

October 13, 2008

**Interim Assistant Secretary for Financial Stability Neel Kashkari Remarks before  
the Institute of International Bankers**

**Washington-** Good morning and thank you for that kind welcome.

I am here today to provide a comprehensive update on the Treasury Department's progress in implementing the Troubled Asset Relief Program (TARP).

As you know, our credit markets are frozen and lending has become extremely impaired. In recent months our government has taken strong and decisive actions, but a more systemic approach was needed. Secretary Paulson and Chairman Bernanke asked Congress for extraordinary authorities to address the extraordinary challenges in our financial markets. Every American depends on the flow of money through our financial system. They depend on it for car loans, home loans, student loans and their individual family needs. Congress recognized the threat frozen credit markets posed to Americans and to our economy as a whole. On Friday October 3, Congress passed and President Bush signed into law the bipartisan Emergency Economic Stabilization Act of 2008.

The law gives the Treasury Secretary broad and flexible authority to purchase and insure mortgage assets, and to purchase any other financial instrument that the Secretary, in consultation with the Federal Reserve Chairman, deems necessary to stabilize our financial markets -- including equity securities. Treasury worked hard with Congress to build in this flexibility because the one constant throughout the credit crisis has been its unpredictability.

The law empowers Treasury to design and deploy numerous tools to attack the root cause of the current turmoil: the capital hole created by illiquid troubled assets. Addressing this problem should enable our banks to begin lending again. Our nation has successfully worked through every economic challenge we have faced and we are confident this new program will help us overcome these challenges as well.

Today, I will brief you about three areas. First, I will discuss Treasury's strategy to develop multiple tools under the Troubled Asset Relief Program. Second, I will give you a detailed update on the many steps we have already taken to begin to implement the program. And finally, I will briefly discuss our next steps.

**Strategy**

Let me begin with our strategy, which is clear and focused.

Treasury is implementing its new authorities with one simple goal - to restore capital flows to the consumers and businesses that form the core of our economy. Achieving this

goal will require multiple tools to help financial institutions remove illiquid assets from their balance sheets, and attract both private and public capital. Our toolkit is being designed to help financial institutions of all sizes so they can grow stronger and provide crucial funding to our economy.

## **Implementation**

Next, let me turn to implementation. Congress passed the new law just 10 days ago, but in that time, we have accomplished a great deal on many fronts. We are moving quickly - but methodically - and I am confident we are building the foundation for a strong, decisive and effective program.

First, Treasury is working very closely with both domestic and international regulators to understand how best to design tools that will be most effective in dealing with the challenges in our financial system. For example, regulators are helping us to identify the quickest and most efficient method to purchase equity in financial institutions so they can resume lending. Throughout this process, we have kept in mind one clear priority: to protect the taxpayers by making the best use of their money.

Second, we are using the full resources of the Treasury Department to ensure this program's success. As soon as the legislation was signed, we immediately created seven policy teams to develop several tools and other important elements that are required under the TARP. In each case, we designated team leaders to drive the work-streams and take responsibility for their success. We've broken the teams down as follows:

1. Mortgage-backed securities purchase program: This team is identifying which troubled assets to purchase, from whom to buy them and which purchase mechanism will best meet our policy objectives. Here, we are designing the detailed auction protocols and will work with vendors to implement the program.
2. Whole loan purchase program: Regional banks are particularly clogged with whole residential mortgage loans. This team is working with bank regulators to identify which types of loans to purchase first, how to value them, and which purchase mechanism will best meet our policy objectives.
3. Insurance program: We are establishing a program to insure troubled assets. We have several innovative ideas on how to structure this program, including how to insure mortgage-backed securities as well as whole loans. At the same time, we recognize that there are likely other good ideas out there that we could benefit from. Accordingly, on Friday we submitted to the Federal Register a public Request for Comment to solicit the best ideas on structuring options. We are requiring responses within fourteen days so we can consider them quickly, and begin designing the program.

4. Equity purchase program: We are designing a standardized program to purchase equity in a broad array of financial institutions. As with the other programs, the equity purchase program will be voluntary and designed with attractive terms to encourage participation from healthy institutions. It will also encourage firms to raise new private capital to complement public capital.
5. Homeownership preservation: When we purchase mortgages and mortgage-backed securities, we will look for every opportunity possible to help homeowners. This goal is consistent with other programs - such as HOPE NOW - aimed at working with borrowers, counselors and servicers to keep people in their homes. In this case, we are working with the Department of Housing and Urban Development to maximize these opportunities to help as many homeowners as possible, while also protecting taxpayers.
6. Executive compensation: The law sets out important requirements regarding executive compensation for firms that participate in the TARP. This team is working hard to define the requirements for financial institutions to participate in three possible scenarios: One, an auction purchase of troubled assets; two, a broad equity or direct purchase program; and three, a case of an intervention to prevent the impending failure of a systemically significant institution.
7. Compliance: The law establishes important oversight and compliance structures, including establishing an Oversight Board, on-site participation of the General Accounting Office and the creation of a Special Inspector General, with thorough reporting requirements. We welcome this oversight and have a team focused on making sure we get it right.

## **Recruitment**

Recruiting the right people is essential to the success of this program and we are moving quickly on several fronts.

It will obviously take time to bring on board permanent members of the team that will manage this program over the long term and provide stability during the transition. While the permanent team is being identified for tomorrow, we are tapping the very best, seasoned, financial veterans from across the government to help launch the program today. We have been successful in recruiting outstanding interim leaders for key positions in the Office of Financial Stability. In each case, the interim official is charged with: One, setting up the office; two, hiring permanent staff; three, operationalizing our programs; and, four, identifying their permanent successor.

The team continues to grow daily and the team members are too numerous to name individually. However, I want to highlight a few of our key interim leaders. In the 10 days since the President signed the law, we have already recruited:

1. Tom Bloom, CFO of the Office of the Comptroller of the Currency and former CFO of the Commerce Department to serve as the interim Chief Financial Officer. Tom brings 30 years of financial management and reporting experience in both the public and private sectors.
2. Jonathan Fiechter, Deputy Director of the IMF Monetary and Capital Markets Department in charge of financial supervision and crisis management, formerly Board member of the Resolution Trust Corporation and the FDIC, to serve as interim Chief Risk Officer. Jonathan has more than 30 years experience that spans Treasury, the OCC, OTS and the World Bank.
3. Donna Gambrell, Director of the Community Development Financial Institutions Fund and former Deputy Director of Consumer Protection and Community Affairs of the FDIC to serve as interim Chief of Homeownership Preservation. Donna brings 17 years of experience at the FDIC, preceded by invaluable experience at the Resolution Trust Corporation.
4. Don Hammond, Deputy Director of the Division of Federal Reserve Bank Operations and Payment Systems and former Treasury Fiscal Assistant Secretary to serve as interim Chief Compliance Officer. Don brings 23 years of experience at the Treasury in fiscal operations, including developing policy for and overseeing operations for the Federal government's financial infrastructure.
5. Reuben Jeffrey, Under Secretary of State for Economic Affairs and former Chairman of the Commodity Futures Trading Commission (CFTC) to serve as interim Chief Investment Officer. His public sector experience includes serving on the President's Working Group on Financial Markets and as a Special Advisor to the President for Lower Manhattan Development. He brings 18 years of private sector experience in financial services.

Our ability to quickly attract outstanding talent illustrates the importance of this program and this is only the beginning. These leaders are actively building out their operations and contributing to all phases of the TARP.

## **Procurement**

Now, let me turn to procurement.

Our approach to procurement is based on the following strategy. First, in order to protect the taxpayers, we will seek the very best in private sector expertise to help execute this program. Second, we believe, to the extent possible, everyone should have a right to compete for these contracts, especially small businesses, veteran-owned businesses, and minority and women-owned businesses. Third, we are taking appropriate steps to mitigate potential conflicts of interest.

To begin, last Monday, we published three procurement documents:

- Procurement authorities and procedures.
- Conflict of interest mitigation procedures.
- Asset manager selection procedures.

We have established a formal procurement process, to ensure that selections are fair and in the best interest of the taxpayers. We have established expert review committees, made up of Treasury employees and outside experts who review submissions and make recommendations regarding the quality of the proposals. The review committees make recommendations for a final decision to a senior career officer in the Treasury.

Taking aggressive steps to manage potential conflicts of interest is essential because firms with the relevant financial expertise may also hold assets that become eligible for sale into the TARP. We have asked firms that wish to compete for contracts to disclose their potential conflicts of interest and recommend specific steps to manage those conflicts. Firms are evaluated in part on the extent of those conflicts and their ability to design processes and procedures to manage them that are satisfactory to Treasury. Treasury then conducts its own independent examination to determine the firms' potential conflicts of interest, and to help ensure that the firms have fully disclosed any potential concerns. Treasury will only hire firms when we are confident in our and their ability to manage any conflicts.

Secretary Paulson and I believe that it is essential that the TARP be structured in a manner that encourages participation of small businesses, veteran-owned businesses, and minority and women-owned businesses. Our initial procurements set high capability standards; for example, securities asset managers had to have at least \$100 billion of dollar denominated fixed income assets under management.

This is critical given the magnitude of the program - up to \$700 billion. Treasury believes that it would not be fiscally prudent to ask a firm that only had experience managing only a few billion to manage \$100 billion. It could put the taxpayers at unnecessary risk.

However - and this is very important - we asked vendors to demonstrate their ability and commitment to working with small, veteran, minority and women-owned businesses as sub-contractors. And we are evaluating their submissions in part on their capability to do this. In addition, we plan to go out with subsequent solicitations with specific opportunities for these businesses.

Last Monday, we put out four notices and requests for proposals, each requiring responses within 48 hours. We solicited proposals for:

1. Investment management consultant – This is an expert firm to help us review asset manager proposals. Our request went out to six firms, we received three proposals

and selected Ennis Knupp as the winning vendor on Saturday. They began working immediately.

2. Master custodian firm – This is the firm which will hold and track the assets we purchase as well as run and report on the auctions we use to buy the assets. Think of this as the prime contractor of the purchase program. We received seventy submissions of which 10 met the eligibility requirements and minimum qualifications. We invited three firms in for presentations and, in the next twenty-four hours, we will announce the winner, which will begin working immediately.
3. Securities asset manager – This is a firm which will hold, manage and ultimately sell the mortgage-backed securities we purchase. We received over 100 submissions and are working with the investment management consultant to review them. We expect to make a selection in the next few days.
4. Whole loan asset manager – This is a firm which holds, manages and ultimately sells the whole mortgage loans we purchase, including working with servicers. We received over 100 submissions and are working with the consultant to review them. We expect to make a selection in the next few days.

In addition, on Thursday we reached out to six specialist law firms to advise us on the equity program structuring. We received two proposals, and selected Simpson Thatcher on Friday. They began working immediately.

These solicitations were just the first wave as Treasury establishes the foundations of the program. In the coming weeks we expect to select two accounting firms to provide auditing servicers and to help us design and implement our internal control systems.

## **Operations**

On the operational front, Treasury's management and operations team is working around the clock to establish the institutional and logistical framework. The team is led by Treasury Assistant Secretary for Management and Chief Financial Officer Pete McCarthy, a seasoned official who served 27 years in the banking industry. Not only is his team integral to the procurement process, but they have identified temporary space in the Treasury building to house the TARP staff. As the TARP staff grows and the program is established, we'll move to more permanent space.

## **Compliance**

Let me now turn to compliance. Consistent with Congress' intent, we are committed to transparency and oversight in all aspects of the program and have already taken several important steps in this area:

First, we moved quickly to establish the Financial Stability Oversight Board, which, by law, includes:

- The Secretary of the Treasury
- The Chairman of the Federal Reserve Board
- The Chairman of the Securities and Exchange Commission
- The Secretary of Housing and Urban Development, and
- The Director of the Federal Housing Finance Agency

The law required the first board meeting to take place within fourteen days. Again, we moved very quickly, and the new oversight board met within four days. At that initial meeting, the members of the board selected Chairman Bernanke to be Chairman of the Oversight Board. In addition, the Board adopted its bylaws and reviewed the work-streams I described earlier.

The new law also requires appointment of a Senate-confirmed Special Inspector General to oversee the program. We are working with the White House to identify candidates for possible nomination and confirmation in November. In the interim, we are coordinating closely with Treasury's Inspector General and we had our first meeting on Monday, October 6, where we walked him through our work-streams, procurement and operational plans.

Additionally, the law calls for the General Accounting Office to establish a physical presence at Treasury to monitor the program. Secretary Paulson had his first call with the Acting Comptroller General, Gene Dodaro, on Monday, October 6. The Acting Comptroller General and his team met with our team on Thursday, October 9. And yesterday, the GAO staff came to Treasury to review the contracts we signed over the weekend.

Treasury is committed to an open and transparent program with appropriate oversight. We look forward to continuing to work with the Oversight Board, the Inspector General, the Comptroller General, and the Congress as we set up and execute this program. Transparency will not only give the American people comfort in our execution, it will give the markets confidence in what form our action will take.

### **Next steps**

As you can see, we have accomplished a great deal in just 10 days. But our work is only beginning. A program as large and complex as this would normally take months - or even years - to establish. We don't have months or years. Hence, we are moving to implement the TARP as quickly as possible while working to ensure high quality execution.

Our goal is to use the multiple tools enabled by the TARP to attack the capital and troubled asset problem from multiple directions, so American families and businesses can get the credit they need. We will complete the design of these tools and deploy them as

soon as they are ready. This is Secretary Paulson's highest priority and we are working around the clock to make it happen. We are committed to helping homeowners and to using the taxpayers' money efficiently.

We will provide you with regular updates on our progress. Thank you.