion of taxpayer dollars was authorized to bailout financial institutions by the U.S. Treasury. It might have even been better to have had them here before Congress gave its blessing to the second half of that spending. But it seems that these days Congress is much more inclined to follow an "act now, ask later" philosophy, regardless of the consequences.

Unfortunately, many questions remain unanswered about where that money has gone, whether it's been spent wisely and properly, and whether it will have any long-term impact on stabilizing our financial markets and freeing up credit for businesses and families across America.

We've all seen the reports of giant bonuses, aircraft purchases, junkets and parties and other troublesome activities taken by institutions receiving taxpayer bailouts. And so far, the Troubled Asset Relief Program (TARP) has not produced results and has not demonstrated any accountablity to the taxpayers who have financed it.

Yesterday's announcement by Treasury Secretary Timothy Geithner was disappointing at best, as the plummeting stock prices attest. Michael Feroli of J.P. Morgan Chase expressed in the *Wall Street Journal* that, "The new plan discussed some of the ideas that have been floated in the media over recent days, and delivered some cosmetic re-labeling of existing programs, but many of the fundamental questions that former Secretary Paulson encountered last fall remain unanswered."

Regrettably, Secretary Geithner did not provide many new details about his plan to spend the next $350 billion tranche of the TARP. Even Paul Krugman of Princeton University stated, "So what is the plan? I really don't know, at least based on what we've seen today."

What we do know, Mr. Chairman, is that the American people deserve better than this. They deserve to have a government that takes the time to examine what will be best for the taxpayers of today without forgetting those who will be footing the bill tomorrow and beyond. And perhaps most importantly, they deserve to have an exit strategy from this bailout mania that's racking up a $9.7 trillion bill – and counting.

I look forward to hearing from today's witnesses and thank them for being here.

Thank you, Mr. Chairman, and I yield back the balance of my time.

Mike Castle
2/11/09

Statement by Michael N. Castle
Before the House Committee on Financial Services
February 11, 2009

Mr. Chairman. Thank you for holding today's hearing entitled "TARP Accountability: Use of Federal Assistance by the First TARP Recipients."

I, like many Delawareans are concerned with the topic of discussion today, which is tracking the Treasury's expenditure under the $750 billion Troubled Asset Relief Program (TARP). With that in mind, I would like to submit for the record a list of questions from Delawareans, who are looking to the witnesses today to provide sincere answers to their concerns.

Thank you Mr. Chairman.

OPENING STATEMENT OF CONGRESSMAN PAUL E. KANJORSKI

COMMITTEE ON FINANCIAL SERVICES

HEARING ON TARP ACCOUNTABILITY:
USE OF FEDERAL ASSISTANCE BY THE FIRST TARP RECIPIENTS

FEBRUARY 11, 2009

Mr. Chairman, today we will learn how some of the richest and most powerful men in America are spending billions of dollars of taxpayer money.

Because some of my colleagues will probably ask our witnesses to explain their enormous bonuses being issued at a time of great national suffering, I will not do so. And because my colleagues will likely inquire as to their ownership of numerous vacation homes while millions of Americans face foreclosure on the only home they have, I will leave that subject alone. Because some Members will doubtlessly seek to understand how you can underwrite frivolous junkets when most Americans would do almost anything for a job -- let alone a vacation -- I will defer that question, too.

Instead, I want to know where the money has gone and why it went there. My constituents in Northeastern Pennsylvania regularly ask me why you needed their money and how you are using it. This is your opportunity to explain to them just exactly what you are doing. And for anyone who contends that you do not need the money and that you did not ask for it, please find a way to return that money to the Treasury Department before you leave town.

As executives of large companies, you once lived behind a one-way mirror, unaccountable to the public at-large and often sheltered from shareholder scrutiny. But when you took taxpayer money, you moved into a fish bowl. Now, everyone is rightly watching your every move from every side. Millions are watching you today, and they would like some degree of explanation and responsibility. I do, too.

February 11, 2009

Opening Statement of Congressman Ed Perlmutter
"TARP Accountability: Use of Federal Assistance by the First TARP Recipients"

I read through your testimonies and each one of you describe how your individual financial institutions have increased lending to consumers, clients, small businesses and other eligible entities within your business models. However, when I travel my district talking to constituents who have had their small business credit lines cut, who can't find student loans for their kid's college, or reasonable terms for loans to buy a car, I have to wonder. If it were one or two incidents, I would chalk it up to sour grapes or bad credit, but its been far more prevalent.

Also, I understand the role banks play within the credit markets has decreased over the last 10 years, and the hedge funds, money market accounts and other entities which usually provide liquidity are on the sidelines. However those entities rarely ever provide credit directly to small businesses, homebuyers or farmers in my communities near Denver.

The relationship your banks have with the public, one in which each depends on the other, is shaky. The American taxpayer came to your aid through the actions of Congress to appropriate $700 billion to steady the financial markets last September and October when things looked bleak for the financial system. Now that the economy needs your support to loan to creditworthy businesses, homebuyers and farmers it appears that your companies have stepped back from one of your three key missions, lending. However some of you continue to pay extraordinary salaries, lavishly refurbish otherwise exquisite offices and purchase expensive jets.

All of you sitting before this committee today accepted taxpayer dollars, some more than others. Regardless, when tax payer money is put at risk, the rules of the game change. Accountability and transparency take precedence. It appears through the testimony today your banks tracked the use of TARP funds received between October and December of last year. Why didn't you show the American public how you were using their money? If you were lending on the levels all of you say you were lending, why wouldn't you want the American people to know how hard you were working? Your firms and banks are part of the broader industry which has a long way to go to regain the trust of the American public.

When Congress passed the Emergency Economic Stabilization Act, America averted a collapse of our financial system. I believe in some cases your banks are too big. They're so big they may pose a risk to our broader financial system today. In many cases the banks and firms that went under or were bought by other entities within the last year, were mismanaged. Congress can not allow for a mismanaged business to threaten the prosperity of all Americans. I look forward to working with my colleagues to create a regulatory structure for the 21st Century to prevent this downfall from happening again.

Opening Statement of Congressman Gary C. Peters
February 10, 2009
Financial Services Committee Hearing
TARP Accountability:
Use of Federal Assistance by the First TARP Recipients

The federal government has gone to extraordinary lengths to alleviate the financial crisis. I believe that the government has a responsibility to help families and small businesses. Therefore the assistance provided to the financial industry cannot merely be a bailout for banks and industry executives. Those companies that receive taxpayer funds have a responsibility to use that assistance to help us rebuild our shattered economy. This is not just a statement of principle, but one of practicality – if this industry is perceived as being unhelpful to our larger efforts it will erode the political will in Congress to continue to assist you.

There is a perception around the country, including in my home state of Michigan, that you are not doing your part to help support the larger economy. I have heard from small, medium, and even large businesses in my District who have said that their banks are not lending to them, are recalling their lines of credit, or are making credit so expensive that they cannot afford it. If this is true, it must be remedied. If it is not true, you need to do a better job of explaining how you are using TARP funds to the public.

I am also particularly concerned by conversations that I have had with representatives of the automobile industry. A vibrant and healthy domestic automobile industry is critical to the health of the overall economy. Right now Chrysler and General Motors are working very hard to prepare their viability plans, which are due to be delivered to Congress next week. In order for the auto companies to succeed they are going to need all the stakeholders to come to the table and make concessions. If they cannot get agreement from stakeholders they will be driven into bankruptcy, and the negative consequences of that on the larger economy are enormous. Some of you here today may be holding substantial amounts of General Motors or Chrysler debt, and those of you who do must engage in meaningful discussions with those companies about debt restructuring. With millions of Americans already out of work, this country cannot afford to have one or more of the domestic manufacturers be forced into bankruptcy.

I thank you for being here and I look forward to hearing your testimony today.

Opening Statement

Committee on Financial Services
Hearing on
"An Examination of the Extraordinary Efforts by the Federal Reserve Bank to Provide Liquidity in the Current Financial Crisis"

February 10, 2009

The Honorable Tom Price
[Georgia-6th District]

Lately, it seems as though every few weeks we see the creation of a new Federal Reserve lending facility. In an attempt to take on the troubled market head first, the Fed seems to have morphed its role as the manager of monetary policy into the more activist role – lender of first resort.

The Fed has exposed itself to an unprecedented amount of risk in these facilities by increasing its balance sheet and expanding its definition of acceptable collateral. In fact, the Fed has doubled its balance sheet since August, going from less than $1 trillion to approximately $2 trillion in the span of 5 months.

The Fed has taken extraordinary action to prevent large institutions from failing, but in the wake of these actions, we must consider the effects on our market based system. We are politicizing our economy by allowing the government to designate certain institutions as "too big to fail." In a political economy, where we currently find ourselves, the government picks winners and losers, decides who is propped up and who fails. In this political economy, losses are socialized while profits are privatized. This is NOT the type of economy that has allowed America to become the leader of the world and it is not the type of economy the American people want.

While I firmly believe the Fed's ability to respond to the market is crucial, it is equally crucial that Congress and the American public have a solid understanding of why the Fed takes certain actions and why these actions are absolutely necessary to stabilize the economy.

Ultimately, it is imperative that we examine any way in which government intervention in the market is keeping private capital on the sidelines. As long as the government is picking winners and losers, deciding who gets rescued and who fails, private investors will make the decision that makes the most financial sense to them. They will hold onto their funds or invest them elsewhere. How can we expect private capital to participate when their investment may be diluted, or their competition may be propped up by the government?

My constituents want to know what the exit strategy for all this government intervention looks like. My concern, however, is that in the wake of the administration's announcement this morning, we are moving in the wrong direction. With more taxpayer dollars on the line and more risk being assumed by the government, we need the justification for why "more" is going to work, when everything we have done to this point has not. When will we allow the wonders and responsiveness of our market economy to work, to guide our way forward for the betterment of all?

Charlie Wilson Opening Statement
TARP Accountability: Use of Federal Assistance by the First TARP Recipients
February 11, 2009

Thank you Chairman Frank for convening this hearing, I think it is very timely.

Panel—thank you for coming today. I am very sure this will not be the best day of your life. We all have some hard questions for you—questions, that as a former CEO I would never want to take.

We have all been disappointed in the lavish trips you all have planned, the planes you wanted to buy, the fields you want to name and most disturbing the bonuses that you rewarded yourselves with after driving your companies into the ground.

Back home, I get questioned about how we let this happen--about how we could let you all do this with their money.

When you take taxpayers dollars to earn your living, you have to lead your life in a much more transparent and responsible manner. You have to live that life until you can get your company off the government dime.

You certainly can't expect the taxpayers to reward you for bad decisions that caused your industry to fail. Those are the bad decisions that required you to need taxpayer assistance.

Today, I hope we can learn how you are going to use taxpayer dollars to pull your companies up and out of this turmoil. I think that you owe the taxpayers, those who've helped you for so long now, an explanation and a promise that you will be doing everything in your power to get our economy moving again.

Testimony of Lloyd C. Blankfein
Chairman and CEO, The Goldman Sachs Group, Inc.
House Committee on Financial Services
February 11, 2009

Chairman Frank, Ranking Member Bachus, and Members of the Committee:

I appreciate the opportunity to appear before you today to provide information with respect to Goldman Sachs' use of the investment that we received under the TARP Capital Purchase Program.

It is abundantly clear that we are here amidst broad public anger at our industry. In my 26 years at Goldman Sachs, I have never seen a wider gulf between the financial services industry and the public. Many people believe – and, in many cases, justifiably so – that Wall Street lost sight of its larger public obligations and allowed certain trends and practices to undermine the financial system's stability.

The fact is that all of us are contending with the consequences of a deteriorating economy; lost jobs, lost orders, and lost confidence. Our industry simply cannot sustain itself without a healthy, resilient economy. And, Main Street cannot prosper without financial institutions that are strong enough to provide capital to entrepreneurs, businesses and consumers.

We have to regain the public's trust and do everything we can to help mend our financial system to restore stability and vitality. Goldman Sachs is committed to doing so.

<u>The TARP Capital Purchase Program And Our Role in the Capital Markets</u>

We take our responsibility as a recipient of TARP funds very seriously. We view the TARP as important to the overall stability of the financial system and, therefore, important to Goldman Sachs. This capital, combined with the more than $10.75 billion of capital we raised three weeks before receiving the TARP funds, gives us an even stronger balance sheet and increases our ability to inject liquidity across markets and extend capital to our clients.

In that vein, the Committee has asked for our understanding of the purpose of the TARP assistance. We understood that the capital we and other institutions received was designed to promote the safety and soundness of institutions deemed important to the functioning of the financial system. Adequately capitalized, these institutions would have the wherewithal to promote the flow of credit amidst potentially deteriorating economic conditions.

In terms of the planned use for the funds prior to their receipt, we were not anticipating any injection of capital from the Treasury. On September 23rd, Goldman Sachs raised $5 billion from Warren Buffett. The following day, we raised another $5.75 billion in a common stock offering, and could have raised more as the offering was substantially oversubscribed. On October 14th, the Treasury Department announced the Capital Purchase Program (CPP).

We are actively putting our capital to work. Goldman Sachs serves a number of important roles for our clients, including that of advisor, financier, market maker, asset manager and co-investor. Our business is institutionally dominated, with the vast majority of our capital commitments made on behalf of corporations and institutional investors. We are not engaged in traditional commercial banking and are not a significant lender to consumers.

As a financial institution focused on this "wholesale" client base, Goldman Sachs actively provides liquidity to institutions which helps the capital markets function. In short, our businesses require that we commit capital, and our ability to do so has been enhanced since receiving capital under the Capital Purchase Program.

First, through our role as a financier, clients frequently expect our advice to be accompanied by access to the capital necessary to make that advice actionable and practical. For instance, we often provide back-stop or contingent credit, such as a commitment to make a bridge loan until other sources of more permanent capital can be arranged.

Since receiving the $10 billion of capital on October 27th and through January 2009, Goldman Sachs has committed over $13 billion in new financing to support our clients. This compares with $4.5 billion in the three months prior to receiving the government's investment.

For example, we put our capital to work on behalf of Sallie Mae to allow them to provide more than $1.5 billion of student loans. We made a significant investment in the C.J. Peete Apartments Housing Complex, a mixed-income housing project in New Orleans. We also committed capital to Verizon Wireless, Pfizer and a number of other significant corporations.

As a market maker, we provide the necessary liquidity to ensure that buyers and sellers can complete their trades. In dislocated markets, we are often required to deploy capital to hold client positions over a longer term while a transaction is completed.

In recent months, this has been especially true as we have helped our corporate and investing clients manage their exposure to interest rate risk, swings in commodity prices and movements in currencies. More broadly, we have seen widespread de-leveraging. As institutional investors reduce their various risk exposures, they turn to firms like Goldman Sachs, which play the role of intermediary. This ability to help our clients effectively manage their risk requires the active and significant commitment of capital.

Last month, for instance, we provided short-term liquidity to a portion of the mortgage market through a large agency mortgage transaction. This significant extension of our capital helped keep mortgage rates from increasing by allowing billions of dollars of mortgage securities to be financed.

Additionally, the role we play as a specialist and market maker in NYSE listed stocks has grown increasingly significant, particularly in volatile markets when liquidity demands are higher. For instance, in certain shares, our specialist business may account for nearly one-quarter of total trading in a particular stock.

We also recognize the importance of being an active co-investor with our clients. Over the summer, we established a $10.5 billion senior loan fund which makes loans to companies in need of capital. The fund invests both our own capital and that of our clients. This is significant because, in many cases, the normal market mechanisms to facilitate the extension of credit in many areas have broken down. Investors are wary of credit ratings and are reluctant to invest their own money directly. They are looking for some assurance of quality before they are willing to commit capital.

Through this fund, each dollar that Goldman Sachs commits is multiplied many times over as we attract capital from our clients. Already, the fund has made approximately $5 billion in loan commitments.

In the next year, Goldman Sachs intends to launch additional funds to inject capital across the corporate capital structure. These funds will extend needed capital to a variety of companies whose growth opportunities would otherwise be limited in this extremely tight credit environment.

In addition to how we are using the TARP funds, the Committee asked if we are tracking the investment, and if so, how.

We have been tracking the level of capital we commit on behalf of our clients since we received the funds under the CPP. As I indicated earlier, we have made over $13 billion of capital commitments since October 27th, and this amount doesn't include the capital we extend as a market intermediary and co-investor. That compares with $4.5 billion in the same period before we received the investment.

First, we have a Capital Committee which reviews and approves all transactions involving commitments of the Firm's capital. The committee is comprised of our most senior people.

The Committee prepares a weekly report, tracking capital commitments made and those pending. It looks at previous week, monthly and quarterly levels to gauge the level of commitments we have made. Each week, a senior leadership group, including me, reviews the level of capital commitments. Of course, the goal is not to blindly lend or commit to lend money, but if volumes change significantly, senior management gets directly involved with the relevant businesses to understand the reasons.

In terms of the expectations and conditions communicated on receipt of TARP investment, they are laid out in the Securities Purchase Agreement and encompass provisions with respect to dividend restrictions, redemptions, repurchases and executive compensation.

Lastly, the Committee has asked us to address our compensation policies and practices. Since we became a public company, we have had a clear and consistent compensation policy. We pay our people based on three factors (1) the performance of the firm; (2) the performance of the business unit; and (3) the performance of the individual.

We believe this approach has incentivized our people to act in a way that supports the firm as a whole and not be parochial or narrow minded about their specific division or business unit. More broadly, it has produced a strong relationship between compensation and performance.

Since going public in 1999, Goldman Sachs has exhibited a near perfect correlation between changes in net revenues and compensation. From 2000 to 2007, Goldman Sachs has produced a compounded annual growth rate of over 20 percent in earnings per share and 16 percent in book value per share. Adjusted for increased head count over the period, aggregate compensation expense has increased less than 10 percent per year.

For our nine full years as a public company, which includes an exceptionally difficult 2008, Goldman Sachs generated an average return on equity of approximately 21 percent for our shareholders.

While the firm produced a profit of $2.2 billion in 2008, our revenues were down considerably. Compensation across the firm, dictated by our policies and practices, reflected that. End of year bonuses were down on average 65 percent. Our most senior people -- the firm's approximately 417 partners -- were down approximately 75 percent.

The bulk of compensation for our senior people is in the form of stock, which vests over time. I would also note that Goldman Sachs has never had golden parachutes, employment contracts or severance arrangements for its executive officers.

Although we believe our policies and practices have proven to be effective in setting compensation, we also recognize that having TARP money creates an important context for compensation. That is why, in part, our executive management team requested not to receive a bonus in 2008, even though the firm produced a profit.

Going forward, we should apply basic standards to how we compensate people in our industry. The percentage of the discretionary bonus awarded in equity should increase significantly as an employee's total compensation increases. An individual's performance should be evaluated over time so as to avoid excessive risk taking. To ensure this, all equity awards need to be subject to future delivery and/or deferred exercise. And, senior executive officers should be required to retain most of the equity they receive until at least they retire, and equity delivery schedules should continue to apply after the individual has left the firm.

Conclusion:

Mr. Chairman, our firm recognizes the extraordinary support the government has provided to the financial markets and to our industry. We will live up to the spirit and letter of the responsibilities our regulators, the Congress and the public expect of us. And we will do so whether we still have TARP funds or not.

While mindful of the fragility of market conditions, Goldman Sachs' financial position is sound. Given the reduction in our risk exposures in 2008, immaterial direct consumer exposure, and strong capital and liquidity levels, we believe we are well-positioned to continue to commit capital as a financier, market maker and co-investor to and with our clients.

We appreciate that the TARP funds were never intended to be permanent capital. When conditions allow and with the support of our regulators and the Treasury, we look forward to paying back the government's investment so that money can be used elsewhere to support our economy.

FT.com FINANCIAL TIMES COMMENT OPINION

Do not destroy the essential catalyst of risk

By Lloyd Blankfein

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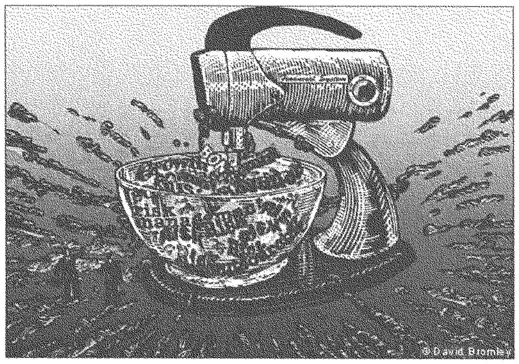
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Since the spring, and most acutely this autumn, a global contagion of fear and panic has choked off the arteries of finance, compounding a broader deterioration in the global economy.

Much of the past year has been deeply humbling for our industry. People are understandably angry and our industry has to account for its role in what has transpired.

Financial institutions have an obligation to the broader financial system. We depend on a healthy, well-functioning system but we failed to raise enough questions about whether some of the trends and practices that had become commonplace really served the public's long-term interests.

As policymakers and regulators begin to consider the regulatory actions to be taken to address the failings, I believe it is useful to reflect on some of the lessons from this crisis.

The first is that risk management should not be entirely predicated on historical data. In the past several months, we have heard the phrase "multiple standard deviation events" more than a few times. If events that were calculated to occur once in 20 years in fact occurred much more regularly, it does not take a mathematician to figure out that risk management assumptions did not reflect the distribution of the actual outcomes. Our industry must do more to enhance and improve scenario analysis and stress testing.

Second, too many financial institutions and investors simply outsourced their risk management. Rather than undertake their own analysis, they relied on the rating agencies to do the essential work of risk analysis for them. This was true at the inception and over the period of the investment, during which time they did not heed other indicators of financial deterioration.

This over-dependence on credit ratings coincided with the dilution of the coveted triple A rating. In January 2008, there were 12 triple A-rated companies in the world. At the same time, there were 64,000 structured finance instruments, such as collateralised debt obligations, rated triple A. It is easy and appropriate to blame the rating agencies for lapses in their credit judgments. But the blame for the result is not theirs alone. Every financial institution that participated in the process has to accept its share of the responsibility.

Third, size matters. For example, whether you owned $5bn or $50bn of (supposedly) low-risk super senior debt in a CDO, the likelihood of losses was, proportionally, the same. But the consequences of a miscalculation were obviously much bigger if you had a $50bn exposure.

Fourth, many risk models incorrectly assumed that positions could be fully hedged. After the collapse of Long-Term Capital Management and the crisis in emerging markets in 1998, new products such as various basket indices and credit default swaps were created to help offset a number of risks. However, we did not, as an industry, consider carefully enough the possibility that liquidity would dry up, making it difficult to apply effective hedges.

Fifth, risk models failed to capture the risk inherent in off-balance sheet activities, such as structured investment vehicles. It seems clear now that managers of companies with large off-balance sheet exposure did not appreciate the full magnitude of the economic risks they were exposed to; equally worrying, their counterparties were unaware of the full extent of these vehicles and, therefore, could not accurately assess the risk of doing business.

Sixth, complexity got the better of us. The industry let the growth in new instruments outstrip the operational capacity to manage them. As a result, operational risk increased dramatically and this had a direct effect on the overall stability of the financial system.

Last, and perhaps most important, financial institutions did not account for asset values accurately enough. I have heard some argue that fair value accounting – which assigns current values to financial assets and liabilities – is one of the main factors exacerbating the credit crisis. I see it differently. If more institutions had properly valued their positions and commitments at the outset, they would have been in a much better position to reduce their exposures.

For Goldman Sachs, the daily marking of positions to current market prices was a key contributor to our decision to reduce risk relatively early in markets and in instruments that were deteriorating. This process can be difficult, and sometimes painful, but I believe it is a discipline that should define financial institutions.

As a result of these lessons and others that will emerge from this financial crisis, we should consider important principles for our industry, for policymakers and for regulators. For the industry, we cannot let our ability to innovate exceed our capacity to manage. Given the size and interconnected nature of markets, the growth in volumes, the global nature of trades and their cross-asset characteristics, managing operational risk will only become more important.

Risk and control functions need to be completely independent from the business units. And clarity as to whom risk and control managers report to is crucial to maintaining that independence. Equally important, risk managers need to have at least equal stature with their counterparts on the trading desks: if there is a question about the value of a position or a disagreement about a risk limit, the risk manager's view should always prevail.

Understandably, compensation continues to generate a lot of anger and controversy. We recognise that having troubled asset relief programme money creates an important context for compensation. That is why, in part, our executive management team elected **not to receive a bonus in 2008**, even though the firm produced a profit.

More generally, we should apply basic standards to how we compensate people in our industry. The percentage of the discretionary bonus awarded in equity should increase significantly as an employee's total compensation increases. An individual's performance should be evaluated over time so as to avoid excessive risk-taking. To ensure this, all equity awards need to be subject to future delivery and/or deferred exercise. Senior executive officers should be required to retain most of the equity they receive at least until they retire, while equity delivery schedules should continue to apply after the individual has left the firm.

For policymakers and regulators, it should be clear that self-regulation has its limits. We rationalised and justified the downward pricing of risk on the grounds that it was different. We did so because our self-interest in preserving and expanding our market share, as competitors, sometimes blinds us – especially when exuberance is at its peak. At the very least, fixing a system-wide problem, elevating standards or driving the industry to a collective response requires effective central regulation and the convening power of regulators.

Capital, credit and underwriting standards should be subject to more "dynamic regulation". Regulators should consider the regulatory inputs and outputs needed to ensure a regime that is nimble and strong enough to identify and appropriately constrain market excesses, particularly in a sustained period of economic growth. Just as the Federal Reserve adjusts interest rates up to curb economic frenzy, various benchmarks and ratios could be appropriately calibrated. To increase overall transparency and help ensure that book value really means book value, regulators should require that all assets across financial institutions be similarly valued. Fair value accounting gives investors more clarity with respect to balance sheet risk.

The level of global supervisory co-ordination and communication should reflect the global inter-connectedness of markets. Regulators should implement more robust information sharing and harmonised disclosure, coupled with a more systemic, effective reporting regime for institutions and main market participants. Without this, regulators will lack essential tools to help them understand levels of systemic vulnerability in the banking sector and in financial markets more broadly.

In this vein, all pools of capital that depend on the smooth functioning of the financial system and are large enough to be a burden on it in a crisis should be subject to some degree of regulation.

After the shocks of recent months and the associated economic pain, there is a natural and appropriate desire for wholesale reform of our regulatory regime. We should resist a response, however, that is solely designed around protecting us from the 100-year storm. Taking risk completely out of the system will be at the cost of economic growth. Similarly, if we abandon, as opposed to regulate, market mechanisms created decades ago, such as securitisation and derivatives, we may end up constraining access to capital and the efficient hedging and distribution of risk, when we ultimately do come through this crisis.

Most of the past century was defined by markets and instruments that fund innovation, reward entrepreneurial risk-taking and act as an important catalyst for economic growth. History has shown that a vibrant, dynamic financial system is at the heart of a vibrant, dynamic economy.

We collectively have a lot to do to regain the public's trust and help mend our financial system to restore stability and vitality. Goldman Sachs is committed to doing so.

The writer is chief executive of Goldman Sachs

TESTIMONY OF JAMIE DIMON
CHAIRMAN & CEO, JPMORGAN CHASE & CO.
HOUSE FINANCIAL SERVICES COMMITTEE
FEBRUARY 11, 2009

Chairman Frank, Ranking Member Bachus, Members of the Committee, my name is Jamie Dimon, and I am the Chairman and Chief Executive Officer of JPMorgan Chase & Co. I am pleased to be here today to assure the Committee that we at JPMorgan Chase are doing everything we can to help restore confidence in the U.S. financial system and to ensure that we are fulfilling our responsibilities under the Troubled Asset Relief Program (TARP) as Congress intended: to restore liquidity and stability to the U.S. financial system, to ensure the continued flow of credit to consumers and businesses, and to encourage modification of residential mortgages.

Of course, even before TARP, JPMorgan Chase entered into two transactions to help stabilize our financial system and protect consumers and taxpayers from potentially catastrophic losses: the merger with Bear Stearns back in March of last year; and the purchase of Washington Mutual assets some six months later. While we believed that each of these transactions would produce long-term benefits for our franchise, each also entailed significant risk. Subsequent to those transactions, the government asked us to participate in the Capital Purchase Program established under TARP.

As this Committee is aware, JPMorgan Chase did not seek the government's investment. But we agreed to support the government's goal of obtaining the participation of all major banks. The funds we received strengthened our already strong capital base, which is the foundation of all of our lending activities (including our mortgage modification efforts, described in detail below). We have paid and will continue to pay dividends on the government's investment -- $1.25 billion on an annual basis. In this context, I want to provide the Committee with an update on JPMorgan Chase's post-TARP lending activity.

But before I do that, I want to spend a minute on who we are. While some may think of us as a Wall Street firm, we are very much a part of Main Street. Our 5,000 branches serve customers in 23 states. We employ 174,000 people in 49 states -- 125,000 of them outside the New York metropolitan area. We provide health care coverage for 417,000 people. We have long-standing relationships with over 400,000 small businesses. More than 50 million Americans own JPMorgan Chase shares, often through their retirement plans. On average, we pay more than $10 billion a year in taxes to the federal government, as well as state and local jurisdictions. Last year, our Foundation made charitable contributions of approximately $100 million across the U.S. Our people are ingrained in the communities we serve. We thrive when those communities are healthy, secure and prosperous.

Lending to consumers, businesses and governments

JPMorgan Chase continues to provide significant levels of credit to our customers, whether individual consumers, small businesses, large corporations, not-for-profit organizations, state and local governments or other banks. Since we received the capital investment under TARP on

October 28, 2008, our lending volumes have been significant, particularly in light of the rapidly deteriorating economic environment. Whenever we lend, but especially now, we must do so in accordance with prudent risk management and underwriting standards, mindful of market and credit risks. We should not forget that eroding credit standards by many market participants played a large role in creating the current economic malaise. The challenging economic conditions we face today only elevate the importance of operating in a safe and sound manner and maintaining what we believe to be a strategic imperative: a "fortress balance sheet."

In the fourth quarter of 2008, we made over $150 billion of new loans, including the following:

- Over $50 billion in new consumer originations – representing over 5 million new loans and lines to consumers (*e.g.,* for mortgages, home equity loans and lines, credit cards, student loans, auto loans, etc.). Through this activity, we helped more than 75,000 families acquire homes or lower the interest rate on their mortgages.
- Over $20 billion in new credit extended[1] to 8,000 small and mid-sized businesses, governments and non-profits; in addition, we committed to extend an incremental $5 billion in lending to the government and non-profit sector over the next year and were the only investor willing to step up to purchase a recent $1.4 billion bond offering by the State of Illinois.
- An additional total of approximately $90 billion in new and renewed commitments to our corporate and other clients.

We also dramatically increased our presence in the interbank market, lending an average of $50 billion a day to other banks – which provided much needed liquidity to the system. Including interbank lending, our aggregate new lending for the fourth quarter was over $200 billion.

Also during the fourth quarter, we purchased almost $60 billion of mortgage-backed and asset-backed securities, which had the benefit of supporting the agency debt markets and promoting liquidity in the housing capital markets.

In sum, our consumer loan balances increased by 2.1 percent in the fourth quarter,[2] while overall personal consumption expenditure in the country decreased by 2.3 percent over the same period. That is to say, we lent more even as consumers cut back on their spending during the quarter.[3]

JPMorgan Chase's lending volumes in the fourth quarter are especially significant in light of the continued deterioration of the economy in the U.S. and globally and a steep decline in demand for credit. The stock market is down 21 percent since the passage of the Emergency Economic Stabilization Act, the United States lost 1.5 million jobs in the fourth quarter, and home values have continued to fall. This dismal picture is reflected in business and consumer sentiment: confidence of small businesses has eroded steadily to the lowest level on record since 1908; surveys of investor sentiment show investor confidence has fallen to half the level seen early

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[1] New commitments and renewals

[2] $483B vs. $473B

[3] Source: our supplement for our loans and the Bureau of Economic Analysis for U.S. Personal Consumption Expenditure.

last year; and consumer confidence levels as reported by the Conference Board have plummeted over the course of 2008 from 91 to 38.

In short, banks like JPMorgan Chase are continuing to lend in this environment. The significant tightening of credit that we have all seen over the last several months must be understood in the wider context of the overall credit markets. Nonbank lenders, such as money market funds and hedge funds, constitute 70 percent of our nation's credit markets --providing credit, for example, through their holdings in commercial paper. Understandably, as their own investors have pulled back, these institutions have done the same, either by not extending any credit or by dramatically shortening the duration of the commercial paper they are willing to purchase. The result has been a further tightening of liquidity in the financial markets.

Keeping families in their homes

At JPMorgan Chase, we are not only continuing to lend; we are also at the forefront in doing everything we can to help families meet their mortgage obligations and keep them in their homes. Even before the current housing crisis began, we had undertaken foreclosure prevention efforts designed to do just that. We believe that it is in the best interests of both the home owner and the mortgage holder to take corrective actions as early as possible – in some cases even before default occurs. Our foreclosure prevention efforts include both the $330 billion of loans that we own and the $1.1 trillion investor-owned loans that we service. We expect to help avert 650,000 foreclosures by the end of 2010. We have already helped prevent more than 330,000 foreclosures and have done so in a way that averts re-default by achieving long-term, sustainable mortgage payments.

We are well underway to implementing the commitments we made in announcing this foreclosure prevention plan. In particular, we have:

- Delayed starting foreclosure on over $22 billion of Chase-owned mortgages held by more than 80,000 homeowners so that Chase could review those mortgages for possible modification.
- Commenced mailing proactive modification offers to borrowers of Chase-owned loans at imminent risk of default.
- Selected sites for 24 Chase Homeownership Centers in areas with high mortgage delinquencies where counselors can work face-to-face with struggling homeowners. We will have 14 centers – 9 in California and 5 in Florida – open and serving borrowers by the end of the month and the remaining 10 by the end of next month.
- Added 300 new loan counselors to provide better help to troubled borrowers, bringing the total number of counselors to more than 2,500.
- Initiated an independent review process to ensure each borrower was contacted properly and, if and as appropriate, offered modification prior to foreclosure.
- Developed a robust financial modeling tool to analyze and compare the net present value of a home in foreclosure to the net present value of a proposed

- Worked to help establish a non-profit clearinghouse to join Chase and other lenders who want to donate or sell at a discount their owned real estate to non-profit and government agencies that can use these properties.
- Worked with Fannie Mae and Freddie Mac to implement their new Streamlined Modification Program for borrowers at least 90 days delinquent; we have mailed more than 28,000 letters in the past several weeks.

We believe that programs like ours are the right approach for the consumer and for the stability of our financial system as a whole. We would urge that the Administration adopt a uniform national standard for such programs and otherwise do whatever it can to ensure that sensible modification efforts short of bankruptcy are undertaken as broadly and consistently as possible.

Compensation policies aligned with long-term performance

I know that many Americans are concerned about compensation practices across the financial services industry – and I think some of those concerns are quite legitimate. At JPMorgan Chase, we have long adhered to compensation practices that were designed to reward long-term performance, not just revenues, and aimed to align employee and shareholder interests. Before the TARP program was conceived, we used a multi-year approach to compensation, weighed risk management as part of our performance evaluations, had a bonus recoupment policy beyond that required under Sarbanes-Oxley, and did not use golden parachutes or many other perquisites. We have always paid a significant percentage of our incentive compensation in stock (50 percent for our most senior management group) and require this group to hold 75 percent of their stock until retirement.

And for us, incentive compensation is not a perquisite given exclusively to senior officers and investment bankers. It is part of our regular compensation given to employees across the firm, including retail branch and credit card personnel, technology experts, and compliance and support professionals. Each employee is paid based on a combination of individual performance, business unit performance and the performance of the firm as a whole.

I took no bonus for 2008 in any form, cash, stock, or options. I judged that it was appropriate for me, as the leader of a major financial firm in the current environment, to forgo a bonus last year. Many of our employees took significant cuts in compensation, and the more senior executives took the larger percentage cuts. For our most senior management group, incentive compensation declined more than 60 percent. For the Firm as a whole, average incentive compensation per employee was down 38 percent. (Average *cash* incentive compensation was down by 43 percent.) This is true even though, during one of the most tumultuous periods our economy has ever experienced, we earned a profit in every quarter and executed the Bear Stearns and Washington Mutual transactions. Our employees worked harder than ever and performed admirably for the company and for clients under enormously challenging conditions in 2008. I believe the compensation we paid them was appropriate.

State of the Financial Industry

Before I conclude, I should address the Committee's request for comment on the state of the financial industry. These are obviously challenging times. The government, in my view, has taken bold and necessary steps to keep this crisis from becoming something that none of us would want to imagine. Congress will be tackling many more challenges in the months ahead and we stand ready to work with you on the range of issues confronting the financial services sector and our economy as a whole. One issue I do want to touch on briefly is the need for regulatory modernization. For in my view, long-term recovery will elude the financial industry unless we modernize our financial regulatory system and address the regulatory weaknesses that recent events have uncovered.

The ongoing financial crisis has exposed significant deficiencies in our current regulatory system, which is fragmented and overly-complex. Maintaining separate regulatory agencies across banking, securities and insurance businesses is not only inefficient, but also denies any one agency access to complete information needed to regulate large diversified institutions effectively and maintain stability across the financial system. It also results in uneven and inequitable regulation of similar activities and products across different institutions.

I am in complete agreement with Chairman Frank that Congress and the President should move ahead quickly to establish a systemic risk regulator. In the short-term, this would allow us to begin to address some of the underlying weaknesses in our system and fill the gaps in regulation that contributed to the current situation.

As part of a longer-term modernization discussion, we stand ready to work with Congress and others to think through any number of complex issues. But waiting for the larger debate over regulatory reform to play out could take months. Every credible regulatory modernization plan includes the creation of a systemic risk regulator, and everyone agrees that this needs to be done -- and done right away. I hope Congress will act to get this critical building block in place.

Conclusion

There are tremendous challenges facing the financial services industry and the American economy. I look forward to working with this Committee to address those challenges, to help find solutions to our current economic problems, to keep American families in their homes and to begin to restore confidence in our financial markets.

THE BANK OF NEW YORK MELLON

Statement of Robert P. Kelly
Chairman and Chief Executive Officer of
The Bank of New York Mellon

Before the House Financial Services Committee

February 11, 2009

Mr. Chairman, Mr. Bachus, Members of the Committee. My name is Bob Kelly and I'm Chairman and CEO of The Bank of New York Mellon. I appreciate the opportunity to speak with you about our participation in the Capital Purchase Program. I'd like to briefly tell you about our Bank, explain how we came to participate in the program, and tell you how we're using the capital we received to help expand the flow of credit in this extraordinarily difficult environment.

The business model of The Bank of New York Mellon is very different from a traditional retail or commercial or investment bank. In contrast to most of the other companies here today, our business model does not focus on the broad retail market or products such as mortgages, credit cards or auto loans. Nor do we even do typical lending to corporate businesses. A good way to think of The Bank of New York Mellon is that we are a "bank for banks." The lion's share of our business is dedicated to helping other financial institutions around the world. We invest mutual fund and pension monies and administer their complex "back-office" processes. We call that securities servicing. We also provide critical infrastructure for the global financial markets by facilitating the movement of money and securities through the markets. Finally, we provide some financing to other banks so they can make mortgages and other loans available to consumers and businesses.

Given this specialized focus, The Bank of New York Mellon was not involved with underwriting subprime loans or structuring the complex investments that contributed to the current market turmoil. At the time the Capital Purchase Program was initiated, The Bank of New York Mellon was a profitable, well-capitalized institution. And, we remain so today.

You should know that we were profitable every quarter last year and paid over $4 billion in income and other taxes globally. While some of our assets were invested in mortgage-backed securities, which have incurred some losses, these losses have been more than offset by our profits. And we continue to have the highest debt ratings of U.S. banks rated by Moody's and the second highest rating by Standard & Poor's.

In October, when the Treasury allocated to us $3 billion of the $350 billion that it has allotted to date, the financial markets were very dangerously in total gridlock and deteriorating rapidly. We understood that a key goal at the time was to have a range of institutions, including relatively healthy companies like The Bank of New York Mellon, participate in the Capital Purchase Program, removing any stigma that might be associated with accepting Treasury capital and helping reassure the markets of the stability of the financial system. So, we immediately decided to participate.

In exchange for the $3 billion investment, the U.S. government received preferred stock and warrants and we agreed to pay the government $150 million a year in dividends until we repay the $3 billion.

Since receiving the investment four months ago, we made our first payment to the government and immediately put the capital to work consistent with the goals of the program as we understand them, which is to increase lending, restore market confidence and get the U.S. economy moving again.

The $3 billion in capital that we received from Treasury has allowed us to do more than we otherwise could have to improve the movement of funds in the financial markets.

- We've purchased $1.7 billion of mortgage-backed securities and debentures issued by U.S government-sponsored agencies. This has helped to increase the amount of money available to lend to qualified borrowers in the residential housing market.
- We've purchased $900 million of debt securities of other healthy financial institutions. This has helped increase the funds available for them to lend to consumers and businesses.
- And, we've used the remaining $400 million for interbank lending to other healthy financial institutions. This has helped them increase their liquidity, funding and stability.

These activities are consistent with our business model and are primarily in the secondary markets, whose proper functioning is fundamental to the flow of credit for the U.S. economy. By adding liquidity there, we're helping direct lenders generate the funds they need to offer more loans. And, by extension, we're helping to lower the cost of borrowing for consumers and corporations.

We have not used any of these funds to pay dividends, bonuses or compensation of any kind, nor will we. And we have not used the funds to make any acquisitions.

The Bank of New York Mellon recognizes the tremendous public concern about the TARP program. As I previously noted, when the program was conceived in early fall, credit markets were essentially frozen. Our nation's financial system was on the edge of a precipice. We believe the capital investments, along with the many other steps that the Congress, the Treasury and the Fed took during the height of the financial crisis, have helped the markets to begin to slowly emerge from the extraordinarily precarious position they faced back in October.

Nevertheless, we still have a long way to go to get the credit markets – and the U.S. economy – functioning properly again. Bank capital must be rebuilt, low-quality assets must be sold or written off, sound lending must occur and confidence in our system must be restored.

We are absolutely committed to doing our part – and working closely with the Congress, our regulators and our clients – to get the economy solidly back on its feet.

As a recipient of Treasury capital and a critical part of the nation's financial infrastructure, we recognize that we have a serious responsibility to the American people. We'll continue to do all we can to help expand the flow of credit in this extraordinarily difficult environment. We are and will continue to be transparent about the use of these funds. And we're focused on always retaining the public's trust, and we will ensure The Bank of New York Mellon not only returns the $3 billion to the Treasury but also delivers a very good return on investment for taxpayers.

Thank you.

Testimony of

Kenneth D. Lewis

Chairman and Chief Executive Officer

Bank of America

Before the

Committee on Financial Services

U.S. House of Representatives

Washington, DC

February 11, 2009

Chairman Frank, Ranking Member Bachus, and members of the Committee, I appreciate the opportunity to be here.

I'd like to start by making two key points:

First, all of us at Bank of America understand the responsibilities that come with access to public funds. Taxpayers want us to manage our expenses carefully, and provide transparency about how we are putting their money to work to restart the economy. These expectations are appropriate, and we are working to meet them.

Second, as we manage our business going forward, we are doing our best to balance the interests of customers, shareholders, and taxpayers. But the fact is, it is in all our interests that we lend as much as we responsibly can – maximizing credit while minimizing future losses. That's how consumers and businesses can prosper. It's how investors – including taxpayers – can earn returns.

Bank of America serves more than half of all U.S. households and millions of businesses. We know that the health and strength of our company depends on the health and strength of the U.S. economy. We have every incentive to lend. And, despite recessionary headwinds, <u>we are lending</u>. In the fourth quarter alone, we extended more than $115 billion in new credit to consumers and businesses.

Lending is how we earn returns for our shareholders, and it's how we build relationships with customers. Our capacity to lend is restrained by: (1) demand for loans; (2) credit quality; (3) our ability to fund loans; and (4) regulatory and rating agency demands. All of these factors are under tremendous pressure.

Notwithstanding these headwinds, the new loans we made in the fourth quarter included:

- $59 billion in commercial loans;
- Nearly $7 billion in commercial real estate loans;
- $45 billion in mortgages;
- Nearly $8 billion in domestic card and unsecured consumer loans;
- More than $5 billion in home equity products;
- About $2 billion in consumer Dealer Financial Services (auto, marine, RV loans).
- And nearly $1 billion in new credit to more than 47,000 new Small Business customers.

We also reaffirmed three ten-year, nationwide goals that are critical to the health of our communities: $1.5 trillion for community development lending; $2 billion in philanthropic giving; and $20 billion in lending and investments to support environmental sustainability.

Bank of America has received investments of senior preferred stock from the Treasury under the TARP program, and is also receiving additional support in order to facilitate the acquisition of Merrill Lynch. This government support has been crucial in allowing us to continue all the lending I have just described. With capital markets still frozen, there is simply no ready substitute for government support of this size, and so in its absence, our only choice would be to lend less and thereby shrink our balance sheet.

Certainly, credit conditions have tightened, as they always do in a recession, and particularly after what everyone recognizes as a period of lax credit standard. But make no mistake: We are still lending, and we are lending far more because of the TARP program.

As I mentioned, we understand the special responsibilities that come with any investment of public funds into a private company, including financial accountability and operational transparency. Taxpayers have invested in our company, and they deserve to know what return they are making on their investment, and when it will be paid back. We will make our first dividend payment to the Treasury of more than $400 million next week, and we will pay the Treasury, and ultimately taxpayers, about $2.8 billion in dividends alone for the year. We intend to pay all the TARP funds back as soon as possible.

Taxpayers also deserve to know how their funds are being used to support our economy. To that point, we recently announced that we will make a full report regularly to the public with information about our business activities in ten categories that are important to the nation's economic recovery, including consumer and commercial lending, foreclosure mitigation and others.

I believe this initiative will help with transparency, and I have attached at the bottom of these remarks the text of our announcement of this initiative, including examples in each category of the actions we're taking to spur the economy.

But the frequently asked question of how exactly we are using TARP funds is tougher than it sometimes seems.

The U.S. government invested $15 billion in TARP funds in Bank of America in the form of preferred stock; Merrill Lynch agreed to accept another $10 billion, and the government provided an additional $20 billion to enable the closing of our transaction with Merrill Lynch. As with money provided by private investors, that investment allows us to make loans and investments to people, businesses and organizations.

As a practical matter, we cannot tell you whether the next loan we make is funded by that $45 billion of TARP preferred stock, or our approximately $32 billion of preferred stock placed with other investors, or the approximately $163 billion of common equity that we hold, or the remaining approximately $2.2 trillion of other obligations that make up our balance sheet. But the bottom line is that we are lending significantly more with that preferred stock investment than we would be without it.

As I said, we made $115 billion in new loans in the fourth quarter – $100 billion more than we had received in TARP funding at that time. That is probably the best answer to what we are doing with the TARP money. But it's obviously not the whole story.

The real issue, I believe, is this: taxpayers feel, and rightly so, that if a bank is having sufficient trouble to require public support, all its financial decisions should signal a conservative, sober and frugal approach to the financial health of the company.

The real debate is about what business activities are appropriate for a company that receives an investment from the federal government. In some cases, I think public judgments on this question have been right on. There has been no shortage of examples of executives or companies spending money in ways that did not have a direct benefit to the business. In other instances, I think banks have been criticized for activities that, in fact, have very serious, and very effective, business purposes. Marketing activities, which drive sales and business growth, are just one example.

I will simply say this: We know that the public will not always agree with our decisions. But Bank of America has for years been the most financially efficient bank with our business mix in the country. We have a hard-earned reputation for frugality, not extravagance. When we compensate associates, engage in marketing and advertising campaigns, or invest in green building technologies, we do so to grow our business, enhance profitability and generate returns for investors.

That includes the investors that are the focus of this hearing: U.S. taxpayers.

Our core business is strong – even in the midst of a recession, we earned more than $4 billion last year. Even so, that performance was disappointing, and I therefore recommended to our board of directors – and they agreed – that we would pay no year-end compensation to me or any of our most senior executives for 2008. Executives at the next tier down had their year-end incentive payments cut by an average of 80%.

We also made cuts on a progressive basis – meaning that higher ranking managers with larger incentive targets took progressively larger hits in relation to more junior associates. But even lower-ranking and lower-paid associates took significant hits this year, as you would expect in this environment. This includes many people who worked desperately hard last year… and who produced excellent business results.

While difficult, these cuts make possible more of the activities that will help drive economic recovery. More jobs saved, and fewer layoffs. Sustained community support. More loans.

The financial services industry is undergoing wrenching change. One thing we know is that we will be a smaller industry. And that's not a bad thing. Obviously, the rapid growth of our industry in recent years was overdone. Now is a good time to remind ourselves that we play a supporting role in the economy – not a lead role. Our job is to help the real creators of economic value – people who make things, and people who use them – get together and do business. We bankers should find some humility in that.

This also is a time for getting out there in the marketplace and making every good loan we can find, to boost the economy and do our part to restore confidence to the markets.

It's a time for determination in the face of our generation's greatest economic challenge.

Thank you.

STATE STREET

Statement of

Ronald E. Logue

Chairman and Chief Executive Officer

State Street Corporation

Before the

House Financial Services Committee

United States House of Representatives

February 11, 2009

Hearing on

"TARP Accountability: Use of Federal Assistance by the First TARP Recipients"

Mr. Chairman, Ranking Member Bachus and members of the Committee, thank you for inviting me to testify today regarding the participation of State Street Corporation ("State Street") in the Treasury Department's Capital Purchase Program ("CPP").

State Street appreciates the extraordinary support that taxpayers have provided the financial services industry, and we are pleased to have the opportunity to describe our use of the taxpayers' investment.

The Committee's letter of invitation requested information about our understanding of the purpose of the CPP investment, our planned and actual use of CPP funds, our tracking of the use of CPP funds and our adoption of various conditions related to these funds, particularly for executive compensation. Our response to these questions, along with additional background on State Street and its role in the financial system, follows below.

State Street's Role in the Financial System

State Street provides investment servicing and investment management services to institutional investors, including pension funds, mutual funds, endowments, foundations and other collective investment pools. Unlike more traditional banks, we do not directly provide ordinary retail banking services, including mortgages, credit cards, or other consumer credit, nor do we engage in investment banking activities. Our loan activity primarily relates to the provision of credit and liquidity to our core customer base of institutional investors.

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

While our customer relationships are with institutional investors, our services indirectly benefit the millions of retirees, mutual fund investors and other individuals participating in these collective investments. Our role enables the investment process to run smoothly and as intended, ultimately allowing our customers' customers --- individual citizens with savings --- access to their investments when they need it.

With $12.04 trillion in assets under custody and $1.44 trillion in assets under management at December 31, 2008, State Street operates in 27 countries and more than 100 geographic markets worldwide and employs 28,275 individuals worldwide.

Even in last year's challenging environment, State Street was profitable in all four quarters of 2008. We achieved a 28% increase in revenues and a 25% gain in earnings per share versus strong financial results in 2007. We also expect to be profitable in 2009.

Our Understanding of the Purpose of CPP investment

State Street is one of the original nine banks invited by former Treasury Secretary Paulson to a meeting in Washington, DC on October 13, where we were each asked to participate in the CPP. I consulted with our Board of Directors, and we agreed to participate. As a result, on October 28th, we issued preferred stock and warrants to Treasury, in exchange for a $2 billion investment in State Street.

We believe we were asked to become one of the nine original CPP banks due to our unique and critical role in the financial markets. We are a large custodian and asset manager and provide services to an institutional investor customer base.

State Street is an important source of credit, liquidity and stability to the financial system. Much of the credit and liquidity we offer is provided on a temporary basis, to cover our customers' short-term trade settlement and redemption needs. We believe our use of the CPP investment should support these core functions of our business model.

State Street's Use of the CPP Investment

The Committee's invitation letter requests information regarding both our "planned use" of the CPP investment prior to receipt and our actual use of the CPP funds. Due to the circumstances of our involvement in the CPP described above --- we were unaware of the program until asked to participate --- we had no "planned use" prior to our acceptance of the funds. It was only after we committed to participate in the program at the October 13 Treasury meeting that we began developing plans to use the CPP investment consistent with the objectives of the Emergency Economic Stabilization Act ("EESA").

Even prior to the government's CPP investment, however, we have been an important source of stability for our customers throughout the recent market turmoil. For example, we significantly increased our provision of liquidity and credit to our core institutional investor customer base following the collapse of Lehman Brothers in September 2008.

State Street is using the $2 billion government investment to add to our ability to provide credit, liquidity and stability to the financial system.

Specifically, the government's $2 billion investment has strengthened our capital base, which, in turn, increases our lending capacity.

Following our commitment to participate in the CPP, I set a goal with our Asset and Liability Committee to deploy this additional capacity by increasing our credit and liquidity facilities to our customers by $2 billion. Since mid-October, we have approved more than $1.5 billion of these new facilities, and, given our strong pipeline, we expect to reach the $2 billion goal soon.

We hold additional capacity in reserve, so that our mutual fund and pension fund customers can borrow for their short-term liquidity needs as they arise, due to redemption requests, trade fails and other market-driven events. The level of utilization of this type of lending capacity fluctuates considerably in line with market volatility, fund flow activity and other factors. We saw, for example, substantial increases in demand for credit following the Lehman collapse, and we generally expect high levels of demand for credit during periods of market instability.

We have not used CPP funds for employee compensation, payment of dividends to investors, lobbying expenses, or acquisitions of other financial institutions.

Accountability and Transparency

We understand and agree with the Committee's focus on accountability and transparency in the use of CPP funds and have responded promptly and openly to all Treasury and Congressional requests for information.

Internally, we are tracking our use of CPP funds through our Asset and Liability Committee, which meets monthly.

We recently reported on our fourth quarter use of CPP funds through the new Treasury Department system, and will, of course, respond similarly to other applicable regulatory reporting systems which may be developed.

Executive Compensation

As noted above, State Street has not used CPP funds for employee compensation.

We have implemented all applicable EESA executive compensation restrictions and requirements, including those related to "clawbacks" of incentive compensation based on materially inaccurate information, limitations on "golden parachute" payments and limitations on the tax deductibility of senior executive compensation in excess of $500,000. In January, our Executive Compensation Committee met with our senior risk officers. This group reviewed incentive compensation arrangements of our senior executive officers to ensure such arrangements do not encourage unnecessary and excessive risk-taking, and authorized the inclusion in our proxy statement of the related required certification.

Additionally, in recognition of the unprecedented circumstances the industry is facing at this time, I am forgoing my incentive compensation for 2008, as are six other members of our leadership team. We are also taking a number of additional, related steps, including an across-the-board, company-wide salary freeze for 2009 and an approximately 50% reduction in incentive compensation for all officers, a group which includes all but our most junior employees.

Conclusion

The continued, unprecedented disruption in the financial markets has had a significant effect on our customers and the communities in which we do business, as well as on State Street, its shareholders and its employees. We believe that our use of the CPP funds follows the intent of Congress in enacting the EESA, is consistent with our agreement with Treasury and aligns with our business model and role in the financial markets.

We appreciate the consideration and efforts of Congress, together with Treasury, the Federal Reserve, the FDIC and other regulators, to restore stability to our financial markets, and we look forward to our continued participation in this effort.

Once again, thank you for inviting me to testify today. I would be pleased to answer any questions.

Testimony of John J. Mack
Chairman and Chief Executive Officer, Morgan Stanley
before the
United States House of Representatives
Committee on Financial Services
February 11, 2009

Mr. Chairman, Ranking Member Bachus, Members of the Committee. My name is John Mack, and I'm the Chairman and CEO of Morgan Stanley. I appreciate the opportunity to speak with you today about our role in the TARP program and how we're using capital to help address the credit crunch squeezing the American economy. I'll also discuss some of the changes we're making at Morgan Stanley as well as broader reforms we would urge to restore confidence in our industry and the markets.

The events of the past months have shaken the foundation of our global financial system. And, they've made clear the need for profound change to that system. At Morgan Stanley, we've dramatically brought down leverage, increased transparency, reduced our level of risk and made changes to how we pay people.

We've maintained a high level of capital throughout this crisis. Before the TARP investment, our Tier-1 capital ratio – a key measure of regulatory capital – was approximately 15%, one of the highest in the industry. We also delivered positive results for our shareholders in 2008.

But we didn't do everything right. Far from it. And make no mistake: as the head of this firm, I take responsibility for our performance.

I believe that both our Firm and our industry have far to go to regain the trust of taxpayers, investors and public officials. As a recipient of an investment from the U.S. government, we recognize our serious responsibilities to the American people. It's our goal and our desire to repay the taxpayers in full as soon as possible.

Morgan Stanley's business – in contrast to some of our peers – has always been focused primarily on institutional and corporate clients. And our business model is less about lending than about helping companies raise debt and equity in the capital markets.

Between October and December, we increased the total debt raised for clients as lead manager nearly four-fold. Indeed, during the fourth quarter, we helped clients raise $56 billion in debt to invest in their businesses, including leading American companies like Pepsi and Time Warner Cable. We also helped clients raise $40 billion in equity to fund their businesses, including a major capital raise for GE. And, we made $10.6 billion in new commercial loans. In our much smaller retail business, Morgan Stanley made $650 million in new commitments to lend to consumers during the last three months of 2008.

I've told you how we're putting TARP capital to work. And, we also are filing monthly reports with Treasury detailing the use of our capital. But I should also tell you what we haven't done with the TARP funds. We have NOT used it to pay compensation – nor did we use it to pay any dividends or lobbying costs.

I know the American people are outraged about some compensation practices on Wall Street. I can understand why. I couldn't agree more that compensation should be closely tied to performance. At Morgan Stanley, the most senior members of the firm, including myself, didn't receive any year-end bonus in 2008. I didn't receive a bonus in 2007 either. And, I've never received a cash bonus as CEO of Morgan Stanley. The only year-end compensation I've ever received was paid in Morgan Stanley equity – so my interests are aligned with shareholders. We also were the first U.S. bank to institute a "clawback" provision that goes beyond TARP requirements. It allows us to reclaim pay from anyone who engages in detrimental conduct or causes a significant financial loss to our Firm. And, we're tying future compensation more closely to multi-year performance.

We have much work to do in our industry - and across the markets. Real problems remain that are preventing economic recovery. We need to find ways to increase lending and restore consumer and market confidence. Perhaps most importantly, we need to enact reforms to address the more fundamental issues laid bare by the recent turmoil:

- First, we need fundamentally improved systemic regulation. Our fragmented regulatory structure simply hasn't kept pace with increasingly complex and global markets. I agree, Mr. Chairman, with your proposal to create a systemic risk regulator.
- Second, we need greater transparency in our financial markets both for investors and regulators. To regain trust in the markets, investors and regulators need a fuller and clearer picture of the risks posed by increasingly complex financial instruments and contracts.

Morgan Stanley shares your desire to restore faith in our financial markets and get the American economy going again. We know that won't be easy. And, we know it will take time. But we're committed to working closely with you – as well as our regulators and other market participants – to achieve these important goals.

# # #

TESTIMONY OF
VIKRAM PANDIT

CHIEF EXECUTIVE OFFICER
CITIGROUP

HOUSE FINANCIAL SERVICES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

February 11, 2009

Mr. Chairman, Ranking Member Bachus, Members of the Committee. I am Vikram Pandit, Chief Executive Officer of Citigroup, and I want to thank you for the opportunity to represent our Company here today.

Americans from all walks of life are facing crippling economic hardship. Foreclosures, lost savings and widespread layoffs are having a devastating impact on millions of Americans and thousands of communities. Institutions, both public and private, are searching for ways to respond to this crisis.

Against that backdrop, the American people are right to expect that we use TARP funds responsibly, quickly and transparently to help American families, businesses and communities. They also have a right to expect a return on this investment. As difficult as the decision to provide TARP funding was for Congress, I intend to make sure that when it comes to Citi, you will look back on it and know it was the right decision for our nation's economy and for American taxpayers.

Last week, we published this report that describes exactly how we are using TARP funds to expand the flow of credit. We have posted the report online, and we will update it each quarter.

In late December, utilizing TARP capital, we authorized our line businesses to provide $36.5 billion in new lending initiatives and other new programs. These programs are expanding mortgages, personal loans and lines of credit for individuals, families and businesses and creating liquidity in the secondary markets. Our TARP report explains these efforts in detail, and I would ask to submit it as an addendum to this testimony.

More generally, in the fourth quarter of 2008, we provided more than $75 billion in new loans to U.S. consumers and businesses—a significant commitment given the difficult economic environment. We will continue our lending activities throughout 2009, in a responsible and disciplined manner.

Since the start of the housing crisis in 2007, we have worked successfully with approximately 440,000 homeowners to help them avoid foreclosure. We also are adopting the FDIC's streamlined model for post-delinquency loan modification programs. In the last year, we have kept approximately four out of five distressed borrowers whose mortgages we service in their homes. We have extended our foreclosure moratorium to help millions of other eligible homeowners whose mortgages we service. And we continue to reach out to homeowners who may be experiencing financial difficulty, despite being current on their payments.

Through the efforts I have outlined, we are committed to doing the right thing by supporting American businesses and helping families stay in their homes. Equally important, we are committed to providing the American public with a return on its investment in Citi. We will pay the U.S. Government $3.4 billion in annual dividends on that investment. Our goal, my goal, is to make this a profitable investment for the American people, as soon as possible.

The best way for us to make this happen is to strengthen our Company and return to profitability. When I was asked to become CEO a little more than a year ago, I demanded accountability. I removed the people responsible for Citi's financial distress; I formed a new management team; I restructured the Company; I streamlined our core businesses; and I installed new risk processes and risk personnel. And I continue to make the tough and necessary decisions every day.

Mr. Chairman, the world is changing very fast and we need to acknowledge and embrace this new world very quickly. We understand that the old model no longer works and the old rules no longer apply.

Our responsibility is to support the recovery of our financial system and to benefit our shareholders. I pledge that we will continue to do everything we can in that regard at this critical moment in our Company's—and our nation's—history. We will hold ourselves accountable for what we do, and that starts with me. I am personally accountable: My goal is to return Citi to profitability as soon as possible.

I appreciate the Committee's attention, and I am happy to answer any questions.

# # #

Addendum:

"What Citi is Doing to Expand the Flow of Credit, Support Homeowners and Help the U.S. Economy;" TARP Progress Report for Fourth Quarter 2008; February 3, 2009; Citigroup Inc.

WHAT CITI IS DOING TO EXPAND THE FLOW OF CREDIT,

SUPPORT HOMEOWNERS AND

HELP THE U.S. ECONOMY

TARP PROGRESS REPORT FOR FOURTH QUARTER 2008

FEBRUARY 3, 2009

A MESSAGE FROM VIKRAM PANDIT
CHIEF EXECUTIVE OFFICER, CITI

The United States Government has made a significant investment in major financial institutions, including Citi, under the Troubled Asset Relief Program (TARP). Citi understands that TARP is about helping the American people, and supporting U.S. businesses and our communities. Our responsibility is to put these funds to work quickly, prudently, and transparently to increase available lending and liquidity.

This report is the first that we will publish about the activities we are undertaking in connection with the TARP program. It also explains the many other steps Citi is taking to assist American families and individuals who face financial hardship or are at risk of losing their homes.

We will update this report each quarter, following our quarterly earnings announcement, and it will be posted at www.citigroup.com.

Separately from our initiatives under TARP, Citi continues to lend to clients and customers as part of our ongoing business. In the fourth quarter of 2008, we extended approximately $75 billion in new loans to people and businesses in the United States.

Shortly after Citi received TARP capital late last year, we created a Special TARP Committee of senior executives to approve, monitor and track how we use it. The Committee has established specific guidelines, which are consistent with the objectives and spirit of the Treasury investment program.

We will use TARP capital only for those purposes expressly approved by the Committee. TARP capital will not be used for compensation and bonuses, dividend payments, lobbying or government relations activities, or any activities related to marketing, advertising and corporate sponsorship.

In the fourth quarter of 2008, the Committee considered numerous proposals and authorized initiatives to deploy $36.5 billion across five areas to help expand available credit for people and businesses and support the recovery of the U.S. economy.

These investments, combined with the wide range of other initiatives detailed in this report, are central to Citi's effort to address the pressures on individuals, families and businesses created by this very difficult economy.

In this first stage, we are putting capital to work in the following areas:

- **U.S. residential mortgage activities ($25.7 billion)**
- **Personal and business loans ($2.5 billion)**
- **Student loans ($1 billion)**
- **Credit card lending ($5.8 billion)**
- **Corporate loan activity ($1.5 billion)**

We also continue to focus on supporting the U.S. housing market:

- Since the start of the housing crisis in 2007, we have worked successfully with approximately 440,000 homeowners to avoid potential foreclosure on combined mortgages totaling approximately $43 billion. Last year, we kept approximately four out of five distressed borrowers with mortgages serviced by Citi in their homes.
- We are adopting the FDIC's streamlined model for post-delinquency loan modification programs. And, through the Citi Homeowner Assistance Program, we continue to reach out to families and individuals who may be experiencing some form of economic stress despite being current on their payments.
- We are also continuing our foreclosure moratorium for eligible borrowers with Citi-owned mortgages who work with us in good faith to remain in their primary residence and have sufficient income to make affordable mortgage payments.
- To ensure that our efforts have the broadest possible impact, Citi has worked with investors and owners of more than 90 percent of the 4.3 million mortgages we service – but do not own – so that many more qualified borrowers can also benefit from this moratorium.

In addition, as municipal bond underwriters, we are working with state and local governments to help them in these difficult times, and we continue to help U.S. corporations find sources of new capital to fund their businesses through our underwriting of debt and equity offerings.

The Government, on behalf of American taxpayers, has invested in Citi. We have an obligation to repay that confidence in ways that go well beyond the $3.41 billion that Citi will pay the Government each year in dividends associated with its TARP investment and a separate loss sharing agreement.

We will continue to work in partnership with the Government to help put the economy back on track. As we work to expand the flow of credit and as confidence begins to return to the financial system and the U.S. economy overall, we will continue to evaluate our use of TARP capital to help ensure that we deploy it appropriately. We look forward to updating you after the end of the first quarter.

Vikram Pandit
Chief Executive Officer
Citi

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I. TARP PROGRAM ACTIVITIES

a. Putting TARP Capital to Work

Since October 2008, the U.S. Government has made a significant investment in major American financial institutions, including Citi. The Treasury's $45 billion investment in Citi has helped to strengthen our capital ratios, so we are better able to fund new lending initiatives in support of the U.S. economy, homeowners and businesses.

Following is a summary of Citi's actions to date regarding our use of TARP capital.

- In early November 2008, Citi created a Special TARP Committee (the "Committee") of senior executives, which meets frequently to review and approve the use of all TARP capital under clear guidelines.
- As a first step, Citi used $10 billion in November to purchase pools of mortgages secured by Fannie Mae, the government-sponsored housing finance agency, to help provide liquidity to the secondary market at a time when Fannie Mae's funding costs had increased significantly.

The Treasury's $45 billion investment in Citi has helped to strengthen our capital ratios, so we are better able to fund new lending initiatives in support of the U.S. economy, homeowners and businesses.

  - This initial investment will mature in February 2009, when Citi will be able to redeploy the funds for other primary lending or secondary market activities.
- In the fourth quarter of 2008, the Committee considered proposals related to TARP totaling $51.2 billion. The Committee has authorized initiatives to deploy $36.5 billion across five areas of activity in ways that help expand available credit for people and businesses and support the recovery of the U.S. economy.
  - The initiatives the Committee has approved so far are divided more or less evenly between primary lending and secondary markets activity, which are explained later in this section. Both of these sectors play an important role in the overall flow of credit in the U.S. economy.

Some of our new initiatives are already under way, although it is important to note that new primary lending programs take time to roll out, and depend on factors that include loan demand, which declined substantially during the quarter and remains weak.

The initiatives, which total $36.5 billion, are as follows:

1. U.S. residential mortgage activities - $25.7 billion

Citi is investing a total of $10 billion in securities backed by various types of conforming mortgages guaranteed by the government-sponsored housing finance agencies Fannie Mae and Freddie Mac.

- Citi is investing $5 billion of the total in 15-year fixed rate mortgages. The remaining $5 billion is divided evenly between mortgages whose interest rates adjust after three or five years.
- By investing in these securities in the secondary markets, we are helping to expand the flow of credit to people by providing liquidity to lenders who need to replenish funds so that they can continue to originate mortgage loans.
- This action can also help reduce the cost of consumer borrowing by ultimately enabling originators to lower interest rates on new mortgages, thus supporting government efforts to restore stability to the U.S. housing market.

The Committee has authorized initiatives to deploy $36.5 billion across five areas of activity in ways that help expand available credit for people and businesses and support the recovery of the U.S. economy.

Citi is purchasing U.S. prime residential mortgages in the secondary markets with a face value of $7.5 billion that were made to qualified borrowers, based on their credit histories and verifiable ability to make their monthly payments.

- This activity will also help to expand the flow of credit to people by providing liquidity to lenders who need to replenish funds to make new mortgage loans.
- This can also help reduce the cost of consumer borrowing by ultimately enabling originators to lower interest rates on new mortgages, thus supporting government efforts to restore stability to the U.S. housing market.

Citi is also making prime mortgage loans totaling $8.2 billion directly to families and individuals.

- These are in the form of non-conforming mortgage loans – defined as mortgages whose value exceeds the limits set for government-sponsored loans. These limits range from $417,000 to $625,500 in the continental United States, depending on the county.
- Non-conforming mortgage loans are frequently necessary in high-cost areas where home prices exceed the national average, even in a down market.

- Because Fannie Mae and Freddie Mac are not required to buy non-conforming mortgages, interest rates are higher than on conforming loans.
- Non-conforming mortgages also carry a higher risk to lenders, and originations on these loans have fallen far more sharply than on conforming mortgages in the past year.

2. Business and personal loans - $2.5 billion

Citi is making $1 billion available for tailored loans to clients or businesses facing liquidity problems. This may include loans secured by commercial real estate, or loans to businesses holding securities that have become illiquid because of the credit crisis, such as Auction Rate Securities.

Citi is also offering $1.5 billion of credit to qualified customers of its consumer finance company CitiFinancial for personal loans to consolidate debts and meet unexpected expenses.

3. Student loans - $1.0 billion

Citi is originating student loans through the Federal Family Education Loan Program (FFELP), a public-private partnership created by Congress to deliver and administer guaranteed, low-cost education loans.

The initiatives the Committee has approved so far are divided more or less evenly between primary lending and secondary markets activity. Both of these sectors play an important role in the overall flow of credit in the U.S. economy.

- Citi expects this action will help provide needed credit for students and middle- and low-income parents who are finding it difficult to afford tuition.

4. Credit card lending - $5.8 billion

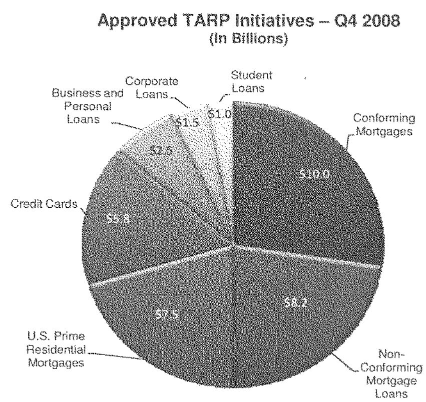
The special programs Citi is offering include expanded eligibility for balance-consolidation offers, targeted increases in credit lines and targeted new account originations, subject to Citi's customary sound lending standards.

- Credit cards play a critical role in helping people and businesses purchase basic goods and services. Based on available national economic figures, Citi estimates that 20 percent of total personal spending flows through credit card transactions, often for everyday essentials.

5. Corporate Loan Activity - $1.5 billion

Citi is investing $1.5 billion in commercial loan securitizations, which have historically been a significant buyer of secured loans to U.S. companies.

- This investment activity will increase demand and liquidity in the corporate loan market and help to strengthen the confidence of global investors, who in the past have been a substantial source of funding to U.S. companies.
- Increased investor appetite for corporate loans stimulates lending to U.S. companies and ultimately lowers the cost of borrowing for these businesses.


Approved TARP Initiatives – Q4 2008
(In Billions)
Student Loans
Corporate Loans
Business and Personal Loans
Conforming Mortgages
Credit Cards
U.S. Prime Residential Mortgages
Non-Conforming Mortgage Loans
$10.0
$8.2
$7.5
$5.8
$2.5
$1.5
$1.0

b. Our TARP Guidelines

The Department of the Treasury has made two preferred stock investments in Citi through the TARP program.

The first investment, or TARP I, was a $25 billion purchase of preferred stock on October 28, 2008. The second investment, or TARP II, was a $20 billion purchase of preferred stock on December 31, 2008.

Also, on January 16, 2009, Citi issued $7 billion in preferred stock to the Treasury and the Federal Deposit Insurance Corporation (FDIC) as part of a loss sharing program with the U.S. government on a $301 billion portfolio of assets. All of the preferred securities pay dividends to the U.S. Government totaling $3.41 billion per year.

- The Committee has established specific guidelines which are consistent with the objectives and spirit of the Treasury investment program. The complete guidelines can be found in the Appendix to this report.
- The use of TARP capital is being tracked, and it will not be used for any purposes other than those expressly approved by the Committee.
- Committee approval is the final stage in a four-step review process to evaluate proposals from Citi businesses for the use of TARP capital, risk, and the potential financial impact and returns.

Citi will meet all regulatory reporting requirements associated with TARP. We will also update this progress report each quarter, following our quarterly earnings announcement, and make it public at www.citigroup.com.

The TARP securities purchase agreements stipulate that Citi will adhere to the following objectives as a condition of the Treasury's capital investment:

- ***"To expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy."***
- ***"To work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market."***

Permitted Uses

Citi's guidelines call for TARP capital to be deployed in a prudent and disciplined manner consistent with Citi's strategic objectives and the Treasury's goal of strengthening the financial system in the United States and expanding the flow of credit. TARP capital is equity, in the form of preferred stock. It will be used exclusively to support investments and not for expenses, which are covered as part of our cash flow.

Prohibited Uses

TARP capital may not be used for any of the following purposes:

- Compensation or bonuses.
- Dividend payments.
- Lobbying or government relations activities.
- Marketing, advertising or corporate sponsorship activities.

TARP capital will not be used for any purposes other than those expressly approved by Citi's Special Committee.

TARP is about helping the American people, and supporting U.S. businesses and our communities. Our responsibility is to put these funds to work quickly, prudently, and transparently to increase available lending and liquidity.

- We have not lobbied on TARP-related issues since we received TARP capital and will not do so.
- Citi's businesses are required to report back to the Committee on the activities for which any TARP capital was used, as well as the performance of those investments.
- The Committee reports periodically to Citi's Board of Directors on the specific uses to which TARP capital has been applied.

c. Primary Lending and Secondary Markets

One of the biggest challenges facing governments, regulators and financial institutions today is how to energize the financial system in order to promote economic activity. In the near-term, actions need to focus on restarting the flow of credit.

Secondary markets play a fundamental role in this process, which is why approximately half of the funds involved in Citi's TARP initiatives are directed there. The following section explains the differences between primary lending and the secondary markets, and why the proper functioning of secondary markets is so important to economic recovery.

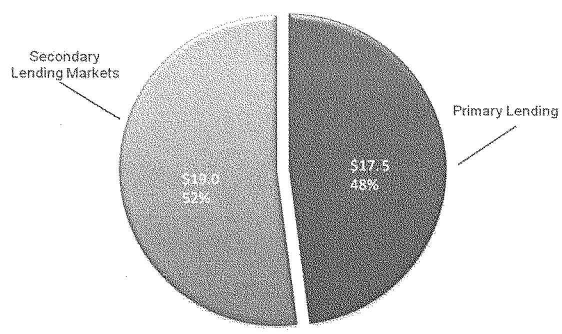
Primary Lending

- Primary lending refers to the money that banks and other financial institutions extend as credit directly to people and businesses, as well as to state and local governments, and other borrowers.
- Common forms of primary lending include mortgages on residential and commercial real estate, personal loans, credit card lines, student loans, lines of credit which businesses use to fund their day-to-day activities and pay suppliers and workers, and loans that businesses use to expand and grow.
- Rates of interest on primary loans are governed by a number of factors. They include the level of the benchmark federal funds rate set by the Federal Reserve, the amount of credit available in general, the creditworthiness of individual borrowers and the risk associated with a particular loan.
- Secured loans like mortgages are made against the underlying value of a home or certain commercial real estate, which is pledged against the loan as collateral.
- Credit cards are unsecured debt. Borrowers do not have to provide collateral to support a credit card line, which results in losses for credit card issuers that are more frequent and more severe than with secured loans. Issuers charge higher interest rates to support the higher credit costs associated with unsecured loans.

Secondary Markets

- Mortgage originators and other lenders can hold the loans they make on their balance sheet, or they can securitize and sell them to investors in the secondary market, using the proceeds to originate new loans to families, individuals and businesses.
- Active secondary markets in which borrowers can transfer or sell lending assets provide critical support to primary lending.
- Consumers and businesses ultimately benefit from active secondary markets through the lower cost of credit and the availability of primary lending funds.
- When confidence falls and liquidity disappears in the secondary market, as is now the case, the flow of credit slows and primary lending to people and businesses becomes more difficult and expensive to obtain.

Total Approved TARP Lending Initiatives = $36.5 Billion



II. LENDING ACTIVITY

a. New Lending in the Fourth Quarter of 2008

Separately from its TARP initiatives, Citi remains committed to helping commercial clients and retail customers find workable solutions that address their financial needs responsibly and allow them to meet their obligations.

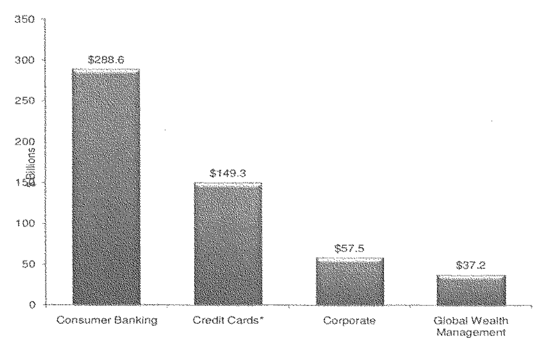
While it is the case that overall bank lending and demand for credit both declined in the fourth quarter, Citi extended new loans totaling approximately $75 billion to customers and clients in the U.S.

A company in New York state with 10 employees that manufactures home gardening supplies came to us for a $150,000 loan and a $100,000 credit line to bring a new product to market. The funding is being used to expand the business.

Citi's U.S. deposits at the end of the fourth quarter were $289.8 billion, meaning that approximately every four dollars we held in U.S. deposits supported one dollar of new lending initiatives.

- Citi continues to lend responsibly to individuals based on their creditworthiness. Factors we consider in reviewing loan applications include a borrower's ability to repay, the size of a loan compared to the value of the underlying collateral, verifiable income, credit history and regional conditions.
- We continue to provide loans, lines of credit and commercial real estate mortgages to U.S. companies, from small and medium-sized businesses to some of the largest employers in the country.
- As municipal bond underwriters, Citi works every day with state and local governments to help them in these difficult times. We also continue to help U.S. corporations find sources of new capital to fund their businesses through the underwriting of debt and equity offerings.

Average Loans, Fourth Quarter 2008 = $532.6 Billion[1]



*Managed basis

[1] North America

Lending to Businesses and Corporations

Citi remains engaged in helping U.S. companies of all sizes obtain the funding they need to run their businesses. Commercial and corporate loans, credit lines and mortgages help these businesses work through periods of reduced activity, pay their employees and suppliers, and also grow.

TARP capital is not being used directly for these activities, but this capital does provide important support for Citi's ongoing efforts to meet the financing needs of our commercial clients.

We continue to lend actively to small commercial companies with credit needs of less than $100 million through our retail branch network, and through dedicated sales and relationship officers. This includes a small business segment focused on servicing companies with credit needs of less than $250,000.

- Citi offers term loans, loans guaranteed by the Small Business Association, lines of credit, commercial mortgages and equipment financing to small businesses and other small commercial clients.
- Overall loan balances outstanding in small business and commercial banking have grown 22 percent to $8.9 billion in December 2008 from $7.3 billion in December 2007 primarily as a result of new loan originations and funding of previously committed lines of credit.
- In the small business category alone, loan balances outstanding rose over the same period from $950 million to $1.29 billion.

Here are some examples from the fourth quarter:

- A company in New York state with 10 employees that manufactures home gardening supplies came to us for a $150,000 loan and a $100,000 credit line to bring a new product to market. The funding is being used to expand the business, which expects to increase its sales by 40 percent in 2009.
- We extended a 10-year commercial mortgage for $1.5 million and a revolving line of credit for $7 million to fund working capital needs to a wholesale distributor of consumer goods in New Jersey with 35 employees and sales of $164 million.
- We extended a 10-year commercial mortgage for $1 million to a distributor of industrial supplies in New York state which employs 70 people and has sales of $18 million.

Citi works primarily with large corporate and institutional borrowers to fund expansion, support strategic transactions, pursue activities in the secondary market and provide debtor-in-possession financing for companies in bankruptcy.

Overall lending has declined over the past year as demand for borrowing contracted and Citi remained judicious in its lending practices. However, in the fourth quarter of 2008, we were the lead underwriter for U.S. syndicated loans totaling $22 billion.

- For the full year, Citi served as the lead underwriter for U.S. syndicated loans totaling $126 billion.

Examples of our involvement included:

- A $1.9 billion 364-day contingent liquidity facility for Alcoa, Inc., which the company put in place to provide additional backstop liquidity for its existing commercial paper program.
- A new $2 billion 364-day syndicated revolving credit facility for Abbott as a backstop for commercial paper.
- Joint lead and joint bookrunner on a $17 billion bridge loan to the Verizon Wireless $28 billion purchase of Alltel Corp.

b. The Lending Environment

In the past year, U.S. and world financial markets have been tested in unprecedented ways. Across the financial services industry, lending has declined markedly as banks work to reduce risks to their balance sheets and exposure to future credit losses resulting from the downturn in the housing market and the economy as a whole.

Demand for borrowing has also fallen sharply as people and businesses reduce spending in the face of rising unemployment and the contraction of the economy.

- For example, consumer borrowing, which includes credit card spending and auto loans, dropped at an annual rate of $7.9 billion in November 2008, according to the Federal Reserve, the biggest decline in the 65 years since the Fed began tracking this data.

In this difficult environment, Citi will not – and cannot – take excessive risk with the capital the American public and other investors have entrusted to the company.

- U.S. households are also saving more money for the first time in many years. According to the Bureau of Economic Analysis, the personal savings rate in November 2008 was 2.8 percent of disposable income, four times the rate in the same month of 2007.

Banks and other lenders have tightened access to credit and are conserving capital in order to absorb the losses that occur when borrowers default.

> We will continue to adhere to our basic sound lending principles, in a way that balances our commitment to providing support for the U.S. economy with our responsibility to manage risk appropriately.

- For example, Citi has seen a steady rise in loss rates on credit cards in the past year. Our net credit loss rate for North American cards was 8.0 percent in the fourth quarter of 2008, compared to 5.5 percent in the fourth quarter of 2007.

- Accordingly, we have taken actions in certain high risk segments to lower the company's credit exposure by reducing open or unused credit lines.

In this difficult environment, Citi will not – and cannot – take excessive risk with the capital the American public and other investors have entrusted to the company.

- We will continue to adhere to our basic sound lending principles, both in our TARP-related activities and across our businesses, in a way that balances our commitment to providing support for the U.S. economy with our responsibility to manage risk appropriately and deliver value for investors, including the taxpayer.

III. HELP FOR HOMEOWNERS AND OTHER BORROWERS

a. Helping Homeowners

Homeowner retention solutions for Citi's U.S. mortgage lending businesses remained favorable in the fourth quarter of 2008.

- Loss mitigation solutions outnumbered foreclosures completed by a ratio of more than six to one.
- Total loss mitigation actions increased 33 percent from the third quarter of 2008 to the fourth quarter of 2008.

Since the beginning of 2007, Citi has worked successfully with approximately 440,000 homeowners to avoid potential foreclosure on combined mortgages totaling approximately $43 billion.

Citi has worked with mortgage holders since the start of the U.S. housing market crisis to help keep them in their homes. We are working to reduce or mitigate the hardships many American families face and, at the same time, contain the financial losses that Citi itself has to confront in the event of borrower default.

- Since the beginning of 2007, Citi has worked successfully with approximately 440,000 homeowners to avoid potential foreclosure on combined mortgages totaling approximately $43 billion.
- In 2008, we kept approximately four out of five distressed borrowers with mortgages serviced by Citi in their homes using various home retention solutions.
- Citi was the first financial services company to report publicly on the impact of its foreclosure prevention initiatives, in its quarterly *Citi U.S. Mortgage Lending Data and Servicing Foreclosure Prevention Efforts* report – first published in February 2008.

As the economic downturn has continued, Citi is doing even more to help homeowners, and employs a variety of means to assist borrowers who are having trouble meeting their mortgage payments.

- A specially trained servicing unit works with homeowners to find long-term solutions and tries to ensure that, wherever possible, no borrower loses his or her home.

- We continuously evaluate our portfolios to identify those borrowers who can save money and reduce monthly payments, and offer them timely homeowner retention solutions.

  – To better meet the increased needs of at-risk borrowers and reach as many of these borrowers as possible, we have increased the number of staff dedicated to the important task of loss mitigation by more than two and a half times, compared with just a year ago.

- Citi puts a specific focus on finding long-term solutions for borrowers in need. In support of this, loan modification is a key tool in helping to prevent foreclosure. Citi has found modifications to be effective in helping borrowers avoid foreclosure.

  – In keeping with this commitment, we are in the process of adopting the FDIC's streamlined modification program where the borrower is at least 60 days delinquent or where a long-term modification is appropriate.

Citi has worked with investors and owners of more than 90 percent of the 4.3 million mortgages we service – but do not own – to make sure that many more qualified borrowers will also benefit from our foreclosure moratorium.

- In November 2008, we announced the Citi Homeowner Assistance Program for families, particularly in areas of economic distress and sharply declining home values, whose mortgages Citi holds.

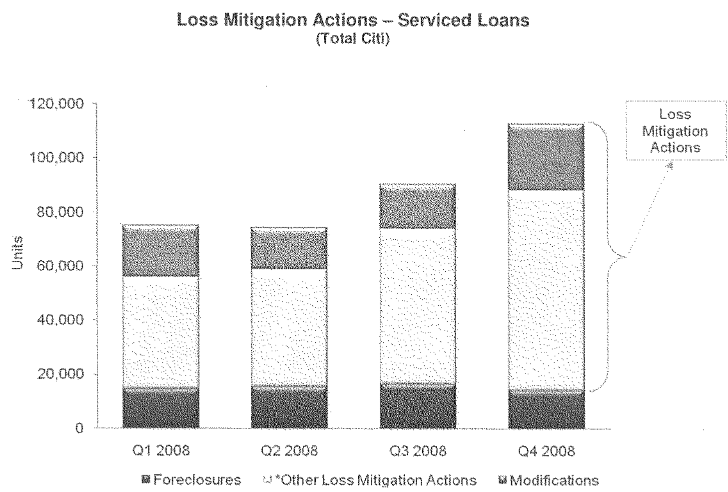
  – For those borrowers who may be experiencing some form of economic stress, although still current on their mortgages, we are deploying a variety of means to help them remain in their homes.

- We are continuing our foreclosure moratorium for eligible borrowers with Citi-owned mortgages who work with us in good faith to remain in their primary residence and have sufficient income to make affordable mortgage payments.

  – To ensure that our efforts have the broadest possible impact, Citi has worked with investors and owners of more than 90 percent of the 4.3 million mortgages we service – but do not own – so that many more qualified borrowers will also benefit from this moratorium.

- In addition, in late 2008, due to falling interest rates, Citi experienced a significant increase in calls from borrowers seeking to refinance their mortgages.

  – To make sure we are being as effective as we can in providing practical help to these homeowners, we are deploying more resources to help customers who call about refinancing and are working with them to make their mortgages more affordable.



*Includes: Extensions, HSAs, Repayment Plans, Reinstatements, Short Sales and Deeds in Lieu. See Appendix for definitions.

b. Support for Credit Card Holders

Credit cards play an important role in the nation's economy by helping people and businesses complete transactions and pay for goods.

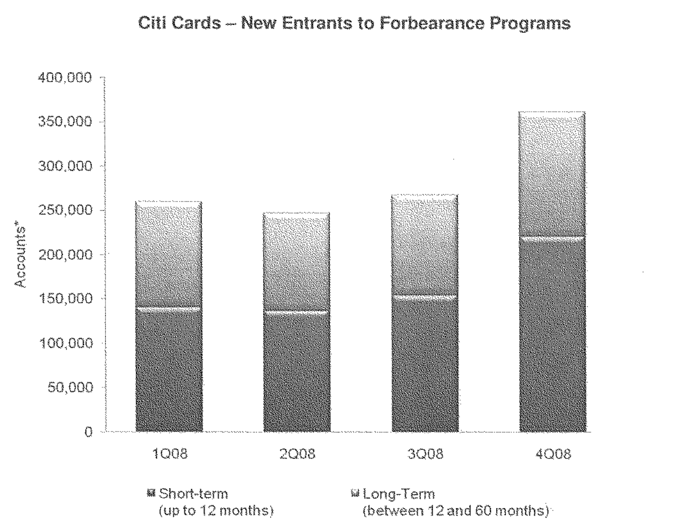
- In 2007, transactions worth $1.9 trillion were completed in the U.S. on credit cards industry-wide. Currently, there are about $4.8 trillion of open credit lines in the United States.
- Based on available national economic figures, Citi estimates that about 20 percent of all personal consumption – the engine of the U.S. economy – involves credit card transactions, often to purchase day-to-day essentials like groceries, clothing and gas.

Citi's primary objective, particularly in this environment, is to fund the expansion of credit to existing card members and target new account originations, based on their ability to repay their loans.

- In 2009, Citi Cards plans to extend a significant amount of new credit to U.S. consumers, within Citi's customary sound lending standards.
- Since receiving the first installment of TARP capital, Citi has made plans to expand its lending activities further and extend affordable credit to lower risk borrowers.

In addition, we are rolling out new and incremental programs that will offer manageable terms to card members who are having financial difficulty to help them pay down their debt.

- For example, Citi is offering new forbearance programs with broadened eligibility criteria, affecting accounts in earlier stages of delinquency. These include payment incentives, match payments and balance-consolidation programs that accelerate the reduction, or amortization, of card loans without materially increasing the cost to consumers.
- We are also marketing programs to customers who, although current on their accounts, may need additional help to repay their balances. We expect to ramp up these programs through mid-2009.



*Primarily delinquent accounts (includes limited current accounts.) Note: Short-term programs include full/partial payment deferrals, reduced minimum payments, match payments; long-term programs include balance consolidation actions and adjustment of terms.

IV. CITI IN THE COMMUNITY

a. Citi Office of Homeownership Preservation (OHP)

Citi understands how critical affordable housing and credit are for all Americans. Since the start of the housing crisis, we have accelerated our efforts with our many community partners to help develop solutions that preserve homeownership.

Many distressed homeowners in urban communities across the U.S. prefer to work directly with a third party who can help them understand the resources that are available to them and how to work with their lender to prevent foreclosure.

To this end, Citi founded the Office of Home Ownership Preservation (OHP) in 2007 to work with counselors and borrowers to find alternatives to foreclosure, whenever possible.

- Citi offers delinquent borrowers free services such as around-the-clock access to qualified housing counselors from non-profit organizations.
- OHP has trained close to 600 counselors in more than 25 cities across the U.S. as part of the Citi OHP 25-City Tour. The OHP team works with local non-profit counseling organizations to reach out to thousands of at-risk borrowers.
- Through the OHP 25-City Tour, we have provided total grants to the non-profit in each city with the most aggressive and innovative foreclosure prevention outreach, counseling and education program. These grants, which total more than $1 million, are each for $50,000. They are part of the way we have helped local organizations provide distressed borrowers with broad-based financial education and free, on-demand non-profit counseling.

"We understand that helping to keep people in their homes sustains a community. We also understand that good intentions and hard work make up only two-thirds of the solution. Citi has stepped up tremendously to provide the final third, not just in financial support but with their people." – *Sarah Gerecke, CEO, Neighborhood Housing Services of New York City*

- In partnership with Citi's Office of Financial Education, OHP has developed two curricula – one each for consumers and counselors – that provide training and information on financial strategies to assist homeowners.
- In addition, OHP has launched a Web site at www.mortgagehelp.citi.com to help borrowers and counselors obtain advice and assistance via the Internet.

b. Partnerships in the Community

Throughout our 200-year history, Citi has been a trusted partner in the communities in which we operate. Today, we remain committed to helping people make a difference in their communities.

To this end, we created the Citi Dialogue program, which is an ongoing series of meetings that serve as forums for Citi executives and community leaders to discuss issues that affect underserved communities across the country.

We take a long-term view of what is in the best interests of our clients and the communities in which our employees live and work. We continue to provide capital in a responsible way that recognizes individual aspirations.

- In 2008, Citi Community Capital (CCC) provided $2.8 billion in loans for affordable housing and community revitalization projects in locations around the country.

Citi is a founding member of HOPE Now, a coalition of counselors, government, investors, lenders and servicers which was formed in 2007 to help find solutions to preserve homeownership.

In 2008, we entered into a five-year contract to purchase up to $30 million of microloans made to small businesses by ACCION Texas, thereby enabling ACCION to expand its microfinance portfolio (already the largest in the country).

- In an agreement that is a first of its kind in the U.S., Citi will share the risks and the rewards from additional loans ACCION will make with the new funds.

Citi is a national sponsoring partner of the NeighborWorks Center for Foreclosure Solutions and the Ad Council Campaign with NeighborWorks America and Housing Preservation Foundation (HPF). We are also a founding sponsor of the NeighborWorks Center for Homeownership Education and Counseling (NCHEC).

We provide both financial and technical assistance to other local and national partners who are working to prevent foreclosure through counseling, education and outreach.

- Our partners include the Association of Community Organizations for Reform Now (ACORN), Neighborhood Assistance Corporation of America (NACA), the National Community Reinvestment Coalition (NCRC), the Consumer Credit Counseling Service (CCCS), and the Consumer Counseling Resource Center (CCRC).

Citi established a $1 million grant and technical assistance program with the Housing Partnership Network and its local nonprofit partners in select cities to acquire and rehabilitate foreclosed properties in distressed neighborhoods.

Through volunteerism, our employees contribute their time and talent each day to causes and organizations they care about.

- Thousands of volunteer service hours are spent each year making a difference in local communities through projects and activities that include building homes, delivering food, revitalizing schools, teaching financial education, and service on non-profit boards and advisory councils.

In 2008, Citi Community Capital (CCC) provided $2.8 billion in loans for affordable housing and community revitalization projects in locations around the country.

Through its Partners in Progress (PIP) program, the Citi Foundation awarded grants totaling more than $2 million to 21 local community development organizations in January 2009.

These grants, each of $100,000, support innovative physical development and rehabilitation projects – known as "place-based initiatives" – that champion the long-term or large-scale revitalization of low- and middle-income communities. Examples of the 21 initiatives include:

- In the **Boston** area, PIP grants will help support construction of 1,500 new housing units, 780,000 square feet of commercial real estate, two green-job centers and a new six-mile greenway of open space in the Dorchester Bay area; and assistance in a community planning program in Somerville for 2,000 primarily low- to moderate-income individuals.
- In **New York City**, a PIP grant will support construction of 774 affordable housing units, as well as community and retail facilities and a public park, through the Gowanus Green Partnership. The project, at a brownfield site along the Gowanus Canal in Brooklyn, is expected to become a national model for urban community development.
- In **Miami,** a PIP grant will help Carrfour Supportive Housing, which is underwriting a complex of 145 units of new, affordable housing for formerly homeless families, an organic produce nursery and a farmers market retail site on the former Homestead Air Force Base, which closed as a result of Hurricane Andrew.

V. Compensation and Governance

a. Executive Compensation

This is a time of unprecedented challenges in the financial industry and one of profound change. An important area where Citi is changing is executive compensation. The principles that govern how Citi rewards our executives and employees must reflect both the company's performance against its objectives and the economic environment in which we operate.

In light of the company's performance in 2008, Citi's Chairman, its Chief Executive Officer and its Chief Financial Officer asked not to be paid bonuses for that year.

Other members of the Senior Leadership or Executive Committees – the top 51 people at Citi – received substantially reduced bonuses.

- Members of the Executive Committee received a significantly larger proportion of their bonus than other employees in deferred compensation, whose ultimate value depends on an improvement in the company's performance.
- For 2008, Executive Committee members also received at least 40 percent of their incentive compensation in the form of stock or options that have performance-based vesting conditions.

Citi's executive team and Board of Directors have also conducted a thorough review of compensation practices. From 2009 and beyond, all compensation decisions will be based on the following key principles, which are consistent with our agreement with the U.S. Government as an investor:

- Compensation will vary based on two factors: the individual's personal performance and the overall performance of the company.
- We believe in meritocracy. We will differentiate individual compensation decisions on the basis of both financial and non-financial performance.
- We will compensate on the basis of future performance as well as for past performance. Executive compensation will include a component that will vest based on future performance.

In light of the company's performance in 2008, Citi's Chairman, its Chief Executive Officer and its Chief Financial Officer asked not to be paid bonuses for that year.

- Citi has introduced a policy, commonly known as a "clawback" provision. This enables the company to recoup executive compensation that, over time, proves to have been based on inaccurate financial or other information.

- Citi has significantly amended its severance programs for executives. In particular, the top five officers listed in the annual proxy statement will not be eligible for any severance pay.

Citi's Board of Directors receives periodic reports from the Special TARP Committee on the specific uses to which TARP capital has been applied.

b. Corporate Governance

Citi is committed to the highest standards of ethical conduct: we report our results with accuracy and transparency, and we comply fully with the laws and regulations that govern the company's businesses – including our agreements with the U.S. government.

- The Board of Directors is responsible for ensuring that effective governance and oversight of the company's business activities benefit stockholders and other investors, including the taxpayer, while balancing the interests of Citi's diverse constituencies of customers, employees, suppliers and local communities around the world.

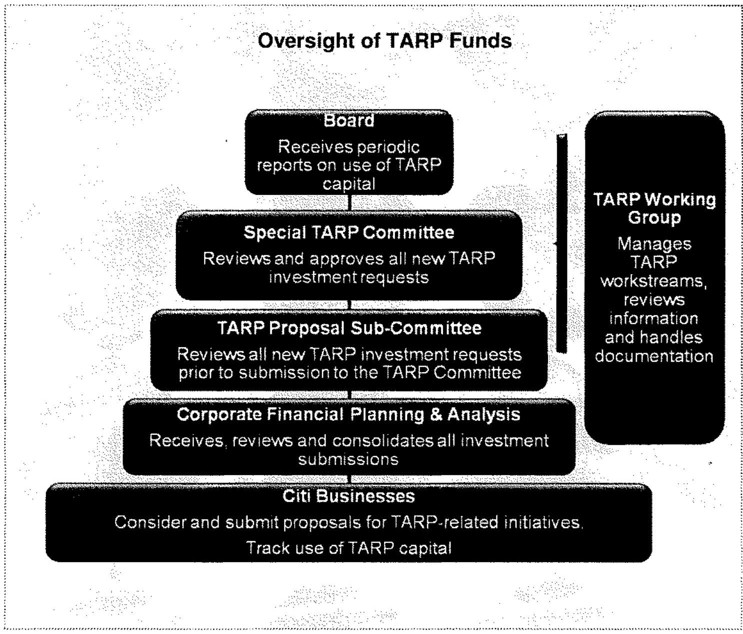
- Twelve of the 15 members of the Board are independent Directors, exceeding the Board's corporate governance guidelines which require that at least two-thirds of the Directors should be independent.

- Like members of Citi's Executive Committee, Board members are barred from selling 75 percent of any shares they receive under the company's equity awards programs for as long as they are Directors. This ties the value of the award directly to the value Citi is able to deliver to its shareholders through its performance.

Citi's Board of Directors receives periodic reports from the Special TARP Committee on the specific uses to which TARP capital has been applied. Approval of TARP-related initiatives at Citi is governed by a four-step process to ensure careful evaluation.

- A proposal to deploy TARP capital is first reviewed in the Citi business where it originated by risk management and financial professionals. The business must ensure that any TARP-related initiatives can be tracked.

- The proposal, if cleared at the business level, then goes to Citi's Corporate Financial Planning and Analysis (FP&A) group for a preliminary review of the financials, potential returns, assumptions and valuation.
- A TARP Proposal Sub-Committee, which includes Citi's Treasurer and Head of FP&A, serves as a control mechanism for all proposals. It undertakes a formal review of proposals and verifies other information, including the risk capital and risk-weighted assets of the investment.
- Proposals that clear these steps are submitted to the Special TARP Committee for deliberation. The Committee may accept a proposal, reject it, hold it for further consideration at a later time or request further information.


Oversight of TARP Funds
Board
Receives periodic reports on use of TARP capital
Special TARP Committee
Reviews and approves all new TARP investment requests
TARP Proposal Sub-Committee
Reviews all new TARP investment requests prior to submission to the TARP Committee
Corporate Financial Planning & Analysis
Receives, reviews and consolidates all investment submissions
Citi Businesses
Consider and submit proposals for TARP-related initiatives.
Track use of TARP capital
TARP Working Group
Manages TARP workstreams, reviews information and handles documentation

VI. SECTION VI – OUR STRATEGY

a. Citi's New Structure

In order for the U.S. economy to recover and thrive, the country needs sound, responsible financial institutions. Over the last year, Citi has pursued a determined strategy to get "fit" for the future through efforts designed to reduce our balance sheet exposures, enhance our risk management function, reduce costs and put the company on a path to growth.

Going into 2009, we recognized the need to accelerate the pace of change in order to put Citi on a clearer and faster pathway to profitability. That is why we announced on January 16, 2009 that the company is dividing into two distinct businesses with their own dedicated management teams: **Citicorp** and **Citi Holdings**.

The objective of our new structure is to sharpen Citi's focus on driving performance in the businesses which are central to our strategy, while maximizing value from "non-core" assets.

The objective of our new structure is to sharpen Citi's focus on driving performance in the businesses which are central to our strategy, while maximizing value from "non-core" assets. This new structure will be reflected beginning with financial reporting for the second quarter of 2009.

Citicorp is the relationship-focused bank to businesses and consumers – the "core" of Citi's businesses that the company expects to deliver high returns and high growth over time.

- Built on a strong foundation of more than 200 years in business and a presence in more than 100 countries, Citicorp is a global universal bank with deposit-taking capabilities and a broad range of banking services for consumer and institutional customers.
- Citicorp includes the company's Global Institutional Bank with Citi's world-class corporate, investment and private banking businesses, global transaction services and our retail banking franchise with branded credit cards, consumer and commercial banking services across the U.S., Asia, Latin America, Central and Eastern Europe and the Middle East.
- Citicorp will have estimated assets of $1.1 trillion, about two-thirds of which will be funded by deposits.

Citi Holdings comprises an estimated $860 billion in assets across three businesses – brokerage and asset management, local consumer finance and a special asset pool – all of which will be run with a continued focus on risk management and maximizing value.

- The company recently announced a plan to combine its Smith Barney business with Morgan Stanley's Global Wealth Management Group in a joint venture to create an industry-leading global wealth management business. Citi retains a 49 percent ownership stake.
- Citi Holdings also contains local consumer finance businesses, including CitiFinancial and CitiMortgage in the U.S., and consumer finance operations in Western Europe, Japan, India, Mexico, Brazil, Thailand and Hong Kong.
- The special asset pool will manage the assets covered by the loss-sharing agreement with the U.S. government parties and other non-strategic assets.

Citi has reduced total assets by $413 billion, or 18 percent, since our peak in the third quarter of 2007. Under the new structure, the company expects to build on the significant progress made in 2008 toward reducing non-core legacy assets by divesting businesses that are no longer considered central to our strategy.

In 2008, Citi announced or completed 19 divestitures including:

- On June 30, 2008, Citi completed the sale of Diners Club International to Discover Financial Services.
- On July 1, 2008, Citi and State Street Corporation completed the sale of the CitiStreet joint venture, a benefits servicing business, to ING Group in an all-cash transaction valued at $900 million.
- On August 1, 2008, Citi completed the sale of CitiCapital, our equipment finance unit in North America, to GE Capital.
- On December 5, 2008, Citi completed the sale of our German retail banking operations to Crédit Mutuel for approximately $6.6 billion.
- On December 31, 2008, Citi completed the sale of Citigroup Global Services Limited, a business processing service, to Tata Consultancy Services Limited for $515 million.

Under our new operating structure, Citi expects to further reduce operating costs through continued expense management and re-engineering programs.

- In the fourth quarter of 2008, we cut expenses by $2.5 billion, or 16 percent, compared with the same period of 2007, adjusted for one-time items disclosed in our earnings press release, as a result of our ongoing focus on cost reduction and re-engineering efforts.

- We are on track to achieve our targeted expense base of between $50 billion and $52 billion in 2009, representing a further reduction of 15 to 18 percent from 2008 reported expenses.

All these efforts will strengthen Citi's foundation in 2009 and help put the company on the road to better performance.

VII. SECTION VII – APPENDIX

a. Special TARP Committee Guidelines

Special TARP Committee
Guidelines for Use of TARP Investments
As of January 6, 2009

Citigroup Inc. ("*Citi*") is committed to using the capital received under the U.S. Department of the Treasury's Troubled Assets Relief Program ("*TARP*") in a manner consistent with the purposes and objectives of TARP. These guidelines set forth the principles and procedures for Citi's use of the TARP investment.

The recitals to the TARP securities purchase agreements include the following objectives:

- "To expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy."
- "To work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market."

To facilitate the rigorous and transparent pursuit of these goals, Citi has designated a Special TARP Committee (*the "Committee"*) comprised of senior executives that is responsible for overseeing, approving and monitoring the sound use of TARP capital for its intended purposes.

TARP capital will not be used for any purposes other than those expressly approved by the Committee.

The Committee members are the following people or their designees: Lewis Kaden, Vice Chairman; Gary Crittenden, Chief Financial Officer; Michael Helfer, General Counsel; Brian Leach, Chief Risk Officer; Michael Schlein, President, International Franchise Management and Executive Director of Business Practices; and Zion Shohet, Treasurer and Head of Corporate Finance. (See Appendix A, internal memorandum establishing committee).

PRINCIPLES

I. Permitted Investments

TARP capital will be deployed in a prudent and disciplined manner that is consistent with Citi's strategic objectives and Treasury's goal of strengthening the financial system in the United States and expanding the flow of credit as stated above. TARP capital, which is in the form of preferred stock, will be used exclusively to support assets and not for expenses.

Permitted uses of TARP capital may include, among other things:

- Sound lending activities across Citi businesses.
- Financing transactions across Citi businesses.
- Citi's loan modification program and other programs for homeowner avoidance of mortgage loan foreclosures.
- Citi's Homeowner Assistance Program, which aims to help potential at-risk borrowers avoid delinquency.
- The provision of credit to Citi credit card customers.
- Purchases of loans and securities in the secondary market that have the effect of increasing liquidity in the credit markets or the mortgage securities markets.

II. Prohibited Uses

TARP capital may not be used for any of the following purposes:

- Compensation or bonuses.
- Dividend payments.
- Lobbying or government relations activities.
- Marketing, advertising or corporate sponsorship activities.

PROCEDURES

The Committee and Citi businesses will adhere to the following procedures in connection with use of TARP capital:

- The Committee may approve the deployment of TARP capital for any authorized purpose, up to a specified maximum amount, without requiring additional approval of each use within that maximum.

- Businesses are required to report to the Committee at least every quarter on the activities for which any TARP capital was used, the performance of any investments, and the benefit of the activities to the flow of credit and/or the U.S. housing system.

- The Committee will report periodically to Citi's Board of Directors on the specific uses to which TARP capital has been applied.

- Deployment of TARP capital for authorized purposes within the approved maximum amount must be reported to the Head of Financial Planning, Analysis and Capital Allocation, Nayan Kisnadwala, with appropriate supporting materials to ensure effective monitoring.

- The Committee will ensure that Finance establishes appropriate financial reporting concerning the uses of TARP capital.

- The Committee will meet as often as required, and not less than every quarter.

- The Committee will appoint a secretary and its decisions will be recorded. Actions may be evidenced by e-mail or in a vote taken by an in-person or telephonic meeting. Actions taken by the Committee shall require the approval of at least three of its members.

* * *

In addition to the foregoing, the Committee is authorized to take any and all actions in its efforts to advance any of the objectives described above.

Appendix A

November 4, 2008

MEMORANDUM FOR THE CITIGROUP MANAGEMENT EXECUTIVE COMMITTEE

Subject: *Treasury Investment in Citigroup Preferred Stock*

On October 28 we closed on the transaction under which the U.S Treasury Department purchased $25 billion of Citigroup Preferred Shares. We did not seek this investment, nor did the plans we developed for the remainder of 2008 and beyond anticipate this additional capital. As we think about how to use this capital to augment our plans, we must be mindful of the purposes for which it was intended and ensure that we deploy this capital appropriately. We would do this under any circumstances, but here in addition there will be intense public and governmental scrutiny on the way we and the other eight large recipients use the capital from the Treasury Department.

Treasury made this investment in Citi and other institutions only as a result of special market conditions and its desire to help expand the flow of credit in the economy. While we should be proud that Citi was included among those in whom Treasury chose to invest to achieve this goal, Treasury's public purpose creates a special responsibility with respect to how we use this investment.

To ensure that we use this capital in a way that is consistent with our established strategic objectives and Treasury's goal of strengthening the financial system in the United States and expanding the flow of credit, we have established a Special Committee consisting of the two of us, Brian Leach, Zion Shohet and Michael Helfer to oversee and approve how we make use of Treasury's investment. This Committee will promptly develop a set of guidelines for the operating businesses, including guidelines on how we pursue incremental lending opportunities and how we monitor the use of these funds. The Committee will report periodically to the Citigroup Board of Directors on the uses to which we have put the proceeds of the Treasury investment.

The Treasury investment may not be used for any purposes other than those approved by the Special Committee. With the goals described above in mind, if you have a particular idea or suggestion that you would like the Special Committee to consider, please contact one of the members of the Special Committee.

Gary Crittenden
Lewis Kaden

b. TARP Investments by U.S. Treasury

TARP I

- Citi was among nine major U.S. financial institutions which agreed on October 14, 2008 – in consultation with the Treasury, the FDIC and the Federal Reserve Board – to receive from the Treasury a combined $125 billion investment to strengthen their capital positions and to enhance the overall performance of the U.S. economy.
- On October 28, 2008, Citi received a capital investment of $25 billion from the Treasury under this initiative, which is called the Capital Purchase Program.
- In consideration of the investment, Citi issued $25 billion in cumulative, perpetual preferred stock to the Treasury, with a dividend of five percent per annum, payable quarterly. The first dividend payment of $371.5 million will be made on February 17, 2009.
- Citi also issued the Treasury an option to purchase 210,084,034 common shares in the company at a strike price of $17.85 per share.
- This option will allow the Treasury and U.S. taxpayers to earn additional returns on the investment if Citi's common share price rises above $17.85.
- A summary of the terms of the transaction is available **at this link**.

TARP II

- On November 24, 2008, Citi announced that it had reached an agreement with the Treasury, the FDIC and the Federal Reserve Board on a series of steps to strengthen Citi's capital ratios, reduce risk and increase liquidity.
- The agreement closed on December 31, 2008, when Citi received a further capital investment of $20 billion from the Treasury. This initiative is called the Target Investment Program.
- In consideration of the investment, Citi issued $20 billion in cumulative, perpetual preferred stock to the Treasury, with a dividend of eight percent per annum, payable quarterly. The first dividend payment of $200 million will be made on February 17, 2009.
- Citi also issued the Treasury an option to purchase 188,501,414 common shares in the company at a strike price of $10.61 per share.

- This option will allow Treasury and U.S. taxpayers to earn additional returns on the investment if Citi's common share price rises above $10.61.
- A summary of the terms of the transaction is available **at this link**.

c. VII-d – Loss Sharing Program

- On November 23, 2008, Citigroup entered into a loss sharing program with the U.S. Department of Treasury, The Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank of New York.
- The definitive agreements, entered into on January 16, 2009, cover $301 billion of loans and securities backed by residential and commercial real estate, consumer loans and other assets.
- In consideration of the loss sharing program, Citi issued a combined $7.059 billion in cumulative, perpetual preferred stock to the Treasury and the FDIC, with a dividend of eight percent per annum, payable quarterly. The first dividend payment of $47 million will be made on February 17, 2009.
- Citi also issued the Treasury an option to purchase 66,531,728 million common shares in the company at a strike price of $10.61 per share.
- A summary of terms available **at this link** explains how the loss sharing program works.

d. Mortgage Mitigation Terms Explained

A **modification agreement** is typically used when the customer has a significant reduction of income that impacts his or her ability to pay and will last past the foreseeable future. Typically, the customer's loan terms are modified in order to resolve the mortgage delinquency. This agreement makes the mortgage more affordable for the customer.

A **repayment plan** is a written agreement between the borrower and the lender to implement a payment moratorium due to unforeseen circumstances wherein the property or employment status is affected. At the expiration of the term, the customer pays the total arrearage in a lump sum payment or elects a further repayment plan. This agreement is typically used when a customer has a short term reduction of income that severely impacts his or her ability to pay for a short period of time. The repayment plan brings the customer current over time as the payment obligations are met. It can also include a repayment plan under which the customer pays the regular monthly payment and an additional amount each month to catch up delinquent payments over time.

An **extension** is when the customer has experienced a temporary hardship and is unable to bring the loan current. The customer has the ability to continue making future payments, but does not have the funds to completely reinstate the loan. An extension may re-amortize the loan or defer the interest to the back of the loan. It brings the customer's account current immediately. An extension is generally used in the early stages of delinquency when a customer is one or two payments behind; it is rarely used for serious delinquency of more than 90 days past due or in the foreclosure process.

A **reinstatement** occurs when a customer that is 90+ days past due is able to pay all of the delinquent fees, interest and principal owed to the bank with a single payment. This brings the customer's account current immediately and allows him or her to continue to pay off the loan according to the original amortization schedule.

A **Home Saver Advance (HSA)** loan is an unsecured personal loan to approved Fannie Mae servicers for eligible borrowers designed to bring a cure to the delinquency on a first lien loan. HSAs provide funds to cure arrearages of PITI, as well as other advances and fees. HSAs are documented by a borrower signed promissory note, payable over 15 years at a fixed rate of 5% with no payments or interest accrual for the first six months.

A **short sale** is when the customer does not have either the desire or ability to keep the property and is willing to sell the property to satisfy the debt. This option is utilized when the amount owed less acceptable closing costs to sell the property is more than the value of the property.

A **deed in lieu of foreclosure** is when the customer does not have either the desire or the ability to keep the property and is unable or unwilling to sell the property but is willing to sign the property over to Citi in exchange for stopping the foreclosure action. Deeds in lieu of foreclosure are generally accepted only after all other options have been exhausted.]

e. Useful Links

citigroup.com

Citi Office of Homeownership Preservation

Citi Community Capital

Citi U.S. Mortgage Lending Data and Servicing Foreclosure Prevention Efforts, Third Quarter 2008

Financial Information, Fourth Quarter 2008

Code of Conduct

Corporate Governance Guidelines

Annual Report for 2007

Corporate Citizenship Report for 2007

Citi Foundation

Citi Press Room

Testimony of John Stumpf
President & CEO
Wells Fargo & Company
House Financial Services Committee
February 11, 2009

Mr. Chairman, Ranking Member Bachus, and Members of the Committee, I'm John Stumpf, President and CEO of Wells Fargo & Company.

Our company has been serving customers for going on 158 years. We're an American company. Virtually all our businesses and team members are in the U.S. We're in all 50 states.

We are a community bank. We have 281-thousand team members – who earn fair and competitive wages and benefits, including health care. They live and work in thousands of communities across North America – from big cities like Los Angeles and Miami to small towns like Spearfish, South Dakota and Alice, Texas. I've been a community banker with our company for almost three decades. I know what it's like to be on the teller line and on the banking floor working with our customers. I personally have served customers in cities and towns across Minnesota, Colorado, Texas and now California.

Across the country many of our customers are facing difficult times. Now, as always, we want to do what's right for them. We're very proud that Wells

Fargo has been open for business for our customers. We never stopped lending. In the last 18 months – when many of our competitors retrenched – Wells Fargo made $540 billion in new loan commitments and mortgage originations. They are as follows:

- $63 billion commercial/commercial real estate
- $123 billion consumer and small business
- $354 billion home mortgages

Last quarter alone, we made $22 billion in new loan commitments and $50 billion in mortgages – a total of $72 billion in new loans. That's almost three times what the U.S. Treasury invested in Wells Fargo. With the merger, we have reopened lines of credit to some Wachovia customers who previously had been denied credit.

We do business and lend money the old-fashioned way – responsibly and prudently. As a result, we earned a profit last year of almost three billion dollars. We have not used any of the government investment for dividends, bonuses, or compensation of any kind – nor will we. We have the highest credit ratings currently given to any bank in the country.

We understand the very important responsibility that comes with receiving public funds. We are always careful stewards of our shareholders' money. The investment by the government is being used in the same prudent way. We have never been wasteful. We spend money to support the business and make a profit for our investors. We are frugal. Last year, our overall corporate expenses actually declined one percent while our revenue rose over seven percent.

We said from the start that we'll use the government's investment to help make more loans to credit-worthy customers. We said we would use the funds to find solutions for our mortgage customers who are late on their payments or facing foreclosure – so they can stay in their homes. We also said we would report on our progress. We have done just that.

We recently announced our first dividend payment to the taxpayers for their investment in Wells Fargo preferred stock. Our first dividend payment on their investment was more than a third of a billion dollars. We're Americans first and bankers second – so we see this taxpayer investment, first and foremost, as an investment in the future economic growth of our country. We're proud to be an engine for that growth.

Last quarter we made $22 billion in new loan commitments. Our average outstandings – on a linked quarter annualized basis were:

- Student loans, up 12 percent
- Agricultural loans, up 14 percent
- Middle Market commercial loans, up 14 percent
- SBA loans, up 11 percent

- Commercial real estate loans, up 15 percent

Now, as to mortgages. Last year we made $230 billion in mortgage loans. That made homeownership possible for more than half a million families. It also includes refinancing almost a half a million existing loans. That lowered mortgage payments for families across our country. At year-end, we had $71 billion of mortgages still in process – up threefold annualized from the third quarter – a sign of strong momentum for 2009.

Our mortgage lending is built on solid underwriting and responsible servicing. Because of that, 93 of every 100 of our mortgage customers are current on their mortgage payments. That performance is consistently better than the industry average.

In 2008, we nearly doubled our team dedicated exclusively to helping customers stay in their homes – which improved our outreach. Because of that, we were able to contact 94 of every 100 customers who are two or more payments past due on their mortgages. Of those we contacted, we were able to provide solutions for seven out of ten. This resulted in our being able to deliver 706,000 solutions to help Americans avoid foreclosure during the last year and a half. That is 22 percent of the 3.2 million solutions reported by the industry. Last quarter alone, we provided 165,000 solutions to our mortgage customers. That was three times as many as the last quarter of 2007.

When we modify a loan, about seven of every ten customers remain current or less than 90-days past due, one year later. There is, however, much more work to be done. We continue to invest in more people and systems to help even more at-risk homeowners.

Across the country, we're partnering with real estate agents, cities and nonprofits to speed up the selling of bank-owned properties so they can become, once again, owner-occupied.

For all these reasons, we believe the Treasury's investment of taxpayer dollars in Wells Fargo has been – and will continue to be – a wise and profitable investment – for our neighborhoods, for our country, and for our economy.

Mr. Chairman and Members of the Committee, thank you and I would be happy to answer questions.

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Lloyd C. Blankfein, Chairman and CEO, Goldman Sachs & Co.

Responses to Questions
Financial Services Committee Hearing
"TARP Accountability: Use of Federal Assistance by the First TARP Recipients"
Wednesday, February 11, 2009

Q: What was Goldman Sachs's peak leverage ratio over the past 4 years? (Rep. Barrett)

A: Over the last four years, Goldman Sachs' highest leverage ratio (defined as total assets divided by shareholders' equity) was 27.9 times. We consider the gross leverage ratio to be of limited utility, as it does not take account of the different levels of risk inherent in various types of assets. There is a significant difference in looking at gross leverage and leverage adjusted to reflect the risk and liquidity of underlying instruments and securities. For example, one institution could have an overall leverage ratio of 30, but be holding highly liquid instruments such as US Treasuries, while another institution could have a leverage ratio of ten to one, but hold a significant position in CDOs. The latter would, obviously, be more "risky" than the former.

The leverage ratio implies a firm requires the same amount of capital regardless of asset mix and, as such, provides little help to investors seeking to evaluate the firm's risk or liquidity.

Goldman Sachs believes a risk-adjusted leverage ratio is a more appropriate metric and, over the last four years, our highest ratio of risk-weighted assets to Tier I capital (both computed in accordance with the Basel II standards) was 11 times, or 9.1%.

Q: What was Goldman Sachs's peak leverage ratio at any point over the past 4 years when its assets were performing as normal? (Rep. Barrett)

A: Please see answer above.

Q: In hindsight, do you believe that Goldman Sachs was overleveraged at any point over the past 4 years before the values of assets in its portfolio began generally to fall (Rep. Barrett)?

A: No. We believe our leverage and overall management of risk exposures have been appropriate. The senior management of the firm believes that effective risk management is critical to the success of Goldman Sachs. Accordingly, we have a comprehensive risk management process to monitor, evaluate and manage the principal risks we assume in all our businesses. These include market, credit, liquidity, operational, legal and reputational risks.

Q: At that time, did you believe that Goldman Sachs was overleveraged? If so, what prompted you to reach that leverage ratio? (Rep. Barrett)

A: Please see answer above.

Q: Did Goldman Sachs take any steps to deleverage at that time? (Rep. Barrett)

A: Over the course of 2008, the firm took regular steps to reduce risk by reducing exposure across a range of assets. During the year, total assets declined 21%. The decision to reduce exposure across the firm was in response to volatile market conditions and a desire to reduce certain concentrated positions, rather than a concern about gross leverage. During 2008, both our adjusted and gross leverage fell by slightly more than 40%, which demonstrates that the risk reduction was broad based and not concentrated on liquid, lower risk assets.

Q: What was the maximum rate of asset non-performance that Goldman Sachs's portfolio was designed to withstand before causing problems with its capital ratios? Was this rate exceeded? If so, when did you know that this rate was exceeded? (Rep. Barrett)

A: Goldman Sachs uses fair-value accounting for substantially all of our activities. We believe that rigorous mark-to-market accounting is fundamental to prudent financial management because it facilitates a clear view of risk. It allows us to manage market risk limits, monitor exposure to credit risk and effectively manage our liquidity requirements.

As a result, at certain times in 2007 and 2008, as we began to see the daily deterioration in the prices of certain asset classes, the firm was able to respond relatively quickly by reducing relevant exposures. It is worth noting that, without the commitment to sell assets throughout the year, regardless of the fact that many market participants believed that the prices available were at distressed levels, our performance would have been materially weaker. Our fair-value accounting policy played a central role in helping to inform our decisions to sell assets. The daily marking of positions to current market prices was a key contributor to our decision to reduce risk relatively early in markets and in instruments that were deteriorating. As a result, we did not experience any material worsening of our capital ratios. We are also less susceptible to future losses from declining value in the same asset classes. This was one of the key reasons why Goldman Sachs produced net earnings of $2.3 billion in 2008.

Q: How was Goldman Sachs exposed to the holdings of other financial institutions? How did Goldman Sachs hedge against the nonperformance of assets held by other financial institutions? (Rep. Barrett)

A: While our activities expose us to many different industries and counterparties, we routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment funds and other institutional clients. The credit terms we establish with counterparties provide for bilateral collateral flows on a mark-to-market basis. This underpins our approach to managing counterparty risk. It is consistent with how equivalent trades done on an exchange would be risk-managed, which is broadly viewed as a systemically risk-reducing structure.

For instance, if we enter into a transaction with a counterparty that insures the value of a certain asset or security, and the value of that asset falls, the counterparty is, generally, obligated to pay us the difference (as collateral) between its original insured price and the current market value on an ongoing basis.

In addition to entering into agreements that enable us to obtain collateral from a counterparty on an upfront or contingent basis, we may hedge our credit risk (i.e., of default by the counterparty) using credit derivatives or other hedging structures or techniques.

Q: Did you ever worry that Goldman Sachs had a major mismatch between your assets and liabilities because it was funding illiquid assets with short-term credit? (Rep. Barrett)

A: No. First, our fair-value accounting discipline helps us get a more accurate sense of the value of illiquid assets. Second, our funding and liquidity profile does not support the assertion that we were funding illiquid assets with short-term credit.

We have always believed that liquidity is the most important consideration for our firm and, for that matter, any financial institution. We seek to manage the maturity profile of our secured and unsecured funding such that we should be able to liquidate our assets prior to our liabilities coming due, even in times of prolonged or severe liquidity stress. We do not rely on immediate sales of assets to maintain liquidity in a distressed environment, although we recognize orderly asset sales may be prudent or necessary in a severe or persistent liquidity crisis. We maintain significant excess liquidity to meet near term outflows in the case of a liquidity crisis and, as of Q4

2008, our excess liquidity averaged $111 billion. At the end of 2008, the weighted average maturity of our long-term unsecured debt was eight years, and secured funding was in excess of 100 days.

Q: How much did Goldman Sachs rely on the rating agencies in its risk management processes? In hindsight, do you believe that Goldman Sachs was over-reliant on the ratings provided by the rating agencies for its risk management processes? (Rep. Barrett)

A: We believe strongly that financial institutions cannot outsource their risk management. We depended on our own analysis, models and, most importantly, people. Our culture of risk management is rooted in the independence of the risk and control functions. For example, this means that risk managers have at least equal stature with their counterparts in producing divisions. Additionally, the firm-wide committees charged with the critical discipline of daily marking of positions, such as the Risk Committee (which monitors market risk and exposures) and the Business Practices Committee, (which reviews operational and reputational risk) are comprised of our most senior managers. Furthermore, our Credit Risk department carefully monitors exposures to counterparties and their affiliates on an individual and aggregated basis. The department also manages risk using information by product, industry sector, country and region. For these and other reasons, including the results of our management of risk exposures, we believe that we were not reliant on credit ratings in our risk management processes.

Q: Are you paying yourselves fees when issuing debt under the FDIC TLGP guaranteed debt program? (Rep. Gutierrez)

A: Goldman Sachs' broker-dealer affiliates receive customary underwriting fees in connection with underwriting and distributing TLGP debt issued by both Goldman Sachs and other financial institutions. Other broker-dealers that underwrite or sell Goldman Sachs TLGP debt receive the same types of fees for such activities. As with other public debt offerings, these fees are publicly disclosed and depend on the maturity of the debt obligation being issued. The Goldman Sachs Group, Inc. is not a registered broker-dealer and accordingly may not engage in customary broker-dealer activities, such as the distribution of securities. Therefore, it engages its broker-dealer affiliates and other unaffiliated broker-dealers to underwrite and sell its TLGP debt securities and pays those entities customary fees for providing such services.

From an accounting standpoint, fees "paid" between entities in the same consolidated group (such as The Goldman Sachs Group, Inc. and Goldman, Sachs & Co.) do not result in an economic gain to the consolidated group as a whole.

Goldman Sachs, like any other issuer of TLGP debt, does pay the government a fee for participating in the TLGP program. The FDIC reports that it has collected over $5 billion in fees for debt issuance from all issuers under the TLGP program through February 2009.

Q: What are you doing with TARP funds? (Rep. Ackerman)

A: Goldman Sachs takes its responsibility as a recipient of TARP funds very seriously. We view the TARP as important to the overall stability of the financial system and, therefore, important to Goldman Sachs. This capital, combined with the more than $10.75 billion of capital we raised three weeks before receiving the TARP funds, gives us an even stronger balance sheet and increases our ability to inject liquidity across markets and extend capital to our clients.

As a financial institution focused on the "wholesale" client base, Goldman Sachs actively provides liquidity to institutions and helps the capital markets function. Our business is institutionally dominated, with the vast majority of our capital commitments made on behalf of corporations and institutional investors. Goldman Sachs is not engaged in traditional commercial banking and is not a significant lender to consumers.

Goldman Sachs serves a number of important roles for our clients, including that of advisor, financier, market maker, asset manager and co-investor. Briefly,

- Financier: Through our role as a financier, advisory clients frequently expect our advice to be accompanied by access to the capital necessary to make that advice actionable and practical. For instance, we often provide back-stop or contingent credit, such as a commitment to make a bridge loan until other sources of more permanent capital can be arranged. Since receiving the $10 billion of capital on October 27th and through January 2009, Goldman Sachs has committed over $13 billion in new financing to support our clients. This compares with $4.5 billion in the three months prior to receiving the Government's investment. For example, we put our capital to work on behalf of Sallie Mae to allow them to provide more than $1.5 billion of student loans. We made a significant investment in the C.J. Peete Apartments Housing Complex, a mixed-income housing project in New Orleans. We also committed capital to Verizon Wireless, Pfizer and a number of other significant corporations.

- Market maker: As a market maker, we provide the necessary liquidity to ensure that buyers and sellers can complete their trades. In dislocated markets, we are often required to deploy capital to hold client positions over a longer term while a transaction is completed. In recent months, this has been especially true as we have helped our corporate and investing clients manage their exposure to interest rate risk, swings in commodity prices and movements in currencies. More broadly, we have seen widespread de-leveraging. As institutional investors reduce their various risk exposures, they turn to firms such as Goldman Sachs, which play the role of intermediary. This ability to help our clients effectively manage their risk requires the active and significant commitment of capital. In January, for instance, Goldman Sachs provided short-term liquidity to a portion of the mortgage market through a large agency mortgage transaction. This significant extension of our capital helped keep mortgage rates from increasing by allowing billions of dollars of mortgage securities to be financed. Additionally, the role we play as a specialist and market maker in NYSE listed stocks has grown increasingly significant, particularly in volatile markets when liquidity demands are higher. For instance, in certain shares, our specialist business may account for nearly one-quarter of total trading in a particular stock.

- Co-investor: We also recognize the importance of being an active co-investor with our clients. Over the summer, we established a $10.5 billion senior loan fund which makes loans to companies in need of capital. The fund invests both our own capital and that of our clients. This is significant because, in many cases, the normal market mechanisms to facilitate the extension of credit in many areas have broken down. Investors are wary of credit ratings and are reluctant to invest their own money directly. They are looking for some assurance of quality before they are willing to commit capital. Through this fund, each dollar that Goldman Sachs commits is multiplied many times over as we attract capital from our clients. Already, the fund has made approximately $5 billion in loans. In the next year, Goldman Sachs intends to launch additional funds to inject capital across the corporate capital structure. These funds will extend needed capital to a variety of companies whose growth opportunities would otherwise be limited in this extremely tight credit environment.

Additionally, Goldman Sachs is tracking the level of capital we commit on behalf of our clients since we received the funds under the Capital Purchase Program (CPP). Goldman Sachs has made over $13 billion of capital commitments since October 27th, and this amount does not include the capital we extend as a market intermediary and co-investor.

Q: What are you doing to help homeowners stay in their homes? (Rep. Meeks)

A: Goldman Sachs has never been a significant originator of residential mortgage loans. In December 2007, Goldman Sachs purchased Litton Loan Servicing, which services mortgage loans for loan owners, but it does not own the loans.

As part of its work, Litton expends significant resources to identify homeowners who may be in danger of losing their homes and works with them on potential solutions, like loan modifications, that allow the homeowners to stay in their homes. Over time Litton has been able to demonstrate to loan owners that loan modifications very often produce lower losses than foreclosures.

Litton has a long track record in modifying loans. It has implemented multiple loan modification programs that seek to help at-risk homeowners stay in their homes. In order to pursue any of its loan modification programs, Litton, as servicer for loan investors, must demonstrate that the modification results in a greater net present value to investors than a foreclosure.

Even before the current crisis, Litton implemented programs for modifying at-risk loans. Historically, Litton's average modification involved a payment reduction of approximately $200 per month, which resulted in an average housing debt-to-income (DTI) ratio of 38%. However, in response to deteriorating macroeconomic conditions and a weakened housing market, Litton has implemented a new DTI standard of 31%, which is consistent with FHA guidelines for new loans and the DTI standard in the Administration's recently announced Home Affordability Modification Program.

This approach, for example, allowed Litton in 2008 to modify in excess of 41,500 mortgage loans totaling approximately $7.8 billion in principal balance. These modifications represent approximately 13.5% of Litton's total loan portfolio and about 32.7% of its 60-plus days delinquent portfolio. This is approximately a 100% increase in modifications over the previous year. With these modifications, Litton has written down approximately $438 million in principal, debt and fees for homeowners, and monthly savings on principal and interest payments averaged 15.8%.

Nationwide, Litton seeks to partner with grassroots community organizations to educate consumers on alternatives to foreclosure, particularly in geographic areas that are experiencing high rates of delinquency and foreclosures. Litton has working relationships with many national homeownership preservation organizations and organizations representing state and local areas.

Q: Should large financial intuitions be subject to a more aggressive regulatory framework? (Rep. Watt)

A: As stated publicly in the February 9, 2009 op-ed in the *Financial Times*, Goldman Sachs believes there needs to be a greater emphasis on risk management in the regulation of financial entities, substantially increased coordination and harmonization among regulators globally and "[i]n this vein, all pools of capital that depend on the smooth functioning of the financial system and are large enough to be a burden on it in a crisis should be subject to some degree of regulation."

Q: Comment on the *Wall Street Journal* and *New York Times* articles that relate to Goldman Sachs' being a counterparty to AIG. (Rep. Garrett)

A: On March 15, AIG released the names of its major counterparties. The disclosure included the details of the flow of cash to Goldman Sachs for the period from mid-September 2008 to the end of 2008. However, the list of AIG's cash flows to counterparties provided little clarity about each bank's credit exposure to the company.

The first transfer to Goldman Sachs represented $2.6 billion in additional collateral that was called as markets continued to deteriorate. This posting of collateral was consistent with the commercial agreements Goldman Sachs entered into with AIG.

The second transfer of $5.6 billion was associated with the financing entity Maiden Lane III. In mid-November, the Federal Reserve established this entity to purchase the securities underlying certain credit default swap (CDS) contracts and effect the cancellation of those contracts between AIG and its counterparties. The Federal Reserve required that counterparties deliver the cash bonds to Maiden Lane in order to settle outstanding CDS contracts and for it to avoid any further collateral risk. Consequently, the cash flow of $5.6 billion between Maiden Lane and Goldman Sachs reflected the Federal Reserve paying Goldman Sachs the face value of the securities less the collateral held on those securities. Goldman Sachs then spent the vast majority of the money received to buy the cash bonds from our counterparties in order to complete the settlement as required by the Federal Reserve.

AIG also identified a further $4.8 billion related to securities lending. In this case, AIG gave Goldman Sachs $4.8 billion in securities which were largely the highest quality very liquid agency securities. Goldman Sachs in return gave $4.8 billion in cash to AIG. The $4.8 billion referenced in AIG's disclosure was simply the return of cash to Goldman Sachs in exchange for the return of securities AIG had posted. AIG repaid the money to us and we returned to the collateral to AIG.

By mid-September it was clear that AIG would either be supported by the Government and meet its obligations by making payments or posting collateral, or it would fail. In the case of the latter, Goldman Sachs would have been able to collect on hedges and retain the collateral posted by AIG. The Government's intervention allowed AIG to meet its contractual obligations to counterparties including Goldman Sachs, thereby making the hedges unavailable (since they were triggered only in the event of default by AIG).

JPMORGAN CHASE & CO.

Kelesha F. Armand
Executive Director and
Assistant General Counsel
Legal and Compliance Department

March 17, 2009

By Fax

Ms. Terrie Allison
Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, District of Columbia 20510
Fax: (202) 225-4254

Dear Ms. Allison:

I write in response to the letter of Thomas G. Duncan to Mr. James Dimon, Chairman and Chief Executive Officer of JPMorgan Chase & Co. ("JPMorgan Chase" or "Firm"), dated February 20, 2009 concerning the February 11, 2009, Committee on Financial Services hearing entitled, "TARP Accountability: Use of Federal Assistance by the First TARP Recipients," wherein Mr. Duncan requested that Mr. Dimon make corrections to the hearing transcript and respond to questions submitted by Representative Gresham Barrett.

As requested, Mr. Dimon has reviewed and corrected the transcript provided, as reflected in the enclosed revised pages.

JPMorgan Chase provides its responses to the questions submitted by Representative Barrett below:

1) **What was JPMorgan Chase's peak leverage ratio over the past 4 years?**

   JPMorgan Chase's Tier 1 leverage ratio at year end was 6.29% in 2005, 6.19% in 2006, 6.02% in 2007 and 6.92% in 2008.

   a) **What was JPMorgan Chase's peak leverage ratio at any point over the past 4 years when its assets were performing as normal?**

      Please see our answer to Question 1.

JPMorgan Chase & Co. • 270 Park Avenue, Floor 38, New York, NY 10017-2070
Mail Code: NY1-K722
Telephone: 212-270-2454 • Facsimile: 212-270-0058
kelesha.f.armand@jpmchase.com

i) **In hindsight, do you believe that JPMorgan Chase was overleveraged at any point over the past 4 years before the values of assets in its portfolio began generally to fall?**

No. As reflected by its consistently strong capital ratios, JPMorgan Chase was not overleveraged at any time during the last four years. And as to JPMorgan Chase Bank, N.A., regulators establish minimum leverage requirements that would preclude the bank and its subsidiaries from being overleveraged.

(1) **At that time, did you believe that JPMorgan Chase was overleveraged?**

Please see our answer to Question 1(a)(i).

(a) **If so, what prompted you to reach that leverage ratio?**

Please see our answer to Question 1(a)(i).

(i) **Did you take any steps to deleverage at that time?**

Please see our answer to Question 1(a)(i).

2) **What was the maximum rate of asset non-performance that JPMorgan Chase's portfolio was designed to withstand before causing problems with its capital ratios?**

Revenue generation and loan loss reserves are resources available to JPMorgan Chase before impacting capital. As reflected in our public filings, the Firm's earnings to date have been sufficient to sustain high capital ratios even during the current economic circumstance.

a) **Was this rate exceeded?**

No.

i) **If so, when did you know that this rate was exceeded?**

Please see our answer to Question 2.

b) **How was JPMorgan Chase exposed to the holdings of other financial institutions?**

As an active member of the financial markets, JPMorgan Chase is exposed to the holdings of other financial institutions across each of its six lines of business, as well as in its corporate capacity. In our Treasury & Securities Services business, for example, we are exposed as a custodian, cash manager and transfer agent. Likewise, trading and other activities of the Investment Bank expose the Firm to the holdings of other institutions. JPMorgan Chase is also exposed to other institutions as a lender and borrower via interbank lending markets. In our Retail Financial Services business, the Firm is subject to the holdings of other institutions as a servicer of loans originated by other banks and financial institutions. As a corporation, our counterparties in the marketplace across the lines of business are other financial institutions.

i) **How did JPMorgan Chase hedge against the non-performance of assets held by other financial institutions?**

JPMorgan Chase does not hedge against individual asset positions of other institutions; rather, JPMorgan Chase takes measures to protect itself against an overall inability by an institution to fulfill its obligations to it. JPMorgan Chase employs several measures to mitigate such risk. For example, the use of collateral is a significant risk mitigant and, in certain cases, JPMorgan Chase may use credit support annexes or collateral agreements to support its positions as appropriate. As another option, JPMorgan Chase may purchase protection via the CDS market, taking an off-setting interest where it is financially and economically prudent to do so.

3) **Did you ever worry that JPMorgan Chase had a major mismatch between its assets and liabilities because it was funding illiquid assets with short-term credit?**

No. JPMorgan Chase's management has been focused on ensuring that cost-effective funding is available to meet the Firm's actual and contingent liquidity needs over time. Thus, JPMorgan Chase generally has on average a range of $20 billion to $50 billion in overnight investments. The Firm uses a centralized approach for liquidity risk management as a means to maximize liquidity access, minimize funding costs and permit global identification and coordination of liquidity risk. In addition, JPMorgan Chase periodically stress tests its capital and liquidity needs.

4) **How much did JPMorgan Chase rely on the rating agencies in its risk management processes?**

JPMorgan Chase has found that rating agency analyses are useful inputs as a factor in our overall rate risk management practice. Ratings have been and are used as a comparison tool to determine the relative credit quality of financial instruments or as a direct tool in terms of determining credit statistics for the risk evaluation process.

a) **In hindsight, do you believe that JPMorgan Chase was over-reliant on the ratings provided by the rating agencies for its risk management processes?**

No. JPMorgan Chase's risk management practice is not to rely solely on rating agency analysis; rather, ratings analysis is used as a factor in our risk management practice.

If you have any questions concerning the foregoing, please do not hesitate to contact me at (212) 270-2454.

Very truly yours,

Kelesha F. Armand
Executive Director, Assistant General Counsel

Enclosure

<u>**Question #1-**</u>

(BACHUS) I have one question, one urging. I hear from responsible borrowers who are not in default and who are paying their payments on time, their interest payments in some cases, that their principle is being called, that they are being asked to do a 10 percent calldown on their principle, or that their credit lines are being restricted. And I know, in some cases, that this is probably a good lending practice because you are seeing some deterioration. But I would ask you, can we do a better job in that? And can the regulators assist you in that, or is there something that we can do to avoid those cases? Because there are people that can make interest payments now, but they cannot begin to pay down principle. It is just the wrong time.

So, to any of you who would like to answer that question. Or I will call on Mr. Lewis. Or, Mr. Stumpf, you didn't want the money, you took it, and you wish you didn't, I am sure. And we are going to make money on that investment, but you can answer the question.

Mr. STUMPF. Well, thank you. And we have clarified our statements. We are happy to have the money. It strengthened the industry, and that is good—

Mr. BACHUS. But, yes, I guess what I meant is first you said we don't need the money. But I appreciate it.

Mr. STUMPF. With respect to borrowers, in our company, frankly, we have been growing loans the last 18 months. As I mentioned in my testimony, many others have retrenched. And we think these are actually good times to make loans to credit-worthy borrowers. We make money when we make loans. That is our business. We want to serve customers, help them educate children, buy homes, small businesses to develop products and services that they can sell and serve other customers. In some cases, it is prudent. You have to cut back on a line. But we have not done a system-wide. It has been very much individual, one customer at a time, working with them. And we want to stick with them if we possibly can. But also, unfortunately, not every borrower who wants or needs money can afford it today. And we have to be prudent—

The CHAIRMAN. If the gentleman would yield briefly, that is such an important question that so many of us have been asked to get answers to. I would ask those to whom it is relevant—obviously, not Mr. Blankfein or Mr. Kelly or Mr. Logue or Mr. Mack, but for the commercial bankers that are before us, if you could answer in writing, that would be very helpful. I think we would all like that, because I think that is one of the most frequently asked questions we have. So for Mr. Dimon, Mr. Lewis, Mr. Pandit, Mr. Stumpf, if you would answer that in writing, that would be very helpful.

<u>**Question 2-**</u>

Mr. GUTIERREZ. Let me just say to all eight of you that are here before us this morning, I would like for all of you to just kind of put in writing so that we could have it on the record—and I don't expect the answer here this morning—if each of you could just tell us how much your bank has paid itself on FDIC-guaranteed or other government-guaranteed financing, and what percentage of those finances were completed solely for the purpose of funding your bank. An example: I won't name the bank, but you go out and you take $3 billion in one deal, and you go out with FDIC insurance, and you go to the market and you sell $3 billion worth of bonds in order to give yourself more liquidity. And they are FDIC-insured. Are you then paying your own investment banking firm—I am sorry, Mr. Chairman.

The CHAIRMAN. Finish the question.

Mr. GUTIERREZ. Are you then paying your own investment banking firm? And how much are you paying your own staff, in terms of underwriting fees for selling what a kindergartner could sell out in the market today?

The CHAIRMAN. Let me just say, as we conclude this, we will take these answers in writing. Also, all members have the right to submit further written questions. I think this is important. There will be some clarification. So we will be submitting some further written questions, as well.

Question 3-

Mr. WATT. Thank you, Madam Chairman. I am actually going to follow up on the question that Mrs. Capito has raised here, and I want to follow it up with Mr. Lewis and Mr. Stumpf, because they are the two banks that have the largest presence in my congressional district. But I suspect it is a question that is applicable to all of these folks. Because if you were asked to take TARP money, then you probably fit into the category of too big to fail. I think I started this discussion with Hugh McCall some years ago around the issue of deposit caps and became convinced of the merits of having banks large enough to be worldwide competitive, and so I understand that aspect. I have had the discussion with Ken Thompson and even back to John Medlin when they were saying that Wachovia didn't have to worry about that because it didn't have a nationwide footprint, but now Wells Fargo, the owner of what used to be Wachovia, does have a nationwide footprint. Then, most recently, yesterday, Secretary Bernanke started to raise more concerns about this whole question of too big to fail. So I guess my question is whether, in that context, an even more aggressively regulated framework for larger banks, and maybe even not only banks but institutions that have systemic risk potentials, might be appropriate? What is your assessment of that, Mr. Lewis and then Mr. Stumpf? And the rest of you all can respond in writing, I guess, because we won't have time to hear from everybody.

Question 4-

Mr. WATT. I don't want to cut you off, but I know where you are going, and I am not sure that that is going to address the public necessity, because then that leaves it to the individual goodwill, good intentions or good execution, which, if it is a systemic problem, may work out well, may not work out well. Let me ask one other question going back to credit card risk and the impact on the economy in general. Is it your all's estimate— and you can submit this in writing—that the size of this stimulus is sufficient to serve the purpose for which it is being represented? I will let you respond to that later.

Question 5-

Mr. ACKERMAN. But if you did $35 billion last time, you did $35 billion this time, we gave you $25 billion more to do it, nothing of that went out then. Could you each send us in writing what you did with all of those billions of dollars that you got? Is anybody unwilling to do that at this point? Is anybody going to say, it is not your business; we don't have to? We will expect that from each of the eight of you in writing then.

Okay, the $165 billion that we have put into you-all's companies shows that we have some degree of confidence in what you are going to do with that money and that you are going to be around. Each of you are individually wealthy. Could you go down the line and just give us a number, how much of your personal money you have invested in your company in new money during the last 6 months? And zero is a number

Question 6-

Mr. SHERMAN. Next is a question insisted upon by three new friends I have in Detroit. I would like you to provide for the record a detailed statement about planes and perks, but for now I would like you to raise your hand if your company currently owns or leases a private plane. Let the record show all the hands went up except for the gentleman from Goldman Sachs.

Question 7 -

Mr. MEEKS. I am talking now specifically about the TARP and/ or the FDIC Temporary Liquidity Guarantee Program and the fees that would be utilized by underwriters therein. I think that Mr. Pandit talked earlier about that; the money that is legal, that you have to—by law you have to have it underwritten.

My question is there is also opportunities there for it to be farmed out to others or contracted out to other minority firms or small firms, and I was wondering if anyone has done it with any of those fees specifically, with public dollars.

Mr. STUMPF. Yes, we have done that.

Mr. PANDIT. Congressman, I don't have the facts. I can get you the facts. I believe we do that, but let us get you the information.

__Question 8-__

Mr. LANCE. Thank you. And following up on a line of questioning from Congresswoman Maloney earlier in the hearing. And this is to you, Mr. Lewis. And I recognize that you are Bank of America and not Merrill Lynch, and there was a great deal of pressure on Bank of America to merge with Merrill Lynch, but we are all disturbed about the level of bonuses from Merrill Lynch. Was Bank of America aware of the contractual nature of those bonuses?

Mr. LEWIS. Yes. As we got on in our due diligence, we saw the contracts, yes.

Mr. LANCE. And are those contracts a matter of public record, or can they be made a matter of public record?

Mr. LEWIS. I don't know the answer to that, but there were—as I mentioned, there were two or three that were very, very large and were contractual obligations of Merrill Lynch.

Mr. LANCE. I certainly would be interested, and I imagine the committee would be interested, in whatever information is available as a matter of public record regarding that. I believe that TARP funding is, of course, fungible, and that from our perspective those bonuses are really from TARP funds.

__Question 9-__

Mr. CAPUANO. Thank you, Mr. Chairman. Gentlemen, you have been asked a lot of questions, and you seemingly answer them honestly to me. I have a couple of more detailed questions.
Just by a show of hands, how many of your banks either directly or indirectly—and by indirectly I mean by loaning money to people that you knew would be using this money to invest in credit default swaps. How many of you engage in that?

Mr. MACK. We engage in credit default swaps, but when you are asking the question are we lending money for them to do that, I have to come back and give you specifics. I cannot tell you.

__Question 10-__

Mr. PAULSEN. Maybe I can ask one other question. As we consider the regulations for the financial markets, because we are going to be doing that now to sort of get rid of the crisis that we are in, prevent another one from happening or deepening this crisis actually, what are the largest concerns about overregulating, going down the road of Sarbanes-Oxley in terms of moving in that direction, and stepping too far where we are intending to be helpful, but actually it could be very harmful? Is there anything specific you can draw out that we should be very cautious of?

Mr. LEWIS. I think my main concern around compensation, for instance, is it is okay to do the things that are being talked about at the very top, but if you start to go too low in the organization, you will run off key talent to foreign competitors.

Mr. PAULSEN. Is that a shared view among others?

Mr. KELLY. It is one of our greatest worries.

Mr. STUMPF. Yes, there are many businesses that we are in that are commission-based, for example, and if we limit across-the-board or whatever, we could lose some of the most productive people and some of the most important parts of our business.

Mr. PAULSEN. Thank you.

Mr. STUMPF. It is widely dispersed.

The CHAIRMAN. While the gentleman yields back, let me take advantage because I am going to ask you to submit in writing, I understand the argument you make about foreign competition. It has been my impression that people here have generally been better compensated than people in these other countries. So I would ask you to submit to me some cross-national comparisons. I am, frankly, skeptical from what I have seen that they are paying so much more in other places. Certainly not at your level. So I would be interested in those cross-national comparisons. You are going to have to prove to me that you are really at risk there if there is some moderation.

Question 11-

Mr. MILLER. Now, obviously, everyone has spoken of a problem with confidence in the industry, and Chairman Bernanke yesterday compared the proposal for a stress test to the bank holiday in 1933 in the New Deal, a comparison that occurred to me as well. Do your current safety and soundness regulators have the capacity, the sophistication, the expertise, to do a credible stress test, or what do we need to do to make sure that any stress test is credible and we know that any bank that gets a clean bill of health is in fact safe and sound?

Mr. BLANKFEIN. I believe they are capable. I have only had a 3- month relationship with my new regulator.

The CHAIRMAN. We will have to take the rest of the answers in writing.

Question 12-

(CLEAVER) What I want to talk to you is not that. I want to talk to you, Mr. Blankfein, first of all. Do you believe that warehouse lending is safe and profitable?

Mr. BLANKFEIN. I am sorry, warehouse lending? Against a physical warehouse?

The CHAIRMAN. No. Any one of the retail bank people, they know what we mean by warehouse and probably ought to take that.

Mr. CLEAVER. Well, some Wall Street banks are involved in warehouse lending. Warehouse lending is when you issue a line of credit to an originator, usually it is for about 30 days, and then they, of course, sell the mortgage somewhere else.

Mr. STUMPF. We are familiar with the business. We do very little of it, if any, anymore, primarily because we would rather make loans, our home loans, ourselves. We have a set of auditors. We have a set of principles, values, so we make sure the mortgage is for the benefit of the customer. They understand the terms and conditions. It helps them and so forth. So it is hard to control when you are a warehouse lender.

Mr. CLEAVER. So most of you don't do warehouse lending, which is one of the problems. That is one of the problems. If a mortgage company in my district is making loans, or trying to make loans, and the liquidity is not available, and it has been constrained a great deal recently, it is difficult for them to originate the loans because they don't have access to the capital, and with more and more people avoiding warehouse lending, it is hurting local mortgage companies. Wouldn't you agree?

Mr. STUMPF. We have been out of the warehouse lending business for 5 or 6 or 7 years, and the reason we got out is because we saw them doing crazy things that we wouldn't do ourselves, so why do we want to be a part of that? It was too risky for us.

The CHAIRMAN. Will the gentleman yield, and I will give him some extra time, because he is on to a central issue that I have heard a lot of complaints from my colleagues about. And one of them is, it is one thing to say we are not going to take on my new warehouse lending, but we have been told there are people who had accumulated an inventory based on their ability to do warehouse lending, and they were cut off in the middle. So there is a considerable degree, we have heard this from several members, there are people who had a warehouse lending relationship and had made certain commitments on the assumption that they would have that capacity, and it was cut off before they could sort of wind down the business in a reasonable way. I wonder if there is anybody familiar with that issue, because that is a particular form of it that I have heard a lot of complaints about, from builders.

Mr. STUMPF. I am not an expert in warehouse in mortgage lending, but there are two kinds. One we actually finance, you give them a line of credit. Another one is where they do their own mortgages, and you buy them, and then you process them. I don't know which one it is.

The CHAIRMAN. The one where I think we have had the problem, there were developers, people who had accumulated property, and then they were counting on the line of credit to be able to finance these purchases and were shut down in the middle. That is the specific complaint that I have heard. I don't know about the gentleman from Missouri.

Mr. CLEAVER. Yes, that is precisely it. And one Wall Street investment bank at one point not long ago had a $250 million line of credit just for one originator. So all that has dried up. How in the world are we going to deal with the housing crisis, the home builders and the realtors, if warehouse lending is being evaporated?
You are the only one that participates in it, and yours is at a minimum. I needed to just say that, because it is a problem in every community, and my community is no less being hit. The final issue I want to raise is that I am woefully unimpressed with the diversity of this panel, of not only the panel but the folk who sit behind you. I don't know how many rows deep we would have to go to have some diversity.
Thank you, Mr. Chairman.

The CHAIRMAN. Let me say, and I appreciate the gentleman raising that, I would ask that you give us in writing a response, because the gentleman raises a very important question. I will tell you, we hear a lot of this from our colleagues. It is the cutting off of the warehouse lending relationship in the middle of the movie, when there is inventory of some kind that was going to be financed by the warehouse lending and is cut off. I would ask you to talk to your people and give us answers in writing, and I would hope the answer would be that, well, yes, that is a problem, and even if we don't want to take open any new commitments, we will allow for the orderly unwinding of the existing commitments. I think that is the focal point we have heard.

Question 13-

Mr. ELLISON. Do you think it is appropriate while in receipt of TARP funds to be trying to defeat measures such as the Employee Free Choice Act?

Mr. LEWIS. I think doing what is in the best interest of your company is always the best thing to do. So I wouldn't point to any one thing and say, just because you have TARP fund, you can't do something.

Mr. ELLISON. But, as has been pointed out already, money is fungible. What you don't use one place you can switch and use other monies for that while you are using TARP funds. Wouldn't you agree that your company needs to be using those funds for their intended purpose—

Mr. LEWIS. Yes.

Mr. ELLISON. —and not trying to defeat union organizing?

Mr. LEWIS. And $45 billion is in the context of $230 billion in equity. So you have got to think of it in the context of a much larger number.

Mr. ELLISON. Right. Well, I just wanted to put into the record, have unanimous consent to have entered into the record this letter from Change to Win to Mr. Steve Bartlett, who was with the Financial Services Roundtable. In it he describes a conversation in which several companies which received TARP funds were having some fairly frank conversations about lobbying. I find it pretty disturbing; and I would like you to respond to this letter, if you would, sir, because it specifically mentions your company.

The CHAIRMAN. We have general leave, so it will be part of the record.

Question 14-

Mr. WILSON. Okay. Maybe I can rephrase my question, Mr. Chairman.
There are a lot of people in Ohio that are really upset about the way things have been handled, the arrogance, the way things have been done, what has happened, the PNC purchase of National Citi with TARP funds, on down the line. It could go on and on. But what have we done to restore the confidence in the financial community that is going to help small businesses like I represent in Ohio to be able to get their line of credit to be able to buy goods for the spring and for the summer selling season? What has been done with the TARP money? Mr. Dimon, could I address that question to you?

Mr. DIMON. I think we put in the record a lot of what has been done with the TARP money. We have lent in the last 90 days I believe it was $250 billion; $90 billion to corporations, $50 billion to consumers, net and increased credit lines; $50 billion in interbank markets; $60 billion in the purchase of MBS or asset-backed securities. I do believe—and it is an estimate. I do believe that probably $75 billion of that would not have happened without the TARP money.
We are also a very large small business lender in Ohio. And I don't remember exactly the numbers, but I believe year over year small business loans are up in the Nation. I don't have Ohio's numbers. Government not-for-profit, hospitals, university lending is up year over year. And we will be happy to make all that part of the record.

Question 15-

Ms. SPEIER. There is a GAO report that just came out in December of 2008, and it talked about the number of the biggest financial institutions both in size and in their bailout receipts and that they maintain revenues in offshore tax haven countries where there are no or nominal taxes and minimal, if any, reporting. According to the Department of Treasury reports, the U.S. Government loses $100 billion a year in tax revenue from these tax dodges from all sources, including these firms. For instance, Citigroup claims 427 different overseas locations or tax jurisdictions, 90 in the Cayman Islands alone. And, by the way, you are receiving a 38 percent subsidy from the taxpayers right now. Morgan Stanley has 273 locations of which 158 or well more than half are in the Cayman Islands. Again, Morgan Stanley has about an 18 percent subsidy from the taxpayers right now. Are you willing to bring those offshore tax havens home to America?

Mr. MACK. Congresswoman, I would have to give you the exact details and come back to you. I think a number of those are either partnerships or vehicles we have made structured for clients or structured for an offshore business. I cannot give you the complete answer, but I will give you the answer when I return.

Ms. SPEIER. Thank you.

Question 16-

Mr. PETERS. Well, I want to follow up on that. And I appreciate both your comments, but is it possible to get numbers so I can just get a sense of how the loan volume is different in Michigan than other States? Would you both be willing to provide that information?

Mr. DIMON. Happy to be willing to do that, yes.

Mr. LEWIS. Yes.

Mr. PETERS. Mr. Lewis, as well. We will follow up on that.

Question 17

Mr. PETERS. Mr. Lewis, as well. We will follow up on that. I want to get back to the auto industry, because obviously we have a very strong concern in the auto industry. And, surely, the impact of the credit crisis has hit the auto industry more than most industries, and the repercussions could be dramatic, not just in Michigan, but all over the country. Millions of jobs are at stake. But also, if you look at the recovery of the economy, there isn't anything that is more powerful a stimulus in the economy than to get people buying automobiles, get the auto industry going. It has picked this country out of many recessions in the past, has the potential to do that again if managed well. And you know that right now we are in a very precarious situation. In fact, the auto companies will come back to this committee on February 17th with their viability plans, and a part of those plans have to be plans that they have made with the stakeholders, both labor as well as the creditors. How many of you are creditors to the auto industry, have substantial loans or substantial debt instruments of some form or another? Basically all of you, except Mr. Stumpf. Everybody has it. Well, then, how many of you have received proposals from the auto companies?

Mr. MACK. When you say proposals, requests?

Mr. PETERS. Proposals from the auto companies to restructure that debt, which, as you know, is a condition that has placed on it to have substantial concessions from debt holders to renegotiate that debt. How many of you have already received specific proposals from the auto companies?

Mr. MACK. Congressman, I would have to check. We have a very active dialogue with the auto industry. And I will check when I am back and let you know exactly.

JPMORGAN CHASE & CO.

Stephen M. Cutler
General Counsel
270 Park Avenue – 48th floor
New York, NY 10017

April 2, 2009

Ms. Terrie Allison
Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, District of Columbia 20510

Dear Ms. Allison:

I write in response to the letter of Thomas G. Duncan to Mr. James Dimon, Chairman and Chief Executive Officer of JPMorgan Chase & Co. ("JPMorgan Chase" or "Firm"), dated March 4, 2009, concerning the February 11, 2009, Committee on Financial Services hearing entitled, "TARP Accountability: Use of Federal Assistance by the First TARP Recipients." The Committee requested that the firm respond to certain questions. JPMC provides its responses to the questions below:

Question 1:

The firm continues to be a responsible and careful lender. We want to make the right loans to the right customers at the right time, particularly in this challenging financial environment. As a standard operating practice, JPMorgan Chase is continuously evaluating whether our customers' credit lines are most appropriate for the customer and his or her needs and ability to repay, and will make adjustments accordingly. JPMorgan Chase employs fair and thorough credit evaluation processes.

In addition, please see our answers in response to Questions 4 and 5.

Question 2:

From inception of the FDIC-debt guarantee program through March 31, 2009, JPMorgan Chase completed 13 offerings of FDIC-guaranteed debt, issuing an aggregate $34.6 billion of such debt. JPMorgan Securities Inc. ("JPMSI") and JPMorgan Securities Ltd. ("JPMSL"), the Firm's affiliated broker-dealers, acted as lead and, sometimes, depending on the particular issuance, sole underwriter of such offerings, and received aggregate fees from the Firm of $87.9 million, which were reflected as a journal entry on the Firm's ledger. The underwriting fees charged by JPMSI or JPMSL are customary underwriting fees paid by issuers accessing the capital markets. No employee of the Firm, JPMSI or JPMSL received any specific compensation in respect of the issuance of the FDIC-guaranteed debt.

Question 3:

JPMorgan Chase supports the establishment of a single financial stability regulator charged with responsibility for maintaining broad oversight of financial markets with access to information obtained by all agencies dealing with financial markets and participants. This regulator should also be responsible for direct prudential supervision of all systemically important financial firms, regardless of their legal organization. The systemic regulator needs to have the ability to look for risk everywhere. We also support the creation of statutorily codified resolution procedures for systemically important institutions, so that any failure is orderly, controlled, and leads to resolution without systemic failure.

In addition, please see our answer in response to Question 10.

Question 4:

JPMorgan Chase supports the stimulus package, and is committed to working to effectuate its purpose. With respect to the impact of the stimulus on the economy and credit card risk, in particular, JPMorgan Chase continues to be a responsible and careful lender for our customer base, which is almost exclusively made up of prime and super-prime customers. Over the past year, on average, JPMorgan Chase has opened more than 750,000 new credit-card accounts monthly and extended more than $6 billion in new credit each month. In that same time period, we have also increased the credit lines of more than 500,000 customers each month.

Question 5:

JPMorgan Chase did not seek the government's investment; rather, we accepted the TARP funds to support the government's goal of obtaining participation of all major banks, with the aim of stabilizing the economy. Our firm is using TARP funding for the purposes that the government has designated. Subsequent to the receipt of funds, we have continued to provide significant levels of credit to our customers, whether individual consumers, small businesses, large corporations, not-for profit organizations, state and local governments or other banks. Since we received the capital investment on October 28, 2008, our lending volumes have been significant, particularly in light of the rapidly deteriorating economic environment. More specifically, in January 2009, we extended over $46 billion in new loans and lines to retail and wholesale clients, including:

- o More than $16 billion in consumer and small business originations. Consumer originations include credit cards, mortgages, home equity loans and lines, student loans and auto loans. During January 2009, the firm extended close to 1.4 million new loans and lines to consumers and small businesses, including approximately 580,000 credit card line increases extended during the same time period.
- o More than $30 billion in new and renewed commitments to mid-sized businesses, large corporates and the firm's full range of Treasury and Security Services and Asset Management clients.

In addition, JPMorgan Chase purchased almost $13 billion of mortgage-backed and asset-backed securities in January 2009. The firm also continued to implement and expand its mortgage modification program in January to help more homeowners stay in their homes. The mortgage modification efforts were extended to include $1.1 trillion of investor-owned mortgages it services, including those in securitizations.

As disclosed in the Forms 3, 4 and 5 filed with the Securities Exchange Commission, in the last six months, Jamie Dimon has purchased JPMorgan Chase shares for an aggregate price of approximately $22 million.

Question 6:

JPMorgan Chase minimizes the use of perquisites. The Operating Committee is a committee of 16 executive officers of JPMorgan Chase. The Executive Committee is a committee of 55 senior officers, including members of the Operating Committee, who lead the Firm's businesses and functions. There are no golden parachutes or special severance plans for Operating Committee or Executive Committee members. In particular, there are:

- o No golden parachutes such as payments of a multiple of salary and incentive compensation upon severance.
- o No employment contracts other than for new hires.
- o No change-of-control agreements.
- o No special or different severance programs for Operating Committee or Executive Committee members, except as agreed on a transitional basis for a new hire. The company's policy limits severance effective April 2009 to a maximum of 52 weeks salary based on years of service.
- o No accelerated vesting of equity awards for employees who have resigned and meet the company's full career eligibility requirements. For such employees,

awards continue to vest on the original schedule and remain subject to additional restrictions.

There are no special benefit programs for Operating Committee or Executive Committee members. In particular, there are:

- No pension credits for bonuses.
- No 401(k) Savings Plan matching contributions for any senior executive.
- No special medical, dental, insurance or disability benefits for executives. The higher an executive's compensation, the higher are their premiums.
- No private club dues, car allowances, financial planning, or tax gross-ups for benefits for Operating Committee or Executive Committee members.

The company has a voluntary deferred compensation program that is limited to a maximum contribution of $1 million annually and is subject to a $10 million lifetime cap for cash deferrals made after 2005.

Regarding company planes and cars, Mr. Dimon is directed to use company-owned planes and cars for travel whenever feasible, and the Firm discloses the cost of such use in the Firm's proxy statement. Until the Firm has repaid TARP funds in full, the Firm will not purchase any replacement plane, add any planes or renovate any hangar space. Any hangar space leased would be to replace existing space.

Question 7:

Please see our answer in response to Question 2.

The following twelve ethnic minority and woman-owned underwriting firms were retained in connection with JPMorgan Chase's issuances of FDIC-guaranteed debt: Blaylock & Partners, Cabrera Capital Markets LLC, Castle Oak, Guzman, Jackson Securities, Loop Capital, M.R. Beal & Co., Siebert Capital, Ramirez & Co., Toussaint Capital, Utendahl Capital Partners, L.P., and Williams Capital. These firms were paid fees totaling $1.58 million.

Question 8:

Question 8 is directed to Bank of America regarding bonuses paid at Merrill Lynch and, therefore, is not applicable to JPMorgan Chase.

Question 9:

JPMorgan Chase is a leading trader in credit default swaps. We are rarely a direct lender to any of our investor clients (pension funds, asset managers, insurance companies, hedge funds). While we lend money to corporate clients who might be end-users of CDS, many of them are not significant users of CDS and we do not believe that those that are use our loan proceeds to invest in CDS. We should also note that when we serve as CDS counterparties to hedge funds and others, they are obligated to post collateral in amounts equal to the change in the mark to market value of the CDS (and in some cases a small amount of initial margin).

Question 10:

JP Morgan Chase is committed to working with regulators and policymakers across the globe to improve the current regulatory framework in the United States. Efforts to enhance regulation should be focused on strengthening systemic stability, leveling the playing field among market competitors offering similar services, while protecting investors and consumers, and improving coordination among regulators internationally. JPMorgan Chase believes that such efforts will result in a more efficient regulatory structure that will be more flexible and adaptable in evolving financial circumstances.

We also think it important that as policymakers think about new regulations—whether in the mortgage, credit card, derivatives or other areas—they remain mindful of unintended consequences and, in particular, reforms that have the effect of removing credit from the system at a time when the system can least afford it.

With respect to regulations regarding compensation, there is no "one-size-fits-all" approach. Instead, regulations should be focused on advancing common principles, as opposed to prescribing rules that create an uneven playing field among competitor firms.

In addition, please see our answer in response to Question 3.

Question 11:

The Firm supports efforts to improve the current regulatory framework. Notwithstanding this fact, we also believe that our current safety and soundness regulators have the capacity, sophistication and expertise to conduct a credible stress test.

Question 12:

JPMorgan Chase Bank, N.A. ("Chase" or the "Bank") was a minor participant in the residential warehouse lending business, having only entered the warehouse lending market in mid-2008 with the purchase of Washington Mutual Bank's mortgage warehouse platform. Chase funded its first mortgage warehouse client in September 2008. In January 2009, Chase exited warehouse lending business relationships with its clients that focused on originating through brokers. Upon the determination to exit that segment of the business, Chase notified the three affected customers, provided them with ninety days to secure alternate financing, with another thirty days to wind down their accounts. In March 2009, Chase exited the remaining warehouse lending business. As with the first three customers, we have provided the remaining eight clients with ninety days to find alternate financing, with another thirty-day period to close down the warehouse line of credit.

JPMSI has not taken on new commitments for warehouse lines to residential mortgage originators since September 2008. JPMSI is allowing existing commitments to expire upon maturity and is not accelerating expiration dates. In addition, JPMSI is offering mortgage bankers an opportunity to renew at revised terms that take into account current market conditions.

Question 13:

Generally, JPMorgan Chase does not provide specific disclosures concerning its legislative and regulatory priorities or the business rationale behind every initiative and position it undertakes. As to the Employee Free Choice Act, JPMorgan Chase has not engaged in any activity, including lobbying activity, intended to prevent or impede its enactment.

JPMorgan Chase and its officers belong to many trade, industry, and business organizations, including the Financial Services Roundtable; however, JPMorgan Chase does not necessarily support all policies or political proposals such organizations may support.

Question 14:

We are proud of the important role we play in the United States and global economies. In 2008 in Ohio, specifically, JPMorgan Chase extended more than 27,000 loans totaling \$3.8 billion, of which 34.7% were made to low- or moderate-income borrowers or for homes located in low- or moderate-income communities in the state. In addition, JPMorgan Chase provided more than \$108 million in community development loans and investments in Ohio in 2008. We continue to be a significant employer in Ohio—we operate more than 280 branches and employ 17,600 employees statewide. Finally, last year in Ohio, we contributed over \$5,400,000 to charities.

In addition, please see our answer in response to Question 5.

Question 15:

JPMorgan Chase is a leading global financial services firm with operations in more than 60 countries, including most of the world's financial centers (e.g., Hong Kong, Singapore, London, Ireland, Luxembourg, Switzerland). As indicated in the firm's Form 10-K, JPMorgan Chase has subsidiaries in jurisdictions around the world, including some of the jurisdictions described as "tax haven and financial privacy jurisdictions" in The GAO's December 2008 report entitled "Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions." Several of these subsidiaries must be located in the foreign jurisdiction in order to operate. For example, J.P. Morgan Securities Asia Private Limited, a securities dealer and corporate finance advisor located in Singapore, holds a Capital Markets Services license from the Singapore Monetary Authority and is required by Singapore law to be located in that country. Similarly, J.P. Morgan Bank (Ireland) PLC, a commercial bank located in Ireland that primarily services European clients, is required by Irish law to be located in Ireland. In addition, the income from many of these subsidiaries is fully taxable under U.S. law. For example, all of the income from Chase Re Limited (a reinsurer of lender-placed hazard insurance that is located in Bermuda) and JPMorgan Asset Management (Europe) S.à.r.l. (a Luxembourg company that provides certain services to European mutual funds) has been reported to the United States and has been fully taxed under U.S. law.

Question 16:

In Michigan in 2008, JPMorgan Chase made 33,300 loans totaling \$5.2 billion, of which 33.8% were made to low- or moderate-income borrowers or for homes located in low- or moderate-income communities in the state. In addition, JPMorgan Chase extended at least \$360 million in community development loans in Michigan in 2008.

Question 17:

With respect to Chrysler, JPMorgan Chase Bank, N.A. is Administrative Agent and one of a large number of senior secured lenders under that certain \$7,000,000,000 Amended and Restated First Lien Credit Agreement, dated as of November 29, 2007, among Carco Intermediate Holdco II LLC, Chrysler LLC, as borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, Goldman Sachs Credit Partners L.P., and Citibank, N.A., as syndication agents and Morgan Stanley Senior Funding, Inc., as documentation agent (the "Credit Agreement"). At the time of the hearing we had received a preliminary proposal from Chrysler to restructure the senior secured debt outstanding under the Credit Agreement in connection with its viability plan and a possible alliance with Fiat.

If you have any questions concerning the foregoing, please do not hesitate to contact me at (212) 270-3220.

Sincerely,

Stephen M. Cutler

**RESPONSES OF ROBERT P. KELLY,
CHIEF EXECUTIVE OFFICER OF THE BANK OF NEW YORK MELLON CORPORATION,
TO QUESTIONS SUBMITTED FOR THE RECORD
BY THE MEMBERS OF THE U.S. HOUSE COMMITTEE ON FINANCIAL SERVICES, AND CERTAIN
ADDITIONAL INFORMATION**

Question #1

Mr. Bachus. I hear from responsible borrowers who are not in default and who are paying their payments on time, their interest payments in some cases, that their principle is being called, that they are being asked to do a 10 percent calldown on their principle, or that their credit lines are being restricted. And I know, in some cases, that this is probably a good lending practice because you are seeing some deterioration. *But I would ask you, can we do a better job than that? And can the regulators assist you in that, or is there something that we can do to avoid these cases?* Because there are people that can make interest payments now, but they cannot begin to pay down principle. It is just the wrong time. So, to any of you who would like to answer that question. Or I will call on Mr. Lewis. Or, Mr. Stumpf, you didn't want the money, you took it, and you wish you didn't, I'm sure. And we are going to make money on that investment, but you can answer the question.

The Chairman. *I would ask those to whom it is relevant—obviously, not Mr. Blankfein or Mr. Kelly or Mr. Logue or Mr. Mack, but for the commercial bankers that are before us, if you could answer in writing, that would be very helpful.* I think we would all like that, because I think that is one of the most frequently asked questions we have. So for Mr. Dimon, Mr. Lewis, Mr. Pandit, Mr. Stumpf, if you would answer that in writing, that would be very helpful.

Answer

The question above was not directed at The Bank of New York Mellon Corporation ("BNY Mellon").

Question #2

Mr. Gutierrez. Let me just say to all eight of you that are here before us this morning, I would like for all of you to just kind of put in writing so that we could have it on record—and I don't expect the answer here this morning—*if each of you could just tell us how much your bank has paid itself on FDIC-guaranteed or other government-guaranteed financing, and what percentage of those finances were completed solely for the purpose of funding your bank.* An example: I won't name the bank, but you go out and you take $3 billion in one deal, and you go out with FDIC insurance, and you go to the market and you sell $3 billion worth of bonds in order to give yourself more liquidity. And they are FDIC-insured. *Are you then paying your own investment banking firm? And how much are you paying your own staff, in terms of underwriting fees for selling what a kindergartner could sell out in the market today?*

Answer

BNY Mellon has not had any debt or equity offerings since it issued securities to the U.S. Treasury in connection with TARP. If, however, it did offer debt guaranteed under the FDIC's Temporary Liquidity Guarantee Program or offered any other securities in connection with a government-sponsored program, our affiliate BNY Mellon Capital Markets, LLC ("BNYM Capital Markets"), would most likely participate in the offering as a co-manager. Any fees paid to BNYM Capital Markets would be paid by BNY Mellon as issuer and not by the FDIC or any other government agencies. Such fees would be the same as those paid to any other similarly-situated member of the offering syndicate, and would be the result of bids solicited by the lead underwriter, which, in our case, would most likely be an unaffiliated third party.

Question #3

Mr. Watt. I am actually going to follow up on the question that Mrs. Capito has raised here, and I want to follow it up with Mr. Lewis and Mr. Stumpf, because they are the two banks that have the largest presence in my congressional district. But I suspect it is a question that is applicable to all folks. Because if you were asked to take TARP money, then you probably fit into the category of too big to fail. I think I started this discussion with Hugh McCall some years ago around the issue of deposit caps and became convinced of the merits of having banks large enough to be worldwide competitive, so I understand that aspect. I have had the discussion with Ken Thompson and even back to John Medlin when they were saying that Wachovia didn't have to worry about that because it didn't have a nationwide footprint, but now Wells Fargo, the owner of what used to be Wachovia, does have a nationwide footprint. Then, most recently, yesterday, Secretary Bernanke started to raise more concerns about this whole question of too big to fail. *So I guess my question is whether, in that context, an even more aggressively regulated framework for larger banks, and maybe even not only banks but institutions that have systemic risk potentials, might be appropriate? What is your assessment of that, Mr. Lewis and then Mr. Stumpf? And the rest of you all can respond in writing, I guess, because we won't have time to hear from everybody.*

Answer

The Bank of New York Mellon urges Congress to consider a reform of the regulatory framework that would:

- Establish a system supervisor to oversee the financial system in totality;
- Ensure comprehensive supervision of all financial institutions;
- Achieve significant regulatory streamlining and rationalization;
- Ensure greater regulatory cooperation, efficiency, and consistency;
- Improve financial market transparency; and
- Enhance cross-border supervisory cooperation.

Question #4

Mr. Watt. Let me ask one other question going back to credit card risk and the impact on the economy in general. *Is it your all's estimate—and you can submit this in writing—that the size of this stimulus is sufficient to serve that purpose for which it is being represented? I will let you respond to that later.*

Answer

It is our hope that the stimulus bill, together with all the other programs being implemented, will achieve their desired objectives. We continue to face a very difficult economic environment and have a long way to go to get the credit markets functioning well again. We believe we must vigorously guard against a return to the market's precarious position last fall. It would undermine confidence in our financial system and our economy, possibly for the very long term.

Question #5

Mr. Ackerman. *Could you each send us in writing what you did with all of those billions of dollars that you got? Is anybody unwilling to do that at this point? Is anybody going to say, it is not your business; we don't have to? We will expect that from each of the eight of you in writing then.*

Answer

In October, the Treasury allocated to BNY Mellon $3 billion of the $350 billion allocated to date. In exchange for the $3 billion investment, the U.S. government received preferred stock and warrants; and BNY Mellon agreed to pay the government $150 million a year in dividends until it repaid the $3 billion.

As I explained in my testimony, BNY Mellon is a bank for banks. It generally does not engage in direct lending to consumers or businesses. Consistent with its business model and the objectives of the TARP program, BNY Mellon used the $3 billion to purchase $1.7 billion in mortgage-backed securities and debentures issued by the U.S. Government through government-sponsored entities. This helped to increase the amount of money available for those entities to lend to qualified borrowers in the residential housing market. BNY Mellon also purchased $900 million of debt securities of other healthy financial institutions to improve liquidity and help them lend to consumers and businesses. And BNY Mellon used the remaining $400 million for interbank lending to other healthy financial institutions. The purpose of the investments was to provide liquidity, funding, and stability to the markets.

These activities are primarily in the secondary markets, whose proper functioning is fundamental to the flow of credit for the U.S. economy. By adding liquidity there, we are helping lenders generate the funds they need to offer more loans.

BNY Mellon has not used any of the TARP funds to pay dividends, bonuses or compensation of any kind, nor will it. BNY Mellon has not and will not use any of the funds to make acquisitions either. BNY Mellon will not only repay the $3 billion to the Treasury, but it also fully intends to deliver a very good return on investment for taxpayers. BNY Mellon has been profitable in each of the four quarters of 2008.

BNY Mellon has also disclosed how it has used the TARP money in detailed monthly reports that are submitted to the Treasury, and it will continue to do so as required from time to time by applicable regulatory requirements.

Question #6

Mr. Sherman. Next is a question insisted upon by three new friends I have in Detroit. *I would like you to provide for the record a detailed statement about planes and perks*, but for now I would like you to raise your hand if your company currently owns or leases a private plane. Let the record show all the hands went up except for the gentleman from Goldman Sachs.

Answer

As an ever-growing global company with approximately 42,000 employees in more than 34 countries and six continents around the world, our executives travel constantly. In managing our businesses, they must take trips throughout Asia, Europe, South America and the Middle East to visit our employees and clients. We have two corporate aircraft that allow us to make travel time an efficient use of resources. Last year, these aircraft combined to carry more than 2,000 passengers, often visiting multiple sites in a single day or even multiple countries in a shorter period of time. Several executives frequently travel together on these trips, thereby using our corporate aircraft to conduct a wide range of meetings and proprietary discussions, which simply is not possible on commercial travel.

In early 2008 and before our participation in TARP, our Board of Directors' Human Resources and Compensation Committee reviewed the perquisites provided to our senior executive officers and determined to reduce significantly the perquisites effective as of January 1, 2009. In making its determination, the committee's primary focus was to retain perquisites that were important for the conduct of the business and for security reasons. The committee elected to discontinue financial planning services, personal cars, parking, supplemental long-term disability insurance, medical physical examinations, personal use of club memberships, home security and personal liability insurance perquisites. I gave up my personal car, parking and financial planning services effective January 1, 2008. As reported in our 2009 Proxy Statement, I received "All Other Compensation" (including perquisites) valued at approximately $340,000.

Question #7

Mr. Meeks. I am talking now specifically about the TARP and/or the FDIC Temporary Liquidity Guarantee Program and the fees that would be utilized by underwriters therein. I think that Mr. Pandit talked earlier about that; the money that is legal, that you have to—by law you have to have it underwritten. *My question is there is also opportunities there for it to be farmed out to others or contracted out to other minority firms or small firms, and I was wondering if anyone has done it with any of those fees specifically, with public dollars.*

Answer

As noted above, BNY Mellon did not earn or have the opportunity to earn underwriting fees through any offering made by BNY Mellon in connection with the TARP or FDIC Temporary Liquidity Guarantee Program, as BNY Mellon has not made any such offerings to date. In the event that our affiliate, BNYM Capital Markets has the opportunity to participate in one of BNY Mellon's future offerings, it will do so under the terms described in the response to Question #2, above.

With respect to minority contracting generally, BNY Mellon has a very active Supplier Diversity Program—with more than 12 percent of its competitive spend allocated to diverse companies, including minority- and women-owned firms, small businesses and veteran-owned firms. Minority-owned firms represented six percent of overall competitive spend. That percentage has increased since BNY Mellon's merger and BNY Mellon expects it to continue to grow.

As you may be aware, BNY Mellon last fall was awarded a competitive contract to provide back-office support for certain TARP-related activities. In connection with that contract, BNY Mellon identified minority- and women-owned firms to help perform these functions. However, the changes in the original TARP program, most notably the cancellation of the purchase of troubled assets, have significantly reduced the amount of personnel and other operational support that is needed. One of the main reasons Treasury selected BNY Mellon is that it already had in-house capabilities to meet the vast majority of the program needs. If the program expands and BNY Mellon needs additional assistance, it is poised to make minority-owned firms a priority in its procurement efforts.

Question #8

Mr. Lance. And I recognize that you [Mr. Lewis] are Bank of America and not Merrill Lynch, and there was a great deal of pressure on Bank of America to merge with Merrill Lynch, but we are all disturbed about the level of bonuses from Merrill Lynch. *Was Bank of America aware of the contractual nature of those bonuses? And are those contracts a matter of public record, or can they be made a matter of public record? I certainly would be interested, and I imagine the committee would be interested, in whatever information is available as a matter of public record regarding that.*

Answer

The questions above were not directed at BNY Mellon.

Question #9

Mr. Capuano. *Just by a show of hands, how many of your banks either directly or indirectly—and by indirectly I mean by loaning money to people that you knew would be using this money to invest in credit default swaps. How many of you engage in that? How many of you directly engage in purchasing or investing in credit default swaps? How many of you directly or indirectly engaged in CDOs?* How many of you have—

The Chairman. Excuse me, we have a very good recorder, but recording raised hands doesn't work, so we will need some oral.

Mr. Capuano. *We can fill that in later*. That is fair.

Answer

BNY Mellon in its normal course of business makes secured and unsecured loans to financial institutions. Many of these institutions both purchase and sell credit default swaps as part of their business models. BNY Mellon has made no credit facilities available for the explicit purpose of purchasing or selling these instruments.

BNY Mellon purchases credit default swaps for the limited purpose of hedging our exposure from loans that we extended. We do not purchase credit default swaps for trading or speculation and we do not sell credit default swaps.

Question #10

Mr. Paulsen. Maybe I can ask one other question. As we consider the regulations for the financial markets, because we are going to be doing that now to sort of get rid of the crisis that we are in, prevent another one from happening or deepening this crisis actually, what are the largest concerns about overregulating, going down the road of Sarbanes-Oxley in terms of moving in that direction, and stepping too far where we are intending to be helpful, but actually it could be very harmful? Is there anything specific you can draw out that we should be very cautious of?

Mr. Lewis. I think my main concern around compensation, for instance, is it is okay to do the things that are being talked about at the very top, but if you start to go too low in the organization, you will run off key talent to foreign competitors.

Mr. Kelly. It is one of our greatest worries.

The Chairman. While the gentleman yields back, let me take advantage because I am going to ask you to submit in writing, I understand the argument you make about foreign competition. It has been my impression that people here have generally been better compensated than people in these other countries. *So I would ask you to submit to me some cross-national comparisons.* I am, frankly, skeptical from what I have seen that they are paying so much more in other places. Certainly not at your level. So I would be interested in those cross-national comparisons. You are going to have to prove to me that you are really at risk if there is some moderation.

Answer

I am particularly concerned about our senior employees who are in revenue producing roles - those who do not play a role in the senior management of the company. These individuals are well known in the industry, are very portable, and will be recruited by companies who are not constrained by the pay limits imposed by ARRA. Deutsche Bank's CEO commented that the pay caps on executive pay proposed by the Treasury Department in early February, 2009 would help non-TARP institutions like his recruit other firms' most talented people. I believe that he said: "...I think talent will be happy to work for us. At the end of the day, this is a people business, about who has the best talent."

Whether or not you are a TARP bank, a non-U.S. company with a U.S presence, a boutique or hedge fund, we are all focused on retaining our critical talent. If we cannot pay competitively and retain our talent, we lose our ability to perform and compete in the marketplace.

Other recent comments in the press from compensation consulting firms support this view:

Alan Johnson, managing director of Johnson Associates Inc., a New York compensation consultancy that advises Wall Street firms, said "At the moment, no one can tell bankers whether they will or won't get paid for the work they do in 2009. It will get worse the longer this goes on." Mr. Johnson predicted that the legislation as written would result in a mass exodus of top earners. "Who would stay for a 90% pay cut?" Mr. Johnson asked.

Richard Smith of the Sibson compensation consulting firm stated, "[t]here will be a flood of top performers leaving for positions that have no restrictions." The pay rules "will slow the only financial engine that can pull the economy out of this mess."

Over the last few weeks, BNY Mellon has experienced several key losses from its investment businesses. Departing employees have noted concerns about the uncertainty of pay at our company and that they are finding interesting opportunities being presented to them from asset management firms that are not TARP recipients.

Question #11

Mr. Miller. Now, obviously, everyone has spoken of a problem with confidence in the industry, and Chairman Bernanke yesterday compared the proposal for a stress test to the bank holiday in 1933 in the New Deal, a comparison that occurred to me as well. *Do your current safety and soundness regulators have the capacity, the sophistication, the expertise, to do a credible stress test, or what do we need to do to make sure that any stress test is credible and we know that any bank that gets a clean bill of health is in fact safe and sound?*

Mr. Blankfein. I believe they are capable. I have only had a 3-month relationship with my new regulator.

The Chairman. *We will have to take the rest of the answers in writing.*

Answer

BNY Mellon believes its regulators, the Federal Reserve Bank of New York, the New York State Banking Department, and the Office of the Comptroller of the Currency, are all capable and have sufficient expertise to conduct a credible stress test. BNY Mellon has performed stress tests on its portfolio for several years and have found the regulators to be quite sophisticated in their review of the analysis. Most recently, BNY Mellon performed the stress test required by the Supervisory Capital Assessment Program. During this process, the regulators, especially the New York Federal Reserve, have demonstrated the capacity, sophistication, and the expertise to insure that BNY Mellon's analysis was credible and complete.

Question #12

Mr. Cleaver. *Do you believe that warehouse lending is safe and profitable?* Well, some Wall Street banks are involved in warehouse lending. Warehouse lending is when you issue a line of credit to an originator, usually it is for about 30 days, and then they, of course, sell the mortgage somewhere else.

The Chairman. The one where I think we have had the problem, there were developers, people who had accumulated property, and then they were counting on the line of credit to be able to finance these purchases and were shut down in the middle. That is the specific complaint that I have heard. I don't know about the gentleman from Missouri.

Mr. Cleaver. Yes, that is precisely it. And one Wall Street investment bank at one point not long ago had a $250 million line of credit just for one originator. So all that has dried up. *How in the world are we going to deal with the housing crisis, the home builders and the realtors, if warehouse lending is being evaporated?* You [Mr. Stumpf] are the only one that participates in it, and yours is at a minimum. I needed to just say that, because it is a problem in every community, and my community is no less being hit.

The Chairman. *Let me say, and I appreciate the gentleman raising that, I would ask that you give us in writing a response, because the gentleman raises a very important question.* I will tell you, we hear a lot of this from our colleagues. It is the cutting off of the warehouse lending relationship in the middle of the movie, when there is inventory of some kind that was going to be financed by the warehouse lending and is cut off. *I would ask you to talk to your people and give us answers in writing, and I would hope the answer would be that, well, yes, that is a problem, and even if we don't want to take open any new commitments, we will allow for the orderly unwinding of the existing commitments.* I think that is the focal point we have heard.

Answer

We continue to provide, and in some instances increase, "mortgage warehouse facilities" to mortgage originators that have had a long business relationship with BNY Mellon. Properly structured, we believe "warehouse lending" can be safe and profitable. Our mortgage warehouse facilities are typically committed and secured. Our warehouse portfolio is approximately $150 million and has declined over the past two years as a result of industry stress. Consequently, several clients exited the business and in certain situations, filed for bankruptcy. We continue to explore opportunities within the sector for transactions that are appropriately structured to companies with an established track record.

Question #13

Mr. Ellison. *Do you [Mr. Lewis] think it is appropriate while in receipt of TARP funds to be trying to defeat measures such as the Employee Free Choice Act? Wouldn't you agree that your company needs to be using those funds for their intended purpose—and not trying to defeat union organizing?* Well, I just wanted to put into the record, have unanimous consent to have entered into the record this letter from Change to Win to Mr. Steve Bartlett, who was with the Financial Services Roundtable. In it he describes a conversation in which several companies which received TARP funds were having some fairly frank conversations about lobbying. I find it pretty disturbing; and *I would like you to respond to this letter, if you would, sir, because it specifically mentions your company.*

Answer

The questions above were not directed at BNY Mellon.

Question #14

Mr. Wilson. *What have we done to restore the confidence in the financial community that is going to help small businesses like the one I represent in Ohio to be able to get their line of credit to be able to buy goods for the spring and for the summer selling season? What has been done with the TARP money? Mr. Dimon, could I address that question to you?*

Answer

The questions above were not directed at BNY Mellon.

Question #15

Ms. Speier. There is a GAO report that just came out in December of 2008, and it talked about the number of the biggest financial institutions both in size and in their bailout receipts and that they maintain revenues in offshore tax haven countries where there are no nominal taxes and minimal, if any, reporting. Morgan Stanley has 273 locations of which 158 or well more than half are in the Cayman Islands. Again, Morgan Stanley has about an 18 percent subsidy from the taxpayers right now. *Are you willing to bring those offshore tax havens home to America?*

Mr. Mack. Congresswoman, I would have to give you the exact details and come back to you. I cannot give you the complete answer, but I will give you the answer when I return.

Answer

The question above was not directed at BNY Mellon.

<u>Question #16</u>

<u>Mr. Peters</u>. *I appreciate both your [Mr. Lewis and Mr. Dimon] comments, but is it possible to get numbers so I can just get a sense of how the loan volume is different in Michigan than other States? Would you both be willing to provide that information?*

<u>Answer</u>

The question above was not directed at BNY Mellon.

<u>Question #17</u>

<u>Mr. Peters</u>. *How many of you are creditors to the auto industry, have substantial loans or substantial debt instruments of some form or another?* Basically all of you, except Mr. Stumpf. Everybody has it. *Well, then, how many of you have received proposals from the auto companies?* Proposals from the auto companies to restructure that debt, which, as you know, is a condition that has placed on it to have substantial concessions from debt holders to renegotiate that debt. *How many of you have already received specific proposals from the auto companies?*

<u>Answer</u>

At December 31, 2008, total exposures in our automotive portfolio included $224MM of secured exposure to two of the big three U.S. automotive manufacturers and a total of $169MM to seven suppliers. To date, we have not received proposals to restructure any of these exposures. We did recently approve an amendment to an existing credit facility providing a domestic original equipment manufacturer the flexibility to move forward with its restructuring plans.

<u>Additional Information Concerning Long-Term Equity Compensation Program</u>

At its hearing on February 11, 2009, the Committee asked all of the witnesses to state how much salary, bonus or other compensation they received in 2008. To round out this picture, however, the Committee may also be interested to learn about BNY Mellon's long-term incentive equity compensation program as well as recent changes we have made to it.

As I noted in my testimony, my salary was $1,000,000 and I did not receive a bonus for 2008.

Pursuant to our 2008 long-term incentive compensation program, senior executive officers were granted a certain number of stock options and performance shares of BNY Mellon stock. This program is designed to incent senior executives' long-term commitment to BNY Mellon and to align their interests with a long-term increase in shareholder value.

In the first quarter of 2008, and on the same schedule as used by our predecessor companies, our Board of Directors' Human Resources and Compensation Committee determined the equity incentive awards for our senior executive officers. Pursuant to our program, I was granted options for 769,936 shares of BNY Mellon common stock, which vest in equal annual installments over the first four years from the date of the grant. These options have an exercise price of $42.31 per share, the closing market price on March 10, 2008, the date of grant. Inasmuch as BNY Mellon's stock is trading far below that price, these options have no current exercise value and they are underwater. In addition, I was granted 51,329 performance shares. These performance shares vest at the end of a three-year performance period in an amount, if any, based on BNY Mellon's total shareholder return performance relative to our peers and the S&P 500 Financial Index. The Human Resources and Compensation Committee retains the right to reduce the number of shares distributed to me at the end of that three-year period.

In July 2008, the Committee adopted a new recoupment policy with respect to equity awards we grant to our executives, including our senior executive officers. Under the policy, we may cancel all or any portion of unvested equity awards made after the adoption of the policy as well as require repayment of any shares (or value thereof) of the award or amounts which were acquired from the award if:

- an executive engages in conduct or we discover that the executive is engaged in conduct that is materially adverse to our interests, including failure to comply with our rules or regulations, conduct constituting fraud, or conduct contributing to any financial restatements or irregularities;
- during the course of the executive's employment, the executive engages in solicitation and/or diversion of customers or employees and/or competition with us; or
- following termination of the executive's employment with us for any reason, with or without cause, the executive violates any post-termination obligations or duties owed to us or violates any agreement with us.

In addition, in connection with the TARP Capital Purchase Program ("CPP"), we were required to provide for the recovery of any bonus or incentive compensation paid to any senior executive officer based on financial statements or any other performance metric that is later proven to be materially inaccurate. In order to comply with this requirement, each senior executive officer agreed in a letter executed in connection with our participation in the TARP CPP that bonus and incentive compensation paid to the executive during the period that the Treasury holds an equity or debt position acquired under the TARP CPP are subject to recovery or "clawback" by BNY Mellon if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

If the Committee would like additional information concerning long-term equity awards that were granted in prior years but which vested in 2008, please let me know and I would be happy to provide that information, which is also available from BNY Mellon's public filings.

Question #1-

(BACHUS) I have one question, one urging. I hear from responsible borrowers who are not in default and who are paying their payments on time, their interest payments in some cases, that their principle is being called, that they are being asked to do a 10 percent calldown on their principle, or that their credit lines are being restricted. And I know, in some cases, that this is probably a good lending practice because you are seeing some deterioration. But I would ask you, can we do a better job in that? And can the regulators assist you in that, or is there something that we can do to avoid those cases? Because there are people that can make interest payments now, but they cannot begin to pay down principle. It is just the wrong time.

So, to any of you who would like to answer that question. Or I will call on Mr. Lewis. Or, Mr. Stumpf, you didn't want the money, you took it, and you wish you didn't, I am sure. And we are going to make money on that investment, but you can answer the question.

Mr. STUMPF. Well, thank you. And we have clarified our statements. We are happy to have the money. It strengthened the industry, and that is good—

Mr. BACHUS. But, yes, I guess what I meant is first you said we don't need the money. But I appreciate it.

Mr. STUMPF. With respect to borrowers, in our company, frankly, we have been growing loans the last 18 months. As I mentioned in my testimony, many others have retrenched. And we think these are actually good times to make loans to credit-worthy borrowers. We make money when we make loans. That is our business. We want to serve customers, help them educate children, buy homes, small businesses to develop products and services that they can sell and serve other customers. In some cases, it is prudent. You have to cut back on a line. But we have not done a system-wide. It has been very much individual, one customer at a time, working with them. And we want to stick with them if we possibly can. But also, unfortunately, not every borrower who wants or needs money can afford it today. And we have to be prudent—

The CHAIRMAN. If the gentleman would yield briefly, that is such an important question that so many of us have been asked to get answers to. I would ask those to whom it is relevant—obviously, not Mr. Blankfein or Mr. Kelly or Mr. Logue or Mr. Mack, but for the commercial bankers that are before us, if you could answer in writing, that would be very helpful. I think we would all like that, because I think that is one of the most frequently asked questions we have. So for Mr. Dimon, Mr. Lewis, Mr. Pandit, Mr. Stumpf, if you would answer that in writing, that would be very helpful.

Question 2-

Mr. GUTIERREZ. Let me just say to all eight of you that are here before us this morning, I would like for all of you to just kind of put in writing so that we could have it on the record—and I don't expect the answer here this morning—if each of you could just tell us how much your bank has paid itself on FDIC-guaranteed or other government-guaranteed financing, and what percentage of those finances were completed solely for the purpose of funding your bank. An example: I won't name the bank, but you go out and you take $3 billion in one deal, and you go out with FDIC insurance, and you go to the market and you sell $3 billion worth of bonds in order to give yourself more liquidity. And they are FDIC-insured. Are you then paying your own investment banking firm—I am sorry, Mr. Chairman.

The CHAIRMAN. Finish the question.

Mr. GUTIERREZ. Are you then paying your own investment banking firm? And how much are you paying your own staff, in terms of underwriting fees for selling what a kindergartner could sell out in the market today?

The CHAIRMAN. Let me just say, as we conclude this, we will take these answers in writing. Also, all members have the right to submit further written questions. I think this is important. There will be some clarification. So we will be submitting some further written questions, as well.

Question 3-

Mr. WATT. Thank you, Madam Chairman. I am actually going to follow up on the question that Mrs. Capito has raised here, and I want to follow it up with Mr. Lewis and Mr. Stumpf, because they are the two banks that have the largest presence in my congressional district. But I suspect it is a question that is applicable to all of these folks. Because if you were asked to take TARP money, then you probably fit into the category of too big to fail. I think I started this discussion with Hugh McCall some years ago around the issue of deposit caps and became convinced of the merits of having banks large enough to be worldwide competitive, and so I understand that aspect. I have had the discussion with Ken Thompson and even back to John Medlin when they were saying that Wachovia didn't have to worry about that because it didn't have a nationwide footprint, but now Wells Fargo, the owner of what used to be Wachovia, does have a nationwide footprint. Then, most recently, yesterday, Secretary Bernanke started to raise more concerns about this whole question of too big to fail. So I guess my question is whether, in that context, an even more aggressively regulated framework for larger banks, and maybe even not only banks but institutions that have systemic risk potentials, might be appropriate? What is your assessment of that, Mr. Lewis and then Mr. Stumpf? And the rest of you all can respond in writing, I guess, because we won't have time to hear from everybody.

Question 4-

Mr. WATT. I don't want to cut you off, but I know where you are going, and I am not sure that that is going to address the public necessity, because then that leaves it to the individual goodwill, good intentions or good execution, which, if it is a systemic problem, may work out well, may not work out well. Let me ask one other question going back to credit card risk and the impact on the economy in general. Is it your all's estimate— and you can submit this in writing—that the size of this stimulus is sufficient to serve the purpose for which it is being represented? I will let you respond to that later.

Question 5-

Mr. ACKERMAN. But if you did $35 billion last time, you did $35 billion this time, we gave you $25 billion more to do it, nothing of that went out then. Could you each send us in writing what you did with all of those billions of dollars that you got? Is anybody unwilling to do that at this point? Is anybody going to say, it is not your business; we don't have to? We will expect that from each of the eight of you in writing then.
Okay, the $165 billion that we have put into you-all's companies shows that we have some degree of confidence in what you are going to do with that money and that you are going to be around. Each of you are individually wealthy. Could you go down the line and just give us a number, how much of your personal money you have invested in your company in new money during the last 6 months? And zero is a number

Question 6-

Mr. SHERMAN. Next is a question insisted upon by three new friends I have in Detroit. I would like you to provide for the record a detailed statement about planes and perks, but for now I would like you to raise your hand if your company currently owns or leases a private plane. Let the record show all the hands went up except for the gentleman from Goldman Sachs.

Question 7 -

Mr. MEEKS. I am talking now specifically about the TARP and/ or the FDIC Temporary Liquidity Guarantee Program and the fees that would be utilized by underwriters therein. I think that Mr. Pandit talked earlier about that; the money that is legal, that you have to—by law you have to have it underwritten.

My question is there is also opportunities there for it to be farmed out to others or contracted out to other minority firms or small firms, and I was wondering if anyone has done it with any of those fees specifically, with public dollars.

Mr. STUMPF. Yes, we have done that.

Mr. PANDIT. Congressman, I don't have the facts. I can get you the facts. I believe we do that, but let us get you the information.

Question 8-

Mr. LANCE. Thank you. And following up on a line of questioning from Congresswoman Maloney earlier in the hearing. And this is to you, Mr. Lewis. And I recognize that you are Bank of America and not Merrill Lynch, and there was a great deal of pressure on Bank of America to merge with Merrill Lynch, but we are all disturbed about the level of bonuses from Merrill Lynch. Was Bank of America aware of the contractual nature of those bonuses?

Mr. LEWIS. Yes. As we got on in our due diligence, we saw the contracts, yes.

Mr. LANCE. And are those contracts a matter of public record, or can they be made a matter of public record?

Mr. LEWIS. I don't know the answer to that, but there were—as I mentioned, there were two or three that were very, very large and were contractual obligations of Merrill Lynch.

Mr. LANCE. I certainly would be interested, and I imagine the committee would be interested, in whatever information is available as a matter of public record regarding that. I believe that TARP funding is, of course, fungible, and that from our perspective those bonuses are really from TARP funds.

Question 9-

Mr. CAPUANO. Thank you, Mr. Chairman. Gentlemen, you have been asked a lot of questions, and you seemingly answer them honestly to me. I have a couple of more detailed questions.
Just by a show of hands, how many of your banks either directly or indirectly—and by indirectly I mean by loaning money to people that you knew would be using this money to invest in credit default swaps. How many of you engage in that?

Mr. MACK. We engage in credit default swaps, but when you are asking the question are we lending money for them to do that, I have to come back and give you specifics. I cannot tell you.

Question 10-

Mr. PAULSEN. Maybe I can ask one other question. As we consider the regulations for the financial markets, because we are going to be doing that now to sort of get rid of the crisis that we are in, prevent another one from happening or deepening this crisis actually, what are the largest concerns about overregulating, going down the road of Sarbanes-Oxley in terms of moving in that direction, and stepping too far where we are intending to be helpful, but actually it could be very harmful? Is there anything specific you can draw out that we should be very cautious of?

Mr. LEWIS. I think my main concern around compensation, for instance, is it is okay to do the things that are being talked about at the very top, but if you start to go too low in the organization, you will run off key talent to foreign competitors.

Mr. PAULSEN. Is that a shared view among others?

Mr. KELLY. It is one of our greatest worries.

Mr. STUMPF. Yes, there are many businesses that we are in that are commission-based, for example, and if we limit across-the-board or whatever, we could lose some of the most productive people and some of the most important parts of our business.

Mr. PAULSEN. Thank you.

Mr. STUMPF. It is widely dispersed.

The CHAIRMAN. While the gentleman yields back, let me take advantage because I am going to ask you to submit in writing, I understand the argument you make about foreign competition. It has been my impression that people here have generally been better compensated than people in these other countries. So I would ask you to submit to me some cross-national comparisons. I am, frankly, skeptical from what I have seen that they are paying so much more in other places. Certainly not at your level. So I would be interested in those cross-national comparisons. You are going to have to prove to me that you are really at risk there if there is some moderation.

Question 11-

Mr. MILLER. Now, obviously, everyone has spoken of a problem with confidence in the industry, and Chairman Bernanke yesterday compared the proposal for a stress test to the bank holiday in 1933 in the New Deal, a comparison that occurred to me as well. Do your current safety and soundness regulators have the capacity, the sophistication, the expertise, to do a credible stress test, or what do we need to do to make sure that any stress test is credible and we know that any bank that gets a clean bill of health is in fact safe and sound?

Mr. BLANKFEIN. I believe they are capable. I have only had a 3- month relationship with my new regulator.

The CHAIRMAN. We will have to take the rest of the answers in writing.

Question 12-

(CLEAVER) What I want to talk to you is not that. I want to talk to you, Mr. Blankfein, first of all. Do you believe that warehouse lending is safe and profitable?

Mr. BLANKFEIN. I am sorry, warehouse lending? Against a physical warehouse?

The CHAIRMAN. No. Any one of the retail bank people, they know what we mean by warehouse and probably ought to take that.

Mr. CLEAVER. Well, some Wall Street banks are involved in warehouse lending. Warehouse lending is when you issue a line of credit to an originator, usually it is for about 30 days, and then they, of course, sell the mortgage somewhere else.

Mr. STUMPF. We are familiar with the business. We do very little of it, if any, anymore, primarily because we would rather make loans, our home loans, ourselves. We have a set of auditors. We have a set of principles, values, so we make sure the mortgage is for the benefit of the customer. They understand the terms and conditions. It helps them and so forth. So it is hard to control when you are a warehouse lender.

Mr. CLEAVER. So most of you don't do warehouse lending, which is one of the problems. That is one of the problems. If a mortgage company in my district is making loans, or trying to make loans, and the liquidity is not available, and it has been constrained a great deal recently, it is difficult for them to originate the loans because they don't have access to the capital, and with more and more people avoiding warehouse lending, it is hurting local mortgage companies. Wouldn't you agree?

Mr. STUMPF. We have been out of the warehouse lending business for 5 or 6 or 7 years, and the reason we got out is because we saw them doing crazy things that we wouldn't do ourselves, so why do we want to be a part of that? It was too risky for us.

The CHAIRMAN. Will the gentleman yield, and I will give him some extra time, because he is on to a central issue that I have heard a lot of complaints from my colleagues about. And one of them is, it is one thing to say we are not going to take on my new warehouse lending, but we have been told there are people who had accumulated an inventory based on their ability to do warehouse lending, and they were cut off in the middle. So there is a considerable degree, we have heard this from several members, there are people who had a warehouse lending relationship and had made certain commitments on the assumption that they would have that capacity, and it was cut off before they could sort of wind down the business in a reasonable way. I wonder if there is anybody familiar with that issue, because that is a particular form of it that I have heard a lot of complaints about, from builders.

Mr. STUMPF. I am not an expert in warehouse in mortgage lending, but there are two kinds. One we actually finance, you give them a line of credit. Another one is where they do their own mortgages, and you buy them, and then you process them. I don't know which one it is.

The CHAIRMAN. The one where I think we have had the problem, there were developers, people who had accumulated property, and then they were counting on the line of credit to be able to finance these purchases and were shut down in the middle. That is the specific complaint that I have heard. I don't know about the gentleman from Missouri.

Mr. CLEAVER. Yes, that is precisely it. And one Wall Street investment bank at one point not long ago had a $250 million line of credit just for one originator. So all that has dried up. How in the world are we going to deal with the housing crisis, the home builders and the realtors, if warehouse lending is being evaporated?
You are the only one that participates in it, and yours is at a minimum. I needed to just say that, because it is a problem in every community, and my community is no less being hit. The final issue I want to raise is that I am woefully unimpressed with the diversity of this panel, of not only the panel but the folk who sit behind you. I don't know how many rows deep we would have to go to have some diversity.
Thank you, Mr. Chairman.

The CHAIRMAN. Let me say, and I appreciate the gentleman raising that, I would ask that you give us in writing a response, because the gentleman raises a very important question. I will tell you, we hear a lot of this from our colleagues. It is the cutting off of the warehouse lending relationship in the middle of the movie, when there is inventory of some kind that was going to be financed by the warehouse lending and is cut off. I would ask you to talk to your people and give us answers in writing, and I would hope the answer would be that, well, yes, that is a problem, and even if we don't want to take open any new commitments, we will allow for the orderly unwinding of the existing commitments. I think that is the focal point we have heard.

Question 13-

Mr. ELLISON. Do you think it is appropriate while in receipt of TARP funds to be trying to defeat measures such as the Employee Free Choice Act?

Mr. LEWIS. I think doing what is in the best interest of your company is always the best thing to do. So I wouldn't point to any one thing and say, just because you have TARP fund, you can't do something.

Mr. ELLISON. But, as has been pointed out already, money is fungible. What you don't use one place you can switch and use other monies for that while you are using TARP funds. Wouldn't you agree that your company needs to be using those funds for their intended purpose—

Mr. LEWIS. Yes.

Mr. ELLISON. —and not trying to defeat union organizing?

Mr. LEWIS. And $45 billion is in the context of $230 billion in equity. So you have got to think of it in the context of a much larger number.

Mr. ELLISON. Right. Well, I just wanted to put into the record, have unanimous consent to have entered into the record this letter from Change to Win to Mr. Steve Bartlett, who was with the Financial Services Roundtable. In it he describes a conversation in which several companies which received TARP funds were having some fairly frank conversations about lobbying. I find it pretty disturbing; and I would like you to respond to this letter, if you would, sir, because it specifically mentions your company.

The CHAIRMAN. We have general leave, so it will be part of the record.

Question 14-

Mr. WILSON. Okay. Maybe I can rephrase my question, Mr. Chairman.
There are a lot of people in Ohio that are really upset about the way things have been handled, the arrogance, the way things have been done, what has happened, the PNC purchase of National Citi with TARP funds, on down the line. It could go on and on. But what have we done to restore the confidence in the financial community that is going to help small businesses like I represent in Ohio to be able to get their line of credit to be able to buy goods for the spring and for the summer selling season? What has been done with the TARP money? Mr. Dimon, could I address that question to you?

Mr. DIMON. I think we put in the record a lot of what has been done with the TARP money. We have lent in the last 90 days I believe it was $250 billion; $90 billion to corporations, $50 billion to consumers, net and increased credit lines; $50 billion in interbank markets; $60 billion in the purchase of MBS or asset-backed securities. I do believe—and it is an estimate. I do believe that probably $75 billion of that would not have happened without the TARP money.
We are also a very large small business lender in Ohio. And I don't remember exactly the numbers, but I believe year over year small business loans are up in the Nation. I don't have Ohio's numbers. Government not-for-profit, hospitals, university lending is up year over year. And we will be happy to make all that part of the record.

Question 15-

Ms. SPEIER. There is a GAO report that just came out in December of 2008, and it talked about the number of the biggest financial institutions both in size and in their bailout receipts and that they maintain revenues in offshore tax haven countries where there are no or nominal taxes and minimal, if any, reporting. According to the Department of Treasury reports, the U.S. Government loses $100 billion a year in tax revenue from these tax dodges from all sources, including these firms. For instance, Citigroup claims 427 different overseas locations or tax jurisdictions, 90 in the Cayman Islands alone. And, by the way, you are receiving a 38 percent subsidy from the taxpayers right now. Morgan Stanley has 273 locations of which 158 or well more than half are in the Cayman Islands. Again, Morgan Stanley has about an 18 percent subsidy from the taxpayers right now. Are you willing to bring those offshore tax havens home to America?

Mr. MACK. Congresswoman, I would have to give you the exact details and come back to you. I think a number of those are either partnerships or vehicles we have made structured for clients or structured for an offshore business. I cannot give you the complete answer, but I will give you the answer when I return.

Ms. SPEIER. Thank you.

Question 16-

Mr. PETERS. Well, I want to follow up on that. And I appreciate both your comments, but is it possible to get numbers so I can just get a sense of how the loan volume is different in Michigan than other States? Would you both be willing to provide that information?

Mr. DIMON. Happy to be willing to do that, yes.

Mr. LEWIS. Yes.

Mr. PETERS. Mr. Lewis, as well. We will follow up on that.

Question 17

Mr. PETERS. Mr. Lewis, as well. We will follow up on that. I want to get back to the auto industry, because obviously we have a very strong concern in the auto industry. And, surely, the impact of the credit crisis has hit the auto industry more than most industries, and the repercussions could be dramatic, not just in Michigan, but all over the country. Millions of jobs are at stake. But also, if you look at the recovery of the economy, there isn't anything that is more powerful a stimulus in the economy than to get people buying automobiles, get the auto industry going. It has picked this country out of many recessions in the past, has the potential to do that again if managed well. And you know that right now we are in a very precarious situation. In fact, the auto companies will come back to this committee on February 17th with their viability plans, and a part of those plans have to be plans that they have made with the stakeholders, both labor as well as the creditors. How many of you are creditors to the auto industry, have substantial loans or substantial debt instruments of some form or another? Basically all of you, except Mr. Stumpf. Everybody has it. Well, then, how many of you have received proposals from the auto companies?

Mr. MACK. When you say proposals, requests?

Mr. PETERS. Proposals from the auto companies to restructure that debt, which, as you know, is a condition that has placed on it to have substantial concessions from debt holders to renegotiate that debt. How many of you have already received specific proposals from the auto companies?

Mr. MACK. Congressman, I would have to check. We have a very active dialogue with the auto industry. And I will check when I am back and let you know exactly.

Responses to Questions for the Record – "TARP Accountability: Use of Federal Assistance by the First TARP Recipients." February 11, 2009

RESPONSE TO QUESTION 1

In the case of open-ended, revolving lines of credit, timely consumer payments is a very important factor, but unfortunately it is not the sole factor, we need to consider. As an example, a consumer could be in a personal bankruptcy proceeding but nevertheless continue to make monthly credit card payments – however it would be very imprudent for the lender to ignore this significant change in circumstance.

Reductions in lines of credit are part of the ordinary and routine prudent course of business and a critical risk mitigation tool when credit risks change. As we have seen in recent months there has been deterioration in consumer and other credit quality across the country. We are required by our regulators to limit losses on all aspects of our balance sheets. One important way to do this is to reduce lines of credit.

Regulators can assist in limiting these reductions by allowing banks to make repricing decisions based on risk. Risk based repricing helps banks limit losses and allows viable lines of credit to remain open when there is a disruption in the credit markets. Risk based repricing also permits banks to limit the impact of reductions in lines of credit for a fewer number of borrowers.

RESPONSE TO QUESTION 2

The Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program was designed to guarantee wholesale funding alternatives for the banking organizations and bank holding companies by providing investors with the confidence of government guaranteed debt. These debt transactions were structured as a standard debt issuance.

In order to issue debt securities, an issuer, such as Bank of America Corporation, must hire underwriters, such as Bank of America Merrill Lynch, to form a syndicate or hire placement agents, again such as Bank of America Merrill Lynch, to sell the debt to purchasers. It is standard practice for a financial services firm to engage its affiliated broker-dealer subsidiary as the lead underwriter of a debt issuance. A financial services firm thus retains fee income for itself rather than providing fee income to its competitors. As part of the distribution arrangement, the issuer pays a fee to the members of the syndicate or the placement agents based on the amount of debt securities sold or, in a firm commitment underwriting, agreed to be sold. . In a firm commitment underwriting, the underwriters retain the aggregate principal amount of debt securities not sold in the offering.

Bank of America Corporation has paid total fees of approximately $111 million for all of its TLGP-related transactions.

- Fees represent approximately 27 basis points or 0.27% of the total issuance amount of approximately $42 billion.
- Approximately $97 million of total fees were paid to Banc of America Securities or other related entities.
- Such fees are estimated and disclosed in the offering documents for each specific offering.

Proceeds of all TLGP issuance are used for general corporate purposes (other than to repay non-FDIC guaranteed debt, as required under the terms of the TLGP). Note also that fees paid to the capital markets affiliate of the TLGP issuer are likewise available to it for funding its own operations, remaining available inside the same corporate family.

RESPONSE TO QUESTION 3

Regulatory reform is important and should be a focus of this Committee. When considering the question of systemic risk we urge the Committee to focus on the interconnected, qualitative nature of an entity and the risks it may present rather than the size of that entity when addressing systemic risk. As we have seen over the past year, the financial system was put into greatest peril not necessarily by large diversified banks, but rather by highly interconnected mono-line financial institutions like Bear Sterns, Lehman Brothers and the trading unit of AIG.

Additionally, institutional failures, relative to the quantity of regulatory oversight they had attracted, appear to have been symmetrical across scale – namely, institutions with (i) very comprehensive Federal supervisory oversight (for example, Fannie Mae and Freddie Mac), (ii) more modest Federal supervisory oversight (for example, Bear Sterns, Lehman Brothers and the trading unit of AIG), and (iii) intermediate states of Federal supervisory oversight (for example, Washington Mutual and IndyMac) all have experienced significant difficulty.

The fact that a bank is large does not automatically mean that it poses a systemic risk. Large diversified financial institutions with multiple lines of business are often better able to withstand economic pressure through these diversified businesses than single-focus, smaller financial institutions. Systemic risk comes into play when an entity is highly interconnected into the system and the company cannot diversify its risks to prevent disruptions. Accordingly, more qualitative approaches, rather than those focused on quantitative aspects, should be the focus of any future regulatory framework.

RESPONSE TO QUESTION 4

During these difficult economic times many of the proposals that the government has undertaken have proven helpful. Giving the system and the economy time to fully reap the benefits of the stimulus money already in the economic system will be an important fact to consider before providing additional stimulus as inflation will also need to be monitored going forward.

RESPONSE TO QUESTION 5

During the first quarter of 2009, Bank of America earned $4.2 billion dollars. Our activity over this period includes:

- Funding $85 billion in first mortgages, helping more than 382,000 people either purchase a home or refinance their existing mortgage. Approximately 25 percent were for purchases.

- Credit extended during the quarter, including commercial renewals of $44.3 billion, was $183.1 billion compared with $180.8 billion in the fourth quarter. New credit included $85.2 billion in mortgages, $70.9 billion in commercial non-real estate, $11.2 billion in commercial real estate, $5.5 billion in domestic and small business card, $4.0 billion in home equity products and $6.3 billion in other consumer credit. Excluding commercial renewals, new credit extended during the period was $138.8 billion compared with more than $115 billion in the fourth quarter.

- Small Business Banking extended more than $720 million in new credit comprised of credit cards, loans and lines of credit to more than 45,000 new customers.

- The company originated $16 billion in mortgages made to 102,000 low- and moderate-income borrowers.

- To meet rising refinancing and first mortgage application volume, the company is in the process of adding approximately 5,000 positions in fulfillment. In addition, the company has more than 6,400 associates in place to address increasing needs from consumers for assistance with loan modifications.

- To help homeowners avoid foreclosure, Bank of America modified nearly 119,000 home loans during the quarter. Last year, the company embarked on a loan modification program projected to modify over $100 billion in loans to help keep up to 630,000 borrowers in their homes. The centerpiece of the program is a proactive loan modification process to provide relief to eligible borrowers who are seriously delinquent or are likely to become seriously delinquent as a result of loan features, such as rate resets or payment recasts. In some instances, innovative new approaches will be employed to include automatic streamlined loan modifications across certain classes of borrowers. Also during the first quarter, the company began a new program that utilizes affordability measures to qualify borrowers for loan modifications.

- Average retail deposits in the quarter increased $140.0 billion, or 27 percent, from a year earlier, including $107.3 billion in balances from Countrywide and Merrill Lynch. Excluding Countrywide and Merrill Lynch, Bank of America grew retail deposits $32.7 billion, or 6 percent, from the year-ago quarter.

An exact answer to question of how exactly we are using TARP funds is tougher than it sometimes seems. The U.S. government invested $15 billion in TARP funds in Bank of America in the form of preferred stock; Merrill Lynch agreed to accept another $10 billion, and the government provided an additional $20 billion to enable the closing of our transaction with Merrill Lynch. As with money provided by private investors, that investment allows us to make loans and investments to people, businesses and organizations.

As a practical matter, we cannot state whether the next loan we make is funded by that $45 billion of TARP preferred stock, or our other preferred stock placed with other investors, or the common equity that we hold, or the remaining other obligations or cash that make up our balance sheet. But the bottom line is that we are lending significantly more with that preferred stock investment than we would be without it. That is probably the best answer to what we are doing with the TARP money. But it's obviously not the whole story.

Additionally, the TARP preferred stock investment strengthens our financial system in other important ways. For example, at the end of the first quarter of 2009, Bank of America's Tier 1 capital ratio was 10.09%, up from 7.51% for the first quarter of 2008, illustrating how TARP is meeting with success in its core goal of helping to stabilize the financial system.

Bank of America has paid the U.S. Treasury over $1.11 billion in dividend payments so far this year.

RESPONSE TO QUESTION 6

Below is a link to Bank of America's 2009 Annual Proxy Statement. Beginning on page 29, there is a detailed statement about our executives' use of planes and perquisites for 2008. From and after mid-2009, corporate aircraft will be used for business purposes.

http://www.sec.gov/Archives/edgar/data/70858/000119312509057465/ddef14a.htm

RESPONSE TO QUESTION 7

Yes, Bank of America engaged minority firms under the TLGP. These firms earned approximately $1,000,000 of the total underwriting fees paid, which is in line with market precedent and the capital requirements of FINRA Rule 15c3-1. FINRA Rule 15c3-1 establishes limits on the amount of underwriting business that smaller firms can undertake based on their capital levels.

RESPONSE TO QUESTION 8

Bank of America was aware that Merrill Lynch had the legal and contractual right to award its associates a discretionary incentive for performance year 2008. The Merger Agreement between Bank of America and Merrill Lynch set a cap on the aggregate amount of incentives that Merrill Lynch could award for 2008. That amount was set forth in a confidential Disclosure Schedule that was referred to in the Merger Agreement but that itself was not publicly filed or disclosed.

RESPONSE TO QUESTION 9

Yes, Bank of America does invest in CDS.

RESPONSE TO QUESTION 10

Bank of America's compensation practices are intended to support our core values and business strategy and create sustainable, profitable growth over the long-term for the benefit of our customers and shareholders. Our policies and practices are also designed to promote stability and retention.

Our core business is solid: in the midst of a recession, we earned more than $4 billion last year. Even so, that performance did not meet our expectations, and therefore our CEO recommended to the board of directors – and they agreed – that we would pay no annual year-end compensation to any of our most senior executives for 2008. Executives at the next tier down had their annual year-end incentive awards cut by an average of approximately 80%, exclusive of guarantees.

We made additional cuts on a progressive basis – meaning that higher-ranking managers with larger incentive targets took progressively larger pay reductions in relation to more junior associates. But even lower-ranking and lower-paid associates took significant reductions last year, as you would expect in this environment. This includes many people who worked extremely hard last year and who produced excellent business results within their area of responsibility.

Bank of America has a strong Pay for Performance philosophy designed to attract and retain the highest caliber workforce in the competitive markets in which we operate. Future compensation will be based on future performance. Risk is something that we continuously assess when making business decisions. We are constantly reviewing our strategies to ensure that we are not taking an inappropriate amount of risk and that our Pay for Performance approach results in appropriate compensation when there is success in our business models. None of our senior executive officers have employment contracts, thus, none of them have golden parachutes.

As we have seen in recent months some institutions have sought to lure top producers away from banks that have received TARP investments and are not subject to the compensation provisions associated with that program. We are currently reviewing our compensation policies in order to best retain talent and reward performance.

RESPONSE TO QUESTION 11

We believe that the Federal banking regulators are well equipped to perform a credible stress test. It is important for regulators to have current information on a bank's assets and liabilities and an understanding of the banking industry generally.

RESPONSE TO QUESTION 12

Bank of America plans to remain in warehouse finance, even though many of our competitors are leaving this business. We have expanded credit to some of our existing warehouse finance customers; however, we do not expect much growth in this area in the near term.

RESPONSE TO QUESTION 13

We appreciate the opportunity to clarify the circumstances of a conference call referenced in the letter from Change to Win relating to EFCA.

The phone discussion reported referenced in the letter, which occurred in October 2008, was coordinated by a Banc of America Securities, LLC (BAS) equity research analyst covering the Hard-line Retail sector, more commonly known as "big box" retail. Participants in the call included current and former executives from this industry segment, including Mr. Bernie Marcus, as well as many of BAS' institutional investor clients. These discussions are common place. In this case, the discussion centered on EFCA and its implications, as expressed by industry leaders, on this market segment. The discussion was not arranged to create a forum for or against EFCA legislation. Its intent was for the equity analyst to provide institutional investors with the opportunity to hear from retail industry leaders regarding an emerging issue impacting retailers and potentially the earnings of companies operating in that industry.

The BAS analyst did prepare a research report prior to this meeting. The analyst expressed his personal opinion that the bill's impact could drive higher costs at retail but, on the other hand, would increase spending power of lower income consumers. All analysts reports are accompanied by an "Analyst Certification" which affirms that the views expressed in the research reflect the personal views of the analyst. This report went on to value a number of companies within this market segment.

As for Bank of America, the corporation has no stated public position on the Employee Free Choice Act legislation and has not participated in any lobbying efforts on either side of the debate. The Bank's public policy leaders generally are not aware of, nor do they participate in, investor conference calls arranged by BAS equity research analysts, including the fore mentioned one.

RESPONSE TO QUESTION 14

Question directed to JP Morgan

RESPONSE TO QUESTION 15

Question directed to Morgan Stanley

RESPONSE TO QUESTION 16

Bank of America is actively working to extend credit to qualified customers in Michigan.

Our "Business Banking" unit (serving companies with less than $50 million in revenue) established 96 new client relationships in 2008 in Michigan, with new loans to these clients totaling an estimated $250 million. In the 4th quarter of 2008 alone, we established 17 new client relationships in this category, with new loans totaling an estimated $75 million.

Our "Middle Market" unit (serving companies with over $50 million but less than $2.5 billion in revenue) established 11 new client relationships in 2008 in Michigan, with new loans to these clients totaling an estimated $86 million. In the 4th quarter of 2008 alone, we established 8 new client relationships in this category, with new loans totaling an estimated $60 million.

RESPONSE TO QUESTION 17

Yes, we have been in contact with the auto companies to explore debt restructuring proposals.

Dealers have not been looking to renegotiate their current loan agreements outside of the normal renewal process. Where the primary discussion has centered has been on pricing. As the client's risk profile has increased we have been raising rates to offset the higher carrying costs of those relationships. Our rates are fair and competitive given the increased risk in this business segment. Further, our regulators and shareholders, including the federal government, expect banks to enhance risk management tools on a timely basis.

Additional Questions for the Record from Representative Barrett

- **What was BAC's peak leverage ratio over the past four years?**

Bank of America's Tier 1 Leverage Ratio was 6.44%, 5.04%, 6.36% and 5.91%, respectively for 2008, 2007, 2006 and 2005. The objective of the Tier 1 Leverage Ratio is to measure the degree to which the bank has leveraged its equity capital and is simply Tier 1 Capital divided by Adjusted Average Assets (lower number indicates higher leverage). Quarterly reported amounts over last 4 years are below, the lowest being 5.04% in 4Q 2007. The FDIC, FRB and OCC have different approaches to minimums for the ratio (3-5% based upon regulator and other factors) but believe we target 5% based on FDICIA regulations for well-capitalized bank subsidiaries.

- **What was the peak leverage ratio over the past 4 years when your assets were performing as normal?**

Bank of America Corporation
Tier 1 Leverage Ratio

4Q 2008	6.44%
3Q 2008	5.51%
2Q 2008	6.07%
1Q 2008	5.59%

4Q 2007	5.04%
3Q 2007	6.20%
2Q 2007	6.33%
1Q 2007	6.25%

4Q 2006	6.36%
3Q 2006	6.16%
2Q 2006	6.13%
1Q 2006	6.18%

4Q 2005	5.91%
3Q 2005	5.90%
2Q 2005	5.66%
1Q 2005	5.86%

4Q 2004	5.89%
3Q 2004	5.92%
2Q 2004	5.83%
1Q 2004	5.43%

* Source of data was the FR Y9-C

- **In hindsight, do you believe that BAC was overleveraged at any point over the past 4 years before the values of assets in portfolio began to fall?**

We do not believe that Bank of America was overleveraged at any point over that past 4 years.

- o **At any time did you believe that BAC was overleveraged?**

No

- o **If so what prompted you to reach that leverage ratio and did you take steps to deleverage?**

- **What was the maximum rate of assets non-performance that BAC's portfolio was designed to withstand before causing problems with its capital rules?**

Bank of America does not manage its balance sheet in this manner. The allowance for loan losses expresses management's view of expected credit losses 12 months forward and is factored into the regulatory capital calculations.

- o **Was this rate exceeded?**

We do not manage its balance sheet in this manner, thus this rate is not measured.

- ▪ **If so did you know that this rate was exceeded?**

- o **How was BAC exposed to the holdings of other financial institutions?**
  - ▪ **How did BAC hedge against the non-performance of assets held by other financial institutions?**

The allowance for loan losses represent's management's estimates of probably losses inherent in lending activities. The Company employs various strategies to hedge exposures and uses counterparty monitoring processes to monitor key counterparties.

- **Did you ever worry that BAC had a major mismatch between its assets and liabilities because it was funding illiquid assets with short-term credit?**

The Bank's Finance Committee, though the Asset Liability Committee, monitors our liquidity on an ongoing basis. Liquidity management includes forecasting funding requirements and maintaining sufficient capacity to accommodate fluctuations in asset and liability levels due to changes in business operations or unanticipated events.

- **How much did BAC rely on the rating agencies in its risk management process?**

Credit risk assessment of a borrower or counterparty generally includes an assignment of an internal risk rating which along with other attributes such as collateral, country, industry and concentration limits is used to make credit decisions.

- **In hindsight, do you believe that BAC was over-reliant on the ratings provided by the rating agencies for its risk management processes?**

No

Question #1-

(BACHUS) I have one question, one urging. I hear from responsible borrowers who are not in default and who are paying their payments on time, their interest payments in some cases, that their principle is being called, that they are being asked to do a 10 percent calldown on their principle, or that their credit lines are being restricted. And I know, in some cases, that this is probably a good lending practice because you are seeing some deterioration. But I would ask you, can we do a better job in that? And can the regulators assist you in that, or is there something that we can do to avoid those cases? Because there are people that can make interest payments now, but they cannot begin to pay down principle. It is just the wrong time.

So, to any of you who would like to answer that question. Or I will call on Mr. Lewis. Or, Mr. Stumpf, you didn't want the money, you took it, and you wish you didn't, I am sure. And we are going to make money on that investment, but you can answer the question.

Mr. STUMPF. Well, thank you. And we have clarified our statements. We are happy to have the money. It strengthened the industry, and that is good—

Mr. BACHUS. But, yes, I guess what I meant is first you said we don't need the money. But I appreciate it.

Mr. STUMPF. With respect to borrowers, in our company, frankly, we have been growing loans the last 18 months. As I mentioned in my testimony, many others have retrenched. And we think these are actually good times to make loans to credit-worthy borrowers. We make money when we make loans. That is our business. We want to serve customers, help them educate children, buy homes, small businesses to develop products and services that they can sell and serve other customers. In some cases, it is prudent. You have to cut back on a line. But we have not done a system-wide. It has been very much individual, one customer at a time, working with them. And we want to stick with them if we possibly can. But also, unfortunately, not every borrower who wants or needs money can afford it today. And we have to be prudent—

The CHAIRMAN. If the gentleman would yield briefly, that is such an important question that so many of us have been asked to get answers to. I would ask those to whom it is relevant—obviously, not Mr. Blankfein or Mr. Kelly or Mr. Logue or Mr. Mack, but for the commercial bankers that are before us, if you could answer in writing, that would be very helpful. I think we would all like that, because I think that is one of the most frequently asked questions we have. So for Mr. Dimon, Mr. Lewis, Mr. Pandit, Mr. Stumpf, if you would answer that in writing, that would be very helpful.

Question 2-

Mr. GUTIERREZ. Let me just say to all eight of you that are here before us this morning, I would like for all of you to just kind of put in writing so that we could have it on the record—and I don't expect the answer here this morning—if each of you could just tell us how much your bank has paid itself on FDIC-guaranteed or other government-guaranteed financing, and what percentage of those finances were completed solely for the purpose of funding your bank. An example: I won't name the bank, but you go out and you take $3 billion in one deal, and you go out with FDIC insurance, and you go to the market and you sell $3 billion worth of bonds in order to give yourself more liquidity. And they are FDIC-insured. Are you then paying your own investment banking firm—I am sorry, Mr. Chairman.

The CHAIRMAN. Finish the question.

Mr. GUTIERREZ. Are you then paying your own investment banking firm? And how much are you paying your own staff, in terms of underwriting fees for selling what a kindergartner could sell out in the market today?

The CHAIRMAN. Let me just say, as we conclude this, we will take these answers in writing. Also, all members have the right to submit further written questions. I think this is important. There will be some clarification. So we will be submitting some further written questions, as well.

Question 3-

Mr. WATT. Thank you, Madam Chairman. I am actually going to follow up on the question that Mrs. Capito has raised here, and I want to follow it up with Mr. Lewis and Mr. Stumpf, because they are the two banks that have the largest presence in my congressional district. But I suspect it is a question that is applicable to all of these folks. Because if you were asked to take TARP money, then you probably fit into the category of too big to fail. I think I started this discussion with Hugh McCall some years ago around the issue of deposit caps and became convinced of the merits of having banks large enough to be worldwide competitive, and so I understand that aspect. I have had the discussion with Ken Thompson and even back to John Medlin when they were saying that Wachovia didn't have to worry about that because it didn't have a nationwide footprint, but now Wells Fargo, the owner of what used to be Wachovia, does have a nationwide footprint. Then, most recently, yesterday, Secretary Bernanke started to raise more concerns about this whole question of too big to fail. So I guess my question is whether, in that context, an even more aggressively regulated framework for larger banks, and maybe even not only banks but institutions that have systemic risk potentials, might be appropriate? What is your assessment of that, Mr. Lewis and then Mr. Stumpf? And the rest of you all can respond in writing, I guess, because we won't have time to hear from everybody.

Question 4-

Mr. WATT. I don't want to cut you off, but I know where you are going, and I am not sure that that is going to address the public necessity, because then that leaves it to the individual goodwill, good intentions or good execution, which, if it is a systemic problem, may work out well, may not work out well. Let me ask one other question going back to credit card risk and the impact on the economy in general. Is it your all's estimate— and you can submit this in writing—that the size of this stimulus is sufficient to serve the purpose for which it is being represented? I will let you respond to that later.

Question 5-

Mr. ACKERMAN. But if you did $35 billion last time, you did $35 billion this time, we gave you $25 billion more to do it, nothing of that went out then. Could you each send us in writing what you did with all of those billions of dollars that you got? Is anybody unwilling to do that at this point? Is anybody going to say, it is not your business; we don't have to? We will expect that from each of the eight of you in writing then.
Okay, the $165 billion that we have put into you-all's companies shows that we have some degree of confidence in what you are going to do with that money and that you are going to be around. Each of you are individually wealthy. Could you go down the line and just give us a number, how much of your personal money you have invested in your company in new money during the last 6 months? And zero is a number

Question 6-

Mr. SHERMAN. Next is a question insisted upon by three new friends I have in Detroit. I would like you to provide for the record a detailed statement about planes and perks, but for now I would like you to raise your hand if your company currently owns or leases a private plane. Let the record show all the hands went up except for the gentleman from Goldman Sachs.

Question 7 -

Mr. MEEKS. I am talking now specifically about the TARP and/ or the FDIC Temporary Liquidity Guarantee Program and the fees that would be utilized by underwriters therein. I think that Mr. Pandit talked earlier about that; the money that is legal, that you have to—by law you have to have it underwritten.

My question is there is also opportunities there for it to be farmed out to others or contracted out to other minority firms or small firms, and I was wondering if anyone has done it with any of those fees specifically, with public dollars.

Mr. STUMPF. Yes, we have done that.

Mr. PANDIT. Congressman, I don't have the facts. I can get you the facts. I believe we do that, but let us get you the information.

Question 8-

Mr. LANCE. Thank you. And following up on a line of questioning from Congresswoman Maloney earlier in the hearing. And this is to you, Mr. Lewis. And I recognize that you are Bank of America and not Merrill Lynch, and there was a great deal of pressure on Bank of America to merge with Merrill Lynch, but we are all disturbed about the level of bonuses from Merrill Lynch. Was Bank of America aware of the contractual nature of those bonuses?

Mr. LEWIS. Yes. As we got on in our due diligence, we saw the contracts, yes.

Mr. LANCE. And are those contracts a matter of public record, or can they be made a matter of public record?

Mr. LEWIS. I don't know the answer to that, but there were—as I mentioned, there were two or three that were very, very large and were contractual obligations of Merrill Lynch.

Mr. LANCE. I certainly would be interested, and I imagine the committee would be interested, in whatever information is available as a matter of public record regarding that. I believe that TARP funding is, of course, fungible, and that from our perspective those bonuses are really from TARP funds.

Question 9-

Mr. CAPUANO. Thank you, Mr. Chairman. Gentlemen, you have been asked a lot of questions, and you seemingly answer them honestly to me. I have a couple of more detailed questions.
Just by a show of hands, how many of your banks either directly or indirectly—and by indirectly I mean by loaning money to people that you knew would be using this money to invest in credit default swaps. How many of you engage in that?

Mr. MACK. We engage in credit default swaps, but when you are asking the question are we lending money for them to do that, I have to come back and give you specifics. I cannot tell you.

Question 10-

Mr. PAULSEN. Maybe I can ask one other question. As we consider the regulations for the financial markets, because we are going to be doing that now to sort of get rid of the crisis that we are in, prevent another one from happening or deepening this crisis actually, what are the largest concerns about overregulating, going down the road of Sarbanes-Oxley in terms of moving in that direction, and stepping too far where we are intending to be helpful, but actually it could be very harmful? Is there anything specific you can draw out that we should be very cautious of?

Mr. LEWIS. I think my main concern around compensation, for instance, is it is okay to do the things that are being talked about at the very top, but if you start to go too low in the organization, you will run off key talent to foreign competitors.

Mr. PAULSEN. Is that a shared view among others?

Mr. KELLY. It is one of our greatest worries.

Mr. STUMPF. Yes, there are many businesses that we are in that are commission-based, for example, and if we limit across-the-board or whatever, we could lose some of the most productive people and some of the most important parts of our business.

Mr. PAULSEN. Thank you.

Mr. STUMPF. It is widely dispersed.

The CHAIRMAN. While the gentleman yields back, let me take advantage because I am going to ask you to submit in writing, I understand the argument you make about foreign competition. It has been my impression that people here have generally been better compensated than people in these other countries. So I would ask you to submit to me some cross-national comparisons. I am, frankly, skeptical from what I have seen that they are paying so much more in other places. Certainly not at your level. So I would be interested in those cross-national comparisons. You are going to have to prove to me that you are really at risk there if there is some moderation.

Question 11-

Mr. MILLER. Now, obviously, everyone has spoken of a problem with confidence in the industry, and Chairman Bernanke yesterday compared the proposal for a stress test to the bank holiday in 1933 in the New Deal, a comparison that occurred to me as well. Do your current safety and soundness regulators have the capacity, the sophistication, the expertise, to do a credible stress test, or what do we need to do to make sure that any stress test is credible and we know that any bank that gets a clean bill of health is in fact safe and sound?

Mr. BLANKFEIN. I believe they are capable. I have only had a 3- month relationship with my new regulator.

The CHAIRMAN. We will have to take the rest of the answers in writing.

Question 12-

(CLEAVER) What I want to talk to you is not that. I want to talk to you, Mr. Blankfein, first of all. Do you believe that warehouse lending is safe and profitable?

Mr. BLANKFEIN. I am sorry, warehouse lending? Against a physical warehouse?

The CHAIRMAN. No. Any one of the retail bank people, they know what we mean by warehouse and probably ought to take that.

Mr. CLEAVER. Well, some Wall Street banks are involved in warehouse lending. Warehouse lending is when you issue a line of credit to an originator, usually it is for about 30 days, and then they, of course, sell the mortgage somewhere else.

Mr. STUMPF. We are familiar with the business. We do very little of it, if any, anymore, primarily because we would rather make loans, our home loans, ourselves. We have a set of auditors. We have a set of principles, values, so we make sure the mortgage is for the benefit of the customer. They understand the terms and conditions. It helps them and so forth. So it is hard to control when you are a warehouse lender.

Mr. CLEAVER. So most of you don't do warehouse lending, which is one of the problems. That is one of the problems. If a mortgage company in my district is making loans, or trying to make loans, and the liquidity is not available, and it has been constrained a great deal recently, it is difficult for them to originate the loans because they don't have access to the capital, and with more and more people avoiding warehouse lending, it is hurting local mortgage companies. Wouldn't you agree?

Mr. STUMPF. We have been out of the warehouse lending business for 5 or 6 or 7 years, and the reason we got out is because we saw them doing crazy things that we wouldn't do ourselves, so why do we want to be a part of that? It was too risky for us.

The CHAIRMAN. Will the gentleman yield, and I will give him some extra time, because he is on to a central issue that I have heard a lot of complaints from my colleagues about. And one of them is, it is one thing to say we are not going to take on my new warehouse lending, but we have been told there are people who had accumulated an inventory based on their ability to do warehouse lending, and they were cut off in the middle. So there is a considerable degree, we have heard this from several members, there are people who had a warehouse lending relationship and had made certain commitments on the assumption that they would have that capacity, and it was cut off before they could sort of wind down the business in a reasonable way. I wonder if there is anybody familiar with that issue, because that is a particular form of it that I have heard a lot of complaints about, from builders.

Mr. STUMPF. I am not an expert in warehouse in mortgage lending, but there are two kinds. One we actually finance, you give them a line of credit. Another one is where they do their own mortgages, and you buy them, and then you process them. I don't know which one it is.

The CHAIRMAN. The one where I think we have had the problem, there were developers, people who had accumulated property, and then they were counting on the line of credit to be able to finance these purchases and were shut down in the middle. That is the specific complaint that I have heard. I don't know about the gentleman from Missouri.

Mr. CLEAVER. Yes, that is precisely it. And one Wall Street investment bank at one point not long ago had a $250 million line of credit just for one originator. So all that has dried up. How in the world are we going to deal with the housing crisis, the home builders and the realtors, if warehouse lending is being evaporated?
You are the only one that participates in it, and yours is at a minimum. I needed to just say that, because it is a problem in every community, and my community is no less being hit. The final issue I want to raise is that I am woefully unimpressed with the diversity of this panel, of not only the panel but the folk who sit behind you. I don't know how many rows deep we would have to go to have some diversity.
Thank you, Mr. Chairman.

The CHAIRMAN. Let me say, and I appreciate the gentleman raising that, I would ask that you give us in writing a response, because the gentleman raises a very important question. I will tell you, we hear a lot of this from our colleagues. It is the cutting off of the warehouse lending relationship in the middle of the movie, when there is inventory of some kind that was going to be financed by the warehouse lending and is cut off. I would ask you to talk to your people and give us answers in writing, and I would hope the answer would be that, well, yes, that is a problem, and even if we don't want to take open any new commitments, we will allow for the orderly unwinding of the existing commitments. I think that is the focal point we have heard.

Question 13-

Mr. ELLISON. Do you think it is appropriate while in receipt of TARP funds to be trying to defeat measures such as the Employee Free Choice Act?

Mr. LEWIS. I think doing what is in the best interest of your company is always the best thing to do. So I wouldn't point to any one thing and say, just because you have TARP fund, you can't do something.

Mr. ELLISON. But, as has been pointed out already, money is fungible. What you don't use one place you can switch and use other monies for that while you are using TARP funds. Wouldn't you agree that your company needs to be using those funds for their intended purpose—

Mr. LEWIS. Yes.

Mr. ELLISON. —and not trying to defeat union organizing?

Mr. LEWIS. And $45 billion is in the context of $230 billion in equity. So you have got to think of it in the context of a much larger number.

Mr. ELLISON. Right. Well, I just wanted to put into the record, have unanimous consent to have entered into the record this letter from Change to Win to Mr. Steve Bartlett, who was with the Financial Services Roundtable. In it he describes a conversation in which several companies which received TARP funds were having some fairly frank conversations about lobbying. I find it pretty disturbing; and I would like you to respond to this letter, if you would, sir, because it specifically mentions your company.

The CHAIRMAN. We have general leave, so it will be part of the record.

<u>Question 14-</u>

Mr. WILSON. Okay. Maybe I can rephrase my question, Mr. Chairman.
There are a lot of people in Ohio that are really upset about the way things have been handled, the arrogance, the way things have been done, what has happened, the PNC purchase of National Citi with TARP funds, on down the line. It could go on and on. But what have we done to restore the confidence in the financial community that is going to help small businesses like I represent in Ohio to be able to get their line of credit to be able to buy goods for the spring and for the summer selling season? What has been done with the TARP money? Mr. Dimon, could I address that question to you?

Mr. DIMON. I think we put in the record a lot of what has been done with the TARP money. We have lent in the last 90 days I believe it was $250 billion; $90 billion to corporations, $50 billion to consumers, net and increased credit lines; $50 billion in interbank markets; $60 billion in the purchase of MBS or asset-backed securities. I do believe—and it is an estimate. I do believe that probably $75 billion of that would not have happened without the TARP money.
We are also a very large small business lender in Ohio. And I don't remember exactly the numbers, but I believe year over year small business loans are up in the Nation. I don't have Ohio's numbers. Government not-for-profit, hospitals, university lending is up year over year. And we will be happy to make all that part of the record.

<u>Question 15-</u>

Ms. SPEIER. There is a GAO report that just came out in December of 2008, and it talked about the number of the biggest financial institutions both in size and in their bailout receipts and that they maintain revenues in offshore tax haven countries where there are no or nominal taxes and minimal, if any, reporting. According to the Department of Treasury reports, the U.S. Government loses $100 billion a year in tax revenue from these tax dodges from all sources, including these firms. For instance, Citigroup claims 427 different overseas locations or tax jurisdictions, 90 in the Cayman Islands alone. And, by the way, you are receiving a 38 percent subsidy from the taxpayers right now. Morgan Stanley has 273 locations of which 158 or well more than half are in the Cayman Islands. Again, Morgan Stanley has about an 18 percent subsidy from the taxpayers right now. Are you willing to bring those offshore tax havens home to America?

Mr. MACK. Congresswoman, I would have to give you the exact details and come back to you. I think a number of those are either partnerships or vehicles we have made structured for clients or structured for an offshore business. I cannot give you the complete answer, but I will give you the answer when I return.

Ms. SPEIER. Thank you.

<u>Question 16-</u>

Mr. PETERS. Well, I want to follow up on that. And I appreciate both your comments, but is it possible to get numbers so I can just get a sense of how the loan volume is different in Michigan than other States? Would you both be willing to provide that information?

Mr. DIMON. Happy to be willing to do that, yes.

Mr. LEWIS. Yes.

Mr. PETERS. Mr. Lewis, as well. We will follow up on that.

Question 17

Mr. PETERS. Mr. Lewis, as well. We will follow up on that. I want to get back to the auto industry, because obviously we have a very strong concern in the auto industry. And, surely, the impact of the credit crisis has hit the auto industry more than most industries, and the repercussions could be dramatic, not just in Michigan, but all over the country. Millions of jobs are at stake. But also, if you look at the recovery of the economy, there isn't anything that is more powerful a stimulus in the economy than to get people buying automobiles, get the auto industry going. It has picked this country out of many recessions in the past, has the potential to do that again if managed well. And you know that right now we are in a very precarious situation. In fact, the auto companies will come back to this committee on February 17th with their viability plans, and a part of those plans have to be plans that they have made with the stakeholders, both labor as well as the creditors. How many of you are creditors to the auto industry, have substantial loans or substantial debt instruments of some form or another? Basically all of you, except Mr. Stumpf. Everybody has it. Well, then, how many of you have received proposals from the auto companies?

Mr. MACK. When you say proposals, requests?

Mr. PETERS. Proposals from the auto companies to restructure that debt, which, as you know, is a condition that has placed on it to have substantial concessions from debt holders to renegotiate that debt. How many of you have already received specific proposals from the auto companies?

Mr. MACK. Congressman, I would have to check. We have a very active dialogue with the auto industry. And I will check when I am back and let you know exactly.

Submission of Mr. Ronald Logue, State Street Corporation
Corrections to the Record and Responses to Questions for the Record in Relation to February 11, 2009 Hearing
House Financial Services Committee

Corrections to the Record

****Please see attached hearing transcript for further details.*

Page 39, line 859 --- change to "credit and liquidity to our core customer base of"

Page 101, line 2290 --- change to "We agree that anything that we can do to help in the area of mortgage foreclosure is good. However, we do think there are also consequences to the proposed legislation that may not be beneficial."

Page 123, line 2826 --- change to "Congressman, we have reduced our dividend to one cent."

Responses to Questions for the Record

Question 1. --- Mr. Bachus --- Qualification of borrowers

State Street is not in the retail or mortgage lending business.

Question 2. --- Mr. Guitierrez --- Fees paid to affiliates for TLGP debt issues

State Street does not act as an underwriter of securities, other than mutual funds that it manages. Consequently, State Street has not participated as an underwriter or dealer in the distribution of any securities guaranteed by the FDIC under the Temporary Liquidity Guarantee Program and has not received any underwriting fees or compensation either from its affiliates or any third party in connection with the distribution of such securities.

Question 3. --- Mr. Watt --- Too Big to Fail

State Street supports the establishment of a systemic risk regulator. If such a regulatory regime is proposed, State Street will review and anticipates that it will comment on the specifics of the proposal.

Question 4. --- Mr. Watt --- Size of stimulus bill

We believe the stimulus package recently passed by Congress will make a meaningful contribution to our economic recovery. It remains to be seen if this level of stimulus is optimal. Our economists estimate the stimulus package passed by Congress will increase GDP by 3/4% this year, and 1% next year. Whether that level of support is sufficient to prevent a prolonged economic downturn is difficult to ascertain at this time; however, we believe that doing too little is riskier than doing too much in the current environment.

Question 5. --- Mr. Ackerman --- Use of TARP funds

As we disclosed in our March 25, 2009 report to Treasury:

"After we received the CPP investment, we determined that the use of the funding that most directly reflected our role in the financial markets was to increase the level of available credit and liquidity that we provide to our fund customers, consisting of mutual fund, retirement fund and other institutional investors. In November 2008, State Street's Asset and Liability Committee set a target to increase credit facilities by $2 billion to these customers. Since October 1, 2008, $1.695 billion of fund facilities were approved and closed. As of February 28, 2009, an additional $1.301 billion of credit lines to fund customers have received internal credit approval and await completion of documentation. Equally important are the $3.441 billion of gross credit facility renewals for our fund customers that have been approved since October 1, 2008. These credit facilities provide consistent credit support to our existing fund customer base. Of these renewals, $770 million were approved in February 2009."

Question 6. --- Mr. Sherman --- Planes and perks

State Street does not own a private jet. We purchase limited hours for private jet flight via a company that brokers fractional ownership. The vast majority of business travel at State Street is conducted on commercial airlines.

Question 7. --- Mr. Meeks --- Minority / women owned underwriting

As of March 17, 2009, State Street has issued $3.95 billion in debt guaranteed by the FDIC's Temporary Liquidity Guarantee program. We allocated a portion of the underwriting business to minority- or women-owned firms.

Question 8. --- Mr. Lance --- Merrill Lynch bonuses

Not applicable to State Street.

Question 9. --- Mr. Capuano --- Credit Default Swaps (CDS)

In the past, State Street purchased a limited number of CDS issues to hedge risk of other holdings. We have also purchased CDS on behalf of investment management clients. We have not extended credit to customers for the purpose of investing in CDS.

Question 10. --- Chairman Frank --- Foreign competition for talent

In our experience, non-U.S. based employers pay compensation competitive with U.S.-based employers, both here and abroad. Our senior executives are highly trained and have skills and experiences that are highly valued in the marketplace. Many of our lines of business are in areas of the financial service business in which the skills and experience involved lead to high levels of compensation. We are concerned that undue constraints on compensation applied only to selected firms --- such as the recent Congressional limits on compensation for TARP recipients --- will negatively affect our ability to recruit and retain top talent. While it is too soon to demonstrate through empirical data, anecdotal evidence suggests that non-TARP industry competitors view the recently passed legislation as a recruiting opportunity.

In terms of cross-border compensation comparisons, industry data generally demonstrates compensation for U.S.-based and non-U.S.-based employees in the major financial markets is highly competitive. For example, according to a recent market survey, the total market-based compensation for a Head of Foreign Exchange Sales is 30% higher in the U.K. market than in the U.S. Assuming application of the recently enacted TARP executive compensation restrictions to this position, and assuming no change in base salary, the U.K. market compensation would be more than seven times the compensation that could be offered by the U.S. TARP recipient.

Question 11. --- Mr. Miller --- Competence of regulators to conduct stress testing

Yes, we believe our regulators have the expertise to conduct a stress test.

Question 12. --- Chairman Frank --- Warehouse lending

State Street does not offer "warehouse lending" services.

Question 13. --- Mr. Ellison --- Card check legislation

State Street is not involved in any industry or other efforts related to "card check" legislation.

Question 14. --- Mr. Wilson --- Ohio lending

State Street does not offer small business lending services in Ohio, or in any other market.

Question 15. --- Mr. Speier --- Offshore tax havens

Although State Street is not mentioned in the GAO report, the Company operates on a global basis, maintaining a network of overseas branches and affiliates that includes some of the jurisdictions considered by the GAO. State Street provides financial services to institutional investors, and does not offer bank accounts or other banking services to individuals, either in the U.S. or in offshore jurisdictions. State Street's clients are pension funds, investment funds, insurance companies and other investment pools, and are located in numerous jurisdictions worldwide. State Street's overseas network is necessary to meet the needs of its clients, as well as to comply with various regulatory requirements. State Street files annually with the IRS detailed financial reports about the activities and income of its foreign branches and affiliates.

Question 16. --- Mr. Peters --- Lending in Michigan

State Street does not provide small business lending services in Michigan, or in any other market.

Question 17. --- Mr. Peters --- Haircuts for loans to automakers

State Street has not received proposals to restructure auto company debt.

John J. Mack
Chairman and
Chief Executive Officer

1585 Broadway
New York, NY 10036
direct 212 761 7500
fax 212 761 9575

Morgan Stanley

March 30, 2009

The Honorable Barney Frank
Chairman
Committee on Financial Services
U.S. House of Representatives
2128 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Frank,

At the February 11, 2009, House Financial Services Committee hearing on "TARP Accountability: Use of Federal Assistance by the First TARP Recipients," you requested information regarding firms' warehouse lending practices, including those of Morgan Stanley. This letter is in response to that request.

Specifically, you raised some concerns about certain lenders cutting off their warehouse lending lines, thereby unexpectedly eliminating lines of credit relied upon by developers. We agree that this would pose a problem. However, the issue does not pertain to Morgan Stanley, as our last warehouse line was terminated by mutual agreement in January 2008.

We at Morgan Stanley laud the Committee's efforts to ensure that America returns to prosperity most expeditiously, and I appreciate the opportunity to share more with you about our company policies and practices.

Sincerely,

John J. Mack

John J. Mack
Chairman and
Chief Executive Officer

1585 Broadway
New York, NY 10036
direct 212 761 7500
fax 212 761 9575

Morgan Stanley

February 24, 2009

The Honorable Gary Ackerman
U.S. House of Representatives
2243 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Ackerman,

At the February 11, 2009, House Financial Services Committee hearing on "TARP Accountability: Use of Federal Assistance by the First TARP Recipients," you requested information regarding Morgan Stanley's use of the TARP funding that we have received. This letter is in response to that request.

As you know, Morgan Stanley was one of nine financial institutions initially selected by the Treasury Department to receive an injection of capital under the TARP Capital Purchase Program (CPP), which has since been extended to many other financial institutions. On October 26, 2008, we entered into an agreement with the Treasury Department, pursuant to which we sold preferred stock and warrants to the Treasury Department for an aggregate purchase price of $10 billion. Since then, we have been putting that money to good use by focusing on our core businesses, including helping companies raise debt and equity in the capital markets.

With the infusion of CPP funds, we were able to increase the total debt raised for clients as lead manager nearly four-fold from October to December 2008. During the fourth quarter of 2008, we helped our clients raise $56 billion in debt to invest in their businesses, including leading American companies like Pepsi and Time Warner Cable. We also helped clients raise $40 billion in equity to fund their businesses. And, we made $10.6 billion in new commercial loans.

Although our consumer lending business is on a much smaller scale than our capital markets and commercial lending business, we also expanded our retail banking solutions for our clients. We made approximately $650 million in new commitments to lend to consumers during the last three months of 2008, a majority of which were for financing or re-financing residential and commercial real estate and capital for small businesses, at a time when traditional sources of capital were difficult to secure.

Some of the highlights of our major transactions during the fourth quarter of 2008 include:

- Debt Underwriting. Morgan Stanley underwrote approximately 10 percent of U.S. dollar denominated debt in October 2008 -- a 274 percent increase over the prior month --primarily as a result of our role in major issuances for Pepsi ($3.3 billion) and Verizon Communications ($3.3 billion). We then increased our debt underwriting by another 62 percent in November 2008, including $2 billion for Time Warner Cable, $3.5 billion for Verizon Wireless and $3 billion for BP Capital Markets.

- Equity Underwriting. Morgan Stanley assisted clients in raising nearly $17 billion in equity capital in October 2008, another $13.5 billion in November, and $10 billion in December. We underwrote the largest transactions of the month in both October and November: a $12 billion issuance for GE in October and a $13 billion offering for Wells Fargo in November.

- Commercial Lending C&I. Despite a challenging environment for the non-investment grade commercial lending market, Morgan Stanley approved $10.6 billion in new loans for the fourth quarter of 2008.

We understand that the American people are concerned that the financial institutions that have received capital under the TARP program are using these funds wisely. Accordingly, we have taken steps to ensure that Morgan Stanley is a responsible steward of the public's investment in our business. We at Morgan Stanley laud the Committee's efforts to ensure that America returns to prosperity most expeditiously, and I appreciate the opportunity to share more with you about our role in the TARP program and how we are using the capital we received.

Sincerely,

John J. Mack

John J. Mack
Chairman and Chief Executive Officer

1585 Broadway
New York, NY 10036
direct 212 761 7500
fax 212 761 9575

Morgan Stanley

March 13, 2009

The Honorable Michael E. Capuano
U.S. House of Representatives
1414 Longworth House Office Building
Washington, DC 20515

Dear Congressman Capuano,

At the February 11, 2009, House Financial Services Committee hearing on "TARP Accountability: Use of Federal Assistance by the First TARP Recipients," you requested information regarding Morgan Stanley's involvement in the credit default swap market. This letter is in response to that request.

Specifically, you asked us whether we engage directly in the credit default swap market or engage indirectly by loaning money to others who invest in credit default swaps. Morgan Stanley directly engages in the purchase and sale of credit default swaps. Morgan Stanley also loans money to clients whom we believe use that money, at least in part, to transact in credit default swaps.

We at Morgan Stanley appreciate the opportunity to share more with you about our efforts in the credit markets and our role in the TARP program.

Sincerely,

John J. Mack

John J. Mack
Chairman and
Chief Executive Officer

1585 Broadway
New York, NY 10036
direct 212 761 7500
fax 212 761 9575

Morgan Stanley

March 5, 2009

The Honorable Gary Peters
U.S. House of Representatives
1130 Longworth House Office Building
Washington, DC 20515

Dear Congressman Peters,

At the February 11, 2009, House Financial Services Committee hearing on "TARP Accountability: Use of Federal Assistance by the First TARP Recipients," you requested information regarding whether Morgan Stanley has received any proposals to restructure company debt from any of the auto companies that have received government assistance. This letter is in response to that request.

With respect to Chrysler, Morgan Stanley is one of a large number of senior secured lenders under the Company's $7,000,000,000 Amended and Restated First Lien Credit Agreement. JPMorgan Chase Bank, N.A., is Administrative Agent under the Credit Agreement, Goldman Sachs Credit Partners L.P., and Citibank, N.A., are syndication agents and Morgan Stanley Senior Funding, Inc., is the documentation agent. In Chrysler's summary viability plan submitted to the Treasury on February 17, Chrysler indicates that it has engaged in discussions with its creditor groups (including Chrysler's senior secured lenders) and, in order to affect its proposed restructuring plan, it will require a $5 billion reduction of obligations from its creditors. At the appropriate time, Morgan Stanley anticipates participating in a dialogue with Chrysler and other parties concerning these matters.

As your inquiry pertains to General Motors, Morgan Stanley is advising General Motors on its debt restructuring, and accordingly, maintains a unique position with respect to this company and its obligations. In this role, Morgan Stanley continues to utilize its considerable experience in the debt markets to help General Motors attain long-term viability.

We, like you and the American people, are concerned about the health of the American economy and the core businesses that drive it, and I appreciate the opportunity to share more with you about our role in this process.

Sincerely,

John J. Mack

John J. Mack
Chairman and
Chief Executive Officer

1585 Broadway
New York, NY 10036
direct 212 761 7500
fax 212 761 9575

Morgan Stanley

March 30, 2009

The Honorable Brad Sherman
U.S. House of Representatives
2242 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Sherman,

At the February 11, 2009, House Financial Services Committee hearing on "TARP Accountability: Use of Federal Assistance by the First TARP Recipients," you requested a written "statement about planes and perks."

Morgan Stanley has a board-approved policy that directs the chairman and chief executive officer to use company aircraft when traveling by air whenever feasible. I have informed the Board that going forward I will reimburse Morgan Stanley for the personal use of the company aircraft up to the maximum amount permitted by federal aviation requirements.

Morgan Stanley provides the following limited personal benefits to certain of our executive officers named in the 2009 annual proxy statement: home security (CEO only); personal use of car (CEO only); overseas assignments/transfers; and a written agreement with a senior officer to provide reimbursement of reasonable commuting and related personal and tax expenses in connection with travel between his home in Washington, DC and our offices in New York. We believe these benefits are necessary for competitive and security reasons.

We understand that the American people are concerned that financial institutions receiving capital under the TARP program use these funds wisely. As a participant in the TARP Capital Purchase Program, Morgan Stanley acknowledges its responsibilities to both its shareholders and the American taxpayers. We support the Committee's efforts to expeditiously return America to prosperity and will continue to help work toward that goal.

Sincerely,

John J. Mack

John J. Mack
Chairman and
Chief Executive Officer

1585 Broadway
New York, NY 10036
direct 212 761 7500
fax 212 761 9575

Morgan Stanley

March 5, 2009

Representative Jackie Speier
211 Cannon House Office Building
Washington, DC 20515

Dear Representative Speier,

Thank you for the opportunity to respond in writing to your question. As you may be aware, there has been some confusion and controversy regarding the GAO's report. The Treasury Department, for instance, has recently provided a detailed letter to the GAO expressing concerns and reservations about a number of countries that it believes may inappropriately be listed as "tax havens" or "financial privacy jurisdictions." I don't want to wade into the debate about the GAO's methodology, but can tell you this: Morgan Stanley has always been and remains committed to fully meeting its U.S. tax obligations.

With respect to your specific concerns, I have asked our tax department to review the GAO's report as it related to 273 Morgan Stanley subsidiaries. My understanding is that more than 85 percent of the income of those subsidiaries was earned and taxed in important foreign financial centers, such as Hong Kong and Singapore, where we have substantial business operations and nearly 2,000 employees. The vast majority of the remaining income earned by those subsidiaries -- including many in the Cayman Islands -- was subject to current taxation in the United States or other higher tax jurisdictions. As a result, we believe the GAO's concerns about offshore tax haven abuse is misplaced, at least with respect to Morgan Stanley.

I hope that this information is helpful and that it fully answers your question.

Sincerely,

John J. Mack

John J. Mack
Chairman and
Chief Executive Officer

1585 Broadway
New York, NY 10036
direct 212 761 7500
fax 212 761 0575

Morgan Stanley

March 13, 2009

The Honorable Luis V. Gutierrez
U.S. House of Representatives
2266 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Gutierrez,

At the February 11, 2009, House Financial Services Committee hearing on "TARP Accountability: Use of Federal Assistance by the First TARP Recipients," you requested information regarding our involvement in the government-sponsored bond market. This letter is in response to that request.

During the period October 2008 through February 2009, Morgan Stanley participated as an underwriter in approximately $18.5 billion in government-sponsored Morgan Stanley bond issuances. With respect to these self-issuances, we paid third-party underwriters approximately $14.6 million. There were no internal fees paid, to our investment banking division or otherwise, on these Morgan Stanley government-sponsored bond issuances.

We understand that the American people are concerned that the financial institutions that have received capital under the TARP program are using these funds wisely. Accordingly, we have taken steps to ensure that Morgan Stanley is a responsible steward of the public's investment in our business. We at Morgan Stanley laud the Committee's efforts to ensure that America returns to prosperity most expeditiously, and I appreciate the opportunity to share more with you about our role in the TARP program.

Sincerely,

John J. Mack

Vikram S. Pandit
Chief Executive Officer

Citigroup Inc.
399 Park Avenue
New York, NY 10022

Tel 212 793 1201
Fax 212 793 9007
vikram.pandit@citi.com

citi

March 24, 2009

VIA EMAIL AND BY FACSIMILE

Thomas G. Duncan, Esq.,
General Counsel
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC, 20515

RE: **Additional Questions Submitted for the Record, Hearing of February 11, 2009**

Dear Mr. Duncan,

This letter responds on behalf of Citigroup Inc. ("Citi") to your letter of March 4, 2009, in which you requested responses to additional questions submitted for the record from members of the Committee on Financial Services following its hearing entitled *"TARP Accountability: Use of Federal Assistance by the First TARP Recipients."*

I would like once again to thank Chairman Frank, Ranking Member Bachus and Members of the Committee for the opportunity to explain how Citi is putting the TARP capital investment it received from the Department of Treasury to work in the interests of U.S. consumers and businesses and the overall economy.

Below, please find responses to the Committee's additional questions:

Q 1 – I have one question, one urging. I hear from responsible borrowers who are not in default and who are paying their payments on time, their interest payments in some cases, that their principal is being called, they are asked to do a 10 percent call down on their principal, or that their credit lines are being restricted. And I know, in some cases, that this is probably a good lending practice because you are seeing some deterioration. But I would ask you, can we do a better job in that? And can the regulators assist you in that, or is there something that we can do to avoid those cases?

Citi continues to lend responsibly to individuals, based on their creditworthiness. New U.S. consumer lending in the fourth quarter of 2008 totaled approximately $48.7 billion, despite a decline in consumer spending, tighter underwriting standards across the U.S. banking industry in light of the deteriorating credit environment and capital considerations. We also continue to work with borrowers who remain in good standing to provide them with the credit for which they are eligible. Because the U.S. economic outlook remains weak, we are proactively reaching out to borrowers who remain current but who are potentially at risk of defaulting on a mortgage, credit card or other consumer loan. In these cases, we are making sure that customers understand the options that are available to them – in terms of mortgage loan modification and other forbearance programs with expanded eligibility – if they are in danger of facing economic hardship.

These programs are clearly working. For example, Citi's most recent Mortgage Data report shows that the company's loss mitigation successes outnumbered foreclosures completed by a ratio of more than six to one in the fourth quarter of 2008. Working with individual homeowners, we have taken interest rates down, extended maturities and forgiven principal that might be too high for people.

In addition, we are rolling out new and incremental programs that will offer manageable terms to card members who are having financial difficulty to help them pay down their debt. For example, Citi is offering new forbearance programs with broadened eligibility criteria, affecting accounts in earlier stages of delinquency. We're working with an increasing number of customers to help them manage their credit card finances, including more than 350,000 people who entered Citi Card forbearance programs in the fourth quarter of 2008.

I believe that Congress and the Obama Administration are taking critically important actions to shorten the recession and lessen its painful impact on all Americans through, among other things, TARP and the Financial Stability Plan, the Federal Reserve's monetary policy, TALF and the FDIC's funding guarantee program. Citigroup supports these efforts.

Q2 – Let me just say to all eight of you that are here before us this morning, I would like for all of you to just kind of put in writing so that we could have it on the record – and I don't expect the answer here this morning – if each of you could just tell us how much your bank has paid itself on FDIC-guaranteed or other government-guaranteed financing, and what percentage of those finances were completed solely for the purpose of funding your bank. An example: I won't name the bank, but you go out and you take $3 billion in one deal, and you go out with FDIC insurance, and you go to the market and you sell $3 billion worth of bonds in order to give yourself more liquidity. And they are FDIC-insured... Are you then paying your own investment banking firm? And how much are you paying your own staff, in terms of underwriting fees for selling what a kindergartner could sell out in the market today?

Citi has issued $20.6 billion in FDIC-guaranteed financings to date under the Temporary Liquidity Guarantee Program (TLGP). Of a total of $52.6 million in underwriting fees paid on these transactions as of March 23, 2009, Citi has earned $42.2 million. The fees paid for underwriting services on these transactions are comparable among issuers/underwriters.

Of the $20.6 billion in FDIC-guaranteed financings, the full amount was for the benefit of Citigroup and its subsidiaries, although none was issued directly by our primary bank, Citibank, N.A.

In addition, Citigroup Funding Inc. has issued $50.8 billion in commercial paper guaranteed under TLGP through March 18, 2009 (of which $23 billion was still outstanding on that date.) Citi earned $2.11 million in fees for the distribution of this commercial paper to investors.

Q3 – If you were asked to take TARP money, then you probably fit into the category of too big to fail... So I guess my question is, whether in that context, an ever more aggressively regulated framework for larger banks, and maybe even not only banks but institutions that have systemic risk potentials, might be appropriate? What is your assessment of that?

I recently spoke at the London School of Economics on regulatory reforms and addressed the principles I believe are important in establishing an enhanced regulatory structure.

In my speech, I stated that we need to dramatically rethink our global financial architecture. Until now, we have been riding on a high-speed train, but on rails laid more than 60 years ago for a simpler, slower-paced world. Government regulatory mechanisms and private sector managers had capacity limitations that could not handle the rapidly accelerating pace and volume of new financial products being pushed through the system. We have also seen in times of stress that just about any meaningful financial institution is systemically important. This new global financial and regulatory structure must therefore cast a very wide net around many financial institutions and activities.

I believe, along with many others directly involved, three issues are critical for the creation of a 21st century global regulatory system:

- A regulatory structure that will allow markets to clear efficiently;
- A financial architecture that can truly optimize global GDP growth; and,
- Global coordination.

First, in order to create an effective, truly global regulatory system for 21st century financial markets, we need a regulatory structure with: (1) greater transparency that will allow markets to function as efficiently as possible on their own; (2) a level playing field based on a system of uniform and consistent measurement that is globally applied to support stable markets that encourage investment, innovation and growth; and (3) an overarching systemic regulatory supervisor to ensure better oversight and management of global risks.

We also need to identify and apply the requirements for a global financial architecture that will help drive global GDP growth. The goal is to design a system that will allow markets to clear and to establish a safety net for the wholesale funding markets required to help drive global GDP growth.

Finally, all of this will require global coordination. The principles of global coordination we need to adhere to include uniformity of approaches to market structure; strong linkages between central banks throughout the world; well-capitalized clearing houses throughout the world; and consistent rules for capital, accounting, foreign exchange, etc. which promote global capital flows without hindrance. I agree with many conclusions by the G20 and by leading scholars, government officials and private sector experts elsewhere who call for enhancing the strengths of existing international institutions such as the IMF, the Financial Stability Forum, the World Bank and others.

Q4 – Let me ask one other question going back to credit card risk and the impact on the economy in general. Is your all's estimate that the size of this stimulus is sufficient to serve the purpose for which it is being represented?

I believe that Congress and the Obama Administration are taking critically important actions to shorten the recession and lessen its painful impact on all Americans by creating a stimulus package designed to address the sharp slowdown in the economy and rising unemployment. Citigroup supports these efforts.

Q5 – Could you each send us in writing what you did with all of those billions of dollars that you got? ... Could each of you go down the line and just give us a number, how much of your personal money you have invested in your company in new money during the last six months?

Citi is committed to putting TARP funds to work promptly, prudently, and transparently to increase available lending and liquidity.

On February 3, 2009, Citi released its TARP Progress Report for Fourth Quarter 2008 (the "Report"), which details the activities Citi has undertaken in connection with the TARP program and is available to the public on our Web site. Citi was the first major financial institution to publish such a report, a copy of which is attached. In the fourth quarter of 2008, Citi authorized initiatives to deploy $36.5 billion across five areas to help expand available credit for people and businesses and support the recovery of the U.S. economy:

- U.S. residential mortgage activities – $25.7 billion
- Personal and business loans – $2.5 billion
- Student loans – $1 billion
- Credit card lending – $5.8 billion
- Corporate loan activity – $1.5 billion

Citi will update the Report each quarter and post it on our Web site.

With respect to my personal investment in Citigroup, as I answered at the hearing, during the past six months I have invested $8.4 million in the Company's common stock.

Q6– I would like you to provide for the record a detailed statement about planes and perks, but for now I would like you to raise your hand if your company currently owns or leases a private plan.

Citi owns 5 aircraft, and we currently have 3 of these aircraft up for sale. We will not increase the number of aircraft we own while we are participating in the TARP capital program. We maintain a policy governing the use of our aircraft that restricts use to a limited number of executives.

Citi continually reviews its benefits policies to ensure that they are competitive, appropriate and consistent with the environment in which we operate. As set forth in the Summary Compensation Table of our preliminary proxy statement for 2008, Citi's Named Executive Officers received personal benefits in 2008 only with respect to ground transportation. They also received 401(k) plan matching contributions pursuant to the formula available to all eligible U.S. employees.

Q7 – I am talking now specifically about the TARP and/or the FDIC Temporary Liquidity Guarantee Program and the fees that would be utilized by underwriters therein. I think that Mr. Pandit talked earlier about that; the money that is legal, that you have to – by law you have to have it underwritten. My question is there is also opportunities there for it to be farmed out to others or contracted out to other minority firms or small firms, and I was wondering if anyone has done it with any of those fees specifically, with public dollars.

Citi has issued $20.6 billion in FDIC-guaranteed financings to date under the Temporary Liquidity Guarantee Program (TLGP). Of a total of $52.6 million in underwriting fees paid on these transactions through March 23, 2009, a total of $1.8 million was paid to 10 minority-owned firms. This amount represents the relative participation of the minority firms in the distribution of the FDIC-guaranteed securities.

Q8 – And following up on a line of questioning from Congresswoman Maloney earlier in the hearing. And this is to you, Mr. Lewis. And I recognize that you are Bank of America and not Merrill Lynch, and there was a great deal of pressure on Bank of America to merge with Merrill Lynch, but we are all disturbed about the level of bonuses from Merrill Lynch. Was Bank of America aware of the contractual nature of those bonuses? ... And are those contracts a matter of public record, or can they be made a matter of public record?

Not applicable.[1]

Q9 - Gentlemen, you have been asked a lot of questions, and you seemingly answer them honestly to me. I have a couple of more detailed questions. Just by a show of hands, how many of your banks either directly or indirectly – and by indirectly I mean by loaning money to people that you knew would be using this money to invest in credit default swaps. How many of you engage in that?

Citi makes markets in and trades credit default swaps, both on behalf of clients as well as for its own account. Citi uses credit default swaps to help mitigate credit risk in its corporate loan portfolio and other cash positions, to take proprietary trading positions, and to facilitate client transactions. In addition, financing provided by Citi to certain customers may be used in connection with their credit default swap activities.

Q10 – I understand the argument that you make about foreign competition. It has been my impression that people here have generally been better compensated than people these other countries. So I would ask you to submit to me some cross-national comparisons. I am, frankly, skeptical from what I have seen that they are paying so much more in other places. Certainly not at your level. You are going to have to prove to me that you are really at risk there if there is some moderation.

At Citi, we have started to make changes in our remuneration structure to make sure that compensation is not excessive and that we are compensating employees based on long-term value creation for shareholders. We intend to be an active participant in the discussion of the way forward on compensation in our industry, recognizing that these are complex issues.

We are extremely concerned about the severe impact current legislative proposals on compensation and bonuses, if approved by Congress, would have on Citi as a TARP capital recipient. We believe the proposed limitations on bonus payments would dramatically reduce our ability to retain and hire the talent we need to strengthen our company and return to profitability.

While we need to rethink compensation, the United States is the world's financial capital and we have to make sure that the American financial services industry remains competitive internationally. The decisions we take now will determine how our industry looks when the economic downturn is over – and for decades to come. Some of those decisions are about compensation.

Top performers at U.S. banks are already leaving to work for foreign competitors and domestic companies which have not received TARP capital. At Citi, we are now seeing the departure of talented employees at the Managing Director and Director level to foreign competitors to work at their U.S. locations or overseas. These departing employees include a significant proportion of people whose total annual compensation is in excess of $1 million. In a number of cases, individuals have cited increases of 30 percent or more in their compensation.

This trend is noticeable at Citi not only in business areas such as banking and markets but also functional areas such as finance, operations and technology, and compliance, where some top performing employees are leaving the financial services sector. The trend is also impacting talent recruitment, where prospective employees have cited concerns over the compensation outlook in rejecting offers from Citi.

[1] Addressed to Kenneth Lewis of Bank of America

It is clear that our foreign competitors see the present situation as an opportunity to hire away talented individuals. Josef Ackermann, the chief executive officer of Deutsche Bank, has remarked that "if you are only going to be able to pay a $500,000 bonus, I think talent will be happy to work for us. At the end of the day, this is a people business, about who has the best talent." (*Financial Times*, "Deutsche Bank woos US bankers," 02/05/2009)

I would also draw your attention to an article on February 6 in *USA Today* ("Executive pay cap could have unintended consequences.") in which Alan Johnson, an independent compensation consultant of Johnson Associates, Inc. in New York is quoted as saying: "The unintended consequence [of compensation limits] is you end up killing the institution you tried to save. You drive away the good people."

On behalf of all the owners of Citi, we have to make sure that we have the best people in the right places, doing the right things to help create value for all our shareholders and in doing so contribute to the recovery of the U.S. economy.

Q11 –Do your current safety and soundness regulators have the capacity, the sophistication, the expertise, to do a credible stress test, or what do we need to do to make sure that any stress test is credible and we know that any bank that gets a clean bill of health is in fact safe and sound?

We believe that the Supervisory Capital Assessment Program (SCAP) is a sound and robust framework from which to begin the process of assessing the sufficiency of capital in banking institutions. The development of a stress testing framework and its application to a variety of institutions, with different business models and portfolio exposures, is a complex undertaking. The Supervisors have created an outline of requirements that ensures each institution captures material and significant exposures within a defined set of assumptions, while also allowing us to utilize in-house analytics and expertise to produce timely results.

We have already begun the process of reviewing our results and the underlying analytical processes with the SCAP supervisory representatives and our own on-site supervisory examination teams. This discussion is a natural extension of the ongoing dialogue we have with our on-site examination teams on our own stress testing processes and results. Further dialogue on the stress test results with subject matter experts from across the supervisory agencies is critical to understanding the robustness of an institution's process, and the validity of their estimates.

Q12 – Let me say, and I appreciate the gentleman raising that, I would ask that you give us in writing a response, because the gentleman raises a very important question. I will tell you, we hear a lot of this from our colleagues. It is the cutting off of the warehouse lending relationship in the middle of the movie, when there is inventory of some kind that was going to be financed by the warehouse lending and is cut off. I would ask that you talk to your people and give us answers in writing, and I would hope the answer would be that, well, yes, that is a problem, and even if we don't want to take open any new commitments, we will allow for the orderly winding down of the existing commitments.

CitiMortgage operated a warehouse lending facility (First Collateral Services) until October 2007, when we made an economic, risk-based and strategic decision to place the facility in a wind-down mode. The facility was officially closed in December 31, 2008.

As was the case for many other credit providers, capital and liquidity became extremely scarce when the secondary market for mortgage backed securities seized up in August 2007. Our exit was based on a number of factors, including 1) economic and credit risks associated with banking unsalable loans; 2) diminishing investor demand resulting in significantly reduced asset values; 3) rapidly changing underwriting terms and parameters; and 4) capital constraints within Citi.

Our orderly 15-month wind-down ensured that we honored all existing pipeline and loan term commitments to clients. We extended terms beyond our contractual obligations to lenders needing to secure additional credit facilities, and we retained staff throughout the period to help lenders secure alternative credit lines where possible.

Q13 - Do you think it is appropriate while in receipt of TARP funds to be trying to defeat measures such as the Employee Free Choice Act?

Not applicable.[2]

Q14 – What have we done to restore the confidence in the financial community that is going to help small businesses like I represent in Ohio to be able to get their line of credit to be able to buy goods for the spring and for the summer selling season? What has been done with the TARP money? Mr. Dimon, could I address that question to you?

Not applicable.[3]

Q15 – There is a GAO report that just came out in December of 2008, and it talked about the number of the biggest financial institutions both in size and in their bailout receipts and that they maintain revenues in offshore tax haven countries where there are no or nominal taxes and minimal, if any, reporting. According to the Department of Treasury reports, the U.S. Government loses $100 billion a year in tax revenue from these tax dodges from all sources, including these firms. For instance, Citigroup claims 427 different overseas locations of tax jurisdictions, 90 in the Cayman Islands alone. And, by the way, you are receiving a 38 percent subsidy from the taxpayers right now. Morgan Stanley has 273 locations of which 158 or well more than half are in the Cayman Islands. Again, Morgan Stanley has about an 18 percent subsidy from the taxpayers right now. Are you willing to bring those offshore tax havens home to America?

Citigroup is one of the largest international financial services firms in the world, operating in more than 100 countries. In a typical year prior to the economic downturn, Citigroup paid several billion dollars of income tax to the U.S. government. For example, for its 2005 and 2006 originally filed tax returns, Citigroup paid over $10 billion in aggregate to the U.S. government, making Citigroup one of the largest taxpayers in the United States. With respect to the 427 subsidiaries mentioned in the Hearing, most of these entities are special purpose entities with no, or virtually no, income and were set up for various legal structuring purposes and not for tax purposes.

As background, the GAO report defines "tax havens" very broadly. For example, countries such as Hong Kong, Ireland, Singapore and Switzerland are all included in their definition. These are locations where Citi has been in business for many years and has thousands of employees and customers. Also, Citi appears to have an especially large number of subsidiaries in these "tax haven" jurisdictions due a difference in public reporting methodology – Citi reports a list of all subsidiaries, no matter how insignificant, and other non-banking companies only report smaller lists of "significant subsidiaries."

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[2] Addressed to Kenneth Lewis of Bank of America
[3] Addressed to James Dimon of JPMorgan Chase & Co

Q 16 (– I appreciate both your comments, but is it possible to get numbers so I can just get a sense of how the loan volume is different in Michigan than other States? Would you both be willing to provide that information?

Not applicable.[4]

Q17– How many of you are creditors to the auto industry, have substantial loans or substantial debt instruments of some form or another? Basically all of you, except Mr. Stumpf. Everybody has it. Well, then, how many of you have received proposals from the auto companies ... proposals from the auto companies to restructure that debt, which, as you know, is a condition that has placed on it to have substantial concessions from debt holders to renegotiate that debt? How many of you have already received specific proposals from the auto companies?

Citigroup has provided extensive and wide-ranging support to the U.S. auto industry, including to Chrysler, Ford, and GM, as well as to parts suppliers, automotive finance companies, car rental companies, and individual consumers. This support has come in the form of direct loan facilities, receivable securitizations, hedging facilities, cash management lines, loans and leases to consumers, and direct equity investments. It should be noted that in certain circumstances we significantly increased our lending to the finance arms of these companies to enable consumers to purchase cars when the securitization market for these consumer loans was no longer available.

For the past several years, as the U.S. auto industry has come under increasing stress, we have been in constant dialogue with our customers to provide capital in ways that protect both borrowers and investors. We expect this process to continue as the industry moves through this period of transition.

Rep. J. Gresham Barrett (SC-3)

Financial Services Committee Hearing
"TARP Accountability: Use of Federal Assistance by the First TARP Recipients"
Wednesday, February 11, 2009

Vikram Pandit, CEO, Citigroup

- *What was Citigroup's peak leverage ratio over the past 4 years?*
- *What was Citigroup's peak leverage ratio at any point over the past 4 years when its assets were performing as normal?*
    - *In hindsight, do you believe that Citigroup was overleveraged at any point over the past 4 years before the values of assets in its portfolio began generally to fall?*
    - *If so, what prompted Citigroup to reach that leverage ratio? Did Citigroup take any steps to deleverage at that time?*

Citi was "well capitalized" under federal bank regulatory agency definitions in each of the past four years.

Under these definitions, to be considered "well capitalized" a bank holding company must have a Leverage Ratio of at least 3 percent, and not be subject to a Federal Reserve Board directive to maintain higher capital levels. As disclosed in Citi's 2008 Form 10-K, its Regulatory Leverage

[4] Addressed to James Dimon of JPMorgan Chase & Co and Kenneth Lewis of Bank of America

Ratio was 5.35 percent as calculated at December 31, 2008, 5.16 percent in 2007, 4.03 percent in 2006 and 6.08 percent in 2005.

Citi's Regulatory Leverage Ratio at December 31, 2008 benefited from the recent U.S. Government TARP investments as well as from a reduction in the size and composition of the Company's balance sheet under a program designed to reduce exposure to certain assets.

The Leverage Ratio is calculated by dividing Tier 1 Capital by leverage assets – defined as each year's fourth quarter adjusted average of total assets net of goodwill, intangibles and certain other items as required by the Federal Reserve.

- *What was the maximum rate of asset non-performance that Citigroup's portfolio was designed to withstand before causing problems with its capital ratios?*
    - *Was this rate exceeded?*
    - *If so, when did you know that this rate was exceeded?*

The Company believes that effective risk management is of primary importance to its success and, as stated above, Citi was "well capitalized" under federal bank regulatory agency definitions in each of the past four years.

Citi has a comprehensive risk management process to monitor, evaluate and manage the principal risks it assumes in conducting its activities. These risks include credit, market, liquidity and operational, including legal and reputational, exposures.

The Chief Risk Officer monitors and controls major risk exposures and concentrations across the organization. This means aggregating risks, within and across businesses, as well as subjecting those risks to alternative stress scenarios in order to assess the potential economic impact they may have on the Company.

During 2008, comprehensive stress tests were implemented across Citi for mark-to-market, available-for-sale, and accrual portfolios. These firm-wide stress reports measure the potential impact to the Company and its component businesses of very large changes in various types of key risk factors (e.g. interest rates, credit spreads), as well as the potential impact of a number of historical and hypothetical forward-looking systemic stress scenarios.

The stress testing exercise is a supplement to standard limit-setting and risk capital exercises, as these processes incorporate events in the marketplace and within Citi that impact our outlook on the form, magnitude, correlation and timing of identified risks that may arise.

- *How was Citigroup exposed to the holdings of other financial institutions?*
    - *How did Citigroup hedge against the nonperformance of assets held by other financial institutions?*

Citi, with its global reach and broad product offering, undertakes a diversified and significant amount of activities with other financial institutions, particularly in our global transaction services and capital markets businesses. This includes cash and securities clearing, traditional lending, counterparty capital markets activities including foreign exchange, derivatives - credit default, interest rate and currency swaps, commodity-based products, and secured financings - repurchase agreements and securities lending.

Citi uses a variety of techniques and financial instruments to manage its exposures to financial institution counterparties. In connection with our capital markets businesses with financial institutions, most of our business is covered under daily margining agreements with tight terms. In distress situations or with higher risk names, we require initial upfront margining/haircuts. Risk Management also considers the following risk mitigants: netting; re-couponing; dynamic hedging; and mandatory and optional early termination agreements. In the capital markets business, we have also taken upfront collateral in distress situations in support of accepting assignments and novations of trades from third parties. For the loan book, in addition to the covenant package which would be included in each deal, similar to our approach with the corporates, we hedge our exposure with the purchase of credit default swaps ("CDS"). CDS purchases are typically done on either a portfolio basis or one-off single name purchases. On the cash and securities clearing business, we monitor intra-day line usage closely. In distress situations, we tighten lines and will ask clients to prefund their accounts above certain levels of exposures. Should the situation become of greater concern, we require the client to provide collateral in order to facilitate our ongoing cash and securities services.

- *How much did your predecessor at Citigroup rely on the rating agencies in Citigroup's risk management processes?*
    - *In hindsight, do you believe that Citigroup was over-reliant on the ratings provided by the rating agencies for its risk management processes?*

From a credit risk standpoint, Citi has long relied on its own internally-developed risk rating processes to assess the creditworthiness of institutional and corporate customers. The maintenance of accurate and consistent risk ratings across the corporate credit portfolio facilitates the comparison of credit exposure across all lines of business, geographic regions and products.

Obligor risk ratings reflect an estimated probability of default for an obligor and are derived primarily through the use of statistical models (which are validated periodically), external rating agencies (under defined circumstances), or approved scoring methodologies. Facility risk ratings are assigned, using the obligor risk rating, and then factors that affect the loss given default of the facility, such as support or collateral, are taken into account.

For the rated bond positions in trading portfolios, Citi, like most of its peers, utilized rating agency ratings as a metric to establish concentration limits across bands of issuer quality. Enhancements are under way to supplement existing risk metrics and the information available to business and risk managers. This includes work in the wholesale businesses to better link risk measures and P&L volatility.

I trust that the answers above are responsive to the Committee's questions.

Please do not hesitate to contact me directly if you have any further questions.

Sincerely,

WHAT CITI IS DOING TO EXPAND THE FLOW OF CREDIT, SUPPORT HOMEOWNERS AND HELP THE U.S. ECONOMY

TARP PROGRESS REPORT FOR FOURTH QUARTER 2008

FEBRUARY 3, 2009

A MESSAGE FROM VIKRAM PANDIT
CHIEF EXECUTIVE OFFICER, CITI

The United States Government has made a significant investment in major financial institutions, including Citi, under the Troubled Asset Relief Program (TARP). Citi understands that TARP is about helping the American people, and supporting U.S. businesses and our communities. Our responsibility is to put these funds to work quickly, prudently, and transparently to increase available lending and liquidity.

This report is the first that we will publish about the activities we are undertaking in connection with the TARP program. It also explains the many other steps Citi is taking to assist American families and individuals who face financial hardship or are at risk of losing their homes.

We will update this report each quarter, following our quarterly earnings announcement, and it will be posted at www.citigroup.com.

Separately from our initiatives under TARP, Citi continues to lend to clients and customers as part of our ongoing business. In the fourth quarter of 2008, we extended approximately $75 billion in new loans to people and businesses in the United States.

Shortly after Citi received TARP capital late last year, we created a Special TARP Committee of senior executives to approve, monitor and track how we use it. The Committee has established specific guidelines, which are consistent with the objectives and spirit of the Treasury investment program.

We will use TARP capital only for those purposes expressly approved by the Committee. TARP capital will not be used for compensation and bonuses, dividend payments, lobbying or government relations activities, or any activities related to marketing, advertising and corporate sponsorship.

In the fourth quarter of 2008, the Committee considered numerous proposals and authorized initiatives to deploy $36.5 billion across five areas to help expand available credit for people and businesses and support the recovery of the U.S. economy.

These investments, combined with the wide range of other initiatives detailed in this report, are central to Citi's effort to address the pressures on individuals, families and businesses created by this very difficult economy.

In this first stage, we are putting capital to work in the following areas:

- **U.S. residential mortgage activities ($25.7 billion)**
- **Personal and business loans ($2.5 billion)**
- **Student loans ($1 billion)**
- **Credit card lending ($5.8 billion)**
- **Corporate loan activity ($1.5 billion)**

We also continue to focus on supporting the U.S. housing market:

- Since the start of the housing crisis in 2007, we have worked successfully with approximately 440,000 homeowners to avoid potential foreclosure on combined mortgages totaling approximately $43 billion. Last year, we kept approximately four out of five distressed borrowers with mortgages serviced by Citi in their homes.

- We are adopting the FDIC's streamlined model for post-delinquency loan modification programs. And, through the Citi Homeowner Assistance Program, we continue to reach out to families and individuals who may be experiencing some form of economic stress despite being current on their payments.

- We are also continuing our foreclosure moratorium for eligible borrowers with Citi-owned mortgages who work with us in good faith to remain in their primary residence and have sufficient income to make affordable mortgage payments.

- To ensure that our efforts have the broadest possible impact, Citi has worked with investors and owners of more than 90 percent of the 4.3 million mortgages we service – but do not own – so that many more qualified borrowers can also benefit from this moratorium.

In addition, as municipal bond underwriters, we are working with state and local governments to help them in these difficult times, and we continue to help U.S. corporations find sources of new capital to fund their businesses through our underwriting of debt and equity offerings.

The Government, on behalf of American taxpayers, has invested in Citi. We have an obligation to repay that confidence in ways that go well beyond the $3.41 billion that Citi will pay the Government each year in dividends associated with its TARP investment and a separate loss sharing agreement.

We will continue to work in partnership with the Government to help put the economy back on track. As we work to expand the flow of credit and as confidence begins to return to the financial system and the U.S. economy overall, we will continue to evaluate our use of TARP capital to help ensure that we deploy it appropriately. We look forward to updating you after the end of the first quarter.

Vikram Pandit
Chief Executive Officer
Citi

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I. TARP PROGRAM ACTIVITIES

a. Putting TARP Capital to Work

Since October 2008, the U.S. Government has made a significant investment in major American financial institutions, including Citi. The Treasury's $45 billion investment in Citi has helped to strengthen our capital ratios, so we are better able to fund new lending initiatives in support of the U.S. economy, homeowners and businesses.

Following is a summary of Citi's actions to date regarding our use of TARP capital.

- In early November 2008, Citi created a Special TARP Committee (the "Committee") of senior executives, which meets frequently to review and approve the use of all TARP capital under clear guidelines.
- As a first step, Citi used $10 billion in November to purchase pools of mortgages secured by Fannie Mae, the government-sponsored housing finance agency, to help provide liquidity to the secondary market at a time when Fannie Mae's funding costs had increased significantly.
  - This initial investment will mature in February 2009, when Citi will be able to redeploy the funds for other primary lending or secondary market activities.

The Treasury's $45 billion investment in Citi has helped to strengthen our capital ratios, so we are better able to fund new lending initiatives in support of the U.S. economy, homeowners and businesses.

- In the fourth quarter of 2008, the Committee considered proposals related to TARP totaling $51.2 billion. The Committee has authorized initiatives to deploy $36.5 billion across five areas of activity in ways that help expand available credit for people and businesses and support the recovery of the U.S. economy.
  - The initiatives the Committee has approved so far are divided more or less evenly between primary lending and secondary markets activity, which are explained later in this section. Both of these sectors play an important role in the overall flow of credit in the U.S. economy.

Some of our new initiatives are already under way, although it is important to note that new primary lending programs take time to roll out, and depend on factors that include loan demand, which declined substantially during the quarter and remains weak.

The initiatives, which total $36.5 billion, are as follows:

1. U.S. residential mortgage activities - $25.7 billion

Citi is investing a total of $10 billion in securities backed by various types of conforming mortgages guaranteed by the government-sponsored housing finance agencies Fannie Mae and Freddie Mac.

- Citi is investing $5 billion of the total in 15-year fixed rate mortgages. The remaining $5 billion is divided evenly between mortgages whose interest rates adjust after three or five years.
- By investing in these securities in the secondary markets, we are helping to expand the flow of credit to people by providing liquidity to lenders who need to replenish funds so that they can continue to originate mortgage loans.
- This action can also help reduce the cost of consumer borrowing by ultimately enabling originators to lower interest rates on new mortgages, thus supporting government efforts to restore stability to the U.S. housing market.

The Committee has authorized initiatives to deploy $36.5 billion across five areas of activity in ways that help expand available credit for people and businesses and support the recovery of the U.S. economy.

Citi is purchasing U.S. prime residential mortgages in the secondary markets with a face value of $7.5 billion that were made to qualified borrowers, based on their credit histories and verifiable ability to make their monthly payments.

- This activity will also help to expand the flow of credit to people by providing liquidity to lenders who need to replenish funds to make new mortgage loans.
- This can also help reduce the cost of consumer borrowing by ultimately enabling originators to lower interest rates on new mortgages, thus supporting government efforts to restore stability to the U.S. housing market.

Citi is also making prime mortgage loans totaling $8.2 billion directly to families and individuals.

- These are in the form of non-conforming mortgage loans – defined as mortgages whose value exceeds the limits set for government-sponsored loans. These limits range from $417,000 to $625,500 in the continental United States, depending on the county.
- Non-conforming mortgage loans are frequently necessary in high-cost areas where home prices exceed the national average, even in a down market.

- Because Fannie Mae and Freddie Mac are not required to buy non-conforming mortgages, interest rates are higher than on conforming loans.
- Non-conforming mortgages also carry a higher risk to lenders, and originations on these loans have fallen far more sharply than on conforming mortgages in the past year.

2. Business and personal loans - $2.5 billion

Citi is making $1 billion available for tailored loans to clients or businesses facing liquidity problems. This may include loans secured by commercial real estate, or loans to businesses holding securities that have become illiquid because of the credit crisis, such as Auction Rate Securities.

Citi is also offering $1.5 billion of credit to qualified customers of its consumer finance company CitiFinancial for personal loans to consolidate debts and meet unexpected expenses.

3. Student loans - $1.0 billion

Citi is originating student loans through the Federal Family Education Loan Program (FFELP), a public-private partnership created by Congress to deliver and administer guaranteed, low-cost education loans.

The initiatives the Committee has approved so far are divided more or less evenly between primary lending and secondary markets activity. Both of these sectors play an important role in the overall flow of credit in the U.S. economy.

- Citi expects this action will help provide needed credit for students and middle- and low-income parents who are finding it difficult to afford tuition.

4. Credit card lending - $5.8 billion

The special programs Citi is offering include expanded eligibility for balance-consolidation offers, targeted increases in credit lines and targeted new account originations, subject to Citi's customary sound lending standards.

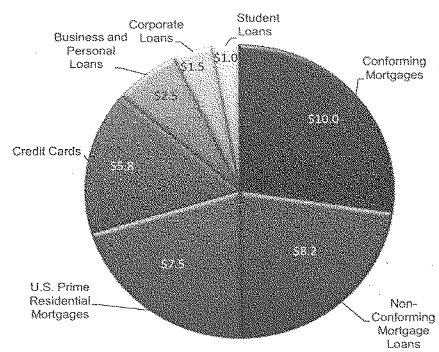
- Credit cards play a critical role in helping people and businesses purchase basic goods and services. Based on available national economic figures, Citi estimates that 20 percent of total personal spending flows through credit card transactions, often for everyday essentials.

5. Corporate Loan Activity - $1.5 billion

Citi is investing $1.5 billion in commercial loan securitizations, which have historically been a significant buyer of secured loans to U.S. companies.

- This investment activity will increase demand and liquidity in the corporate loan market and help to strengthen the confidence of global investors, who in the past have been a substantial source of funding to U.S. companies.
- Increased investor appetite for corporate loans stimulates lending to U.S. companies and ultimately lowers the cost of borrowing for these businesses.

Approved TARP Initiatives – Q4 2008
(In Billions)



b. Our TARP Guidelines

The Department of the Treasury has made two preferred stock investments in Citi through the TARP program.

The first investment, or TARP I, was a $25 billion purchase of preferred stock on October 28, 2008. The second investment, or TARP II, was a $20 billion purchase of preferred stock on December 31, 2008.

Also, on January 16, 2009, Citi issued $7 billion in preferred stock to the Treasury and the Federal Deposit Insurance Corporation (FDIC) as part of a loss sharing program with the U.S. government on a $301 billion portfolio of assets. All of the preferred securities pay dividends to the U.S. Government totaling $3.41 billion per year.

- The Committee has established specific guidelines which are consistent with the objectives and spirit of the Treasury investment program. The complete guidelines can be found in the Appendix to this report.
- The use of TARP capital is being tracked, and it will not be used for any purposes other than those expressly approved by the Committee.
- Committee approval is the final stage in a four-step review process to evaluate proposals from Citi businesses for the use of TARP capital, risk, and the potential financial impact and returns.

Citi will meet all regulatory reporting requirements associated with TARP. We will also update this progress report each quarter, following our quarterly earnings announcement, and make it public at www.citigroup.com.

The TARP securities purchase agreements stipulate that Citi will adhere to the following objectives as a condition of the Treasury's capital investment:

- ***"To expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy."***
- ***"To work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market."***

Permitted Uses

Citi's guidelines call for TARP capital to be deployed in a prudent and disciplined manner consistent with Citi's strategic objectives and the Treasury's goal of strengthening the financial system in the United States and expanding the flow of credit. TARP capital is equity, in the form of preferred stock. It will be used exclusively to support investments and not for expenses, which are covered as part of our cash flow.

Prohibited Uses

TARP capital may not be used for any of the following purposes:

- Compensation or bonuses.
- Dividend payments.
- Lobbying or government relations activities.
- Marketing, advertising or corporate sponsorship activities.

TARP is about helping the American people, and supporting U.S. businesses and our communities. Our responsibility is to put these funds to work quickly, prudently, and transparently to increase available lending and liquidity.

TARP capital will not be used for any purposes other than those expressly approved by Citi's Special Committee.

- We have not lobbied on TARP-related issues since we received TARP capital and will not do so.
- Citi's businesses are required to report back to the Committee on the activities for which any TARP capital was used, as well as the performance of those investments.
- The Committee reports periodically to Citi's Board of Directors on the specific uses to which TARP capital has been applied.

c. Primary Lending and Secondary Markets

One of the biggest challenges facing governments, regulators and financial institutions today is how to energize the financial system in order to promote economic activity. In the near-term, actions need to focus on restarting the flow of credit.

Secondary markets play a fundamental role in this process, which is why approximately half of the funds involved in Citi's TARP initiatives are directed there. The following section explains the differences between primary lending and the secondary markets, and why the proper functioning of secondary markets is so important to economic recovery.

Primary Lending

- Primary lending refers to the money that banks and other financial institutions extend as credit directly to people and businesses, as well as to state and local governments, and other borrowers.

- Common forms of primary lending include mortgages on residential and commercial real estate, personal loans, credit card lines, student loans, lines of credit which businesses use to fund their day-to-day activities and pay suppliers and workers, and loans that businesses use to expand and grow.

- Rates of interest on primary loans are governed by a number of factors. They include the level of the benchmark federal funds rate set by the Federal Reserve, the amount of credit available in general, the creditworthiness of individual borrowers and the risk associated with a particular loan.

- Secured loans like mortgages are made against the underlying value of a home or certain commercial real estate, which is pledged against the loan as collateral.

- Credit cards are unsecured debt. Borrowers do not have to provide collateral to support a credit card line, which results in losses for credit card issuers that are more frequent and more severe than with secured loans. Issuers charge higher interest rates to support the higher credit costs associated with unsecured loans.

Secondary Markets

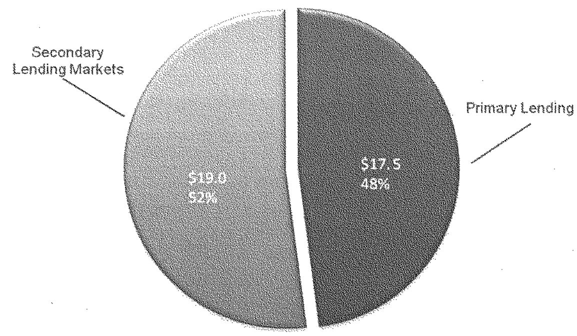
- Mortgage originators and other lenders can hold the loans they make on their balance sheet, or they can securitize and sell them to investors in the secondary market, using the proceeds to originate new loans to families, individuals and businesses.

- Active secondary markets in which borrowers can transfer or sell lending assets provide critical support to primary lending.

- Consumers and businesses ultimately benefit from active secondary markets through the lower cost of credit and the availability of primary lending funds.

- When confidence falls and liquidity disappears in the secondary market, as is now the case, the flow of credit slows and primary lending to people and businesses becomes more difficult and expensive to obtain.

Total Approved TARP Lending Initiatives = $36.5 Billion



II. LENDING ACTIVITY

a. New Lending in the Fourth Quarter of 2008

Separately from its TARP initiatives, Citi remains committed to helping commercial clients and retail customers find workable solutions that address their financial needs responsibly and allow them to meet their obligations.

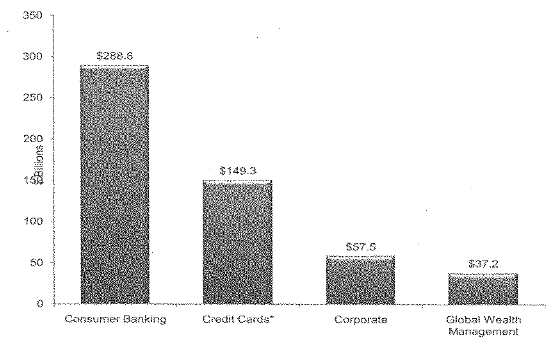
While it is the case that overall bank lending and demand for credit both declined in the fourth quarter, Citi extended new loans totaling approximately $75 billion to customers and clients in the U.S.

A company in New York state with 10 employees that manufactures home gardening supplies came to us for a $150,000 loan and a $100,000 credit line to bring a new product to market. The funding is being used to expand the business.

Citi's U.S. deposits at the end of the fourth quarter were $289.8 billion, meaning that approximately every four dollars we held in U.S. deposits supported one dollar of new lending initiatives.

- Citi continues to lend responsibly to individuals based on their creditworthiness. Factors we consider in reviewing loan applications include a borrower's ability to repay, the size of a loan compared to the value of the underlying collateral, verifiable income, credit history and regional conditions.
- We continue to provide loans, lines of credit and commercial real estate mortgages to U.S. companies, from small and medium-sized businesses to some of the largest employers in the country.
- As municipal bond underwriters, Citi works every day with state and local governments to help them in these difficult times. We also continue to help U.S. corporations find sources of new capital to fund their businesses through the underwriting of debt and equity offerings.

Average Loans, Fourth Quarter 2008 = $532.6 Billion[1]



*Managed basis

[1] North America

Lending to Businesses and Corporations

Citi remains engaged in helping U.S. companies of all sizes obtain the funding they need to run their businesses. Commercial and corporate loans, credit lines and mortgages help these businesses work through periods of reduced activity, pay their employees and suppliers, and also grow.

TARP capital is not being used directly for these activities, but this capital does provide important support for Citi's ongoing efforts to meet the financing needs of our commercial clients.

We continue to lend actively to small commercial companies with credit needs of less than $100 million through our retail branch network, and through dedicated sales and relationship officers. This includes a small business segment focused on servicing companies with credit needs of less than $250,000.

- Citi offers term loans, loans guaranteed by the Small Business Association, lines of credit, commercial mortgages and equipment financing to small businesses and other small commercial clients.
- Overall loan balances outstanding in small business and commercial banking have grown 22 percent to $8.9 billion in December 2008 from $7.3 billion in December 2007 primarily as a result of new loan originations and funding of previously committed lines of credit.
- In the small business category alone, loan balances outstanding rose over the same period from $950 million to $1.29 billion.

Here are some examples from the fourth quarter:

- A company in New York state with 10 employees that manufactures home gardening supplies came to us for a $150,000 loan and a $100,000 credit line to bring a new product to market. The funding is being used to expand the business, which expects to increase its sales by 40 percent in 2009.
- We extended a 10-year commercial mortgage for $1.5 million and a revolving line of credit for $7 million to fund working capital needs to a wholesale distributor of consumer goods in New Jersey with 35 employees and sales of $164 million.
- We extended a 10-year commercial mortgage for $1 million to a distributor of industrial supplies in New York state which employs 70 people and has sales of $18 million.

Citi works primarily with large corporate and institutional borrowers to fund expansion, support strategic transactions, pursue activities in the secondary market and provide debtor-in-possession financing for companies in bankruptcy.

Overall lending has declined over the past year as demand for borrowing contracted and Citi remained judicious in its lending practices. However, in the fourth quarter of 2008, we were the lead underwriter for U.S. syndicated loans totaling $22 billion.

- For the full year, Citi served as the lead underwriter for U.S. syndicated loans totaling $126 billion.

Examples of our involvement included:

- A $1.9 billion 364-day contingent liquidity facility for Alcoa, Inc., which the company put in place to provide additional backstop liquidity for its existing commercial paper program.
- A new $2 billion 364-day syndicated revolving credit facility for Abbott as a backstop for commercial paper.
- Joint lead and joint bookrunner on a $17 billion bridge loan to the Verizon Wireless $28 billion purchase of Alltel Corp.

b. The Lending Environment

In the past year, U.S. and world financial markets have been tested in unprecedented ways. Across the financial services industry, lending has declined markedly as banks work to reduce risks to their balance sheets and exposure to future credit losses resulting from the downturn in the housing market and the economy as a whole.

Demand for borrowing has also fallen sharply as people and businesses reduce spending in the face of rising unemployment and the contraction of the economy.

- For example, consumer borrowing, which includes credit card spending and auto loans, dropped at an annual rate of $7.9 billion in November 2008, according to the Federal Reserve, the biggest decline in the 65 years since the Fed began tracking this data.

In this difficult environment, Citi will not – and cannot – take excessive risk with the capital the American public and other investors have entrusted to the company.

- U.S. households are also saving more money for the first time in many years. According to the Bureau of Economic Analysis, the personal savings rate in November 2008 was 2.8 percent of disposable income, four times the rate in the same month of 2007.

Banks and other lenders have tightened access to credit and are conserving capital in order to absorb the losses that occur when borrowers default.

> We will continue to adhere to our basic sound lending principles, in a way that balances our commitment to providing support for the U.S. economy with our responsibility to manage risk appropriately.

- For example, Citi has seen a steady rise in loss rates on credit cards in the past year. Our net credit loss rate for North American cards was 8.0 percent in the fourth quarter of 2008, compared to 5.5 percent in the fourth quarter of 2007.

- Accordingly, we have taken actions in certain high risk segments to lower the company's credit exposure by reducing open or unused credit lines.

In this difficult environment, Citi will not – and cannot – take excessive risk with the capital the American public and other investors have entrusted to the company.

- We will continue to adhere to our basic sound lending principles, both in our TARP-related activities and across our businesses, in a way that balances our commitment to providing support for the U.S. economy with our responsibility to manage risk appropriately and deliver value for investors, including the taxpayer.

III. HELP FOR HOMEOWNERS AND OTHER BORROWERS

a. Helping Homeowners

Homeowner retention solutions for Citi's U.S. mortgage lending businesses remained favorable in the fourth quarter of 2008.

- Loss mitigation solutions outnumbered foreclosures completed by a ratio of more than six to one.
- Total loss mitigation actions increased 33 percent from the third quarter of 2008 to the fourth quarter of 2008.

Since the beginning of 2007, Citi has worked successfully with approximately 440,000 homeowners to avoid potential foreclosure on combined mortgages totaling approximately $43 billion.

Citi has worked with mortgage holders since the start of the U.S. housing market crisis to help keep them in their homes. We are working to reduce or mitigate the hardships many American families face and, at the same time, contain the financial losses that Citi itself has to confront in the event of borrower default.

- Since the beginning of 2007, Citi has worked successfully with approximately 440,000 homeowners to avoid potential foreclosure on combined mortgages totaling approximately $43 billion.
- In 2008, we kept approximately four out of five distressed borrowers with mortgages serviced by Citi in their homes using various home retention solutions.
- Citi was the first financial services company to report publicly on the impact of its foreclosure prevention initiatives, in its quarterly *Citi U.S. Mortgage Lending Data and Servicing Foreclosure Prevention Efforts* report – first published in February 2008.

As the economic downturn has continued, Citi is doing even more to help homeowners, and employs a variety of means to assist borrowers who are having trouble meeting their mortgage payments.

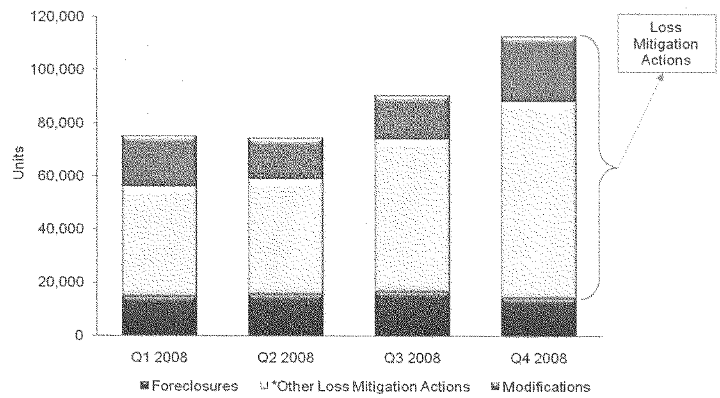
- A specially trained servicing unit works with homeowners to find long-term solutions and tries to ensure that, wherever possible, no borrower loses his or her home.

- We continuously evaluate our portfolios to identify those borrowers who can save money and reduce monthly payments, and offer them timely homeowner retention solutions.
  - To better meet the increased needs of at-risk borrowers and reach as many of these borrowers as possible, we have increased the number of staff dedicated to the important task of loss mitigation by more than two and a half times, compared with just a year ago.
- Citi puts a specific focus on finding long-term solutions for borrowers in need. In support of this, loan modification is a key tool in helping to prevent foreclosure. Citi has found modifications to be effective in helping borrowers avoid foreclosure.
  - In keeping with this commitment, we are in the process of adopting the FDIC's streamlined modification program where the borrower is at least 60 days delinquent or where a long-term modification is appropriate.

Citi has worked with investors and owners of more than 90 percent of the 4.3 million mortgages we service – but do not own – to make sure that many more qualified borrowers will also benefit from our foreclosure moratorium.

- In November 2008, we announced the Citi Homeowner Assistance Program for families, particularly in areas of economic distress and sharply declining home values, whose mortgages Citi holds.
  - For those borrowers who may be experiencing some form of economic stress, although still current on their mortgages, we are deploying a variety of means to help them remain in their homes.
- We are continuing our foreclosure moratorium for eligible borrowers with Citi-owned mortgages who work with us in good faith to remain in their primary residence and have sufficient income to make affordable mortgage payments.
  - To ensure that our efforts have the broadest possible impact, Citi has worked with investors and owners of more than 90 percent of the 4.3 million mortgages we service – but do not own – so that many more qualified borrowers will also benefit from this moratorium.
- In addition, in late 2008, due to falling interest rates, Citi experienced a significant increase in calls from borrowers seeking to refinance their mortgages.
  - To make sure we are being as effective as we can in providing practical help to these homeowners, we are deploying more resources to help customers who call about refinancing and are working with them to make their mortgages more affordable.

Loss Mitigation Actions – Serviced Loans
(Total Citi)



*Includes: Extensions, HSAs, Repayment Plans, Reinstatements, Short Sales and Deeds in Lieu. See Appendix for definitions.

b. Support for Credit Card Holders

Credit cards play an important role in the nation's economy by helping people and businesses complete transactions and pay for goods.

- In 2007, transactions worth \$1.9 trillion were completed in the U.S. on credit cards industry-wide. Currently, there are about \$4.8 trillion of open credit lines in the United States.

- Based on available national economic figures, Citi estimates that about 20 percent of all personal consumption – the engine of the U.S. economy – involves credit card transactions, often to purchase day-to-day essentials like groceries, clothing and gas.

Citi's primary objective, particularly in this environment, is to fund the expansion of credit to existing card members and target new account originations, based on their ability to repay their loans.

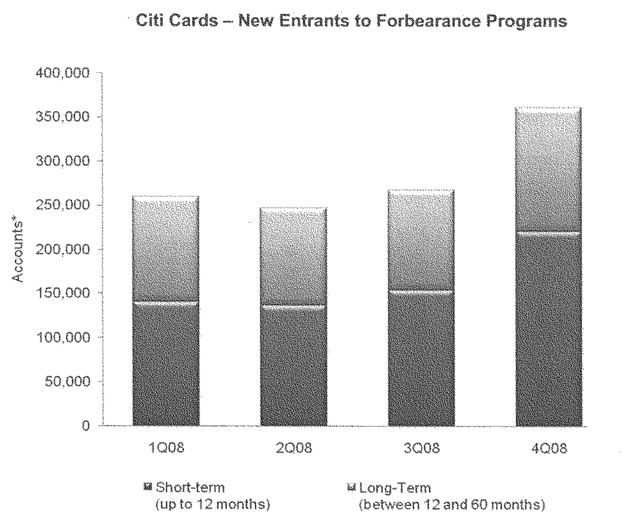
- In 2009, Citi Cards plans to extend a significant amount of new credit to U.S. consumers, within Citi's customary sound lending standards.

- Since receiving the first installment of TARP capital, Citi has made plans to expand its lending activities further and extend affordable credit to lower risk borrowers.

In addition, we are rolling out new and incremental programs that will offer manageable terms to card members who are having financial difficulty to help them pay down their debt.

- For example, Citi is offering new forbearance programs with broadened eligibility criteria, affecting accounts in earlier stages of delinquency. These include payment incentives, match payments and balance-consolidation programs that accelerate the reduction, or amortization, of card loans without materially increasing the cost to consumers.

- We are also marketing programs to customers who, although current on their accounts, may need additional help to repay their balances. We expect to ramp up these programs through mid-2009.



*Primarily delinquent accounts (includes limited current accounts.) Note: Short-term programs include full/partial payment deferrals, reduced minimum payments, match payments; long-term programs include balance consolidation actions and adjustment of terms.

IV. CITI IN THE COMMUNITY

a. Citi Office of Homeownership Preservation (OHP)

Citi understands how critical affordable housing and credit are for all Americans. Since the start of the housing crisis, we have accelerated our efforts with our many community partners to help develop solutions that preserve homeownership.

Many distressed homeowners in urban communities across the U.S. prefer to work directly with a third party who can help them understand the resources that are available to them and how to work with their lender to prevent foreclosure.

To this end, Citi founded the Office of Home Ownership Preservation (OHP) in 2007 to work with counselors and borrowers to find alternatives to foreclosure, whenever possible.

- Citi offers delinquent borrowers free services such as around-the-clock access to qualified housing counselors from non-profit organizations.
- OHP has trained close to 600 counselors in more than 25 cities across the U.S. as part of the Citi OHP 25-City Tour. The OHP team works with local non-profit counseling organizations to reach out to thousands of at-risk borrowers.
- Through the OHP 25-City Tour, we have provided total grants to the non-profit in each city with the most aggressive and innovative foreclosure prevention outreach, counseling and education program. These grants, which total more than $1 million, are each for $50,000. They are part of the way we have helped local organizations provide distressed borrowers with broad-based financial education and free, on-demand non-profit counseling.

"We understand that helping to keep people in their homes sustains a community. We also understand that good intentions and hard work make up only two-thirds of the solution. Citi has stepped up tremendously to provide the final third, not just in financial support but with their people." – *Sarah Gerecke, CEO, Neighborhood Housing Services of New York City*

- In partnership with Citi's Office of Financial Education, OHP has developed two curricula – one each for consumers and counselors – that provide training and information on financial strategies to assist homeowners.
- In addition, OHP has launched a Web site at www.mortgagehelp.citi.com to help borrowers and counselors obtain advice and assistance via the Internet.

b. Partnerships in the Community

Throughout our 200-year history, Citi has been a trusted partner in the communities in which we operate. Today, we remain committed to helping people make a difference in their communities.

To this end, we created the Citi Dialogue program, which is an ongoing series of meetings that serve as forums for Citi executives and community leaders to discuss issues that affect underserved communities across the country.

We take a long-term view of what is in the best interests of our clients and the communities in which our employees live and work. We continue to provide capital in a responsible way that recognizes individual aspirations.

- In 2008, Citi Community Capital (CCC) provided $2.8 billion in loans for affordable housing and community revitalization projects in locations around the country.

Citi is a founding member of HOPE Now, a coalition of counselors, government, investors, lenders and servicers which was formed in 2007 to help find solutions to preserve homeownership.

In 2008, we entered into a five-year contract to purchase up to $30 million of microloans made to small businesses by ACCION Texas, thereby enabling ACCION to expand its microfinance portfolio (already the largest in the country).

- In an agreement that is a first of its kind in the U.S., Citi will share the risks and the rewards from additional loans ACCION will make with the new funds.

Citi is a national sponsoring partner of the NeighborWorks Center for Foreclosure Solutions and the Ad Council Campaign with NeighborWorks America and Housing Preservation Foundation (HPF). We are also a founding sponsor of the NeighborWorks Center for Homeownership Education and Counseling (NCHEC).

We provide both financial and technical assistance to other local and national partners who are working to prevent foreclosure through counseling, education and outreach.

- Our partners include the Association of Community Organizations for Reform Now (ACORN), Neighborhood Assistance Corporation of America (NACA), the National Community Reinvestment Coalition (NCRC), the Consumer Credit Counseling Service (CCCS), and the Consumer Counseling Resource Center (CCRC).

Citi established a $1 million grant and technical assistance program with the Housing Partnership Network and its local nonprofit partners in select cities to acquire and rehabilitate foreclosed properties in distressed neighborhoods.

Through volunteerism, our employees contribute their time and talent each day to causes and organizations they care about.

- Thousands of volunteer service hours are spent each year making a difference in local communities through projects and activities that include building homes, delivering food, revitalizing schools, teaching financial education, and service on non-profit boards and advisory councils.

In 2008, Citi Community Capital (CCC) provided $2.8 billion in loans for affordable housing and community revitalization projects in locations around the country.

Through its Partners in Progress (PIP) program, the Citi Foundation awarded grants totaling more than $2 million to 21 local community development organizations in January 2009.

These grants, each of $100,000, support innovative physical development and rehabilitation projects – known as "place-based initiatives" – that champion the long-term or large-scale revitalization of low- and middle-income communities. Examples of the 21 initiatives include:

- In the **Boston** area, PIP grants will help support construction of 1,500 new housing units, 780,000 square feet of commercial real estate, two green-job centers and a new six-mile greenway of open space in the Dorchester Bay area; and assistance in a community planning program in Somerville for 2,000 primarily low- to moderate-income individuals.
- In **New York City**, a PIP grant will support construction of 774 affordable housing units, as well as community and retail facilities and a public park, through the Gowanus Green Partnership. The project, at a brownfield site along the Gowanus Canal in Brooklyn, is expected to become a national model for urban community development.
- In **Miami**, a PIP grant will help Carrfour Supportive Housing, which is underwriting a complex of 145 units of new, affordable housing for formerly homeless families, an organic produce nursery and a farmers market retail site on the former Homestead Air Force Base, which closed as a result of Hurricane Andrew.

V. Compensation and Governance

a. Executive Compensation

This is a time of unprecedented challenges in the financial industry and one of profound change. An important area where Citi is changing is executive compensation. The principles that govern how Citi rewards our executives and employees must reflect both the company's performance against its objectives and the economic environment in which we operate.

In light of the company's performance in 2008, Citi's Chairman, its Chief Executive Officer and its Chief Financial Officer asked not to be paid bonuses for that year.

Other members of the Senior Leadership or Executive Committees – the top 51 people at Citi – received substantially reduced bonuses.

- Members of the Executive Committee received a significantly larger proportion of their bonus than other employees in deferred compensation, whose ultimate value depends on an improvement in the company's performance.
- For 2008, Executive Committee members also received at least 40 percent of their incentive compensation in the form of stock or options that have performance-based vesting conditions.

Citi's executive team and Board of Directors have also conducted a thorough review of compensation practices. From 2009 and beyond, all compensation decisions will be based on the following key principles, which are consistent with our agreement with the U.S. Government as an investor:

- Compensation will vary based on two factors: the individual's personal performance and the overall performance of the company.
- We believe in meritocracy. We will differentiate individual compensation decisions on the basis of both financial and non-financial performance.
- We will compensate on the basis of future performance as well as for past performance. Executive compensation will include a component that will vest based on future performance.

In light of the company's performance in 2008, Citi's Chairman, its Chief Executive Officer and its Chief Financial Officer asked not to be paid bonuses for that year.

- Citi has introduced a policy, commonly known as a "clawback" provision. This enables the company to recoup executive compensation that, over time, proves to have been based on inaccurate financial or other information.

- Citi has significantly amended its severance programs for executives. In particular, the top five officers listed in the annual proxy statement will not be eligible for any severance pay.

Citi's Board of Directors receives periodic reports from the Special TARP Committee on the specific uses to which TARP capital has been applied.

b. Corporate Governance

Citi is committed to the highest standards of ethical conduct: we report our results with accuracy and transparency, and we comply fully with the laws and regulations that govern the company's businesses – including our agreements with the U.S. government.

- The Board of Directors is responsible for ensuring that effective governance and oversight of the company's business activities benefit stockholders and other investors, including the taxpayer, while balancing the interests of Citi's diverse constituencies of customers, employees, suppliers and local communities around the world.

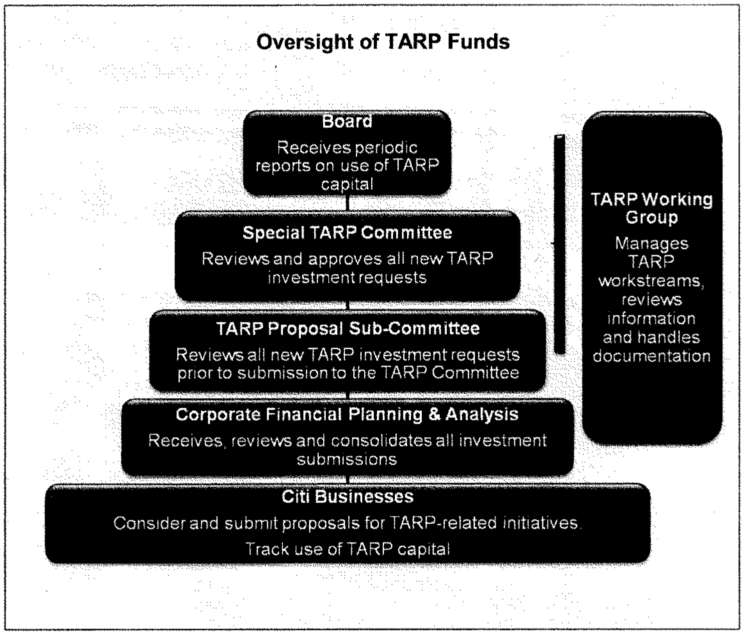
- Twelve of the 15 members of the Board are independent Directors, exceeding the Board's corporate governance guidelines which require that at least two-thirds of the Directors should be independent.

- Like members of Citi's Executive Committee, Board members are barred from selling 75 percent of any shares they receive under the company's equity awards programs for as long as they are Directors. This ties the value of the award directly to the value Citi is able to deliver to its shareholders through its performance.

Citi's Board of Directors receives periodic reports from the Special TARP Committee on the specific uses to which TARP capital has been applied. Approval of TARP-related initiatives at Citi is governed by a four-step process to ensure careful evaluation.

- A proposal to deploy TARP capital is first reviewed in the Citi business where it originated by risk management and financial professionals. The business must ensure that any TARP-related initiatives can be tracked.

- The proposal, if cleared at the business level, then goes to Citi's Corporate Financial Planning and Analysis (FP&A) group for a preliminary review of the financials, potential returns, assumptions and valuation.
- A TARP Proposal Sub-Committee, which includes Citi's Treasurer and Head of FP&A, serves as a control mechanism for all proposals. It undertakes a formal review of proposals and verifies other information, including the risk capital and risk-weighted assets of the investment.
- Proposals that clear these steps are submitted to the Special TARP Committee for deliberation. The Committee may accept a proposal, reject it, hold it for further consideration at a later time or request further information.


Oversight of TARP Funds
Board
Receives periodic reports on use of TARP capital
Special TARP Committee
Reviews and approves all new TARP investment requests
TARP Proposal Sub-Committee
Reviews all new TARP investment requests prior to submission to the TARP Committee
Corporate Financial Planning & Analysis
Receives, reviews and consolidates all investment submissions
Citi Businesses
Consider and submit proposals for TARP-related initiatives.
Track use of TARP capital
TARP Working Group
Manages TARP workstreams, reviews information and handles documentation

VI. SECTION VI – OUR STRATEGY

a. Citi's New Structure

In order for the U.S. economy to recover and thrive, the country needs sound, responsible financial institutions. Over the last year, Citi has pursued a determined strategy to get "fit" for the future through efforts designed to reduce our balance sheet exposures, enhance our risk management function, reduce costs and put the company on a path to growth.

Going into 2009, we recognized the need to accelerate the pace of change in order to put Citi on a clearer and faster pathway to profitability. That is why we announced on January 16, 2009 that the company is dividing into two distinct businesses with their own dedicated management teams: **Citicorp** and **Citi Holdings**.

The objective of our new structure is to sharpen Citi's focus on driving performance in the businesses which are central to our strategy, while maximizing value from "non-core" assets.

The objective of our new structure is to sharpen Citi's focus on driving performance in the businesses which are central to our strategy, while maximizing value from "non-core" assets. This new structure will be reflected beginning with financial reporting for the second quarter of 2009.

Citicorp is the relationship-focused bank to businesses and consumers – the "core" of Citi's businesses that the company expects to deliver high returns and high growth over time.

- Built on a strong foundation of more than 200 years in business and a presence in more than 100 countries, Citicorp is a global universal bank with deposit-taking capabilities and a broad range of banking services for consumer and institutional customers.
- Citicorp includes the company's Global Institutional Bank with Citi's world-class corporate, investment and private banking businesses, global transaction services and our retail banking franchise with branded credit cards, consumer and commercial banking services across the U.S., Asia, Latin America, Central and Eastern Europe and the Middle East.
- Citicorp will have estimated assets of $1.1 trillion, about two-thirds of which will be funded by deposits.

Citi Holdings comprises an estimated $860 billion in assets across three businesses – brokerage and asset management, local consumer finance and a special asset pool – all of which will be run with a continued focus on risk management and maximizing value.

- The company recently announced a plan to combine its Smith Barney business with Morgan Stanley's Global Wealth Management Group in a joint venture to create an industry-leading global wealth management business. Citi retains a 49 percent ownership stake.
- Citi Holdings also contains local consumer finance businesses, including CitiFinancial and CitiMortgage in the U.S., and consumer finance operations in Western Europe, Japan, India, Mexico, Brazil, Thailand and Hong Kong.
- The special asset pool will manage the assets covered by the loss-sharing agreement with the U.S. government parties and other non-strategic assets.

Citi has reduced total assets by $413 billion, or 18 percent, since our peak in the third quarter of 2007. Under the new structure, the company expects to build on the significant progress made in 2008 toward reducing non-core legacy assets by divesting businesses that are no longer considered central to our strategy.

In 2008, Citi announced or completed 19 divestitures including:

- On June 30, 2008, Citi completed the sale of Diners Club International to Discover Financial Services.
- On July 1, 2008, Citi and State Street Corporation completed the sale of the CitiStreet joint venture, a benefits servicing business, to ING Group in an all-cash transaction valued at $900 million.
- On August 1, 2008, Citi completed the sale of CitiCapital, our equipment finance unit in North America, to GE Capital.
- On December 5, 2008, Citi completed the sale of our German retail banking operations to Crédit Mutuel for approximately $6.6 billion.
- On December 31, 2008, Citi completed the sale of Citigroup Global Services Limited, a business processing service, to Tata Consultancy Services Limited for $515 million.

Under our new operating structure, Citi expects to further reduce operating costs through continued expense management and re-engineering programs.

- In the fourth quarter of 2008, we cut expenses by $2.5 billion, or 16 percent, compared with the same period of 2007, adjusted for one-time items disclosed in our earnings press release, as a result of our ongoing focus on cost reduction and re-engineering efforts.

- We are on track to achieve our targeted expense base of between $50 billion and $52 billion in 2009, representing a further reduction of 15 to 18 percent from 2008 reported expenses.

All these efforts will strengthen Citi's foundation in 2009 and help put the company on the road to better performance.

VII. SECTION VII – APPENDIX

a. Special TARP Committee Guidelines

Special TARP Committee
Guidelines for Use of TARP Investments
As of January 6, 2009

Citigroup Inc. ("*Citi*") is committed to using the capital received under the U.S. Department of the Treasury's Troubled Assets Relief Program ("*TARP*") in a manner consistent with the purposes and objectives of TARP. These guidelines set forth the principles and procedures for Citi's use of the TARP investment.

The recitals to the TARP securities purchase agreements include the following objectives:

- "To expand the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy."
- "To work diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market."

To facilitate the rigorous and transparent pursuit of these goals, Citi has designated a Special TARP Committee (*the "Committee"*) comprised of senior executives that is responsible for overseeing, approving and monitoring the sound use of TARP capital for its intended purposes.

TARP capital will not be used for any purposes other than those expressly approved by the Committee.

The Committee members are the following people or their designees: Lewis Kaden, Vice Chairman; Gary Crittenden, Chief Financial Officer; Michael Helfer, General Counsel; Brian Leach, Chief Risk Officer; Michael Schlein, President, International Franchise Management and Executive Director of Business Practices; and Zion Shohet, Treasurer and Head of Corporate Finance. (See Appendix A, internal memorandum establishing committee).

PRINCIPLES

I. Permitted Investments

TARP capital will be deployed in a prudent and disciplined manner that is consistent with Citi's strategic objectives and Treasury's goal of strengthening the financial system in the United States and expanding the flow of credit as stated above. TARP capital, which is in the form of preferred stock, will be used exclusively to support assets and not for expenses.

Permitted uses of TARP capital may include, among other things:

- Sound lending activities across Citi businesses.
- Financing transactions across Citi businesses.
- Citi's loan modification program and other programs for homeowner avoidance of mortgage loan foreclosures.
- Citi's Homeowner Assistance Program, which aims to help potential at-risk borrowers avoid delinquency.
- The provision of credit to Citi credit card customers.
- Purchases of loans and securities in the secondary market that have the effect of increasing liquidity in the credit markets or the mortgage securities markets.

II. Prohibited Uses

TARP capital may not be used for any of the following purposes:

- Compensation or bonuses.
- Dividend payments.
- Lobbying or government relations activities.
- Marketing, advertising or corporate sponsorship activities.

PROCEDURES

The Committee and Citi businesses will adhere to the following procedures in connection with use of TARP capital:

- The Committee may approve the deployment of TARP capital for any authorized purpose, up to a specified maximum amount, without requiring additional approval of each use within that maximum.
- Businesses are required to report to the Committee at least every quarter on the activities for which any TARP capital was used, the performance of any investments, and the benefit of the activities to the flow of credit and/or the U.S. housing system.
- The Committee will report periodically to Citi's Board of Directors on the specific uses to which TARP capital has been applied.
- Deployment of TARP capital for authorized purposes within the approved maximum amount must be reported to the Head of Financial Planning, Analysis and Capital Allocation, Nayan Kisnadwala, with appropriate supporting materials to ensure effective monitoring.
- The Committee will ensure that Finance establishes appropriate financial reporting concerning the uses of TARP capital.
- The Committee will meet as often as required, and not less than every quarter.
- The Committee will appoint a secretary and its decisions will be recorded. Actions may be evidenced by e-mail or in a vote taken by an in-person or telephonic meeting. Actions taken by the Committee shall require the approval of at least three of its members.

* * *

In addition to the foregoing, the Committee is authorized to take any and all actions in its efforts to advance any of the objectives described above.

Appendix A

November 4, 2008

MEMORANDUM FOR THE CITIGROUP MANAGEMENT
EXECUTIVE COMMITTEE

Subject: *Treasury Investment in Citigroup Preferred Stock*

On October 28 we closed on the transaction under which the U.S Treasury Department purchased $25 billion of Citigroup Preferred Shares. We did not seek this investment, nor did the plans we developed for the remainder of 2008 and beyond anticipate this additional capital. As we think about how to use this capital to augment our plans, we must be mindful of the purposes for which it was intended and ensure that we deploy this capital appropriately. We would do this under any circumstances, but here in addition there will be intense public and governmental scrutiny on the way we and the other eight large recipients use the capital from the Treasury Department.

Treasury made this investment in Citi and other institutions only as a result of special market conditions and its desire to help expand the flow of credit in the economy. While we should be proud that Citi was included among those in whom Treasury chose to invest to achieve this goal, Treasury's public purpose creates a special responsibility with respect to how we use this investment.

To ensure that we use this capital in a way that is consistent with our established strategic objectives and Treasury's goal of strengthening the financial system in the United States and expanding the flow of credit, we have established a Special Committee consisting of the two of us, Brian Leach, Zion Shohet and Michael Helfer to oversee and approve how we make use of Treasury's investment. This Committee will promptly develop a set of guidelines for the operating businesses, including guidelines on how we pursue incremental lending opportunities and how we monitor the use of these funds. The Committee will report periodically to the Citigroup Board of Directors on the uses to which we have put the proceeds of the Treasury investment.

The Treasury investment may not be used for any purposes other than those approved by the Special Committee. With the goals described above in mind, if you have a particular idea or suggestion that you would like the Special Committee to consider, please contact one of the members of the Special Committee.

Gary Crittenden
Lewis Kaden

b. TARP Investments by U.S. Treasury

TARP I

- Citi was among nine major U.S. financial institutions which agreed on October 14, 2008 – in consultation with the Treasury, the FDIC and the Federal Reserve Board – to receive from the Treasury a combined $125 billion investment to strengthen their capital positions and to enhance the overall performance of the U.S. economy.
- On October 28, 2008, Citi received a capital investment of $25 billion from the Treasury under this initiative, which is called the Capital Purchase Program.
- In consideration of the investment, Citi issued $25 billion in cumulative, perpetual preferred stock to the Treasury, with a dividend of five percent per annum, payable quarterly. The first dividend payment of $371.5 million will be made on February 17, 2009.
- Citi also issued the Treasury an option to purchase 210,084,034 common shares in the company at a strike price of $17.85 per share.
- This option will allow the Treasury and U.S. taxpayers to earn additional returns on the investment if Citi's common share price rises above $17.85.
- A summary of the terms of the transaction is available **at this link.**

TARP II

- On November 24, 2008, Citi announced that it had reached an agreement with the Treasury, the FDIC and the Federal Reserve Board on a series of steps to strengthen Citi's capital ratios, reduce risk and increase liquidity.
- The agreement closed on December 31, 2008, when Citi received a further capital investment of $20 billion from the Treasury. This initiative is called the Target Investment Program.
- In consideration of the investment, Citi issued $20 billion in cumulative, perpetual preferred stock to the Treasury, with a dividend of eight percent per annum, payable quarterly. The first dividend payment of $200 million will be made on February 17, 2009.
- Citi also issued the Treasury an option to purchase 188,501,414 common shares in the company at a strike price of $10.61 per share.

- This option will allow Treasury and U.S. taxpayers to earn additional returns on the investment if Citi's common share price rises above $10.61.
- A summary of the terms of the transaction is available **at this link**.

c. VII-d – Loss Sharing Program

- On November 23, 2008, Citigroup entered into a loss sharing program with the U.S. Department of Treasury, The Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank of New York.
- The definitive agreements, entered into on January 16, 2009, cover $301 billion of loans and securities backed by residential and commercial real estate, consumer loans and other assets.
- In consideration of the loss sharing program, Citi issued a combined $7.059 billion in cumulative, perpetual preferred stock to the Treasury and the FDIC, with a dividend of eight percent per annum, payable quarterly. The first dividend payment of $47 million will be made on February 17, 2009.
- Citi also issued the Treasury an option to purchase 66,531,728 million common shares in the company at a strike price of $10.61 per share.
- A summary of terms available **at this link** explains how the loss sharing program works.

d. Mortgage Mitigation Terms Explained

A **modification agreement** is typically used when the customer has a significant reduction of income that impacts his or her ability to pay and will last past the foreseeable future. Typically, the customer's loan terms are modified in order to resolve the mortgage delinquency. This agreement makes the mortgage more affordable for the customer.

A **repayment plan** is a written agreement between the borrower and the lender to implement a payment moratorium due to unforeseen circumstances wherein the property or employment status is affected. At the expiration of the term, the customer pays the total arrearage in a lump sum payment or elects a further repayment plan. This agreement is typically used when a customer has a short term reduction of income that severely impacts his or her ability to pay for a short period of time. The repayment plan brings the customer current over time as the payment obligations are met. It can also include a repayment plan under which the customer pays the regular monthly payment and an additional amount each month to catch up delinquent payments over time.

An **extension** is when the customer has experienced a temporary hardship and is unable to bring the loan current. The customer has the ability to continue making future payments, but does not have the funds to completely reinstate the loan. An extension may re-amortize the loan or defer the interest to the back of the loan. It brings the customer's account current immediately. An extension is generally used in the early stages of delinquency when a customer is one or two payments behind; it is rarely used for serious delinquency of more than 90 days past due or in the foreclosure process.

A **reinstatement** occurs when a customer that is 90+ days past due is able to pay all of the delinquent fees, interest and principal owed to the bank with a single payment. This brings the customer's account current immediately and allows him or her to continue to pay off the loan according to the original amortization schedule.

A **Home Saver Advance (HSA)** loan is an unsecured personal loan to approved Fannie Mae servicers for eligible borrowers designed to bring a cure to the delinquency on a first lien loan. HSAs provide funds to cure arrearages of PITI, as well as other advances and fees. HSAs are documented by a borrower signed promissory note, payable over 15 years at a fixed rate of 5% with no payments or interest accrual for the first six months.

A **short sale** is when the customer does not have either the desire or ability to keep the property and is willing to sell the property to satisfy the debt. This option is utilized when the amount owed less acceptable closing costs to sell the property is more than the value of the property.

A **deed in lieu of foreclosure** is when the customer does not have either the desire or the ability to keep the property and is unable or unwilling to sell the property but is willing to sign the property over to Citi in exchange for stopping the foreclosure action. Deeds in lieu of foreclosure are generally accepted only after all other options have been exhausted.]

e. Useful Links

citigroup.com

Citi Office of Homeownership Preservation

Citi Community Capital

Citi U.S. Mortgage Lending Data and Servicing Foreclosure Prevention Efforts, Third Quarter 2008

Financial Information, Fourth Quarter 2008

Code of Conduct

Corporate Governance Guidelines

Annual Report for 2007

Corporate Citizenship Report for 2007

Citi Foundation

Citi Press Room

Question #1-

(BACHUS) I have one question, one urging. I hear from responsible borrowers who are not in default and who are paying their payments on time, their interest payments in some cases, that their principle is being called, that they are being asked to do a 10 percent calldown on their principle, or that their credit lines are being restricted. And I know, in some cases, that this is probably a good lending practice because you are seeing some deterioration. But I would ask you, can we do a better job in that? And can the regulators assist you in that, or is there something that we can do to avoid those cases? Because there are people that can make interest payments now, but they cannot begin to pay down principle. It is just the wrong time.

So, to any of you who would like to answer that question. Or I will call on Mr. Lewis. Or, Mr. Stumpf, you didn't want the money, you took it, and you wish you didn't, I am sure. And we are going to make money on that investment, but you can answer the question.

Mr. STUMPF. Well, thank you. And we have clarified our statements. We are happy to have the money. It strengthened the industry, and that is good—

Mr. BACHUS. But, yes, I guess what I meant is first you said we don't need the money. But I appreciate it.

Mr. STUMPF. With respect to borrowers, in our company, frankly, we have been growing loans the last 18 months. As I mentioned in my testimony, many others have retrenched. And we think these are actually good times to make loans to credit-worthy borrowers. We make money when we make loans. That is our business. We want to serve customers, help them educate children, buy homes, small businesses to develop products and services that they can sell and serve other customers. In some cases, it is prudent. You have to cut back on a line. But we have not done a system-wide. It has been very much individual, one customer at a time, working with them. And we want to stick with them if we possibly can. But also, unfortunately, not every borrower who wants or needs money can afford it today. And we have to be prudent—

The CHAIRMAN. If the gentleman would yield briefly, that is such an important question that so many of us have been asked to get answers to. I would ask those to whom it is relevant—obviously, not Mr. Blankfein or Mr. Kelly or Mr. Logue or Mr. Mack, but for the commercial bankers that are before us, if you could answer in writing, that would be very helpful. I think we would all like that, because I think that is one of the most frequently asked questions we have. So for Mr. Dimon, Mr. Lewis, Mr. Pandit, Mr. Stumpf, if you would answer that in writing, that would be very helpful.

Question 2-

Mr. GUTIERREZ. Let me just say to all eight of you that are here before us this morning, I would like for all of you to just kind of put in writing so that we could have it on the record—and I don't expect the answer here this morning—if each of you could just tell us how much your bank has paid itself on FDIC-guaranteed or other government-guaranteed financing, and what percentage of those finances were completed solely for the purpose of funding your bank. An example: I won't name the bank, but you go out and you take $3 billion in one deal, and you go out with FDIC insurance, and you go to the market and you sell $3 billion worth of bonds in order to give yourself more liquidity. And they are FDIC-insured. Are you then paying your own investment banking firm—I am sorry, Mr. Chairman.

The CHAIRMAN. Finish the question.

Mr. GUTIERREZ. Are you then paying your own investment banking firm? And how much are you paying your own staff, in terms of underwriting fees for selling what a kindergartner could sell out in the market today?

The CHAIRMAN. Let me just say, as we conclude this, we will take these answers in writing. Also, all members have the right to submit further written questions. I think this is important. There will be some clarification. So we will be submitting some further written questions, as well.

Question 3-

Mr. WATT. Thank you, Madam Chairman. I am actually going to follow up on the question that Mrs. Capito has raised here, and I want to follow it up with Mr. Lewis and Mr. Stumpf, because they are the two banks that have the largest presence in my congressional district. But I suspect it is a question that is applicable to all of these folks. Because if you were asked to take TARP money, then you probably fit into the category of too big to fail. I think I started this discussion with Hugh McCall some years ago around the issue of deposit caps and became convinced of the merits of having banks large enough to be worldwide competitive, and so I understand that aspect. I have had the discussion with Ken Thompson and even back to John Medlin when they were saying that Wachovia didn't have to worry about that because it didn't have a nationwide footprint, but now Wells Fargo, the owner of what used to be Wachovia, does have a nationwide footprint. Then, most recently, yesterday, Secretary Bernanke started to raise more concerns about this whole question of too big to fail. So I guess my question is whether, in that context, an even more aggressively regulated framework for larger banks, and maybe even not only banks but institutions that have systemic risk potentials, might be appropriate? What is your assessment of that, Mr. Lewis and then Mr. Stumpf? And the rest of you all can respond in writing, I guess, because we won't have time to hear from everybody.

Question 4-

Mr. WATT. I don't want to cut you off, but I know where you are going, and I am not sure that that is going to address the public necessity, because then that leaves it to the individual goodwill, good intentions or good execution, which, if it is a systemic problem, may work out well, may not work out well. Let me ask one other question going back to credit card risk and the impact on the economy in general. Is it your all's estimate— and you can submit this in writing—that the size of this stimulus is sufficient to serve the purpose for which it is being represented? I will let you respond to that later.

Question 5-

Mr. ACKERMAN. But if you did $35 billion last time, you did $35 billion this time, we gave you $25 billion more to do it, nothing of that went out then. Could you each send us in writing what you did with all of those billions of dollars that you got? Is anybody unwilling to do that at this point? Is anybody going to say, it is not your business; we don't have to? We will expect that from each of the eight of you in writing then.

Okay, the $165 billion that we have put into you-all's companies shows that we have some degree of confidence in what you are going to do with that money and that you are going to be around. Each of you are individually wealthy. Could you go down the line and just give us a number, how much of your personal money you have invested in your company in new money during the last 6 months? And zero is a number

Question 6-

Mr. SHERMAN. Next is a question insisted upon by three new friends I have in Detroit. I would like you to provide for the record a detailed statement about planes and perks, but for now I would like you to raise your hand if your company currently owns or leases a private plane. Let the record show all the hands went up except for the gentleman from Goldman Sachs.

Question 7 -

Mr. MEEKS. I am talking now specifically about the TARP and/ or the FDIC Temporary Liquidity Guarantee Program and the fees that would be utilized by underwriters therein. I think that Mr. Pandit talked earlier about that; the money that is legal, that you have to—by law you have to have it underwritten.

My question is there is also opportunities there for it to be farmed out to others or contracted out to other minority firms or small firms, and I was wondering if anyone has done it with any of those fees specifically, with public dollars.

Mr. STUMPF. Yes, we have done that.

Mr. PANDIT. Congressman, I don't have the facts. I can get you the facts. I believe we do that, but let us get you the information.

Question 8-

Mr. LANCE. Thank you. And following up on a line of questioning from Congresswoman Maloney earlier in the hearing. And this is to you, Mr. Lewis. And I recognize that you are Bank of America and not Merrill Lynch, and there was a great deal of pressure on Bank of America to merge with Merrill Lynch, but we are all disturbed about the level of bonuses from Merrill Lynch. Was Bank of America aware of the contractual nature of those bonuses?

Mr. LEWIS. Yes. As we got on in our due diligence, we saw the contracts, yes.

Mr. LANCE. And are those contracts a matter of public record, or can they be made a matter of public record?

Mr. LEWIS. I don't know the answer to that, but there were—as I mentioned, there were two or three that were very, very large and were contractual obligations of Merrill Lynch.

Mr. LANCE. I certainly would be interested, and I imagine the committee would be interested, in whatever information is available as a matter of public record regarding that. I believe that TARP funding is, of course, fungible, and that from our perspective those bonuses are really from TARP funds.

Question 9-

Mr. CAPUANO. Thank you, Mr. Chairman. Gentlemen, you have been asked a lot of questions, and you seemingly answer them honestly to me. I have a couple of more detailed questions.
Just by a show of hands, how many of your banks either directly or indirectly—and by indirectly I mean by loaning money to people that you knew would be using this money to invest in credit default swaps. How many of you engage in that?

Mr. MACK. We engage in credit default swaps, but when you are asking the question are we lending money for them to do that, I have to come back and give you specifics. I cannot tell you.

Question 10-

Mr. PAULSEN. Maybe I can ask one other question. As we consider the regulations for the financial markets, because we are going to be doing that now to sort of get rid of the crisis that we are in, prevent another one from happening or deepening this crisis actually, what are the largest concerns about overregulating, going down the road of Sarbanes-Oxley in terms of moving in that direction, and stepping too far where we are intending to be helpful, but actually it could be very harmful? Is there anything specific you can draw out that we should be very cautious of?

Mr. LEWIS. I think my main concern around compensation, for instance, is it is okay to do the things that are being talked about at the very top, but if you start to go too low in the organization, you will run off key talent to foreign competitors.

Mr. PAULSEN. Is that a shared view among others?

Mr. KELLY. It is one of our greatest worries.

Mr. STUMPF. Yes, there are many businesses that we are in that are commission-based, for example, and if we limit across-the-board or whatever, we could lose some of the most productive people and some of the most important parts of our business.

Mr. PAULSEN. Thank you.

Mr. STUMPF. It is widely dispersed.

The CHAIRMAN. While the gentleman yields back, let me take advantage because I am going to ask you to submit in writing, I understand the argument you make about foreign competition. It has been my impression that people here have generally been better compensated than people in these other countries. So I would ask you to submit to me some cross-national comparisons. I am, frankly, skeptical from what I have seen that they are paying so much more in other places. Certainly not at your level. So I would be interested in those cross-national comparisons. You are going to have to prove to me that you are really at risk there if there is some moderation.

<u>Question 11-</u>

Mr. MILLER. Now, obviously, everyone has spoken of a problem with confidence in the industry, and Chairman Bernanke yesterday compared the proposal for a stress test to the bank holiday in 1933 in the New Deal, a comparison that occurred to me as well. Do your current safety and soundness regulators have the capacity, the sophistication, the expertise, to do a credible stress test, or what do we need to do to make sure that any stress test is credible and we know that any bank that gets a clean bill of health is in fact safe and sound?

Mr. BLANKFEIN. I believe they are capable. I have only had a 3- month relationship with my new regulator.

The CHAIRMAN. We will have to take the rest of the answers in writing.

<u>Question 12-</u>

(CLEAVER) What I want to talk to you is not that. I want to talk to you, Mr. Blankfein, first of all. Do you believe that warehouse lending is safe and profitable?

Mr. BLANKFEIN. I am sorry, warehouse lending? Against a physical warehouse?

The CHAIRMAN. No. Any one of the retail bank people, they know what we mean by warehouse and probably ought to take that.

Mr. CLEAVER. Well, some Wall Street banks are involved in warehouse lending. Warehouse lending is when you issue a line of credit to an originator, usually it is for about 30 days, and then they, of course, sell the mortgage somewhere else.

Mr. STUMPF. We are familiar with the business. We do very little of it, if any, anymore, primarily because we would rather make loans, our home loans, ourselves. We have a set of auditors. We have a set of principles, values, so we make sure the mortgage is for the benefit of the customer. They understand the terms and conditions. It helps them and so forth. So it is hard to control when you are a warehouse lender.

Mr. CLEAVER. So most of you don't do warehouse lending, which is one of the problems. That is one of the problems. If a mortgage company in my district is making loans, or trying to make loans, and the liquidity is not available, and it has been constrained a great deal recently, it is difficult for them to originate the loans because they don't have access to the capital, and with more and more people avoiding warehouse lending, it is hurting local mortgage companies. Wouldn't you agree?

Mr. STUMPF. We have been out of the warehouse lending business for 5 or 6 or 7 years, and the reason we got out is because we saw them doing crazy things that we wouldn't do ourselves, so why do we want to be a part of that? It was too risky for us.

The CHAIRMAN. Will the gentleman yield, and I will give him some extra time, because he is on to a central issue that I have heard a lot of complaints from my colleagues about. And one of them is, it is one thing to say we are not going to take on my new warehouse lending, but we have been told there are people who had accumulated an inventory based on their ability to do warehouse lending, and they were cut off in the middle. So there is a considerable degree, we have heard this from several members, there are people who had a warehouse lending relationship and had made certain commitments on the assumption that they would have that capacity, and it was cut off before they could sort of wind down the business in a reasonable way. I wonder if there is anybody familiar with that issue, because that is a particular form of it that I have heard a lot of complaints about, from builders.

Mr. STUMPF. I am not an expert in warehouse in mortgage lending, but there are two kinds. One we actually finance, you give them a line of credit. Another one is where they do their own mortgages, and you buy them, and then you process them. I don't know which one it is.

The CHAIRMAN. The one where I think we have had the problem, there were developers, people who had accumulated property, and then they were counting on the line of credit to be able to finance these purchases and were shut down in the middle. That is the specific complaint that I have heard. I don't know about the gentleman from Missouri.

Mr. CLEAVER. Yes, that is precisely it. And one Wall Street investment bank at one point not long ago had a $250 million line of credit just for one originator. So all that has dried up. How in the world are we going to deal with the housing crisis, the home builders and the realtors, if warehouse lending is being evaporated?
You are the only one that participates in it, and yours is at a minimum. I needed to just say that, because it is a problem in every community, and my community is no less being hit. The final issue I want to raise is that I am woefully unimpressed with the diversity of this panel, of not only the panel but the folk who sit behind you. I don't know how many rows deep we would have to go to have some diversity.
Thank you, Mr. Chairman.

The CHAIRMAN. Let me say, and I appreciate the gentleman raising that, I would ask that you give us in writing a response, because the gentleman raises a very important question. I will tell you, we hear a lot of this from our colleagues. It is the cutting off of the warehouse lending relationship in the middle of the movie, when there is inventory of some kind that was going to be financed by the warehouse lending and is cut off. I would ask you to talk to your people and give us answers in writing, and I would hope the answer would be that, well, yes, that is a problem, and even if we don't want to take open any new commitments, we will allow for the orderly unwinding of the existing commitments. I think that is the focal point we have heard.

Question 13-

Mr. ELLISON. Do you think it is appropriate while in receipt of TARP funds to be trying to defeat measures such as the Employee Free Choice Act?

Mr. LEWIS. I think doing what is in the best interest of your company is always the best thing to do. So I wouldn't point to any one thing and say, just because you have TARP fund, you can't do something.

Mr. ELLISON. But, as has been pointed out already, money is fungible. What you don't use one place you can switch and use other monies for that while you are using TARP funds. Wouldn't you agree that your company needs to be using those funds for their intended purpose—

Mr. LEWIS. Yes.

Mr. ELLISON. —and not trying to defeat union organizing?

Mr. LEWIS. And $45 billion is in the context of $230 billion in equity. So you have got to think of it in the context of a much larger number.

Mr. ELLISON. Right. Well, I just wanted to put into the record, have unanimous consent to have entered into the record this letter from Change to Win to Mr. Steve Bartlett, who was with the Financial Services Roundtable. In it he describes a conversation in which several companies which received TARP funds were having some fairly frank conversations about lobbying. I find it pretty disturbing; and I would like you to respond to this letter, if you would, sir, because it specifically mentions your company.

The CHAIRMAN. We have general leave, so it will be part of the record.

<u>Question 14-</u>

Mr. WILSON. Okay. Maybe I can rephrase my question, Mr. Chairman.
There are a lot of people in Ohio that are really upset about the way things have been handled, the arrogance, the way things have been done, what has happened, the PNC purchase of National Citi with TARP funds, on down the line. It could go on and on. But what have we done to restore the confidence in the financial community that is going to help small businesses like I represent in Ohio to be able to get their line of credit to be able to buy goods for the spring and for the summer selling season? What has been done with the TARP money? Mr. Dimon, could I address that question to you?

Mr. DIMON. I think we put in the record a lot of what has been done with the TARP money. We have lent in the last 90 days I believe it was $250 billion; $90 billion to corporations, $50 billion to consumers, net and increased credit lines; $50 billion in interbank markets; $60 billion in the purchase of MBS or asset-backed securities. I do believe—and it is an estimate. I do believe that probably $75 billion of that would not have happened without the TARP money.
We are also a very large small business lender in Ohio. And I don't remember exactly the numbers, but I believe year over year small business loans are up in the Nation. I don't have Ohio's numbers. Government not-for-profit, hospitals, university lending is up year over year. And we will be happy to make all that part of the record.

<u>Question 15-</u>

Ms. SPEIER. There is a GAO report that just came out in December of 2008, and it talked about the number of the biggest financial institutions both in size and in their bailout receipts and that they maintain revenues in offshore tax haven countries where there are no or nominal taxes and minimal, if any, reporting. According to the Department of Treasury reports, the U.S. Government loses $100 billion a year in tax revenue from these tax dodges from all sources, including these firms. For instance, Citigroup claims 427 different overseas locations or tax jurisdictions, 90 in the Cayman Islands alone. And, by the way, you are receiving a 38 percent subsidy from the taxpayers right now. Morgan Stanley has 273 locations of which 158 or well more than half are in the Cayman Islands. Again, Morgan Stanley has about an 18 percent subsidy from the taxpayers right now. Are you willing to bring those offshore tax havens home to America?

Mr. MACK. Congresswoman, I would have to give you the exact details and come back to you. I think a number of those are either partnerships or vehicles we have made structured for clients or structured for an offshore business. I cannot give you the complete answer, but I will give you the answer when I return.

Ms. SPEIER. Thank you.

<u>Question 16-</u>

Mr. PETERS. Well, I want to follow up on that. And I appreciate both your comments, but is it possible to get numbers so I can just get a sense of how the loan volume is different in Michigan than other States? Would you both be willing to provide that information?

Mr. DIMON. Happy to be willing to do that, yes.

Mr. LEWIS. Yes.

Mr. PETERS. Mr. Lewis, as well. We will follow up on that.

Question 17

Mr. PETERS. Mr. Lewis, as well. We will follow up on that. I want to get back to the auto industry, because obviously we have a very strong concern in the auto industry. And, surely, the impact of the credit crisis has hit the auto industry more than most industries, and the repercussions could be dramatic, not just in Michigan, but all over the country. Millions of jobs are at stake. But also, if you look at the recovery of the economy, there isn't anything that is more powerful a stimulus in the economy than to get people buying automobiles, get the auto industry going. It has picked this country out of many recessions in the past, has the potential to do that again if managed well. And you know that right now we are in a very precarious situation. In fact, the auto companies will come back to this committee on February 17th with their viability plans, and a part of those plans have to be plans that they have made with the stakeholders, both labor as well as the creditors. How many of you are creditors to the auto industry, have substantial loans or substantial debt instruments of some form or another? Basically all of you, except Mr. Stumpf. Everybody has it. Well, then, how many of you have received proposals from the auto companies?

Mr. MACK. When you say proposals, requests?

Mr. PETERS. Proposals from the auto companies to restructure that debt, which, as you know, is a condition that has placed on it to have substantial concessions from debt holders to renegotiate that debt. How many of you have already received specific proposals from the auto companies?

Mr. MACK. Congressman, I would have to check. We have a very active dialogue with the auto industry. And I will check when I am back and let you know exactly.

Wells Fargo & Company
Responses to House Financial Services Committee
Questions Transmitted in March 4, 2009 Letter

1. **Principal pay-downs and credit line reductions.**

We have not required borrowers to pay down outstanding principal under lines of credit. Some commercial borrowers may be required to pay down principal, in the case of workouts where the borrower is in default, or if conditions to a credit agreement have not been met.

We are not reducing consumer credit lines across the board. For credit cards, we are carefully monitoring usage patterns and evidence of deterioration in individual cardholder's credit profiles. This may result in targeted reductions in lines for consumers whose risk profiles have been elevated, even if those consumers are not delinquent on our account. At the same time, we continue to increase some consumer's lines where risk and capacity suggest it is appropriate.

Wells Fargo conducts periodic reviews of home equity lines of credit to help make sure that the limit on the account is in line with the borrower's financial condition. In some instances we determine that a borrower's credit profile has adversely changed and that further draws on the account should not occur or we need to reduce the commitment amount to better align it with the borrower's financial condition. Our case-by-case reviews of the borrower's financial condition include a variety of factors such as credit scores, debt levels, payment history, and property value changes, among others. The key is that a case-by-case review is conducted.

Similarly, with commercial lines of credit, we have not reduced credit lines on a system-wide basis. Each borrower's situation is evaluated individually.

2. **Sale of FDIC-guaranteed debt.**

In December 2008, Wells Fargo & Company sold $6 billion of notes guaranteed by the FDIC under the Temporary Liquidity Guarantee Program. Two affiliated broker-dealers, Wells Fargo Brokerage Services, LLC and Wachovia Capital Markets, LLC, participated in the underwriting with each agreeing to underwrite 8.5% of the total amount of the underwriting. We also used three minority or women owned firms: Cabrera Capital Markets, LLC, Loop Capital Markets, LLC, and Muriel Siebert & Co., Inc. Each of these firms had 1% of the deal (or 3% total). Underwriter compensation was 15 basis points (0.15%) of the public offering price.

3. **Framework for regulation of systemic risk.**

Wells Fargo believes balanced, effective regulation is a critical element of a successful financial system. It is our view, however, that systemic risk is more a function of business model, values, culture and leadership than it is the size of an institution. A number of smaller institutions may engage in activities that collectively pose a systemic risk. Therefore size in and of itself is not determinative. More important are the vision, values and business model of an institution. In our case, we have a strong culture that puts our customers, communities, team members and shareholders at the center of everything we do. We have a diversified business model that encompasses more than eighty businesses, allowing us to navigate smoothly across all business cycles, and over the years have built a conservative financial structure as measured by asset quality, capital levels, diversity of revenue sources and dispersing risk by geography, loan size and industry.

4. **Adequacy of size of stimulus.**

Wells Fargo believes many of the measures the federal government, including the Congress, the U.S. Treasury Department, the Federal Reserve, and FDIC, among others, has taken in recent months will in time prove effective in helping to mitigate the financial and economic challenges facing the country. No one program, including the stimulus package, will likely be determinative of success. Wells Fargo's sincere hope and expectation is that the multitude of governmental initiatives, in combination with market forces, will lift the country out of the current economic downturn.

5. **Use of TARP Funds.**

As publicly reported, Wells Fargo did not seek the Treasury capital investment under TARP; rather, we agreed to the investment at the request of the Secretary of the Treasury. Thus, we had no specific plans for use of the TARP funds at the time they were provided by the Treasury Department.

Effective December 31, 2008, Wells Fargo & Company acquired Wachovia Corporation. Please note that amounts for 2008 indicated below do not include information for Wachovia because the acquisition was completed by Wells Fargo at the end of 2008. January 2009 information includes Wachovia.

The Treasury investment in Wells Fargo resulted in an equivalent increase in Wells Fargo's Tier 1 capital ratio. Wells Fargo has not specifically segregated this capital from other capital or other funds Wells Fargo has obtained through deposit-taking and other means of funding, including its successful public offering of its common stock in November 2008 which resulted in an additional $12.6 billion of common equity. In short, the TARP funds received through the Treasury investment are simply part of Wells Fargo's Tier 1 regulatory capital. The purpose of the Treasury investment was to provide Wells Fargo (and other banks that obtained similar investments) with additional capital to support additional lending as well as cushion against losses resulting from existing loans and other assets.

Throughout the current credit crisis, Wells Fargo has continued to extend credit to its consumer, small business and commercial customers. Despite the weak economy and difficult market conditions in many secondary markets, Wells Fargo extended over one-half trillion dollars in new loan commitments and mortgage originations in the last 18 months through the end of 2008. Despite the further deceleration of the economy and associated moderation in credit demand in the fourth quarter of 2008, Wells Fargo extended $22 billion in new loan commitments, $50 billion in first mortgage originations, and took $116 billion in new mortgage applications in the fourth quarter of 2008, up 40% from the third quarter of 2008. December 2008 mortgage applications of $63 billion were the fourth highest month in Wells Fargo's history. About two-thirds of mortgage applications in the fourth quarter were for refinances and about $40 billion of the applications we took were for home purchases, a relatively solid increase in a typically seasonally soft quarter. In total, Wells Fargo extended over $72 billion in new credit in the fourth quarter of 2008, almost three times the amount of capital it received from the U.S. Treasury. In January 2009, we extended $51 billion in loans and loan commitments to customers, bringing the total credit extended to customers to $144 billion from October 2008 through January 2009. The $51 billion includes $24 billion in home mortgage originations, $6 billion in consumer loan originations, $14 billion in commercial loan renewals, and $7 billion in new commercial loan commitments. Mortgage originations for the first two months of 2009 were $59 billion, exceeding in two months the exceptionally strong fourth quarter 2008, and mortgage applications were $107 billion.

Average consumer loans increased 4% in the fourth quarter from a year earlier. The growth Wells Fargo achieved in consumer credit extension was broad based including growth in first mortgages, credit cards, education loans, and unsecured personal credit. Growth in home equity lending and auto finance were more moderate with increases in credit extended in these products through the Bank's direct to consumer (retail) networks moderating reduced lending through higher risk indirect channels. Originations of home equity lines and loans remained relatively flat from December 2008 to January 2009. In January 2009, education finance lending included $2.4 billion in originations, up 33% from January 2008.

Commercial loan growth at Wells Fargo increased 11% in the fourth quarter of 2008 from a year earlier and 10% (annualized) from the fourth quarter as compared to the third quarter, reflecting the Company's commitment to extend credit to all of its creditworthy customers at a time when many of Wells Fargo's competitors had retracted from commercial lending. Commercial loan growth at Wells Fargo in the fourth quarter continued to be broad-based by geography and by product type with growth for example in small business lending (up 8%), asset based lending, middle market commercial lending, commercial real estate (largely owner-occupied financing) and selected niches in large corporate lending. As indicated above, approximately $7 billion of new commercial loan commitments and $14 billion of commercial loan renewals were made in January.

Wells Fargo increased total loans outstanding (consumer and commercial) by approximately $10 billion in the fourth quarter of 2008, a 10% (annualized) growth rate over the prior quarter. This occurred at a time when aggregate loans among large U.S. banks grew less than 10%; thus, Wells Fargo's commitment to extending credit resulted in an increased market share of bank lending in the fourth quarter. Almost all of Wells Fargo's lending to both consumers and businesses is originated by Wells Fargo relationship officers through our direct origination channels. As a result, the principal driver of Wells Fargo loan growth has been needs-based selling to existing customers as well as growth in new customers. Wells Fargo added over 400,000 new household customers in the last year.

6. **Ownership or lease of private aircraft; perquisites.**

Wells Fargo previously owned one corporate jet. The Company now owns or leases eight corporate jets, seven of which were acquired in the merger with Wachovia Corporation. We plan to keep two or three and are actively trying to sell or terminate leases with respect to the others.

Information about perquisites provided to senior executive officers of Wells Fargo can be found on page 71 of Wells Fargo's 2009 proxy statement available on the SEC website at http://www.sec.gov/Archives/edgar/data/72971/000119312509057665/ddef14a.htm

7. Use of small or minority firms in underwriting of FDIC-guaranteed notes.

See answer to question 2.

8. This question is specific to Bank of America.

9. Loans to borrowers for credit default swaps.

Wells Fargo acquires credit default swaps to protect its own loans and other assets from losses arising from defaults by our borrowers and other obligors. Wells Fargo has also acted as an intermediary between institutional buyers and sellers of credit default swaps by entering into offsetting matching contracts that are collateralized with cash or government securities, thereby keeping Wells Fargo hedged against the market and credit risks of these contracts. Although buyers pay an upfront or periodic premium to sellers for this credit default protection, neither buyers nor sellers typically borrow money to enter into credit default swaps. Wells Fargo does not loan money to borrowers for the purpose of acquiring or investing in credit default swaps.

10. Information about cross-national compensation comparisons.

Wells Fargo has not generally used cross-national compensation surveys to determine compensation structures.

11. Stress tests.

Wells Fargo regularly performs stress tests on its portfolios and shares the results with its regulators. As they should, banks and regulators have been doing stress tests for a very long time.

12. Warehouse lending to mortgage originators.

Non-Bank mortgage lenders (commonly referred to as "mortgage bankers") rely very heavily on mortgage warehouse lines of credit ("warehouse lines") to provide short term financing for newly originated residential mortgage loans, which are quickly sold to third party investors in the secondary market.

While Wells Fargo Bank has not made warehouse lines to non-affiliated mortgage lenders for many years, it does, through its subsidiary, Wells Fargo Funding, Inc., provide critical liquidity to the mortgage markets by being a leading correspondent lender. As a correspondent lender, Wells Fargo Funding purchases closed mortgage loans from more than 500 non-bank lenders, including mortgage bankers, and more than 450 regulated financial institutions.

Wachovia Bank, acquired by Wells Fargo on December 31, 2008, does provide licensed mortgage bankers with warehouse lines. As is customary on most warehouse lines, Wachovia

Bank agreements require compliance with certain financial covenants by the mortgage banker, certain mortgage loan quality requirements and eligibility standards in order to obtain advances under the warehouse line of credit. Examples of such covenants may include that the mortgage loans be eligible for sale to either Fannie Mae or Freddie Mac and the maintenance of a required tangible net worth.

When Wachovia Bank declines to further extend a line of credit to a mortgage banker, whether on a temporary or permanent basis, it is either because there is a reasonable expectation the ability to repay the obligations has been reduced, generally because of reductions in the quality of the mortgage loans, or because of the deteriorating financial condition of or noncompliance with credit agreement covenants by the mortgage banker.

Wachovia Bank plans to continue to prudently originate and maintain mortgage warehouse lines of credit to financially viable mortgage bankers who meet the terms of their credit agreements.

13. **Lobbying on Employee Free Choice Act.**

Wells Fargo has not announced a position on this legislation and has not engaged in lobbying regarding it.

14. **Use of TARP Funds.**

See response to Question 5.

15. This question is directed to Morgan Stanley.

16. This question is directed to JP Morgan Chase and Bank of America.

17. **Loans to U.S. auto companies.**

Wells Fargo's exposure to the three major US automobile manufacturers (including related entities) is comparatively small relative to Wells Fargo's total outstanding loan assets of $865 billion as of December 31, 2008. Including exposure acquired in the merger with Wachovia Corporation, total commitments to these borrowers are approximately $486 million and total outstandings are approximately $404MM. As of this date, there have been no proposals from any of these borrowers to Wells Fargo with respect to renegotiation or restructure of any credit facility. It should be noted that several of these exposures represent relatively small participations by Wells Fargo in syndicated facilities agented by other banks.

STATE OF NEW YORK
OFFICE OF THE ATTORNEY GENERAL
120 BROADWAY
NEW YORK, NY 10271

ANDREW M. CUOMO
Attorney General

(212) 416-8050

February 10, 2009

Honorable Barney Frank
Chairman, House Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Re: Merrill Lynch 2008 Bonuses

Dear Chairman Frank:

I am writing to provide you and your Committee with information concerning the executive compensation investigation currently being conducted by the Office of the New York Attorney General.[1] As you know, as part of that investigation, this Office is conducting an ongoing inquiry into the 2008 bonus payments made by Merrill Lynch & Co., Inc.

On October 29, 2008, we asked Merrill Lynch to detail, among other things, their plans for executive bonuses for 2008, including the size of the bonus pool and the criteria they planned to use in determining what, if any, bonuses were appropriate for their top executives. On November 5, 2008, the Board responded and stated that any bonuses would be based upon a combination of performance and retention needs. However, Merrill did not provide my Office with any details as to the bonus pool, claiming that such details had not been determined.

Rather, in a surprising fit of corporate irresponsibility, it appears that, instead of disclosing their bonus plans in a transparent way as requested by my Office, Merrill Lynch secretly moved up the planned date to allocate bonuses and then richly rewarded their failed executives. Merrill Lynch had never before awarded bonuses at such an early date and this timetable allowed Merrill to dole out huge bonuses ahead of their awful fourth quarter earnings announcement and before the planned takeover of Merrill by Bank of America.

Merrill Lynch's decision to secretly and prematurely award approximately $3.6 billion in bonuses, and Bank of America's apparent complicity in it, raise serious and disturbing questions. By December 8, 2008, Merrill and presumably Bank of America must have been aware that the fourth quarter and yearly earnings results were disastrous. Indeed, on January 16, 2009, the companies announced that in the fourth quarter alone Merrill Lynch has lost $15.31 billion, and

[1] This information is being provided pursuant to Committee staff request.

more than $27 billion for the year. In the face of these losses, federal taxpayers were forced to help Bank of America acquire Merrill. Thus, Bank of America also announced on January 16, 2009, that the federal government would invest $20 billion in the deal and provide $188 billion in protection against further losses primarily from the Merrill Lynch portfolio. These investments were in addition to the previous $25 billion in TARP funding that taxpayers had given to Bank of America.

One disturbing question that must be answered is whether Merrill Lynch and Bank of America timed the bonuses in such a way as to force taxpayers to pay for them through the deal funding. We plan to require top officials at both Merrill Lynch and Bank of America to answer this question and to provide justifications for the massive bonuses they paid ahead of their massive losses. As you know, my Office recently issued subpoenas seeking the testimony of former Merrill Lynch CEO John Thain, as well as the testimony of Bank of America Chief Administrative Officer J. Steele Alphin. I expect we will also be seeking the testimony of other top executives at these firms.

What my Office has learned thus far concerning the allocation of the nearly $4 billion in Merrill Lynch bonuses is nothing short of staggering. Some analysts have wrongly claimed that individual bonuses were actually quite modest and thus legitimate because dividing the $3.6 billion over thousands upon thousands of employees results in relatively small amounts – estimated at approximately $91,000 per employee. In fact, Merrill chose to do the opposite. While more than 39 thousand Merrill employees received bonuses from the pool, the vast majority of these funds were disproportionately distributed to a small number of individuals. Indeed, Merrill chose to make millionaires out of a select group of 700 employees. Furthermore, as the statistics below make clear, Merrill Lynch awarded an even smaller group of top executives what can only be described as gigantic bonuses.

Bearing in mind that Merrill moved up its bonus payments in advance of its announced $15 billion quarterly loss and $27 billion annual loss, we have determined that Merrill Lynch made the following bonus payments:

- The top four bonus recipients received a combined $121 million;
- The next four bonus recipients received a combined $62 million;
- The next six bonus recipients received a combined $66 million;
- Fourteen individuals received bonuses of $10 million or more and combined they received more than $250 million;
- 20 individuals received bonuses of $8 million or more;
- 53 individuals received bonuses of $5 million or more;
- 149 individuals received bonuses of $3 million or more;

- Overall, the top 149 bonus recipients received a combined $858 million;
- 696 individuals received bonuses of $1 million or more.

Again, these payments and their curious timing raise serious questions as to whether the Merrill Lynch and Bank of America Boards of Directors were derelict in their duties and violated their fiduciary obligations. We will also continue to examine whether senior officials at both companies violated their own fiduciary obligations to shareholders. If they did, this raises additional serious issues with regard to the inappropriate use of taxpayer funds.

In this context, I represent the taxpayers who demand accountability, transparency, and responsibility. Taxpayers are being crushed by the losses on Wall Street and now are paying billions in bailout funds. My investigation into whether these bonus payments violated New York's fraudulent conveyance statute and whether the lack of disclosures concerning these payments and other matters violated the Martin Act will continue. We will also continue to examine the circumstances surrounding any supposed guaranteed bonuses, their justifications, and Merrill's obligations pursuant to them, once Bank of America produces more information concerning such bonuses.

I look forward to continuing to cooperate with the Committee in any way possible to ensure that taxpayer funds are not misspent on unjustified bonuses or otherwise misused.

Very truly yours,

Andrew M. Cuomo
Attorney General of the
State of New York

cc: Members of the House Committee on Financial Services

FOR IMMEDIATE RELEASE
2/11/2009

Contact: Lauren Love
Press Department
pressdepartment@rainbowpush.org

Rev. Jesse Jackson's Congressional Testimony on the Administration of TARP Funds

February 11, 2009

To:The Hon. Barney Frank

From: Rev. Jesse L. Jackson, Sr., Rainbow PUSH Coalition

Re:Transparency, Accountability and Objective Assessment of Performance

Thank you for the opportunity to provide comments at your timely hearings on TARP accountability.

I would state from the outset that accountability cannot be achieved without transparency, clearly defined strategic goals and measurable outcomes, and enforceable penalties for non-inclusion. Without these elements, it will be impossible to assure integrity and appropriate use of the billions of dollars in public funds allocated by Congress to TARP and the upcoming economic stimulus plans.

Private corporations and public entities that have received, or will receive, government funds should be required (retroactively if need be) to report and disclose specifically how they have utilized public funds and validate that such funds are being used for their defined purposes.

It is the position of the Rainbow PUSH Coalition that, in its essence, TARP and future economic stimulus programs should serve the "least of these." By that we mean that those families that have lost homes due to job loss or were targeted for poorly-conceived mortgages must receive direct relief and a path back to mainstream financial security. Specifically, Congress must devise stringent regulation and initiatives to fulfill these oft stated but yet to be implemented goals:

1. Mitigate the home foreclosure crisis. 2.8 million foreclosures took place in 2008, up 80% from 2007, 225% since 2006. 10% of homeowners are now behind in mortgage payments, and another 2 million foreclosures are projected for 2009. It is time to permit homeowners facing foreclosure to modify their mortgages as a matter of right in Chapter 13 bankruptcy. This is the only system that has the capacity already in place to provide relief in a timely, equitable manner. The Congress is also urged to allocate significant funds to implement pubic and private proposals to restructure and modify loans, including the plans of Shelia Bair and the FDIC.

Rainbow PUSH strongly endorses the NCRC's proposals to pass H.R. 703, and "the need for a broader-scale loan modification program, the need for the federal government to exercise its authority to purchase troubled assets in an effort to stem the foreclosure crisis, and the need for enhanced consumer protection through comprehensive anti-predatory lending legislation." [NCRC]

Congress must provide incentives that motivate and ensure that TARP recipients--and future recipients of government funding--use allocated public funds for aggressive home foreclosure mitigation and restructure and modify the loans of millions of American families facing the loss of their homes.

2. Open up the credit markets and lending to individuals and businesses. A prevailing rationale for TARP and the public funds provided to financial institutions was to open up the credit markets and lending to businesses. Business, especially small and minority businesses, rely on the credit markets to meet their monthly payroll and operating expenses, and for acquisitions to expand their businesses. Many are being thrown out of business or frozen in the tracks of the credit freeze. Instead of opening up lending and the credit markets, banks are using public funds to acquire other banks, or hoarding and holding the public funds they received.

The Congress must devise legislation and effective measures to require or ensure that financial institutions open up the credit markets, and throw a lifeline to businesses and consumers in need. The nation cannot afford to discard an entire generation of business owners and consumers as financially unworthy. We must begin to build a bridge back to the financial mainstream for those individuals and businesses that bore the brunt of the nation's economic crisis through no fault of their own.

3. Student Loans. In today's economic recession, many youth are unable to go to school or stay in school due to the high cost of education and the dearth of Pell Grants and student loans. Those that do receive student loans – now tagged at between 4%-8% - are burdened with paying off these loans for decades into their adult lives.

Yet, today, the federal government is lending to banks and large financial institutions at interest rates of 1% or less. If banks can receive government loans at 1%, so should our nation's students

4. Minority participation. Section 106 of the TARP legislation called for "inclusion and contracting to the maximum extent possible, minority and women-owned businesses." There is no indication of any significant participation or inclusion of minority accountants, financial services firms, or other businesses in the TARP related contracting and sub-contracting. Inclusion of minority firms among TARP contractors is not only fair, but it is necessary and important because a diverse contractor base:

a. Assures that the most qualified firms participate, regardless of size (we have painfully learned that size alone is no guarantee of competence.)

b. Results in a more competitive bidding process and fairer contract fees, terms and conditions.

c. Guarantees that nimble, "hungry" contractors who will put the government's business first improve the performance of all contractors.

d. Neighborhoods and communities that need economic stimulus most actually receive it.

The Treasury Department, and TARP recipients such as Bank of NY Mellon, JP Morgan Chase, Citi, Bank of America, and others have received comprehensive information about qualified minority firms.

Congress should enact measures, and firms should act voluntarily, to forge partnerships to implement a strategic program, as outlined in HR 384, to ensure minority participation in management, employment, contracting and business activities under TARP; and in the management of mortgage and securities portfolios, making of equity investments, and the sale and servicing of mortgage loans. Equally important are the monitoring, compliance and reporting requirement to collect real data on minority participation.

5. Stabilization of the Automobile Industry. Since December, there has been a 4.4% decline in the overall manufacturing workforce, and minority employment has declined 18%. We are faced with the virtual extinction of small businesses operated by minority dealers and suppliers. It is imperative that there is Automotive Industry Inclusion of Minority Dealers and Suppliers. There is a need to restructure and amend the U.S. Small Business Administration (SBA) Act to assist minority dealers and suppliers that are socially and economically disadvantaged and have suffered massive economic injury as a direct result of the current economy, financial market collapse, bank credit freezing and current state of auto industry.

e. Provide working capital assistance that is allocated specifically to socially and economically disadvantaged businesses of dealers and suppliers.

f. Funding for job training and retraining, job retention and recruitment.

g. Refinancing of indebtedness, support loans and loan guarantees, and an infusion of federal aid stipulated for dealers and suppliers.

h. Consumer tax credits and empowerment zone tax credits.

6. Greater Need for Transparency and Oversight. While Federal Reserve Chairman Ben Bernanke and then Treasury Secretary Henry Paulson acknowledged the need for transparency and oversight, the Treasury has entered into "non-disclosure" agreements with the entities to which it allocated the funds, specifically, the Custodian Bank - Bank of NY Mellon.

Congress should enact measures requiring, as outlined in HR 384, the disclosure of this information to ensure transparency and accountability in the TARP. All efforts must also be made to encourage private firms to act voluntarily to disclose how they are using TARP funds.

Conclusion

Government oversight monitor Elizabeth Warren reported that Treasury lacks "a clearly articulated vision" for TARP and "has made limited progress in ... communicating an overall strategy" for it; that "it has not yet developed a strategic approach to explain how its various programs work together to fulfill TARP's purposes or how it will use the remaining TARP funds."

We applaud the passage of HR 384, led by Congressman Frank, to tighten accountability rules under TARP, assert oversight and diligent reporting requirements, direct investment to stem the tide of foreclosures, facilitate bridge loans to the auto industry, and establish an Office of Minority and Women Inclusion at the Treasury Department to ensure minority participation in TARP contracts.

In absence of regulation and congressional legislation, we urge private corporations and leaders to voluntarily act on these principles outlined above.

It is now time for change.

Office of Thrift Supervision
NEWS

1700 G Street, N.W., Washington, D.C. 20552 • Telephone (202) 906-6677 • www.ots.treas.gov

FOR RELEASE:
Wednesday, Feb. 11, 2009
OTS 09–006

CONTACT:
William Ruberry
(202) 906-6677

OTS Urges Temporary Halt to Foreclosures

Washington, D.C. — The Office of Thrift Supervision (OTS) today urged OTS-regulated institutions to suspend foreclosures on owner-occupied homes until the Financial Stability Plan's "home loan modification program" is finalized in the next few weeks.

"OTS-regulated institutions would be supporting the national imperative to combat the economic crisis by suspending foreclosures until the new Plan takes hold," OTS Director John Reich said.

The Plan unveiled yesterday by Treasury Secretary Timothy Geithner commits $50 billion to prevent avoidable foreclosures by reducing monthly payments for homeowners.

Reich and other OTS officials participated in the interagency effort led by the Treasury Department to develop the Plan.

Preventing avoidable foreclosures is an essential ingredient for economic recovery. After proposing an OTS Foreclosure Prevention Proposal a year ago, agency leaders have been testifying on Capitol Hill about foreclosure prevention alternatives, discussing approaches with industry trade groups and working with other bank regulators to keep American families in their homes.

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November 28, 2008

Rein in the credit card games

BY ADAM J. LEVITIN

As every sector of the American economy lines up to sit on Congress' lap and ask for an early Christmas present, things aren't looking so good for American consumers. The visions dancing in their heads are not of sugar plums, but of unemployment, debt, and foreclosures. They're wondering how they are going to pay for Christmas presents.

Now we learn that Treasury Secretary Henry Paulson wants to save Christmas, by using taxpayer funds to bolster the credit card market. But before we shower taxpayer dollars indiscriminately at every down-at-heel, ragamuffin credit card lender, we should take a hard look at how they got themselves into so much trouble. Just throwing money at the credit card industry without requiring a systemic change in how it does business is merely asking for a repeat of the crisis.

The card industry's business model is the heart of the problem and needs to change. Just as with subprime mortgages, the credit card business model creates a perverse incentive to lend indiscriminately and ignore delinquencies. Card issuers make money on every credit card transaction, regardless of whether the consumer ultimately pays a finance charge. The issuer receives around 2% of every transaction in a fee paid by the merchant (and passed on to all consumers in the form of higher prices). This fee is called the interchange fee. Card issuers will collect about $48 billion in interchange fees this year.

Because interchange is based on transaction volume, it creates an incentive for banks to issue as many cards as possible, regardless of the creditworthiness of the borrower. By creating a huge revenue stream unrelated to credit risk, interchange encourages card issuers to engage in reckless lending – and virtually every credit card loan is a "liar loan" with no income verification.

Banks have compounded this problem by shifting much of the loan risk to investors through securitization. When card issuers securitize credit card debt, they transform the credit card debt into a pool of assets used to pay off bonds. If the pool turns out not to be large enough, the bond investors take the loss. But if there's a surplus, it goes to the card issuer.

While card issuers sell off most of the default risk, they keep any upside that comes from inflating their fees and rates. This is a heads I win, tails you lose situation and leads the banks to increase fees and interest rates on securitized debt. If the higher fees and rates cause more defaults, it is investors who bear the loss. If the higher fees result in more income, however, it is the card issuer, not the investors, who benefit.

In order to ensnare consumers in these fees, the card companies employ an ingenious system of billing tricks and traps. The hallmark of credit card pricing is obfuscation through disclosure. Card issuers have created enormously complex pricing structures, with multiple interest rates and fees. On top of this Byzantine structure, issuers then layer a filigree of abusive and deceptive billing practices, buried in reams of fine print.

Making the total cost of using a card utterly inscrutable allows issuers to play a game of three-card monte. Card issuers distract consumers from the total price of credit cards by emphasizing teaser interest rates and rewards programs. Meanwhile, issuers raise the back-end fees that consumers inevitably underestimate. Since the 1990s, overlimit fees have gone up over 115% and late fees over 160%. The rise of these fees has a 99% correlation with the growth of securitization. Because credit card pricing is opaque, the market cannot function efficiently, and consumers inevitably misuse credit cards to their detriment.

The tricks and traps in the fine print alone cost consumers over $12 billion last year, and this is only a fraction of the pain inflicted by the one-two punch of interchange fees and abusive interest rates

Most consumers spend responsibly and live within their means, but the banks have devised a system to encourage reckless overspending – and enrich themselves in the process. But it turns out the maze of tricks and traps even fooled the banks. As delinquencies rise, they are looking for a handout. Whether or not they get it, we need to learn something from this crisis and fix the credit card business model or we'll all be in line for some special lumps of coal in a Christmas future.

ADAM J. LEVITIN *teaches bankruptcy and commercial law at Georgetown Law.*

CHANGE to WIN

1900 L Street, NW
Suite 900
Washington, DC 20036

phone 202-721-0660
fax 202-721-0661
www.changetowin.org

February 10, 2009

Steve Bartlett
President and CEO
The Financial Services Roundtable
1001 Pennsylvania Ave. N.W.
Suite 500 South
Washington, DC 20004

Dear Mr. Bartlett:

The failure of the financial services industry to manage risk has led to the most severe economic crisis since the Great Depression. And, while the managers responsible for the meltdown benefit from a taxpayer bailout that soon could exceed one trillion dollars, millions of workers are losing their jobs and many more are losing their retirement savings. At a time when the industry must devote every effort to economic recovery, it is shameful that the Financial Services Roundtable makes lobbying against the right of workers to organize a legislative priority and, worse yet, is using taxpayer-financed TARP subsidies to do so.

As the House Committee on Financial Services prepares to take up TARP Accountability at tomorrow's hearing, we call on the Roundtable to immediately cease all lobbying and advocacy against the Employee Free Choice Act and to revoke the membership of any bailout recipient that is engaged in similar partisan political activity. Having already undermined the economic security of America's working families, it is time for the financial services industry to focus on putting its own house in order and stop spending taxpayer money attacking workers.

As you know, the Roundtable lobbied against the Employee Free Choice Act in 2007 and throughout 2008, and continues to focus on the issue in 2009. In fact, Employee Free Choice is included among your recently released 2009 priorities and is a highlighted topic at your 2009 Spring Meeting in Naples, Florida beginning on March 25th.

The Roundtable's partisan political priorities are especially disturbing given that your members have so far received the lion's share of federal bailout funds. According to current data on your website, Roundtable members account for 78 percent of the $256 billion in capital injections so far approved for financial services firms under TARP. In addition to providing the Roundtable with substantial membership dues, TARP recipients are also major contributors to your PAC.

Individual Roundtable member companies, including at least two with representatives on the Roundtable's board of directors – J. Barry Griswell, Chairman of the Principal Financial Group and Liam E. McGee, President of Global Consumer and Small Business Banking at Bank of America – have also engaged in direct partisan opposition to Employee Free Choice. Principal Financial Group, which has applied for up to $2 billion in bailout funds, lobbied against Employee Free Choice throughout 2007 and 2008.

Similarly, Bank of America, among the largest bailout recipients, sponsored an event on October 17th—only three days after it received $25 billion in bailout funds—that was used to solicit campaign contributions from its clients for Senate candidates opposed to the Employee Free Choice Act who were then locked in tight election races. According to Home Depot co-founder Bernie Marcus, one of the featured speakers on what Bank of America billed as an analysts' call to discuss Employee Free Choice,

...If a retailer has not gotten involved with this, if he has not spent money on this election, if he has not sent money to Norm Coleman and these other guys, [then those retailers] should be shot; should be thrown out of their goddamn jobs.

After a January 27th *Huffington Post* story described the Bank of America call, five good government groups called on Congress to investigate whether the bank or other large bailout recipients have used taxpayers dollars to send "large contributions"' to any political organizations. Their request follows a Senate bill recently introduced by Senators Feinstein and Snowe that would prohibit any bailout recipient from using such funds for lobbying expenditures or political contributions. As Senator Feinstein said in originally proposing this Act, "Federal dollars were not intended to be used for lobbying, and it would be unconscionable for these companies to misuse taxpayer dollars in this way."

Any private use of taxpayer funds to influence the political process, whether by individual TARP recipients or the industry association they fund, raises serious questions. But partisan political activity by the Roundtable and its members with respect to Employee Free Choice crosses the line and constitutes an indefensible abuse of taxpayer money. It violates the intent of Congress, conflicts with Obama Administration policies prohibiting government contractors from using federal funds to oppose union organizing and throws a body blow to the working men and women who are paying for the bailout and whose economic security has already been ravaged by the excesses of your members.

It is time that Financial Services Roundtable and its members stop using taxpayer money to pay Congressional lobbyists and raise money for political candidates in order to deny workers a fair opportunity to organize free from employer interference and start fixing the nation's financial system. I look forward to your response.

Sincerely,

Anna Burger

cc: Rep. Barney Frank, Chairman, House Committee on Financial Services
Rep. Spencer Bachus, Ranking Member, House Committee on Financial Services

Sen. Christopher Dodd, Chairman, Senate Committee on Banking, Housing, and Urban Affairs
Sen. Richard Shelby, Ranking Member, Senate Committee Banking, Housing, and Urban Affairs

Elizabeth Warren, Chair, Congressional Oversight Panel

Clerk of the House of Representatives
Legislative Resource Center
B-106 Cannon Building
Washington, DC 20515
http://lobbyingdisclosure.house.gov

Secretary of the Senate
Office of Public Records
232 Hart Building
Washington, DC 20510
http://www.senate.gov/lobby

LOBBYING REPORT

Lobbying Disclosure Act of 1995 (Section 5) - **All Filers Are Required to Complete This Page**

1. Registrant Name ☑ Organization/Lobbying Firm ☐ Self Employed Individual

FINANCIAL SERVICES ROUNDTABLE

2. Address ☐ **Check if different than previously reported**

Address1 1001 PENNSYLVANIA AVE, NW Address2 500 SOUTH

City WASHINGTON State DC Zip Code 20004 - Country USA

3. Principal place of business (if different than line 2)

City ______ State ______ Zip Code ______ - Country ______

4a. Contact Name BRENDA K. BOWEN

b. Telephone Number ☐ International Number (202) 289-4322

c. E-mail brenda@fsround.org

5. Senate ID# 5290-12

7. Client Name ☑ *Self* ☐ *Check if client is a state or local government or instrumentality*

FINANCIAL SERVICES ROUNDTABLE

6. House ID# 308210000

TYPE OF REPORT 8. Year 2008 Q1 (1/1 - 3/31) ☐ Q2 (4/1 - 6/30) ☐ Q3 (7/1-9/30) ☐ Q4 (10/1 - 12/31) ☑

9. Check if this filing amends a previously filed version of this report ☐

10. Check if this is a Termination Report ☐ Termination Date ______ 11. No Lobbying Issue Activity ☐

INCOME OR EXPENSES - **YOU MUST complete either Line 12 or Line 13**

12. Lobbying

INCOME relating to lobbying activities for this reporting period was:

Less than $5,000 ☐

$5,000 or more ☐ $ ______

Provide a good faith estimate, rounded to the nearest $10,000, of all lobbying related income from the client (including all payments to the registrant by any other entity for lobbying activities on behalf of the client).

13. Organizations

EXPENSE relating to lobbying activities for this reporting period were:

Less than $5,000 ☐

$5,000 or more ☑ $ $ 1,600,000.00

14. REPORTING Check box to indicate expense accounting method. See instructions for description of options.

☐ **Method A.** Reporting amounts using LDA definitions only

☐ **Method B.** Reporting amounts under section 6033(b)(8) of the Internal Revenue Code

☑ **Method C.** Reporting amounts under section 162(e) of the Internal Revenue Code

Signature Filed Electronically **Date** 01/21/2009

Printed Name and Title Richard M.Whiting, Executive Director & General Counsel

v6.0.1f

ADDENDUM for General Lobbying Issue Area: CSP - CONSUMER ISSUES/SAFETY/PRODUCTS

H.R. 2365, tax practitioners for infringement of a patent for tax bill;
S. 1145, the Patent Reform Act of 2007;
Social Security Verification;
H.R. 948, the Social Security Number Protection Act of 2007;
H.R. 800, the Employee Free choice Act of 2007;
H.R. 1752, Expanding American Homeownership Act of 2007;
H.R. 1852, the Expanding American Homeownership Act of 2007;
H.R. 3046, the Social Security Number Privacy and Identify Theft Prevention Act of 2007;
Student Loans Continued;
H.R. 5, the College Student Relief Act of 2007,
S. 359, Student Debt Relief Act of 2007;
Higher Education Access Act of 2007;
H.R. 5280, Stop Unfair Practices in Credit Cards Act of 2008;
H.R. 5244, Credit Cardholders Bill of Rights;
H.R. 6126 Fairness in Nursing Home Arbitration Act;
H.R. 3012, the Fair Mortgage Practices Act;
H.Con. Res 28;
S. 1299, Borrower Protection Act; Credit Card;
S. 1395, the Stop Unfair Practices in Credit Cards Act of 2007,
Optional Federal Charter,
H.R. 3200 the National Insurance Act of 2007;

Printed Name and Title Richard M.Whiting, Executive Director & General Counsel

Clerk of the House of Representatives
Legislative Resource Center
B-106 Cannon Building
Washington, DC 20515
http://lobbyingdisclosure.house.gov

Secretary of the Senate
Office of Public Records
232 Hart Building
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http://www.senate.gov/lobby

LOBBYING REPORT

Lobbying Disclosure Act of 1995 (Section 5) - **All Filers Are Required to Complete This Page**

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FINANCIAL SERVICES ROUNDTABLE

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Address1 1001 PENNSYLVANIA AVE, NW Address2 500 SOUTH
City WASHINGTON State DC Zip Code 20004 - Country USA

3. Principal place of business (if different than line 2)
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4a. Contact Name BRENDA K. BOWEN
b. Telephone Number ☐ International Number (202) 289-4322
c. E-mail brenda@fsround.org
5. Senate ID# 5290-12

7. Client Name ☑ *Self* ☐ *Check if client is a state or local government or instrumentality*
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6. House ID# 308210000

TYPE OF REPORT 8. Year 2008 Q1 (1/1 - 3/31) ☐ Q2 (4/1 - 6/30) ☐ Q3 (7/1-9/30) ☑ Q4 (10/1 - 12/31) ☐

9. Check if this filing amends a previously filed version of this report ☐

10. Check if this is a Termination Report ☐ Termination Date 11. No Lobbying Issue Activity ☐

INCOME OR EXPENSES - **YOU MUST complete either Line 12 or Line 13**

12. Lobbying	**13. Organizations**
INCOME relating to lobbying activities for this reporting period was:	**EXPENSE** relating to lobbying activities for this reporting period were:
Less than $5,000 ☐	Less than $5,000 ☐
$5,000 or more ☐ $	$5,000 or more ☑ $ $ 1,800,000.00
Provide a good faith estimate, rounded to the nearest $10,000, of all lobbying related income from the client (including all payments to the registrant by any other entity for lobbying activities on behalf of the client).	**14. REPORTING** Check box to indicate expense accounting method. See instructions for description of options. ☐ **Method A.** Reporting amounts using LDA definitions only ☐ **Method B.** Reporting amounts under section 6033(b)(8) of the Internal Revenue Code ☑ **Method C.** Reporting amounts under section 162(e) of the Internal Revenue Code

Signature Filed Electronically **Date** 10/17/2008

Printed Name and Title Richard M.Whiting, Executive Director & General Counsel

v6.0.1f

ADDENDUM for General Lobbying Issue Area: CSP - CONSUMER ISSUES/SAFETY/PRODUCTS

H.R. 2365, tax practitioners for infringement of a patent for tax bill; S,. 1145, the Patent Reform Act of 2007; Social Security Verification; H.R. 948, the Social Security Number Protection Act of 2007;H.R. 800, the Employee Free choice Act of 2007, H.R. 1752, Expanding American Homeownership Act of 2007; H.R. 1852, the Expanding American Homeownership Act of 2007; H.R. 3046, the Social Security Number Privacy and Identify Theft Prevention Act of 2007; Student Loans Continued; H.R. 5, the College Student Relief Act of 2007, S. 359, Student Debt Relief Act of 2007; Higher Education Access Act of 2007; H.R. 5280, Stop Unfair Practices in Credit Cards Act of 2008; H.R. 5244, Credit Cardholders Bill of Rights; H.R. 6126 Fairness in Nursing Home Arbitration Act and S. 2838; H.R. 3010, Arbitration Fairness Act of 2008; H.R. 5312, Automobile Arbitration Fairness Act of 2008

Printed Name and Title Richard M.Whiting, Executive Director & General Counsel

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c. E-mail brenda@fsround.org

5. Senate ID# 5290-12

7. Client Name ☑ *Self* ☐ *Check if client is a state or local government or instrumentality*

FINANCIAL SERVICES ROUNDTABLE

6. House ID# 308210000

TYPE OF REPORT 8. Year 2008 Q1 (1/1 - 3/31) ☐ Q2 (4/1 - 6/30) ☑ Q3 (7/1-9/30) ☐ Q4 (10/1 - 12/31) ☐

9. Check if this filing amends a previously filed version of this report ☐

10. Check if this is a Termination Report ☐ Termination Date 11. No Lobbying Issue Activity ☐

INCOME OR EXPENSES - **YOU MUST complete either Line 12 or Line 13**

12. Lobbying

INCOME relating to lobbying activities for this reporting period was:

Less than $5,000 ☐

$5,000 or more ☐ $

Provide a good faith estimate, rounded to the nearest $10,000, of all lobbying related income from the client (including all payments to the registrant by any other entity for lobbying activities on behalf of the client).

13. Organizations

EXPENSE relating to lobbying activities for this reporting period were:

Less than $5,000 ☐

$5,000 or more ☑ $ $ 1,860,000.00

14. REPORTING Check box to indicate expense accounting method. See instructions for description of options.

☐ **Method A.** Reporting amounts using LDA definitions only

☐ **Method B.** Reporting amounts under section 6033(b)(8) of the Internal Revenue Code

☑ **Method C.** Reporting amounts under section 162(e) of the Internal Revenue Code

Signature Filed Electronically **Date** 07/21/2008

Printed Name and Title Richard M.Whiting, Executive Director & General Counsel

v6.0.1f

ADDENDUM for General Lobbying Issue Area: CSP - CONSUMER ISSUES/SAFETY/PRODUCTS

H.R. 2365, tax practitioners for infringement of a patent for tax bill; S,. 1145, the Patent Reform Act of 2007; Social Security Verification; H.R. 948, the Social Security Number Protection Act of 2007;H.R. 800, the Employee Free choice Act of 2007, H.R. 1752, Expanding American Homeownership Act of 2007; H.R. 1852, the Expanding American Homeownership Act of 2007; H.R. 3046, the Social Security Number Privacy and Identify Theft Prevention Act of 2007; Student Loans Continued; H.R. 5, the College Student Relief Act of 2007, S. 359, Student Debt Relief Act of 2007; Higher Education Access Act of 2007; H.R. 5280, Stop Unfair Practices in Credit Cards Act of 2008; H.R. 5244, Credit Cardholders Bill of Rights; H.R. 6126 Fairness in Nursing Home Arbitration Act

Printed Name and Title Richard M.Whiting, Executive Director & General Counsel

Clerk of the House of Representatives
Legislative Resource Center
B-106 Cannon Building
Washington, DC 20515
http://lobbyingdisclosure.house.gov

Secretary of the Senate
Office of Public Records
232 Hart Building
Washington, DC 20510
http://www.senate.gov/lobby

LOBBYING REPORT

Lobbying Disclosure Act of 1995 (Section 5) - **All Filers Are Required to Complete This Page**

1. Registrant Name ☑ Organization/Lobbying Firm ☐ Self Employed Individual

FINANCIAL SERVICES ROUNDTABLE

2. Address ☐ **Check if different than previously reported**

Address1 1001 PENNSYLVANIA AVE, NW Address2 500 SOUTH

City WASHINGTON State DC Zip Code 20004 - Country USA

3. Principal place of business (if different than line 2)

City State Zip Code - Country

4a. Contact Name BRENDA K. BOWEN

b. Telephone Number ☐ International Number (202) 289-4322

c. E-mail brenda@fsround.org

5. Senate ID# 5290-12

7. Client Name ☑ *Self* ☐ *Check if client is a state or local government or instrumentality*

FINANCIAL SERVICES ROUNDTABLE

6. House ID# 308210000

TYPE OF REPORT 8. Year 2008 Q1 (1/1 - 3/31) ☑ Q2 (4/1 - 6/30) ☐ Q3 (7/1-9/30) ☐ Q4 (10/1 - 12/31) ☐

9. Check if this filing amends a previously filed version of this report ☐

10. Check if this is a Termination Report ☐ Termination Date ______ 11. No Lobbying Issue Activity ☐

INCOME OR EXPENSES - **YOU MUST complete either Line 12 or Line 13**

12. Lobbying

INCOME relating to lobbying activities for this reporting period was:

Less than $5,000 ☐

$5,000 or more ☐ $ ______

Provide a good faith estimate, rounded to the nearest $10,000, of all lobbying related income from the client (including all payments to the registrant by any other entity for lobbying activities on behalf of the client).

13. Organizations

EXPENSE relating to lobbying activities for this reporting period were:

Less than $5,000 ☐

$5,000 or more ☑ $ $ 2,500,000.00

14. REPORTING Check box to indicate expense accounting method. See instructions for description of options.

☐ **Method A.** Reporting amounts using LDA definitions only

☐ **Method B.** Reporting amounts under section 6033(b)(8) of the Internal Revenue Code

☑ **Method C.** Reporting amounts under section 162(e) of the Internal Revenue Code

Signature Filed Electronically **Date** 04/21/2008

Printed Name and Title Richard M.Whiting, Executive Director & General Counsel

v6.0.1f

Page 1 of 28

ADDENDUM for General Lobbying Issue Area: CSP - CONSUMER ISSUES/SAFETY/PRODUCTS

the National Insurance Act of 2007; H.R. 2365, tax practitioners for infringement of a patent for tax bill; S,. 1145, the Patent Reform Act of 2007; Social Security Verification; H.R. 948, the Social Security Number Protection Act of 2007;H.R. 800, the Employee Free choice Act of 2007, H.R. 1752, Expanding American Homeownership Act of 2007; H.R. 1852, the Expanding American Homeownership Act of 2007; H.R. 3046, the Social Security Number Privacy and Identify Theft Prevention Act of 2007; Student Loans Continued; H.R. 5, the College Student Relief Act of 2007, S. 359, Student Debt Relief Act of 2007; Higher Education Access Act of 2007;

Printed Name and Title Richard M.Whiting, Executive Director & General Counsel

Clerk of the House of Representatives	Secretary of the Senate
Legislative Resource Center	Office of Public Records
B-106 Cannon Building	232 Hart Building
Washington, DC 20515	Washington, DC 20510

Secretary of the Senate
Received: Aug 02, 2007

LOBBYING REPORT

Lobbying Disclosure Act of 1995 (Section 5) - **All Filers Are Required To Complete This Page**

1. Registrant Name:

FINANCIAL SERVICES ROUNDTABLE

2. Address:
1001 PENNSYLVANIA AVE, NW 500 SOUTH, WASHINGTON, DC 20004

3. Principal place of business (if different from line 2):

4. Contact Name: PETER BURKETT SANDEL
Telephone: 2022894322
E-mail (optional): Peter@fsround.org

Senate ID #: 5290-12
House ID #: 30821000

7. Client Name: [X] Self

TYPE OF REPORT

8. Year 2007 Midyear (January 1 - June 30): [X] **OR** Year End (July 1 - December 31): [ ]

9. Check if this filing amends a previously filed version of this report: [ ]

10. Check if this is a Termination Report: [ ] => Termination Date: 11. No Lobbying Activity: [ ]

INCOME OR EXPENSES

Complete Either Line 12 **OR** Line 13

12. Lobbying Firms

INCOME relating to lobbying activities for this reporting period was:

Less than $10,000: [ ]

$10,000 or more: [ ] => Income (nearest $20,000): ____________

Provide a good faith estimate, rounded to the nearest $20,000, of all lobbying related income from the client (including all payments to the registrant by any other entity for lobbying activities on behalf of the client).

13. Organizations

EXPENSES relating to lobbying activities for this reporting period were:

Less than $10,000: [ ]

$10,000 or more: [X] => Expenses (nearest $20,000): 3,160,000.00

14. Reporting Method.
Check box to indicate expense accounting method. See instructions for description of options.

[ ] **Method A.** Reporting amounts using LDA definitions only
[ ] **Method B.** Reporting amounts under section 6033(b)(8) of the Internal Revenue Code
[X] **Method C.** Reporting amounts under section 162(e) of the Internal Revenue Code

Registrant Name: FINANCIAL SERVICES ROUNDTABLE Client Name: Self

LOBBYING ACTIVITY.

Select as many codes as necessary to reflect the general issue areas in which the registrant engaged in lobbying on behalf of the client during the reporting period. Using a separate page for each code, provide information as requested. Attach additional page(s) as needed.

15. General issue area code: CSP (one per page)

16. Specific lobbying issues:

Data Breach/ Id Theft/ Spyware, H.R. 1525, the Internet Spyware (I-SPY) Prevention Act of 2007, H.R. 948, the Social Security Number Protection Act of 2007, H.R. 964, the "SPY Act of 2007, Non-prime/Anti-Predatory Lending, H.R. 526, Homeownership and Responsible Lending Act, H.R. 3012, the Fair Mortgage Practices Act, H. Con. Res. 28, S. 1299, Borrower Protection Act, Credit Card/Interchange Fees, S. 1395, the Stop Unfair Practices in Credit Cards Act of 2007, Optional Federal Charter, H.R. 3200, the National Insurance Act of 2007, S. 40, the National Insurance Act of 2007, Patent Reform, H.R. 1908, the Patent Reform Act of 2007, H.R. 2365, tax practitioners for infringement of a patent for tax bill, S. 1145, the Patent Reform Act of 2007, Social Security Verification, H.R. 948, the Social Security Number Protection Act of 2007, H.R. 800, the Employee Free Choice Act of 2007, H.R. 1752, Expanding American Homeownership Act of 2007, H.R. 1852, the Expanding American Homeownership Act of 2007, H.R. 3046, the "Social Security Number Privacy and Identity Theft Prevention Act of 2007, Student Loans Continued, HR 5, the College Student Relief Act of 2007, S. 359, Student Debt Relief Act of 2007, Higher Education Access Act of 2007,

17. House(s) of Congress and Federal agencies contacted:
Commerce, Dept of (DOC)
Federal Reserve System
Federal Trade Commission (FTC)
HOUSE OF REPRESENTATIVES
Office of Management & Budget (OMB)
Office of the Comptroller of the Currency (OCC)
SENATE
Securities & Exchange Commission (SEC)
Treasury, Dept of
U.S. Trade Representative (USTR)
White House Office

18. Name of each individual who acted as a lobbyist in this issue area:

Name: BARBOUR, ANDY
Covered Official Position (if applicable): N/A
Name: BARTLETT, STEVE
Covered Official Position (if applicable): N/A
Name: BEGEY, PAUL
Covered Official Position (if applicable): N/A
Name: DALTON, JOHN
Covered Official Position (if applicable): N/A
Name: LEONARD, PAUL
Covered Official Position (if applicable): N/A
Name: LONGBRAKE, BILL
Covered Official Position (if applicable): N/A
Name: LUDGIN, PETER
Covered Official Position (if applicable): N/A
Name: SANDEL, PETER
Covered Official Position (if applicable): N/A
Name: STEVENS, KATIE
Covered Official Position (if applicable): N/A
Name: TALBOTT, SCOTT E.
Covered Official Position (if applicable): N/A

19. Interest of each foreign entity in the specific issues listed on line 16 above. None

Wall Street Journal Op-Ed: Don't Push Banks to Make Bad Loans
Contrary to myth, commercial bank lending is up. So are standards.

By BERT ELY

There is a widespread belief that banks are now refusing to lend as much as they should, and that Congress should pressure them to extend more credit to consumers and businesses. In reality, banks as a whole increased their lending during 2008 -- the notion they haven't is based on a misunderstanding of U.S. credit markets. Pressuring banks to lend more could backfire..

Lost in too many discussions of the financial sector is that banks and other depository institutions account for only 22% of the credit supplied to the U.S. economy (down from 40% in 1982). "Shadow banking" -- notably asset securitization and money-market mutual funds -- now supplies 33% (up from 14%). Insurance companies, other financial intermediaries, nonfinancial firms and the rest of the world provide the balance.

As far as commercial banks go, Federal Reserve data released last week show that their lending increased 2.36% during the last quarter of 2008. For all of 2008, commercial-bank lending rose by $386 billion, or 5.63%, even as the economy slid into recession. Over that 12-month period, business lending jumped $152 billion, or 10.6%, real-estate loans were up $213 billion, or 5.9%, and consumer lending rose $73.5 billion, or 9%. Other categories of bank lending such as loans to farmers, broker-dealers and governments, declined $53.2 billion, or 5.4%.

Fed data also show that during the first three quarters of 2008, the total amount of credit supplied to the economy increased $1.91 trillion, or 3.8%, with $540 billion of that amount coming from foreign lenders.

Nevertheless, Treasury recently demanded that the 20 largest recipients of government capital investments start providing detailed monthly reports about their lending and investment activities. This new requirement could lead to government lending mandates. That would not be a good idea.

In the first place, the drop in stock-market and house prices has made millions of families feel poorer and led them to save more than in recent years. It has also encouraged them (especially Baby Boomers approaching retirement) to pay off debt. They don't need more debt.

More broadly, many of the most creditworthy neither need to nor want to borrow right now. Richard Davis, CEO of U.S. Bancorp, recently said that he is seeing the demand for loans diminish at his and other banks "from people and businesses spending less and traveling less and watching their nickels and dimes."

Lenders moreover have tightened lending standards, correcting an excessive laxness that contributed to our financial mess. Zero or very low down-payment mortgages are out, as are "covenant light" corporate loans. Likewise, lenders have trimmed credit-card limits and cut the amount of money available under home equity lines of credit as home values have declined.

And contrary to the "lend more" message broadcast from inside the Washington Beltway, bank examiners are criticizing weak loans and forcing banks to tighten lending standards. Bankers are caught in a vise between politicians and examiners.

A lot of the credit tightness is a reflection of the near-collapse of loan securitization. Recent Fed plans to buy asset-backed securities may help revive asset securitization, but bankers have no control over the fate of that initiative.

The economy is in recession and working off the consequences of a housing bubble fed by excessive mortgage credit. Given that loan demand typically falls during a recession, it's amazing that bank lending increased as much as it did last year. It was essentially flat during the 2001 recession.

Bankers should always lend prudently, as they are now doing. If they are jawboned or worse by Washington into reckless lending, the U.S. will set itself up for another debt crisis, even before the present mess has been cleaned up.

Mr. Ely, the principal in Ely & Co. Inc., is a financial institutions and monetary policy consultant.

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