FINANCE COMMITTEE QUESTIONS FOR THE RECORD

United States Senate

Committee on Finance

Hearing on

Confirmation of Mr. Timothy F. Geithner to be

Secretary of the U.S. Department of Treasury

January 21, 2009

ANSWERS TO QUESTIONS FROM CHAIRMAN BAUCUS

Question 1:

Estimates of revenue lost because of offshore tax evasion range from $50 to $100 billion. The Finance Committee has had a number of hearings on the offshore tax evasion issue and I believe the next step is to pass legislation cracking down on offshore tax evaders, and I will be introducing a bill early in this session of Congress to address this problem.

Mr. Geithner, I hope you will take a close look at this legislation and help us to pass it from your new perch at the Treasury Department. Will you commit to setting aside time to help us develop a solution to this problem?

Yes, Senator Baucus, as soon as my tax team is fully in place, I look forward to setting aside time to review your forthcoming legislation and helping you, your staff, and other members of the Senate develop a solution to the problem of offshore tax evasion.

I share the President's commitment to aggressively address the problem of offshore tax evasion and complement you and other members of the Senate for the work you've already done on this important issue. If confirmed, I will treat offshore tax evasion as a high priority issue and examine a wide range of policy options to address these abuses, including increasing IRS enforcement efforts, requiring greater disclosure and taxpayer accountability, and changing the presumption for transactions in tax-secrecy jurisdictions.

<u>Question 2:</u>

Small businesses are struggling right now. A recent report estimates that 40% of December's job losses of 693,000 nationwide were small business job losses. Nearly all of the businesses in Montana are small. Banks are pulling their lines of credit and they have a dire need for operating capital, debt restructuring, and loan workouts. Some of the TARP money should be used to help these small businesses survive the current economic downturn.

First, I want you to make small businesses a high priority when implementing the Asset Backed Securities Lending Facility next month.

Second, I want you to look at the Community Development Financial Institutions network as a possible vehicle to loan TARP money to small businesses.

Third, I want you to find other ways to help small businesses. Congress has given you the money and authority to help. I want you to use a significant portion of those resources to help small businesses.

Can you commit to these steps and give me some specifics on how you will pursue these actions?

Small businesses are crucial to sustainable employment opportunities for Americans throughout the country. A major thrust of our efforts to stabilize the U.S. financial system is to ensure that credit begins to flow again to qualified small business borrowers and others whose access to credit has been unfairly curtailed or ceased up. Community banks, including many CDFI participants, are a vital lifeblood to credit for many small businesses. If confirmed, I will explore and utilize every prudent mechanism for restoring credit availability and I look forward to working with this committee and others in Congress to finding the quickest, most reliable manner to achieve this objective as it is very high among President Obama's economic priorities.

<u>Question 3:</u>

Your predecessor initiated the U.S.-China Strategic Economic Dialogue (SED). I think it is imperative we continue a high-level dialogue with China and we can waste no time doing so.

Do you plan on continuing an SED-like dialogue? What would that dialogue look like and what should it achieve?

I believe getting China to continue reforms is critical to our economy, as well as to theirs. After all, if China doesn't rebalance its economy, we risk falling into past patterns of Americans borrowing and consuming too much, and the Chinese saving and consuming too little. What's your view?

The U.S.-China economic relationship presents significant challenges, but also opportunities. It is one of our most important relationships. There are many specific issues in our economic relationship that require our careful and prompt attention. If confirmed, I am committed to a deep engagement between our senior economic officials to address differences and effectively resolve problems on these topics.

<u>Question 4:</u>

After September 11, 2001, the Treasury Department created an important new office – the Office of Terrorism and Financial Intelligence (TFI).

Last year, the head of TFI, Under Secretary Levey, testified before the Finance Committee. He has done a good job organizing his team, and coordinating with the rest of the administration to shut down terrorism financing around the globe.

We want you to take a close look at this office and put in place a strong leader. And we will be requesting regular updates on their performance this year.

Do we have a commitment from you that the head of TFI will testify before the Finance Committee, if requested?

If confirmed, I commit that the Under Secretary for Terrorism and Financial Intelligence will testify before the Finance Committee if requested

<u>Question 5:</u>

Mr. Geithner, as Treasury Secretary you will be responsible for the IRS, an agency with nearly 100,000 employees. During your tenure, the IRS will face many important administrative issues, including (1) bringing IRS technology into the 21st Century to improve electronic filing and to revamp outdated systems that are haywired together, creating information gaps that prevent the IRS from analyzing data to identify non-filers and underpayers and (2) reinvigorating the IRS workforce to stem the retirement brain-drain and to challenge IRS leadership to be innovative and committed to looking beyond their own programs with an eye toward improving the entire organization.

I want the IRS to have sufficient funding to be effective and efficient. Do I have your commitment that you will be an advocate for adequate IRS budgets so the organization can do its job?

Yes.

How will you make sure the IRS actually updates its information technology and doesn't squander IT funds on systems that don't work, like it has in the past?

We must do a more effective job in planning and executing an information technology strategy for the Internal Revenue Service. Technology has the capacity to improve the speed and accuracy of tax administration. For this reason, improving IRS information systems must be an important priority. If we hope to make progress, it is important that we seek the opinion of the best technology experts in government and the private sector to develop a strategy going forward. If confirmed, I will work closely with the IRS Commissioner and other federal officials to achieve this goal.

How can the IRS workforce, especially senior leadership, be motivated to stay at the IRS and develop innovative ways to improve the organization?

There are critical workforce issues confronting the entire Federal government, including the IRS. The Federal government we must do a better job in both recruiting and retaining employees, particularly senior leadership. The level of expected retirements at all ranks of our workforce must be considered as we formulate strategies to raise the attractiveness of government service. If confirmed, I will examine the workforce challenges confronting the IRS. As someone who has spent most of his professional career working for the Federal government, I know firsthand how important it is to attract top candidates to work in the public sector.

Question 6:

In 2003, the Office of Foreign Assets Control (OFAC) dedicated 21 full-time equivalents – in other words, job slots – to enforce the travel ban against Cuba. In contrast, OFAC dedicated two such personnel slots to tracking the funding networks of Osama Bin Laden and two others to track the funding networks Saddam Hussein. Is this how we should be spending our resources to fight the war on terror? How will you address this imbalance in resources?

Since 2003, I understand that Treasury has worked closely with Congress in realigning its resources to enable the Department to best address today's most pressing security challenges. If confirmed, I pledge to ensure that Treasury continues to dedicate the necessary resources to most effectively combat terrorism and the proliferation of weapons of mass destruction and other national security challenges.

Question 7:

What can the IRS do to stem the tide of scams and schemes – offshore arrangements like UBS, and abuses like the Madoff Ponzi scheme - that result in folks hiding their income from Uncle Sam?

I share the President's commitment to closing down tax loopholes. I look forward, if confirmed, to working with the committee to examine this issue.

If confirmed, I will be a strong advocate for the Internal Revenue Service and its efforts to secure sufficient funding to carry out its mission successfully. Tax enforcement is a key priority for the IRS and I look forward to working with IRS Commissioner Doug Shulman to ensure that the compliance and enforcement mission of the IRS receives the necessary support and funding.

Question 8:

60% of individual returns are prepared by paid preparers. Do you support standard preparer competency standards in order to improve the quality of the returns they file?

A first objective is to seek ways to make the tax code more simple so that more taxpayers are able to complete their taxes without the additional financial burden of a paid preparer. However, there is little doubt that many taxpayers will continue to make use of paid preparers. For this reason, it is important that taxpayers have confidence that the advice they receive is competent. What steps we should take toward this objective I have not had an opportunity to study fully. I look forward to working with you and other members of the Committee to address this issue if I am confirmed.

<u>Question 9:</u>

In 1998, Congress set a goal of 80% electronically filed returns by 2007. In 2008, about 60% of returns were e-filed. What will you do to encourage e-filing so taxpayers get their refunds faster, errors are reduced, and the IRS can operate more efficiently?

I strongly support the President's promise to simplify the tax code. During the campaign, he outlined a proposal to develop a system that would dramatically simplify tax filings so that millions of Americans will be able to do their taxes in less than five minutes. If confirmed, I look forward to working with Congress on this and other ideas to simplify the tax code and increase the number of Americans that electronically file their tax returns.

<u>Question 10:</u>

Several months ago information was leaked that Treasury looked to utilize the GSEs to set mortgage rates at 4.5%. What are your thoughts on this proposal?

The primary objective of the proposal to provide 4-1/2% mortgages is to assure that affordable mortgages are available for qualified borrowers. We share the objective and have been and will continue examining proposals aimed increasing the flow of credit to qualified borrowers. There are a number of factors that have caused mortgage rates to be higher than they otherwise would be in a more normal environment. We will continue to examine the causes and to evaluate the various proposals, including this one, to determine whether or not they would be effective in achieving our objectives in a cost effective manner.

<u>Question 11:</u>

What actions still need to be taken with regards to AIG? Citigroup?

With respect to AIG, the Treasury and the Federal Reserve both have teams of people working to monitor and assess the condition of AIG and the status of the U.S.

government's investments in this institution. The funds provided to AIG by the government were provided on the basis of a complicated set of judgments about the risks to broader financial stability posed by the rapid and disorderly failure of a firm of that size in a very fragile market environment. Any future actions with respect to AIG would have to be undertaken in the context of a similarly careful set of judgments about strength of the firm itself and the conditions prevailing in markets at that time. The actions taken with respect to Citigroup to date have been to stabilize and strengthen the firm in order to allow it to perform its vital role in providing credit to households and businesses. I cannot speak to the need for any future actions with respect to Citigroup at this time, but I can assure you that as Treasury Secretary, I would require that any future actions with respect to AIG, Citigroup or any other institution be subject to careful scrutiny regarding the amount of taxpayer money being put at risk by acting relative to the costs of not acting.

Question 12:

I want you to cooperate completely with the Special IG for the TARP. Because oversight of the TARP in the original proposal was so weak I insisted on the creation of a Special Inspector General. Neil Barofsky was confirmed as Special IG by the Senate on December 8, and we will count on you to make sure he receives whatever he needs to do his job. Do you agree to cooperate with the Special IG and will you provide him with all the information and documents he needs as he carries out his oversight responsibilities?

I will cooperate completely with the Special IG for the TARP. I agree that oversight and transparency requirements in the original proposal were inadequate, and I intend to provide the IG with all the information, advice, and documentation he needs to fulfill his Congressionally-mandated oversight responsibilities.

Question 13:

(a) The U.K. is doubling efforts to shore up its financial sector and spur lending, including requiring banks that participate to enter into binding agreements to lend more money to borrowers. What are your thoughts on this proposal? Should the U.S. include more stringent requirements that TARP funds be used to lend?

The actions of the Senate last week to authorize additional resources under the Emergency Economic Stabilization Act will enable us to take additional steps to reinforce recovery.

If confirmed, I will carry out the reforms that President Obama and I believe are needed in this program. This program must promote the stability of the financial system and increase lending.

As a condition of federal assistance, healthy banks without major capital shortfalls will increase lending above baseline levels.

Banks receiving government capital will be required to provide detailed and timely information on their lending patterns broken down by category. Public companies will report this information quarterly, including a description of the factors that influenced their decisions, in conjunction with the release of their 10Q reports.

The Treasury will report quarterly on overall lending activity and on the terms and availability of credit in the economy.

(b) The U.K. also announced earlier this month that it plans to establish a separate fund to provide guarantees for loans made to small businesses. Small businesses in the U.S. are having similar difficulties obtaining financing they needs to continue operating. What are your thoughts on the proposal by the U.K.?

The Obama Administration is committed to using the full arsenal of tools available to get credit flowing again to families and businesses. We will ensure that support under this program is directed at making credit available to support recovery.

This is particularly important for small businesses.

We will work with the Federal Reserve, SBA, and other agencies to restart lending for small businesses. This will be an important focus for support that we will provide under the Emergency Economic Stabilization Act.

If confirmed, I look forward to working with Congress on this important issue.

<u>Question 14:</u>

In AIG Marketing Materials, the company claims that of the $150 billion bailout package, the "actual debt to be repaid" is $39 billion. The company claims that the preferred stock pledge and the credit default swap and securities lending special purpose vehicles have removed any obligation for about $110 billion. And it claims that "AIG is in the process of selling non-core businesses with estimated values far in excess of its total debt to the Fed." Is that your understanding of AIG's current position?

I would need to look more carefully at these particular materials to give you a complete answer to this question. I will ask the staff at the Federal Reserve Bank of New York involved in monitoring and assessing AIG's condition to confirm the validity of all the claims that AIG makes in its public materials.

<u>Question 15:</u>

The IRS estimates the tax gap, the difference between the taxes legally owed and those paid on time, to be $345 billion each year. In 2007, I asked Secretary Paulson to make a commitment to reach 90% voluntary tax compliance by 2017 - ten years to raise the rate from its current 83.7%.

(i) **Do I have your commitment that you will work to achieve 90% voluntary compliance within 10 years?**

I will work to improve the level of voluntary compliance and believe that, with adequate support from Congress, we can achieve 90% voluntary compliance within the next decade. The President is committed to implementing an effective program to close the tax gap and the Administration looks forward to working with you on this effort.

(ii) **Do I have your commitment that you will come testify before this Committee later this year to tell us what you are doing to implement Treasury's Tax Gap Plan and the progress you are making?**

Yes.

Question 16:

There is an ongoing to debate about whether and to what extent global economic imbalances contributed to our current financial and economic crisis. In particular, this debate focuses on the role of countries with large current account surpluses, such as China, in the current crisis.

What is your view on the role and extent to which these imbalances contributed to our current economic problems? Based on this view, how will you as Treasury Secretary work to unwind these balances in an orderly fashion? If these imbalances are not unwound, what is the likely impact on the U.S. economy?

Global imbalances reflect a complex interaction of savings and investments and many other forces. In the short term we need coordinated stimulus to strengthen demand here and in China. Once demand is stabilized we need a constructive dialogue with China that focuses on helping China move towards growth that relies more on domestic consumption and less on exports.

Question 17:

International Monetary Fund (IMF) Managing Director Strauss-Kahn and others have called for a large, coordinated fiscal stimulus. To date, few countries have advanced concrete fiscal stimulus plans close to the 2 percent of GDP Strauss-Kahn recommends.

Do you agree that large and coordinated global stimulus initiatives are necessary in the current crisis? What will you do to persuade our economic partner countries to design and implement coordinated stimulus plans on the scale Strauss-Kahn and

others recommend? If such plans fail to materialize or are not implemented, how will that affect the impact of our own economic recovery plans?

Yes. We will work with our economic partners to make sure they understand that the recovery of each individual country relies on every one of us providing a fiscal stimulus. If such plans fail to materialize, a slowdown in worldwide demand will ensue, exacerbating the downturn both here in the US and abroad.

<u>Question 18:</u>

The IMF is in need of reform to increase developing country representation and voice in the Fund. Proposed IMF quota changes – an important element in this necessary reform – require Congressional approval.

Do you support IMF reforms, including proposed changes to quotas that will give developing countries greater say in the Fund? If so, how will the Obama Administration advocate for these reforms to secure Congressional approval?

Yes. President Obama has said that he wants to reform the IMF to increase developing country representation. We need to send a strong signal that we are ready to give developing countries a voice within the IMF that is commensurate with their importance to the world economy. We will consult closely with Congress on how to bring about IMF reforms that are in the best interest of the institution, the U.S. taxpayer, and the global economy.

<u>Question 19:</u>

The current global economic crisis has made the IMF's already dwindling financial resources a more pressing concern. The IMF is proposing selling some of its existing gold holdings in order to raise more useable resources. Congress must approve the sale for it to move forward.

Do you support the IMF's gold sale proposal? If so, how will the Obama Administration advocate for its approval in Congress? Do you believe Congress should handle the gold sale issue together with quota reform or address both issues separately?

The sale of IMF gold is designed to fund the IMF's operating budget, that is, to support its work on data dissemination and standards, surveillance, global economic forecasting. It makes sense to ensure that the IMF can carry out these central functions without having to rely on income from crisis lending. The IMF may well need more resources to shepherd emerging economies through this crisis, but the sale of IMF gold is not intended for that purpose (nor would it raise enough money). Rather than dealing with IMF reform on a piecemeal basis, it is probably makes sense to handle the gold sale issue and quota reform at the same time.

<u>Question 20:</u>

Mr. Geithner, on January 21, 2009, the New York Times ran an op-ed piece entitled "Questions for Mr. Geithner." The article posed the following questions, which I would like you to answer.

a. The American tax code is so complex that even Treasury secretary nominees can easily make mistakes on their returns. Furthermore, while income tax rates are 10 percent to 35 percent for individuals and 35 percent for corporations, because of the proliferation of deductions, credits, exclusions and loopholes, the revenue from income tax amounts to only 10 percent of gross domestic product. Should you give priority to simplifying the code and enforcing compliance before raising rates?

— CHARLES O. ROSSOTTI, the commissioner of internal revenue from 1997 to 2002

IRS Commissioner Charles Rossotti is correct that our country should make tax simplification and compliance an important priority. The President shares his commitment to this objective, as is evidence by his proposal to allow millions of Americans to be able to do their taxes in less than five minutes.

b. Ordinary taxpayers would like an answer to this question: Why have they been billed more than $45 billion to rescue Citigroup from failure when, as president of the Federal Reserve Bank of New York, you were its primary supervisor? Three major problems led to Citigroup's downfall: bad investment policy; overexpansion, which overwhelmed Citigroup's management; and an inadequate capital base. Why was Citigroup's supervision inadequate to deal with these problems?

There are many reasons to be deeply concerned about the performance of supervision and regulation with respect to many of our largest financial institutions. Perhaps most important from the perspective of financial stability was the failure of risk management. Firms made business decisions that exposed them to significant risks, and risk management failed to constrain the business judgments or keep pace with the challenges arising from the complexity of the exposures created. To a significant degree, these risk management weaknesses contributed to the severity of the crisis and its potential impact on the real economy. Citigroup's supervisors, including the Federal Reserve, failed to identify a number of their risk management shortcomings and to induce appropriate changes in behavior. The Fed and other regulators are in the process of carefully evaluating the sources of the current problems and the changes that need to be made to prevent this situation in the future.

c. The Treasury and Federal Reserve have been selecting which companies in American industry and finance will get taxpayer money. What criteria do you use to decide?

The broad criteria for eligibility for funds under the EESA are defined in that Act. Within the parameters of this Act, the TARP Capital Purchase Program--which provided funds for the purpose of encouraging institutions to build capital in order to increase the flow of financing to the U.S. economy--was made available to all qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies. Subject to a minimum and maximum subscription amount for each institution, Treasury determined the precise amount of capital provided to each institution in conjunction with that institutions primary federal regulator. There were also circumstances in which it was determined that default by a highly-rated or large firm, or a firm deeply imbedded in the financial infrastructure, posed an unacceptably high risk of impairing the functioning of the financial system or meaningfully restricting access to credit for creditworthy borrowers throughout the economy. In these circumstances, funds were provided to individual institutions under programs other than the Capital Purchase Program.

d. During the banking crisis of the late 1980s, assets of failed savings and loans were acquired by the government's Resolution Trust Corporation. The trust corporation then sold off the assets in an orderly fashion. Would you consider requesting Congress to revive the Resolution Trust Corporation, so you would not have to decide which companies to save and which not to save? Would you consider re-establishing the trust corporation now for commercial banks that are likely to fail?

— ANNA JACOBSON SCHWARTZ, an economist at the National Bureau of Economic Research and the author, with Milton Friedman, of "A Monetary History of the United States, 1867 to 1960"

The Resolution Trust Corporation (RTC) was created in the wake of the Savings and Loan (S&L) crisis to create a mechanism by which assets of failed S&L institutions were disposed or resolved. The reason the RTC did not have to decide which institutions to save was because it was taking assets only from institutions that had already failed. Today, we are looking for ways to address the problem of troubled assets on bank balance sheets that do not require causing institutions to fail because bank failures are costly and disruptive. While the RTC model provides some insight into ways to dispose of troubled assets, applying it in current circumstances would still require deciding which institutions to assist.

With the termination of the Resolution Trust Corporation, all of its remaining assets, liabilities, and duties for the resolution of S&Ls were transferred to the FDIC. Today, the FDIC serves as the appropriate agency and mechanism for resolving failed commercial banks and thrifts.

e. Do you believe that money from the Treasury's Troubled Asset Relief Fund should be exclusively used to preserve our financial system, or should it be used to assist distressed non-financial institutions like manufacturers and retailers? If non-financial institutions are eligible, how do you decide which are deserving?

I share the view expressed in NEC Chairman Summers' letter of January 15th that as we carry out our programs under the Emergency Economic Stabilization Act, our actions should reflect the original purpose of that legislation.

As Dr. Summers also indicated in that letter, the Administration has no intention of using any funds under this Act to implement an industrial policy.

f. Do you believe raising taxes on savings and investment, as would occur if the Bush tax cuts expire in 2010, will help or hurt our economy?

Our immediate priority is to work with Congress to provide substantial tax relief for families and businesses through an economic recovery plan. The President pledged to cut taxes for 95% of working Americans. For businesses, we propose to cut taxes for companies that are making job-creating investments. Beyond that, it is premature to speculate on the tax provisions that expire in 2010.

g. How do we more effectively regulate the financial services industry without adding unnecessary regulations that cripple our ability to compete globally?

— MITT ROMNEY, a former governor of Massachusetts

I believe that markets are central to economic growth and our ability to compete globally, but that markets alone cannot solve all problems. Well-designed financial regulations with strong enforcement are absolutely critical to protecting the integrity of our economy. If confirmed, I look forward to working closely with Congress to develop a smart and effective regulatory system that will meet our current needs as well as the challenges and opportunities we will face both domestically and globally in the years ahead.

h. In the past, you have praised the "resiliency" of the American financial system. But a resilient financial system would demand that banks maintain stricter capital standards in normal times so that when a crisis hits, they don't all have to tighten lending at the same time. What exactly did you mean by "resiliency"?

— ROBERT SHILLER, professor of economics at Yale

Ensuring that U.S. banks maintain adequate capital reserves is a critical component of a well-functioning banking system. The financial crisis has revealed that many U.S. and foreign banks did not have adequate capital reserves to offset the losses that they sustained requiring dramatic policy action to address this problem. Our regulatory system failed to prevent individuals and businesses from taking excessive risk that exposed the system more than just the organizations or individuals taking the risks. This process threatens the resiliency of our financial services system. I believe that we must have much stronger safeguards in place to protect markets and investors against the risks we've witnessed in the past year.

i. The income tax code favors those with employer-provided health insurance over those who buy their own health insurance or pay medical bills out of pocket. It also favors homeowners over renters, through the mortgage interest deduction. Is this tax treatment efficient or fair? Might you favor a more level playing field?

Measuring efficacy and fairness of the present U.S. tax code can only be undertaken in full view of the tradeoffs allowed or imposed by the Code on the wide range of beneficiaries and participants. I support the goal of fairness, and look forward to working with the Congress in considering realistic steps that can be taken to improve both fairness and simplicity.

j. President Obama supports the estate tax. Why should a person who leaves his money to his children pay more in taxes than another person with the same lifetime income who spends all his money on himself?

— N. GREGORY MANKIW, a professor of economics at Harvard

During the campaign, President Obama proposed extending the rate and exemption level that will apply in 2009. However, I understand the strong emotions on both sides of this issue and I look forward to working with all of the Members of the Committee to develop a fiscally responsible solution that provides certainty to families and is consistent with President Obama's principle of restoring tax fairness. Additionally, I should note that President Obama wants to minimize the impact that the estate tax has on small businesses and family farms. His proposal to extend the rate and exemption level that will apply in 2009 ensures that less than 1% of small businesses and farms would be impacted by the estate tax.

k. The American financial regulatory system is highly fragmented, with authority divided among federal and state governments, the Federal Reserve, the comptroller of the currency, the Securities and Exchange Commission, etc. Do you favor an overhaul of the system and, if so, what should the new system look like?

— JOHN STEELE GORDON, the author of "An Empire of Wealth: The Epic History of American Economic Power"

The financial crisis has highlighted the urgent need to overhaul the oversight of our financial system. We must move ahead with comprehensive financial reform to build a stronger, more resilient system with much greater protections for consumers and for investors, with much stronger tools to prevent and respond to future crises.

l. This country has long benefited from the world's confidence in our financial markets. Are financial regulatory reforms necessary now to restore investors' confidence and revive our economy?

Our financial system failed to meet its most basic obligations. The system was too fragile and unstable, and because of this, the system was unfair and unjust. Individuals, families, and businesses that were careful and responsible were damaged by the actions of those who were not. So we need to move quickly to build a stronger, more resilient system with much greater protections for consumers and for investors, with much stronger tools to prevent and respond to future crises. This is critical to restore investor confidence and for our economy going forward.

m. Should debt securities that are held by regulated banks and pension funds be rated by multiple independent credit reports that have been commissioned by a federal agency, or should we continue to let the issuers of debts decide who will rate their risks?

Currently, credit rating agencies are paid by issuers for the ratings that they receive. If confirmed, I look forward to working with the SEC and Congress to consider ways of addressing this conflict of interest as well as possible reforms of the role and use of these ratings under SEC rules.

n. Should large financial institutions incur higher reserve requirements or other regulatory penalties when they become "too big to fail"?

— ROGER B. MYERSON, a professor of economics at the University of Chicago and a winner of the 2007 Nobel Memorial Prize in Economic Sciences

All financial institutions should be properly regulated to protect against systemic risk. These requirements ought to test adequacy of capital against a broader range of possible outcomes. If confirmed, I will lead a comprehensive review of existing capital requirements.

Question 21:

The Department of Treasury maintains oversight of U.S. Customs and Border Protection's (CBP) customs revenue functions. But in recent years, this oversight function has received neither the proper staffing, nor been adequately prioritized. Will you provide necessary resources to ensure the Treasury Department engages in adequate oversight of CBP? How will you prioritize this oversight function?

If confirmed, I will aggressively advocate on behalf of the resource needs of the Treasury oversight functions, including the customs revenue functions performed by the U.S. Customs and Border Protection.

Questions from Senator Grassley

Question 1:

The Congressional Budget Office projects debt held by the public to grow from the fiscal year 2008 figure of $5.8 trillion to $7.2 trillion for fiscal year 2009. Likewise, as a percentage of the economy, the figure would grow from 40.8% to 50.5%. Both are dramatic increases. To put it in context, from 2001 through 2008, debt held by the public grew from 33.1% to 40.8%.

A. Do you believe there is a ceiling on the amount of deficits and debt held by the public?

Deficits of this magnitude are not sustainable over the long term and will require serious budget reforms to achieve a sustainable fiscal position that stabilized the debt to debt ratio at reasonable levels.

B. If you believe we need to be mindful of some limit on deficits and debt, do you believe we should employ this caution against proposals that spend above the baseline, including health care reform?

Yes, we have to be careful to identify how to pay for new commitments to long term programs. In terms of healthcare reform, what is most vital is that we are instituting the type of reforms that will help to slow the growth of health care costs in both the private sector and in our major entitlement costs – at the same time expanding coverage and improving quality. If there are upfront costs in a comprehensive healthcare reform plan we should carefully seek to reduce wasteful, duplicative and low priority spending in some areas where additional up front investments in healthcare could be beneficial if they were part of a comprehensive plan to reduce long-term growth in our nation's healthcare spending.

Question 2:

According to CBO, only less than half of the spending in the House Stimulus package will be spent in the next two years. Some argue that we need to be focusing more on fixing the financial system, since what has been tried hasn't worked, than on a stimulus package.

A. Do you think this is true?

A comprehensive program to help repair the financial system and support credit flows is necessary for recovery. Financial recovery has to be pursued along side the Recovery and Reinvestment Plan.

B. **In your testimony today you stated that you think CBO's estimates could be improved. Explain why CBO's estimates are not accurate, including which assumptions should be revised.**

Concerning the CBO analysis mentioned today in my hearing, there are a few points that I wish to stress. First, the analysis did not look at the President's entire plan, including such provisions as the bonus depreciation and fiscal aid to states proposals that we believe will have very quick spend-out rates. Secondly, on the spending items that CBO reviewed, we believe that they relied on more traditional assumptions of the spend-out rates of similar transportation and energy projects and did not specifically take into account the provisions put forward by the President and being currently worked on with Appropriators that are specifically designed to ensure the fast-acting spend-out rates that would be needed fiscal stimulus over the next few years.

The Administration believes that, when the entire package is reviewed and when the more specific provisions are taken into account, it will be clear that the design and composition of the American Recovery and Reinvestment Plan will lead to the faster spend out rates that are needed to re-start economic demand.

Question 3:

Do you have any evidence that huge amounts of government spending ever brought a nation's economy out of a recession?

The President's plan is meant to jumpstart our economy making a down payment on long-term economic growth. In many areas – from infrastructure to clean energy to health care – there is a lot of potential to invest money and create jobs right away by focusing on meritorious projects the can be quickly started.

Conservative and liberal economists agree that short-term deficit spending is necessary in order to stimulate the economy. Looking back on the 1930s, I share the belief of most economists that we were effective in ending the Great Depression only after very substantial fiscal and monetary policy stimulus, along with a comprehensive strategy to stabilize the banking system.

Question 4:

In your response to Senator Kyl's question about transfers funds to state and local governments, you stated that you believe that entities should be subject to conditions and that you are open to all suggestions. Describe what conditions you would impose on government entities to ensure that federal funds are being used in the best way possible.

In your response to Senator Kyl's question about transfers funds to state and local governments, you stated that you believe that entities should be subject to conditions and that you are open to all suggestions. Describe what conditions you would impose on government entities to ensure that federal funds are being used in the best way possible.

The President and Congress have been working together on a set of new conditions to ensure that this package gets resources out both quickly and effectively. These include tightening restrictions on federal awarding and state investment of recovery funds, to ensure that government entities are not sitting on unused funds; explicitly targeting ready-to-go projects that have already been approved and can be done quickly and effectively; and unprecedented levels of transparency and oversight so average Americans can help participate in the process of holding government accountable. There will be an oversight board with independent advisers in place to identify issues before they become problems. And all information about how these funds are being disbursed and invested will be posted online in a user-friendly format for people to review.

Question 5:

The CBO states that only $136,323,000 of the $355,532,000 (or less than 39%) in estimated outlays from the American Recovery and Reinvestment Act of 2009 will occur in 2009 and 2010. In addition, the Joint Committee on Taxation estimates that the government will lose revenue of $231,676,000 of the net total of $275,378,000 from all of the tax provisions in 2009 and 2010. Therefore, when the spending and tax provisions are combined, less than half of the stimulus spending and tax relief occurs in 2009 and 2010. In your view, is this less than 50% figure an appropriate figure for a stimulus bill?

The President’s plan is designed to provide a very substantial boost to growth in 2009 and 2010. The proposed mix of spending and tax provisions were chosen to maximize this objective. We are open to considering ways of improving the short term impact of the proposals.

Question 6:

Mr. Geithner, as you know, I wrote to you last June asking for details about the portfolio of assets received by the Federal Reserve as part of the Bear Stearns rescue last March. I received no reply for months. In fact, despite repeated requests to receive a full response before the Senate voted on the broader $700 billion dollar package, it was only after that vote that you provided the information I was seeking. It's hard to imagine a situation where the legislative need for information was more urgent than just before that vote to authorize the spending of $700 billion.

a. **Why did you withhold the information until after the vote?**

I very much appreciate your frustration with the pace at which you were provided the information you requested. The review process within the Federal Reserve took longer than was necessary and appropriate. I can assure you that the delay was in no way related to the process that was unfolding around the TARP. I understand that staff at the New York Fed have met with your staff and that your staff has been satisifed with the information that has now been provided. If confirmed, I will work with you to see that you have available to you all the information you require to ensure that the taxpayer's interests are protected.

b. **What assurances can you provide that you will not be as slow to respond to my future requests for information if you are confirmed?**

President Obama has emphasized his desire, which I share, to work closely with both parties on Capital Hill to ensure that we can address our nation's urgent problems. At this point in time, it is critical that the Administration and Congress consult closely with one another. And, as I have indicated, I will make certain that your requests are given prompt responses.

Question 7:

I appreciate the briefing and answers to follow-up questions that your staff eventually provided regarding the Bear Stearns deal. However, I am disappointed with the level public disclosure about the assets being held by the Federal Reserve through Maiden Lane, LLC. Specifically, it appears that the reported valuation of those assets may be overstated. The reason is that much of the debt in the portfolio is guaranteed by Freddie Mac and Fannie Mae, which are in-turn guaranteed by the Federal Government. In other words, a rosy scenario for Maiden Lane, LLC is not necessarily a rosy scenario for the American taxpayer.

a. **Isn't it true that if the defaults on those loans are high, then the taxpayer is still left holding the bag even if the Federal Reserve gets its money back from Maiden Lane, LLC?**

The Federal Reserve holds a range of government, government guaranteed and agency securities on its balance sheet. We have provided the Committee staff with the detailed composition of the assets in the Maiden Lane, LLC that are guaranteed by Fannie Mae and Freddie Mac. The risks assumed by the government sponsored entities and by the Federal Reserve have to be measured in relation to the benefits they provide the financial system and the overall economy.

b. Why isn't general data about the loans underlying the securities in the portfolio regularly reported to Congress and the public in order to provide a more accurate picture of the true risk to the taxpayer? Specifically, is there any reason that the percentages of loans in default, the percentages of loans over 90 days late, and similar aggregated statistical information cannot be released?

As you know, the critical imperative behind all of the government's extraordinary actions over this period has been to stabilize the financial system. Consistent with its accounting and disclosure practices, the Federal Reserve reports publically on the value of the portfolio of assets held in Maiden Lane, LLC on a regular basis. Confidentiality around the specific characteristics and performance of individual loans in the portfolio is maintained in order to allow the asset manager the flexibility to manage the assets in a way that maximizes the value of portfolio and mitigates risk of loss to the taxpayer.

c. If you are confirmed, what assurances can you provide that there will be more meaningful disclosure about the performance of the Bear Stearns deal?

The Board of Governors of the Federal Reserve System is responsible for setting broad policy on accounting and disclosure of the activities of the Federal Reserve Banks. If confirmed, I look forward to working with you and with Chairman Bernanke on ways to respond to your suggestions and concerns.

d. What specific additional disclosure would you support?

If confirmed, I look forward to working with you and with Chairman Bernanke on ways to respond to your suggestions and concerns.

e. What do you plan to do to ensure that there is improved transparency regarding the AIG rescue and the TARP program?

If confirmed, I will work with you and your committee to provide all appropriate information to strengthen transparency and safeguard taxpayer funds.

f. **Do you support providing GAO with full access to the books and records of entities that received TARP funds?**

If confirmed, I would be pleased to work with you and the GAO to examine way to help the GAO carried out its important oversight functions.

Question 8:

Given your statement in today's hearing that you believe that third party information reporting can improve compliance, do you believe that repealing the 3% withholding requirement as passed by the House is a good proposal? Do you support this proposal.

I appreciate the opportunity to discuss with you measures that will improve tax compliance. If confirmed, I look forward to hearing from Commissioner Shulman and members of Congress on ways we can improve compliance. Recent steps taken to enhance information reporting have improved compliance and simplified tax filing and serve as a model for future action. With respect to the withholding provision, I have not had an opportunity to study this provision closely but, if confirmed, I will examine this proposal along with other ideas in this area.

Question 9:

I understand that the current contracts with the collection agencies expire on March 1 and that the IRS must decide by February 1 whether the contracts will be extended. I understand that the IRS is studying the private debt collection program but that, as of an October briefing with my staff, the study was flawed. Since it is unlikely that I will be briefed on this study before February 1, I would like your commitment that Treasury will not terminate this program until there has been a complete and thorough accounting of this program.

If confirmed, I will ask IRS Commissioner Shulman to provide me with a complete and thorough examination of this program before the approaching date for action in this area.

Question 10:

Do you have any home equity loans outstanding? If yes, please provide a detailed accounting of the how the funds were used.

Yes. The Committee has a full accounting of my asset and liabilities. I do not have additional information available at this time. I would be happy to provide additional information to the Committee as necessary.

Question 11:

When did the IRS first contact you regarding your 2003 and 2004 self-employment tax liabilities on your IMF income?

May of 2006.

Question 12:

Provide all correspondence with the IRS regarding your 2001 and 2002 tax returns, during the 2003 and 2004 audit or otherwise.

I have provided all such correspondence in my possession.

A. Did the IRS inquire about your 2001 and 2002 self-employment tax liability on your IMF income during the audit of your 2004 and 2005 tax return?

I do not recall any such inquiry.

B. Did you inform the IRS that you were employed by the IMF during 2001 and 2002?

I do not recall any conversation with the IRS during the 2006 audit about my employment at the IMF in 2001 and 2002.

Question 13:

Provide the exact dates of when you filed your 2001 and 2002 tax returns and when you filed your 2001 amended tax return.

I provided those returns to the Committee in December 2008. I do not have a record of the exact dates the original 2001 and 2002 returns were submitted, but I believe that I filed them on or prior to the due date. The first amended return for 2001 was signed by my accountant on July 17, 2002, and I believe I submitted it promptly thereafter. I signed amended 2001 and 2002 returns on November 23, 2008 and they were sent to the IRS on November 24, 2008.

A. When did you determine that the statute of limitations for those years had expired?

In concluding the 2006 audit, the IRS agent and my accountant informed me that I owed taxes back to 2003. In November 2008, my lawyer advised me that he believed that although I was not legally obligated to go back to 2001 and 2002, I should file amended returns to cover self-employment taxes for those years.

B. How did you determine that statute for these years had, in fact, expired? Provide all communication with external parties on this issue or documentation of research conducted on this issue.

Again, I was so advised (orally) by my lawyer in November 2008.

Question 14:

I understand that the accountant who represented you in the audit of your 2003 and 2004 returns was not the same accountant who initially prepared the returns for those years.

A. Is this true? If yes, why did you use a different accountant?

Yes. I was not fully satisfied with his services. And in responding to the IRS audit, I thought it was more appropriate to use a different accountant who could take a fresh look at the issue.

B. **Did the accountant who initially prepared your 2003 and 2004 returns inquire, or did you otherwise discuss, why there was no social security or medicare tax withholding on your Forms W-2 for those years?**

I don't recall any discussion of this with my accountant, other than the email that I provided to the Committee.

C. **Did you inform the accountant who initially prepared your 2003 and 2004 returns inquire, or the accountant who represented you in the audits of those returns, that you were employed by the IMF in 2001 and 2002?**

I don't recall any specific conversations about this, other than the email that I provided to the Committee. It is likely, however, that in preparing my 2003 returns, I would have provided him the previous tax year's returns.

D. **Did you provide these accountants with all of the IMF documentation you provided to the Committee?**

I do not recall precisely what documents I provided to the accountant; I believe I provided him with the basic documentation of sources of income.

Question 15:

In 2006 you were audited by the IRS and filed amended tax returns for tax years 2003 and 2004 because you had failed to pay self-employment taxes for those years. Why didn't you file amended returns for tax years 2001 and 2002 at the same time? Given you had no legal obligation to file amended returns for tax years 2001 and 2002 in 2006, why did you feel it was appropriate to file amended returns for those years in 2008, but not in 2006?

At the conclusion of the 2006 audit, I was told what I owed and I paid that amount. It did not occur to me to file amended returns for 2001 and 2002.

In November 2008, as part of the transition team vetting process, the errors I made in 2001 and 2002 were drawn to my attention, and I decided it was appropriate to correct the error because I did not want there to be any question about whether I had fully met my tax obligations.

<u>Question 16</u>:

You have repeatedly cited that fact that an accountant advised you in 2004 that as an employee of the IMF you were exempt from self-employment taxes. However, on December 19, 2008, you told Finance Committee staff you knew you had to pay self-employment taxes but expected the issue to be resolved when filing your income tax return. Did you ever believe you were exempt from self-employment taxes? If the answer is yes, why have you cited the complexity of the tax code as a factor in your errors? If no, why have you presented the advice from the accountant as an explanation for your errors?

Since I paid self-employment tax on my consulting income in 2001, I did not believe I was exempt from self-employment taxes. Because the IMF reported my income on a W-2 as an employee, I erroneously did not file a form SE as a self-employed person with respect to my IMF income. I referred to the accountant's 2004 advice merely to point out that he did not catch the error regarding self-employment tax on IMF income, either. But again, I am not blaming my accountants for any of my errors; I have accepted full responsibility for them myself.

<u>Question 17</u>:

You have cited the fact that you hired an accountant to file an amended 2001 tax return and this accountant did not notice you failure to pay self-employment taxes. Why did you seek out an accountant to file an amended tax return for 2001? Did you provide this accountant with any information from the IMF on your tax allowance or how IMF employees are supposed to meet their tax obligations? What information did you provide to the accountant?

I retained the accountant to file an amended 2001 return because of an error I had made relating to a Keough contribution for my spouse that I had intended to make but did not. I do not believe I provided the accountant that type of information from the IMF. I did provide him a copy of my original 2001 return and certain supporting documents, and he prepared an amended return with multiple changes: eliminating the Keough contribution as a deduction; excluding a small amount of interest income that had been received by my son; and adjusting both my deduction for real estate taxes and my Maryland state income tax deductions. In fairness to the accountant, while I provided to him the amounts I had received from my three employers in 2001, I did not give him my W-2s, and I did not specifically ask him to check for any error related to self-employment tax (because I did not believe I had made such an error).

<u>Question 18</u>:

You provided the Finance Committee with statements from the IMF breaking you tax allowance down into amounts for "Federal Tax Allowance,"" State Tax Allowance," and "SE Tax Allowance." These statements show that your tax allowance was deposited into a checking account. You also provided the Committee with copies of checks made out to State and Federal revenue authorities for the exact same amounts as noted on the statement from the IMF for make state and federal estimated tax payments. Did you ever question what your "SE Tax Allowance" was for? When you were writing checks to cover the "Federal Tax Allowance" and "State Tax Allowance," did you ever think "SE Tax Allowance" was given to you to pay a tax you owed?

Looking back now, it is clear to me that the IMF statements to which you refer should have prompted me to realize that it was necessary for me to file a form SE and pay self-employment taxes. I did not realize this and regret the error.

<u>Question 19</u>:

Mr. Geithner, you bring to the table heavy experience in debt management and related issues. We are facing the largest Federal budget deficit and largest amount of debt held by the public since World War II. That gloomy statistic is true in absolute dollar terms and in terms of the percentage of the economy. As an example, the Congressional Budget Office projects debt held by the public to grow from the fiscal year 2008 figure of $5.8 trillion to $7.2 trillion for fiscal year 2009. Likewise, as a percentage of the economy, the figure would grow from 40.8% to 50.5%. Both are dramatic increases. To put it in context, from 2001 through 2008, debt held by the public grew from 33.1% to 40.8%; roughly one percent a year.

Mr. Geithner, do you believe there is a ceiling on the amount of deficits and debt held by the public? If you believe we need to be mindful of some limit on deficits and debt, do you believe we should employ this caution against proposals that spend above the baseline, including health care reform?

Yes, we have to be careful to identify how to pay for new commitments to long term programs. In terms of healthcare reform, what is most vital is that we are instituting the type of reforms that will help to slow the growth of health care costs in both the private sector and in our major entitlement costs – at the same time expanding coverage and improving quality. If there are upfront costs in a comprehensive healthcare reform plan we should carefully seek to reduce wasteful, duplicative and low priority spending in some areas where additional up front investments in healthcare could be beneficial if they were part of a comprehensive plan to reduce long-term growth in our nation's healthcare spending.

Question 20:

On November 12, 2008, I sent a letter to Secretary Paulson and Chairman Bernanke regarding the Emergency Economic Stabilization Act. I was hoping to get a response before the vote on the Resolution of Disapproval on the additional $350 billion but Treasury staff only told my staff they were working on it and asked for patience given that Treasury as received much Congressional correspondence regarding the bailout. The questions I raised in that letter are still very relevant to understanding the use of TARP funds. Provide complete responses to the questions raised in that letter, which is attached.

You raised a number of important questions in your letter to Secretary Paulson, and I share many of your concerns on these matters. If confirmed, I will be in a position to work with existing Treasury staff who have been implementing EESA and will be in a position to address your concerns. We intend to require certain conditions be attached to aid received by institutions participating in the second tranche of TARP. Included in those conditions will be strong but sensible restrictions on executive compensation. In particular, we will require that for firms receiving government support, executive compensation above a specified threshold amount be paid in restricted stock or similar form that cannot be liquidated or sold until the government has been repaid. As you will also be aware, the Treasury Department has recently released a new rule requiring the CEO of an institution receiving TARP funds to certify the firm's compliance with the TARP's executive compensation standards. Our intention is to implement this program in a transparent, professional manner so that you and other members of Congress can evaluate the program with relevant information.

Question 21:

It appears that the $700 Billion TARP program will not be enough. When will the administration be requesting additional bailout funding?

We are in the process of putting together our plan for the use of the second tranche of funds under the Emergency Economic Stabilization Act. We have no current plans to request further resources. However, if we determine that further resources may become necessary, we will be clear with the Congress as to why these resources are necessary, how we intend to deploy them, and what objective we hope to achieve. We will be open and transparent so that you and others can evaluate the effect of our program.

Question 22:

What do plan to do to ensure that there is improved transparency regarding the AIG rescue and the TARP program?

We strongly believe that the transparency of this program must be improved. This is why the Obama Administration has outlined a set of commitments to improve transparency in a letter from NEC Chairman Summers to Congressional Leadership on January 15th. We will communicate about our goals and objectives. The Administration has committed that the President will certifying to Congress substantial new commitments of funds that may be necessary to forestall a serious economic dislocation. In addition, the Treasury will:

- make public for each investment the amount of assistance provided, the value of the investment, the quantity and strike prices of warrants received, and the schedule of required payments to the government.
- report on the terms of pricing for each investment compared to recent market transactions, and
- post this information as quickly as possible on the Treasury's website so that the American people can monitor the status of each investment.

If confirmed, I look forward to working with Congress and with the Congressional Oversight Panel on Economic Stabilization, the General Accounting Office and others to ensure that we are effective in meeting our goal of significantly improving the transparency of this program.

Question 23:

Do you support providing GAO with full access to the books and records of entities that received TARP funds?

If confirmed, I would be pleased to work with you and the GAO to examine way to help the GAO carried out its important oversight functions.

<u>Question 24</u>:

During the hearing today, I asked specific questions about the Special Purpose Vehicles in which the Federal Reserve Bank has partnered with JP Morgan Chase and AIG.

A. You stated that you believed that they currently have an appropriate transparency and disclosure regime. Describe this regime in detail and explain why these vehicles should not be subject to the same disclosures under the TARP program.

The Board of Governors of the Federal Reserve System is responsible for setting broad policy on accounting and disclosure of the activities of Federal Reserve Banks. If confirmed, I would be open to working with Chairman Bernanke on ways to respond to your suggestions and concerns.

B. Given the contribution of federal funds to these SPVs, explain why you think these vehicles should not be subject to oversight by the Securities and Exchange Commission or the Special Inspector General for the TARP.

The Board of Governors of the Federal Reserve System is responsible for setting broad policy on accounting and disclosure of the activities of Federal Reserve Banks. If confirmed, I would be open to working with Chairman Bernanke on ways to respond to your suggestions and concerns.

C. Why isn't general data about the loans underlying the securities in the portfolio regularly reported to Congress and the public in order to provide a more accurate picture of the true risk to the taxpayer? Specifically, is there any reason that the percentages of loans in default, the percentages of loans over 90 days late, and similar aggregated statistical information cannot be released?

As you know, the critical imperative behind all of the government's extraordinary actions over this period has been to stabilize the financial system. Consistent with its accounting and disclosure practices, the Federal Reserve reports publically on the value of the portfolio of assets held in Maiden Lane, LLC on a regular basis. Confidentiality around the specific characteristics and performance of individual loans in the portfolio is maintained in order to allow the asset manager the flexibility to manage the assets in a way that maximizes the value of portfolio and mitigates risk of loss to the taxpayer.

D. If you are confirmed, what assurances can you provide that there will be more meaningful disclosure about the performance of the Bear Stearns, AIG and other bailouts taking place outside of the TARP?

The Board of Governors of the Federal Reserve System is responsible for setting broad policy on accounting and disclosure of the activities of the Federal Reserve Banks. If confirmed, I look forward to working with you and with Chairman Bernanke on ways to respond to your suggestions and concerns.

E. What, if any, specific additional disclosure would you support?

If confirmed, I look forward to working with you and with Chairman Bernanke on ways to respond to your suggestions and concerns.

Question 25:

What contact, if any, did you have with Robert Rubin, or anyone else representing Citigroup, in the three weeks ahead of the unusual government intervention in that company? If any contact, what was specifically said by any party?

As part of my responsibilities as President of the New York Fed, I had a number of discussions with senior Citigroup executives and Board members in the weeks leading up to the most recent package of support. I did not, however, participate in the negotiations with this firm.

Question 26:

In your testimony today, you stated that you supported more transparency and oversight for the market. I introduced a bill to require hedge funds to be registered

so we at least know how many and who they are. You've said we need more oversight.

Do you support requiring registration of hedge funds?

What suggestions do you have to bring improve transparency of the operations and activities of hedge funds?

The financial crisis has highlighted the urgent need to overhaul the oversight of our financial system. With an objective of bringing greater transparency and oversight, I believe that we should consider requiring registration of hedge funds. If confirmed, I look forward to working with Congress on this.

<u>Question 27</u>:

In response to my question to you during the hearing about the role of the credit rating agencies, you stated that there were systematic failures by these agencies in measuring risk.

Do you agree that these agencies should be regulated?

If yes, who do you think should be responsible for overseeing these agencies?

What recommendations do you have for improving the transparency of these agencies?

Credit ratings agencies have played a central role in our capital markets and should be regulated. Congress moved to do so in 2006 with significant new authorities granted to the SEC. If confirmed, I look forward to working with the SEC and Congress to bring greater accountability and transparency to ratings agencies and addressing conflicts of interest.

<u>Question 28</u>:

Section 382 of the Internal Revenue Code limits the ability of acquiring companies that acquire target companies to offset the taxable income of the acquiring company with the Net Operating Losses of the target. This provision was not enacted lightly by Congress, but rather after extensive scholarly reflection by the staffs of the

Senate Finance Committee and the Joint Committee on Taxation, as well as after reflection by the House Ways & Means Committee. It has been an established part of the law ever since 1986.

This law was changed when Treasury issued Notice 2008-83. Many tax law scholars have opined that Treasury simply did not have authority to make this change. The respected law firm of Jones Day, one of the country's largest law firms, at one point estimated that this Treasury Department waiver of this act of Congress could cost the US Treasury $140 billion dollars in taxes that would have otherwise been paid. It is troubling to me that this Notice was issued on September 30, 2008 the Treasury virtually waived section 382, the day after the House said no to the first bail-out bill and two days before Wells Fargo acquired Wachovia on October 2, 2008.

A. How do we re-establish the rule of law?

If confirmed, I will respect the constitutional limits on the Treasury Department's authority, as will all those who work for me. I understand there is a high level of concern on Capitol Hill about this issue, specifically within the Finance Committee. I am aware that legislation has been introduced and that Senator Grassley has called for an Inspector General's report on this issue. I look forward to reviewing that report when it is completed. I realize that this is a complex issue that raises concerns about Treasury's authority, differential treatment of the financial services industry, and budgetary transparency. I promise to more closely examine the issue and work with the Committee if I am confirmed.

B. How should Congress handle this?

Our constitutional system of checks and balances provides authority for each co-equal branch of Government to respond to actions taken and decisions made by another branch. I won't presume to advise Congress how to respond, but, if confirmed, I will pledge to support and uphold the Constitution, including the limits on the Department's authority.

C. How do we deal with the mess that has been created, and how to we ensure there are no future problems like this?

If confirmed, I will review the Treasury Department's guidance review process to ensure that all guidance issued is within the authority granted to the Department by the Constitution and by Congress.

D. **How do we make sure that our Constitutional separation of powers are respected and protected – that is that the executive branch doesn't attempt to pass legislation overriding acts of Congress?**

If confirmed, I will implement and administer the laws that Congress enacts and the President signs, as will all who work for me.

Question 29:

Chief Counsel Korb has made public comments about the need to change the strict liability standard under IRC section 6707(A). However, I have not seen any proposals from Treasury to amend this statute. Do you agree that the standard must be changed? If yes, explain why you think this must be changed and provide suggestions for change.

I have been advised that proposed and temporary regulations under this statute were published this past autumn. If confirmed, I and my staff will work with the IRS to review the statute, regulations and comments to those regulations in order to identify any changes that should be made or proposed.

Question 30:

Section 1205 of the Pension Protection Act of 2006 ("PPA") mandates Treasury to report to Congress on the effectiveness of the IRS in administering the provisions relating to the Internal Revenue Code ("IRC") section 512(b)(13) exclusion from the unrelated business income tax for payments made to controlling organizations from controlled entities and on the extent to which such payments meet the requirements of section 482. The report is required to include the results of any audits of controlling organization or controlled entity and recommendations relating to the tax treatment of payments from controlled entities to controlling organizations. This report was due on January 1, 2009. Congress has not received the report and it is not known whether the IRS has begun the required audits or has initiated any work on this report. My staff informs me that the audits were not included in the FY09 Exempt Organizations workplan. Provide a detailed status report including major milestones and estimated submission date to Congress.

If confirmed, I and my staff will work with the IRS to establish the major milestones and an estimated report submission date.

Question 31:

Section 1211 of the PPA mandates Treasury to study certain acquisitions of interests in insurance contracts in which certain exempt organizations hold an interest. Provide a detailed status report including major milestones and estimated submission date to Congress.

I understand that to collect data necessary for this study the IRS issued a form that taxpayers were to file this past autumn. If confirmed, I and my staff will work with the IRS to incorporate this data into the required study.

Question 32:

Section 1226 of the PPA mandates Treasury to study donor advised funds. A report to Congress on this study, including responses to four specific questions, was due in August 2007. I asked for an update on this report during Commissioner Schulman's confirmation process and my staff was briefed by Treasury and IRS staff on July 10, 2008. This study is now more than a year overdue. Provide a timeline with specific milestones for the completion of this report.

I understand that substantial work on this study has been completed. If confirmed, I and my staff will work with the IRS to establish milestones for completion of the report.

Question 33:

Section 1241 of the PPA mandates Treasury to issue regulations to implement a mandatory payout requirement. I understand that the Advanced Notice of Proposed Rulemaking that was issued in August 2007. I asked for an update on the issuance of these regulations during Commissioner Schulman's confirmation process and my staff was briefed by Treasury and IRS staff on July 10, 2008. I understand that there are a number of issues that remain to be resolved. Describe

zthe issues and provide a timeline with specific milestones for issuance of these regulations.

I understand that substantial drafting has been done regarding this guidance project. If confirmed, I and my staff will work with the IRS to establish milestones for issuance of the regulations.

Question 34:

Mr. Geithner, the Treasury Department continues to play an important role in the administration of our customs laws. While the Department has delegated certain customs authorities to the Department of Homeland Security pursuant to the Homeland Security Act of 2002, Treasury retains the sole authority to approve certain regulations and reserves the right to promulgate regulations concerning customs revenue functions. Treasury also retains the authority to review, modify, or revoke determinations and rules concerning customs revenue functions.

First, if confirmed, what steps will you take to ensure that the Department devotes appropriate resources to administer its customs portfolio, particularly with respect to oversight of customs regulations?

Second, under the delegation of authority outlined in Treasury Department Order No. 100-16, the Treasury Department and the Department of Homeland Security (DHS) must coordinate on certain customs efforts. Do you have any ideas for improving the working relationship between Treasury and DHS if you are confirmed? Do you have any ideas for improving Treasury's oversight of customs revenue functions?

Lastly, if confirmed, do you intend to prioritize Treasury's consultation with the Senate Finance and House Ways and Means Committees regarding the oversight and administration of customs revenue functions? If so, do you have any ideas for improving Treasury's working relationship with the Finance and Ways and Means Committees on customs issues?

When the Department of Homeland Security (DHS) was established, there was a detailed discussion between the Administration and the Congress on how to allocate resources associated with the administration of customs revenue functions. At that time, in the interest of minimizing distractions from the new department's overarching security mission, it was agreed that the bulk of customs revenue resources would go with Customs to Homeland Security. I am informed that after nearly six years of experience, there have been suggestions that some reallocation of resources of between the two department's may more effectively insure that critical economic and revenue considerations are fully considered in the implementation of customs policy. If confirmed, I and my staff would work closely with the Committee to examine these options.

In addition to the issue of resources, close cooperation with DHS, is necessary to implement the two department's joint customs responsibilities. I am told that while informal cooperation has been good, there may be a benefit from formalizing the dialogue and information flow between the two departments.

With respect to consultations on Customs revenue functions with Senate Finance and House Ways and Means Committees regarding the oversight and administration of customs revenue functions, I understand there is frank and open communication with Treasury at the staff level. I will review with my staff ways to strengthen that relationship further.

Question 35:

Mr. Geithner, the Treasury Department oversees implementation of the International Trade Data System (ITDS), which will establish a single electronic portal system for the collection of import data and distribution of that data to participating federal agencies. The ITDS is critical to the customs modernization effort. It will provide federal agencies with access to more timely and accurate information and will drive increased efficiency in the processing of imports into the United States.

Treasury is responsible for coordinating participation among federal government agencies, which is essential to the success of the ITDS. Do you plan to prioritize resources for ITDS? How will you ensure that Treasury meets its goal of having ITDS fully implemented no later than the date the Automated Commercial Environment is fully implemented?

Lastly, given Treasury's role as chair of the ITDS Interagency Steering Committee, I would like to underscore the need to define a set of standards to be used for collecting ITDS data elements as soon as possible. What is your view?

I understand that the funding used to develop ITDS, which is an integral part is part of the Automated Commercial Environment (ACE), the new trade processing system that Customs and Border Protection (CBP) is developing, comes from the budget of the Department of Homeland Security. Treasury and many of the other participating agencies provide advice to DHS on prioritizing those resources for ITDS. I am informed that under current plans ITDS is intended to be completed no later than ACE is fully completed. I am also informed that both CBP and the ITDS Board of Directors consider the development of a standard set of ITDS data elements to be a top priority.

Question 36:

Mr. Geithner, in the previous Administration, Secretary Paulson took a leading role in establishing and leading the Strategic Economic Dialogue with China. I supported that engagement with China, and hope that this Administration will continue to utilize the SED. However, the way the SED was managed sometimes blurred lines of responsibility within our federal government, and trade is one example of that. If confirmed, do you anticipate that the SED with China will be maintained? If so, do you anticipate that Treasury will be the lead agency for managing the SED? If so, do you anticipate interjecting Treasury in the management of portfolios such as trade that fall largely within the jurisdiction of other agencies?

The US China SED presents significant challenges but also opportunities. It is one of our most important relationships. There are many specific issues in our economic relationship that require our careful and prompt attention. These include currency issues, inadequate intellectual property rights protections, product safety, and non-tariff barriers. A deep engagement between our senior economic officials on these topics -- and on the issues of macroeconomic policy and financial stability, energy issues and the environment -- to address differences and effectively resolve problems is a priority. Exactly what form that will take is something that we are considering.

Question 37:

President Obama has committed to eliminating restrictions on family travel and remittance regulations for Cuban-Americans. Since these restrictions were put into place in response to widespread abuse, how will Treasury guarantee that the elimination of these restrictions will not reopen the door to abuse or benefit the Cuban regime?

If confirmed, I pledge to work closely with the Under Secretary for International Affairs and the Office of Foreign Assets Control at the Treasury Department and my National Security Council and State Department counterparts to examine our policy toward Cuba. I also recognize that this and other questions must be answered in the context of President Obama's wider policy toward Cuba. I look forward to working with Congress and my colleagues in the Administration on this important issue.

Question 38:

Under your leadership, how will Treasury pursue enforcement actions in the case of Cuba-related travel service providers? In addition, what specific enforcement actions will Treasury take to guarantee the prohibition of commercial activities with Cuba beyond those allowed under the law (agriculture sales and telecommunications, for example)?

The Undersecretary for International Affairs and OFAC play a critical role ensuring our national security. If confirmed, I will work to ensure that rules and procedures in place are fair, efficient, transparent, and not arbitrary. I am committed to taking great care to follow congressional intent and working closely with members of Congress to ensure that OFAC's activities with regard to Cuba are achieving its important objectives without unnecessary hurdles or unreasonable administrative delays.

Question 39:

Under your leadership, how will Treasury enforce restrictions on Cuban products entering the United States market?

If confirmed, I pledge to work closely with the Under Secretary for International Affairs at the Treasury Department and my National Security Council and State Department counterparts to examine our policy toward Cuba. I look forward to working with Congress on this important issue.

Question 40:

Mr. Geithner, if confirmed as Treasury Secretary, will you commit to enforcing the Cuban Asset Control regulations?

Yes. If confirmed, I pledge to work closely with the Under Secretary for International Affairs at the Treasury Department and my National Security Council and State Department counterparts to examine our policy toward Cuba. I look forward to working with Congress on this important issue.

Question 41:

As one of the principal sponsors of PL 109-8, the 2005 bankruptcy reform legislation, I authored a provision to punish credit card companies that do not agree to re-negotiate debt when a consumer makes a pre-bankruptcy offer to repay a significant portion of a credit card balance. Section 502(k) of the Bankruptcy Code was intended to help consumers reduce their credit card debts and avoid filing bankruptcy. According to a January 3, 2009 New York Times article, last year, some lenders and the Consumer Federation of America got together and proposed a credit card loan modification program to implement this new provision, but the Treasury Department under the prior Administration flatly rejected their proposal. It is imperative that section 502(k) be given full effect, particularly during difficult economic times when consumers are struggling with too much debt. Will you commit to re-examine this decision by the Bush Administration, which I believe has prevented section 502(k) from delivering all the benefits to consumers that Congress intended back in 2005?

If confirmed, I will work with the career staff at Treasury to re-examine the decision to limit the implementation of the credit card loan modification program under Section 502(k) of the Bankruptcy code, as I will need to understand the context and exact details of that decision. In addition, I commit to work with this committee to support efforts of consumers and financial institutions to re-negotiate debt payments before resorting to the extreme remedy of bankruptcy.

Question 42:

Do you think shareholders in the banks and corporations that were bailed out should have received dividends or should they be handled like other stock holders who have lost money and couldn't possibly sell their stock for six years?

We believe it is important to ensure that the capital provided under the program goes to its intended uses of supporting financial stability and promoting lending. As we implement the Emergency Economic Stabilization Act going forward, we will prevent shareholders from being unduly rewarded at taxpayers' expense. Payment of dividends by firms receiving support must be approved by a firm's primary federal regulator. For firms receiving exceptional assistance, quarterly dividend payments will be restricted to $0.01 until the government has been repaid.

ANSWERS TO QUESTIONS FROM SENATOR BINGAMAN

(1) Domestic automakers. One of the lessons of the credit crisis is that systemic failures have effects that are more severe and unfold more rapidly than we tend to anticipate. In the context of automobile manufacturing, a study by the Center for Automotive Research suggests that a 50% contraction of the "Detroit 3" automakers would result in an immediate loss of 2.5 million jobs, assuming the balance does not get picked up by foreign companies. Because I am concerned about this scale of loss, I am supportive of providing support to the domestic automobile manufacturers through the TARP program. In a letter he recently sent to Members of the Senate, former Treasury Secretary Summers stated that the Obama Administration will make future TARP funds available to auto companies only "in the context of a comprehensive restructuring design to achieve long-term viability." What would such a design look like?

The auto industry is the backbone of America's manufacturing base and millions of American jobs rely directly or indirectly on a viable industry. The Bush Administration extended assistance on terms that will require the auto companies to come forward with serious restructuring plans, with concessions from all stakeholders involved. The goal of short term government assistance should be to provide the industry the temporary window it needs while demanding the long-term restructuring that is required. The bipartisan legislation passed by the House, which was later adapted by the Treasury Department for their term sheets with GM and Chrysler provides a good framework and if confirmed, as Secretary, I am committed to reviewing that framework to ensure a stronger and more viable auto industry going forward.

(2) Tax reform. The leading macro contributor to our financial downturn was an overleveraged economy. There are numerous policy areas that brought us to an overleveraged state. One of them is the Tax Code, which allows corporations to deduct interest while subjecting corporate profits to tax. In other words, our Tax Code has a bias for debt financing over equity financing. As the Senate's tax-writing panel, should the Finance Committee eliminate this bias for debt financing? How should we go about doing so?

I think this is an issue that needs to be examined in detail, particularly in the context of tax reform. Today, the tax code gives preferential treatment to debt, and taxpayers go to great lengths to characterize certain transactions as debt deals, even though they look a lot more like equity deals. This is done solely to get tax benefits and the steps taken are not always economically efficient. That is an issue that deserves study, perhaps clarifying how the tax code defines debt and equity.

(3) Bank lending. Bank lending to existing U.S. corporations is down sharply – as much as 40% by some measures. To emerge from this recession, it is clear that banks must begin lending again to these companies. While we had hoped that the infusion of TARP funds would get our banks to begin lending again, bank executives continue to prefer to buy old loans, which are already discounted, to making new loans. Economist Nouriel Roubini says that another TARP-like program will be required to get banks lending again. Do you agree?

Substantial challenges lie ahead that will require the Administration and the Congress to work together closely. Despite the enormous response that has been marshaled, the actions to date have not yet provided the basis for repair and recovery of the system that we need. If confirmed, I will work closely with this committee to ensure that we have a shared understanding of the magnitude of the challenges we face and an open process of working together to address these challenges.

(4) Municipal finance. One of the least discussed aspects of the financial crisis is its impact on municipal governments. The financial crisis has significantly impacted state and local governments by limiting their access to capital, impairing their ability to issue debt to build schools, roads, hospitals, and other essential infrastructure. This has had serious consequences for communities across my state. I was very pleased, therefore, that President Obama on January 8 proposed having the US Federal Reserve buy municipal bonds to cut borrowing costs. This is a step in the right direction. But significant challenges remain - particularly with shorter term and variable rate debt instruments issued by state and local governments. Would your Treasury Department use its existing authority to provide liquidity facilities to support this debt?

As you mentioned today at the hearing, there is no question that the credit crisis has imposed a particularly heavy burden on the financing of state and local governments. This is a serious concern to me and to the new Administration, and if confirmed, I look forward to working with you and the Committee on policy options to address this problem.

ANSWERS TO QUESTIONS FROM SENATOR BUNNING

1. I understand that you initially prepared your returns for 2001 and 2002 yourself, but that you had an accountant prepare your 2003 return. When your accountant inquired about Social Security tax in March 2004, you referred him to an individual at the IMF. This individual explained that you had to pay self-employment tax, but you and your accountant later ignored the advice. Can you explain who was this person and why did you ignore her advice?

My accountant spoke to a person at the IMF about the rollover of my IMF pension. I do not recall who that person was. I asked my accountant why the person at the IMF would say she filed self-employment taxes, since I was an employee, not an independent contractor. The accountant replied, "Clearly, you aren't an independent contractor, so I'm not sure why she would say that. She may need a tax advisor. . . . Employees (that are U.S. citizens) of the IMF, like the UN, are exempt from employment taxes such as Social Security. I think what Kimberly [the IMF employee] was saying was incorrect or wrong. You don't pay self-employment taxes (the equivalent of Social Security and Medicare) on wages."

2. Yes or no, would you have paid your back taxes for 2001 and 2002 if you were not considered for nomination to be Treasury Secretary?

It was only as a result of the transition team vetting process that the issue of the 2001 and 2002 returns came to my attention. If I had not been considered for this nomination, I might never have known this.

3. What, if any, decisions on interventions by the Federal Reserve or the Treasury during the current crisis did you disagree with at the time? And were there any such decisions that you did not participate in?

The decisions over this period often had to be made quickly, and on the basis of much less information than one would like to make public policy judgments of this magnitude. With time we will be able to look back and undertake a more meaningful assessment of these judgments, and doing this carefully and thoroughly will be a critical part of designing a system that will be more robust and less vulnerable to the type of situation in which we find ourselves.

4. During your time at the New York Fed, have you disagreed with any of the monetary policy or regulatory actions of Chairman Greenspan or Chairman Bernanke? If so, please explain.

As Vice Chairman of the Federal Open Market Committee, I helped shape and supported the monetary policy decisions by the FOMC under Chairmen Greenspan and Bernanke. I also helped shape regulatory policies over this period, although those policies are the responsibility of the Federal Reserve Board.

5. What processes and criteria were used to decide on the initial round of Capital Purchase Program investments in the largest institutions? Who decided what firms would receive funding? Please provide documentation (written and email) of the approval/inclusion of each firm included in the original round of CPP investments (on or about October 14, 2008).

If confirmed, Treasury will provide a full explanation in response to these questions.

6. What was your personal involvement in supervising Citigroup's risk management efforts at the New York Fed? Did you support decisions in 2006 to undo restrictions on the firm's expansion and risk management reporting? Please provide documentation (written and email) showing the process by which those decisions were reached and the justifications for the decisions.

The Federal Reserve and other responsible supervisors made those decisions on the basis of a judgment that the firm had made sufficient progress in implementing a new compliance risk management program. Nonetheless, we continued to carefully review any expansion proposal undertaken by Citigroup, and we continued to encourage the firm to refrain from any significant acquisitions until it tightened internal controls and addressed certain regulatory issues that were present both in its domestic operations as well as its operations outside the United States. I will ask the Federal Reserve to provide any documentation that it is appropriate in response to your questions.

7. During his time on the Board of Citigroup, did you have any contact with your old boss, former Treasury Secretary Rubin, about the New York Fed's decisions to relax restrictions on Citigroup or the firm's risk management practices?

I do not recall any such contact, and as a general matter, I conducted these type of discussions on supervisory issues with the Chief Executive Officer and relevant Board members.

8. What steps did you take, if any, to address the risks of the derivatives markets? I do not mean efforts to improve the functioning of the markets, such as the central clearinghouse, but the systemic risks of the products and markets more generally.

The systemic risks of the derivatives markets were a major focus of my work while I served at the New York Fed – not only to make the infrastructure of those markets more mature and more robust, but also to make sure the institutions at the center of the derivatives markets were managing their risks more effectively. In addition to working directly with the firms that represented almost all of the volume in these markets, I engaged lead regulators from the U.S. and around the world – from the SEC, Switzerland, Germany, France, the United Kingdom, and Japan – to encourage these firms to have a better sense of the risks they were exposed to in credit derivatives as well as their risks from a broad range of other complex financial products. These efforts, I believe, helped make the system stronger.

Nonetheless, we will have to take a broad look at the framework that surrounds derivatives and incentives created for institutions that participate in these markets.

9. What was your involvement in the second government investment in Citigroup?

I support the actions taken by the USG to strengthen the financial system, and Citigroup, and protect U.S. taxpayers and the U.S. economy.

I participated in internal discussions with the Secretary of the Treasury, the Chairman of the Federal Reserve and the other heads of agencies on broad options, but I removed myself from any direct role in discussions with the firm on Friday evening, November 21, 2008.

10. Is it true that you were the primary architect of the AIG bailouts? Why did the first few interventions in AIG fail?

As the President of the Federal Reserve Bank of NY, I was involved with, and engaged in extensive conversations with Chairman Bernanke and Secretary Paulson about all aspects of the actions we collectively undertook to stabilize AIG in September of 2008 and again in November of 2007. I also engaged with John Reich of the OTS as AIG fell under the OTS's oversight, as well as with the NY state insurance commissioner Eric Dinallo. But I would not say that I was the primary architect.

After the initial intervention, AIG's capital and liquidity position continued to deteriorate and there was a potential for a destabilizing downgrade of the firm by the rating agencies on the heels of the firm's pending announcement of significant loss in Q3 of 2008. A significant factor in the failure of the first package of support to definitively stabilize the firm was the marked deterioration in conditions across many sectors of the economy, particularly the insurance sector both in the U.S. and in Europe.

11. Was your former boss, former Treasury Secretary Rubin, or anyone else at a firm you regulated involved in your being hired at the New York Fed?

I believe Bob Rubin was consulted by the Board of Directors of the New York Fed in conjunction with my being considered for the position of president of that institution.

12. The New York Fed oversees the Fed's Large Financial Institutions regulation. Therefore, as President of the New York Fed, one of your most important responsibilities is regulating and preventing the collapse of systemically important banks. And that has been your job since 2003, which means it was your job to watch those institutions during the time they acted most irresponsibly and made the decisions that eventually led to our current crisis. All one has to do is look at the near-total collapse of Citigroup to see that you failed at that job. Why did you fail at that job and why should that not disqualify you from overseeing the entire financial system?

There were systematic failures of risk management and supervision across the financial system, and addressing these failures will require comprehensive changes to financial regulation here and around the world. As President of the New York Fed, I led a number of initiatives to strengthen the financial system ahead of this crisis. Those efforts were important and effective in addressing many of the weaknesses at the center of past financial crises, and they helped limit the damage caused by the present crisis. But those efforts were inadequate.

ANSWER TO QUESTION FROM SENATOR CANTWELL

1. **The current economic crisis and resulting credit crunch highlight both the necessity for Americans to save, and the difficulty of doing so. Savings builds capital and helps families weather rainy days. Our economy has suffered from too-great an emphasis on debt as a method of financing; it is my belief that we must now encourage the nation to focus on savings as a core contributor to economic recovery. And we must make it easier for Americans to save.**

   The problem of saving is particularly acute for low-income families, who even during better economic times have difficulty putting food on the table and keeping a roof over their heads. Low-income individuals need a method of savings that enables them to set aside relatively small amounts of money in order to start down the path of economic self-sufficiency.

   The annual federal income tax refund that many low-income families receive, bolstered by the Earned Income Tax Credit (EITC) and the child tax and other credits, is often very large relative to their overall income. When the individual receives that refund, there is a window of opportunity for the individual to save and for the government to encourage that savings. Enabling taxpayers to check a box right on the federal tax return form and set aside some of that refund in a U.S. Savings Bond is a simple policy for encouraging savings among a broad spectrum of the population that otherwise has trouble building wealth.

   U.S. Savings Bonds have a 75-year history of helping Americans save, especially smaller-balance and first-time savers. During the 1960s, you could buy a savings bond by checking a box on your tax refund, using Form 1040. Yet recent changes by the Bureau of Public Debt have accelerated a trend to de-emphasize the savings bond program.

   Mr.Geithner, what is your view of the role savings plays in our national recovery and savings bonds in particular? Would you support a call to re-introduce the savings bond purchase option to the annual federal tax filing process?"

   The President has proposed several ideas that would give all American workers the opportunity to save. Half of the American workforce has no 401(k) or other employer-based retirement plan. To address this problem, the President has proposed the adoption of automatic workplace IRA's and expanded tax credits for saving. In the months ahead, if confirmed, I look forward to working with you on consideration of these ideas as well as other savings incentives, such as the savings bond proposal that you raise. You correctly note that an important time to highlight the role of savings in a family's overall economic health is upon receipt of their tax refund. For those receiving the Earned Income Tax Credit, greater awareness of savings opportunities might be particularly useful. You have suggested that our Savings Bond program should be promoted more broadly in connection with tax filings. This sounds like a useful idea that deserves careful consideration. I hope to have the opportunity to talk further with you on the President's suggestions as well as the full range of savings ideas.

Questions for the Record
From Senator Crapo
For Mr. Geithner
Treasury Nomination Hearing
January 21, 2009
Senate Finance Committee

1. Some newspaper articles are suggesting that Treasury is considering moving toxic mortgages from private bank's balance sheets to a publicly owned bad bank. The government or the publicly owned bad bank would buy the assets at fair value. This appears to have the same problem as the reverse auction idea -- the government will purchase these questionable assets at a price higher than what private buyers are willing to buy. Are you considering this idea, and if so, how will you make sure the taxpayer is protected and that the government will not overpay?

I am considering a range of ideas and initiatives to restore stability to the financial system. I look forward to working with you on assessing these alternatives. Protecting the taxpayer is my highest priority and we intend to utilize structures that ensure incentive alignment and impose a burden on any financial institution that participates in TARP programs.

2. According to today's Washington Post article: "As banks sink, financial analysts increasingly are warning that government intervention is inevitable and could come at the expense of shareholders, perhaps in the form of nationalization. This appears to be driving away investors and hastening the intervention. As with the government's summer promise to save Fannie Mae and Freddie Mac, but only if necessary, the last resort has become the expected outcome." What steps do you intend to take so that investors will not stay on the sidelines and can be part of the solution?

Encouraging private investment in our banks and drawing private capital that is now on the sidelines is critical to ensuring that our financial institutions are stable and that our capital markets can return to more normal and healthy functioning. We will be mindful of the need to provide the proper incentives to encourage the participation of private capital as we implement the Emergency Economic Stabilization Act. This is necessary for our financial institutions and our financial system to play its normal role of providing the credit that the economy needs. If confirmed, I will seek to ensure that our actions create the conditions that will improve the possibility that private capital will come in and replace the government's role as quickly as possible.

3. Some have suggested that in the short run we need to create a new federal facility that would provide financing to the commercial real estate market and other consumer loans, such as student loans. Do you agree with this statement, and if so, how quickly do you believe such a facility can be up and running?

Programs that draw private capital in to support new lending to households and businesses -- such as for small business loans, credit cards, auto loans and student loans -- can have an important impact on supporting the availability of credit to households and businesses. Under the Emergency Economic Stabilization Act, the Treasury has committed to work with the Federal Reserve to provide the funding to support a return to more normal functioning of credit markets. We are evaluating a number of options to increase lending. If confirmed, I will work to ensure that an effective new program is up and running as soon as is practical. As you rightly indicate, if a new federal facility is effective in achieving the objectives, positive consideration could be given be expanding the program to cover a wide range of assets and thus provide support for areas including commercial real estate.

4. What principles are you going to push for as we begin the dialogue of rethinking our current regulatory structure, and would a merger or rationalization of the roles of the SEC and CFTC be a valuable reform?

My first priority in thinking about our regulatory structure will be improving the capacity of our financial system to withstand shocks. There is no doubt in my mind that our financial system, as we have witnessed during this crisis, failed to meet its most basic obligations. The system was too unstable, too fragile, and too weak to withstand high levels of stress. As such, people who did everything right and played by the rules and were careful were hurt by the actions of those who took too much risk and too little responsibility. That, to me, is the sign of a system that is unfair and unjust and very much in need of reform.

If I am confirmed, I will move quickly and work with Congress to build a stronger, more resilient system with greater protections – as a very high priority – for consumers and investors. Getting these basic objectives right is more critical than worrying about the exact structure of our regulatory agencies. I'd like to work with you and learn more about your views on the best options for redesigned regulatory structures. I know we can preserve the unique strengths of our financial markets in providing individuals and entrepreneurs access to capital and credit while also making our system more safe, more sound, and more just.

5. While the U.S. should continue to utilize international and multilateral efforts to fight terror financing and weapons proliferation by rogue states, what is your commitment to continuing the use of U.S. economic sanctions to effect change where other efforts prove insufficient to safeguard our national security? What steps can and should be taken to make existing sanctions and other U.S. financial tools more effective in combating terror financing and weapons proliferation?

As President Obama has said, the number one priority for his Administration every day is to keep the American public safe. Terror financing and weapons proliferation by rogue states are a threat to U.S. national security and of great concern to me. If confirmed, I will work with my counterparts in the Intelligence and Law Enforcement communities, as well as those at the Department of Defense and State, to maximize the reach and effectiveness of sanctions, and to support the work of career staff at Treasury to pursue and freeze the assets of non-state actors and individuals who support terrorism. Vigorous sanctions are an essential means for forcing nations that foster terror financing and weapons proliferation to choose between defiance and responsible engagement with the world.

6. A broad range of emergency federal credit programs have been instituted in the past months to address the current capital markets' dysfunction. These temporary programs have been one reason for the increase in cost of funds for FHLBanks and, in turn, the thousands of financial institutions that count on FHLBank funds to lend in their communities. Can I have your assurances that you will look into this and support policies that will enable FHLBanks to more effectively fulfill their critical mission of providing liquidity?

Yes. If confirmed, I will focus on making sure that the FHLBanks are sufficiently strong tocontinue to achieve their core mission of providing liquidity and supporting community banks and thrifts. This will be a complex butimportant challenge for us over the next several months.

7. The tax policies included in the economic recovery package should be designed to provide an immediate, short-term stimulus to companies in need of money to run their business and employ American workers. Most of the proposals under consideration will not help many businesses impacted by the depressed economy because they do not have current earnings. Specifically, many of these companies cannot use additional credits or deductions because they do not have current tax liability. What are your thoughts on innovative proposals designed to allow taxpayers to borrow against their future tax savings? For example, should we include in the package proposals that allow taxpayers to temporarily monetize their own tax assets like AMT credits, R&D credits or net operating losses (NOLs)? Please explain.

President Obama's economic recovery proposals are designed, in part, to explore ways of increasing capital available for businesses to invest in people and other resources to generate economic activity. In particular, his net operating loss carry back recommendation would allow companies to balance recent losses against gains booked in the past five years. As members of Congress add their ideas to the President's plan, a necessary aspect of the legislative process, the Obama administration's economic team will continue to discuss the merits of various ideas and work with Congress to enact much needed legislation to stimulate the economy. I look forward to working with you on the tax ideas you and others have brought to our attention, many of which are included in the President's program.

8. I have been concerned with some of the U.S. Treasury Department's Office of Foreign Assets Control's (OFAC) reinterpretations of congressional intent regarding agricultural sales to Cuba. For example, OFAC's payment of cash in advance requirements for agriculture commodity sales to Cuba and the administrative delays and periodic denials of Treasury Department licenses to travel to Cuba to engage in sales related activities are unnecessary hurdles that are hindering progress. Can I have your assurance that you will work with me and others in Congress to eliminate excessive restrictions impacting agriculture trade and travel with Cuba?

It is important to have tax policies that work in tandem with our foreign policy and advance our national interest. OFAC plays a critical role ensuring our national security and we should ensure that rules and procedures in place are fair, efficient, transparent, and not arbitrary. I am committed to taking great care to follow congressional intent and working closely with members of Congress to ensure that OFAC's activities with regard to Cuba are achieving its important objectives without unnecessary hurdles or unreasonable administrative delays.

ANSWERS TO QUESTIONS FROM SENATOR ENSIGN

Question 1

Appropriate stimulus would be helpful now, but the wrong types of stimulus can create the next bubble. Are you concerned about the possibility of inflation developing, and are how will the government address this? What does this mean for the effectiveness of short-run stimulus measures, and do you believe the short-run benefits are worth the long-run costs?

With a severe recession here and around the world, a catastrophic loss of trust and confidence in our financial system, and millions of Americans worried about losing their jobs and their savings, we confront extraordinary challenges. We must move quickly and boldly to get our economy back on track. It is also important, however, that our program to restore economic growth be accompanied by a clear and compelling strategy to get us back as quickly as possible to a sustainable fiscal position.

It is critically important to balance short-run and long-run objectives, and I think it is right for us all to worry about whether certain stimulus measures could create another bubble or other detrimental long-run costs.

I believe that President Obama's plan provides the appropriate type and level of stimulus to stimulate consumer demand quickly and save or create 3.5 million jobs for American workers, while also making an important down payment on strategic long term priorities such as reducing the cost of health care. This plan helps achieve both short and long term objectives and is an important strategy to put in place right away.

Question 2

As you know, the U.S. has the second-highest nominal corporate income tax rate in the world. With an eye toward attracting investment, many countries around the world are lowering their corporate tax rates. The reason is simple – lower tax rates and simplified tax codes help to generate greater investment, jobs, and growth. Shouldn't the United States be leading the charge to enact lower corporate tax rates?

The competitiveness of U.S. companies depends on many factors such as labor costs, health care costs, research and development, technology investment, and worker education. U.S. tax rates are a factor as well. However, I believe the rate that matters to U.S. companies is the effective tax rate -- that is, the rate that companies pay after deductions and credits.

Nevertheless, let me be clear. I share the President strong desire to encourage U.S. companies to invest in research and development and to create jobs here in America. I believe the ability of companies to develop new products through research and development is vital to our long-term competitiveness and a key driver of job growth.

I also share the President's desire to help small businesses. They are an important part of our economy and a critical source of new jobs. And, unlike some large businesses that have capital reserves to ride out economic downturns, small businesses are particularly vulnerable during tough economic times such as these.

I look forward to working with you to ensure the competitiveness of American businesses, large and small, during this challenging economic period and far into the future.

<u>Question 3</u>

A huge amount of money continues to be spent on bolstering the financial markets. Is it working? There is evidence of lowered inter-bank rates. Are the banks translating into more, and more affordable, business, consumer, and mortgage loans?

I am disappointed to report that while our efforts to date, I believe, have had enormous impact and averted a truly disastrous alternative, we have not done enough to bolster new lending activity. This remains a core goal of mine and I believe some of our actions in the last 6 months can serve as important templates for how TARP can be used to stimulate lending. Our task is not merely economic, but also psychological – we intend to take steps to try to restore confidence to the finance sector -- for both investors and managers of these companies. With this confidence, a strong balance sheet, additional TARP programs, and continued low inter-bank rates as you identified, I believe we will see an increase in lending activity. I am committed to carefully monitoring bank intermediation and lending and reporting this activity to the public on a regular basis, particularly for institutions that participate in TARP.

<u>Question 4</u>

With your Wall Street experience, what do you see as the likely response in the bond markets to increasingly larger deficits and a looming fiscal cliff that our country is headed towards as the baby boomers start to retire and collect social insurance checks? As Treasury Secretary, how would you assure the bond markets that U.S. debt is not headed for default as these risks evolve?

The ability of our government to finance operations by raising money in the bond market is critical and we must be vigilant to assure the good faith and credit of our commitments. Even as we embark on a large and urgent recovery package to save or create 3.5 million jobs and restore the stability of our financial system, we must commit to a process of getting ourselves back on track to a sustainable fiscal position. We need to show the

world and all our creditors that, when we have effectively resolved the crisis and recovery is firmly established, that we as a nation will return to living within our means. To achieve this, the administration will need to make tough decisions and reform or eliminate programs that don't work. It will need to adhere to PAYGO rules as part of a strategy to pay for long-term fiscal commitments. It will address our biggest long-run fiscal challenge – the rising cost of healthcare.
If confirmed, I look forward to working with you and this Committee as well as the Budget and Appropriations committees to meet these challenges.

Question 5

The Treasury has a leading role in the G-20. Creating a new international financial architecture has been a serious topic of discussion in that group. Some countries apparently want a significant increase in regulation. I worry about the unintended consequences of this exercise and how additional regulations could compromise economic recovery. What are your plans on proposing new regulation on financial service firms, and do you commit that this process will be openly reviewed with Congress before agreeing to proposals from other countries in venues like the G-20?

Financial regulation remains first and foremost a national issue. As I said during my testimony, we will seek to improve the regulatory structure in a way that provides the safeguards we need without creating undue burden on financial market participants; we look forward to working with Congress on these issues. Nevertheless, we must also remember that this crisis has taught us the importance of international linkages in financial markets. Therefore, we look forward to taking into consideration the best thinking on how to coordinate our efforts with our partners in the G-20, the Financial Stability Forum, and the IMF, among others.

Question 6

President Obama's team has called for putting additional TARP funds toward a "sweeping effort" to address foreclosures and reduce mortgage payments for "responsible homeowners." As Treasury Secretary, specifically how would you use TARP funds to reduce or address foreclosures? How do you plan to determine who are "responsible homeowners" that deserve government assistance and who are irresponsible homeowners that should be allowed to continue unassisted in the foreclosure process? Do you think that state recourse laws contributed to the problem?

President Obama has made clear that a robust plan to stabilize the housing market and keep responsible families in their homes is a central part of his overall economic and financial rescue plan. Through a focus on affordability, aid to borrowers to help them stay in their homes, and continued vigilance to keep mortgage spreads low, we can provide programs that help borrowers in a variety of circumstances. Certainly, there will be shared sacrifice, and families will have to make hard choices. But for those that want to stay in their homes and make it work, I will work with Congress to identify and implement the most effective and efficient solutions.

While there have been important steps taken to stabilize our housing market, the response to date has been inadequate. The Hope for Homeownership program has not achieved the foreclosure mitigation goals it was designed to achieve. And millions of families are facing the prospect of foreclosure over the next several months. If confirmed, I will work with Congress to amend the H4H program in an effort to make the program more effective as part of our overall approach to foreclosure mitigation.

Question 7

As originally conceived, the TARP program was supposed to bring a measure of consistency and stability to the federal government's responses to the financial crisis by providing a clear framework for action. Instead, it has exacerbated the ad hoc nature of the government's actions to date. The markets need predictability from the TARP program, otherwise they will be paralyzed waiting for the next unexpected government intervention. As Treasury Secretary, how would you bring stability and predictability to the TARP program?

Support provided under the TARP program has helped prevent a financial catastrophe, and the actions of the Senate last week will enable us to take additional steps to reinforce recovery. However, I share your concerns that this program needs reform. The way in which the program has been implemented to date has caused confusion about the goals of the program. If confirmed, I will work to ensure that we have a shared understanding of the magnitude of the challenges we face and an open process of working together to address these challenges. Our expectation and our hope is that we will be able to come forward relatively quickly with a comprehensive plan. I will also work diligently to ensure that we operate as one government to meet the challenges we face, with strong coordination among all major financial regulators.

Question 8

Very soon the bipartisan 2001 and 2003 tax relief will expire. I believe that much of this tax relief stimulated the economy and that we should extend relief into the future. Allowing tax relief to expire will force a massive tax increase on American families, seniors, and small businesses at the worst possible time. Do you think we should extend those cuts for individuals on a longer-term basis?

Our immediate priority is to work with Congress to provide substantial tax relief for families and businesses through an economic recovery plan. For families, our plan makes a down payment on the President's commitment to cutting taxes for 95% of working Americans. For businesses, we propose to cut taxes for companies that are making investments and creating jobs.

The President has instructed his economic team to draw on the best ideas from all quarters and avoid ideological solutions. For this reason, the plan includes both investments and tax cuts to create 3.5 million jobs, raise incomes, and promote recovery.

Over the longer term, the important thing to recognize is that the President's plan is a net tax cut intended to boost long-term economic growth. It provides tax cuts to relieve the squeeze on middle class families and to help them afford things like college, health care and a secure and dignified retirement. His plan also advances the goal of restoring fairness to our tax system.

Question 9

As you know, there is a lot of capital on the sidelines right now. People and companies are sitting on cash and assets they might otherwise invest due to economic hardship and uncertainty. At the same time, there is much discussion among policymakers about making significant changes to the regulatory and tax landscape for the financial sector. Such changes could produce a chilling effect on investment, keeping that capital frozen rather than placed back into the markets. How do you intend to balance systemic reform with maintaining an atmosphere conducive to investment? How will you work with market participants to find that balance?

I believe that markets are central to economic growth and our ability to compete globally, but that markets alone cannot solve all problems. Well-designed financial regulations with strong enforcement are absolutely critical to protecting the integrity of our economy. If confirmed, I look forward to working closely with Congress to develop a smart and effective regulatory system that will meet our current needs as well as the challenges and opportunities we will face both domestically and globally in the years ahead.

Question 10

In a June 2008 speech, you stated that, "the Federal Reserve has broad responsibility for financial stability not matched by direct authority" and that we need a more "unified framework that provides a stronger form of consolidated supervision." This has been interpreted as a call for strengthening the Federal Reserve's power and authority. Do you still believe that? If so, what specific new powers for the Fed would you propose?

I believe stronger regulation is necessary to make financial markets work well. Our financial system architecture is unsound and outdated. We need a fundamental redesign. Among other things, this includes better prevention and detection methods, better enforcement authority, resolution regime for systemically important nonbanks and better checks on excessive risk. I look forward to working with Congress as we move ahead to building a more effective financial regulatory framework.

Question 11

The IRS has implemented a Free File Program for the past six years and the private sector participants in that program have done a good job in serving those of our citizens who need support and assistance like the working poor, the elderly, and other disadvantaged citizens. Unfortunately, some have suggested that the IRS should design and build its own tax Web Portal to replace the current Free File Program. I oppose this effort. The government should not be competing against private sector participants in the tax software preparation market. What will you do to discourage the IRS from wasting money on such counter-productive efforts?

I strongly support the President's goal of simplifying the tax code and the tax preparation process. During the campaign, he outlined a proposal to develop a system that would dramatically simplify tax filings so that millions of Americans would be able to do their taxes in less than five minutes. Estimates of this proposal suggest that it could save Americans millions of hours and billions in preparer fees.

I am eager to hear your views about the best way to achieve this important objective, leveraging the Free File experience and both public and private sector advantages for optimal quality and efficiency. The IRS already receives most Americans' financial information directly from employers and banks. President Obama has proposed for the IRS to use this information to give taxpayers the option of pre-filled tax forms to verify, sign, and return to the IRS or online.

Experts estimate that the Obama proposal will save Americans up to 200 million total hours of work and aggravation and up to $2 billion in tax preparer fees – allowing families to keep more of their hard earned dollars, which is particularly important during these tough economic times when every penny counts.

If confirmed, I look forward to working with you on this project to ensure the IRS does not waste money or engage in counter-productive efforts and that we are achieving effective tax simplification in a safe, fair and efficient way.

Question 12

Recently, Dr. Robert Shapiro, chair of the New Democrat Network's Globalization Initiative, wrote an article where he described a way to find a "free" $420 billion to stimulate the economy. The money is held by our own companies outside the U.S., but current tax law strongly discourages firms from bringing capital back to the U.S. In fact, several years ago, Congress passed a temporary law allowing firms to repatriate capital from their foreign affiliates at much lower tax rates. The result of the temporary change to a lower rate resulted in $34 billion in additional revenues to the Treasury and $312 billion of capital into the U.S. Given that more than ever we need to add capital to our market, do you agree that it makes sense to remove once again this self-imposed tax barrier? Lowering the tax on repatriation would be cheaper to the taxpayer and would actually increase money to the Treasury again.

I can appreciate that some economists believe the immediate stimulative effects of a repatriation tax holiday outweigh the costs in incentives for offshore production and potentially deteriorating the federal tax base. I would be happy to discuss with you the evidence that leads you to support a repatriation holiday and to share the contrary evidence that leads me to be more skeptical. For one thing, the previous "one time" tax relief for repatriated dividends appears not to have demonstrably created new jobs despite the promises of beneficiary firms to do so. For another thing, several economists believe the repatriation tax holiday actually increased incentives to shift profits offshore, encouraging the very behavior it was intended to reduce.

I know this is an issue that is important to you and I'm eager to better understand your position and the empirical data and experience that has helped you reach the conclusion that you have. If confirmed, I will work with you on the issue of the competitiveness of U.S. firms, including tax issues such as repatriation.

Question 13

The original purposes of the TARP was to get distressed debt off of the books of financial institutions, so they would clean up their balance sheets and continue to provide credit. You have stated that this remains a goal. Did you know that U.S. tax law strongly discourages firms from renegotiating their indebtedness with holders of that debt, because the IRS will send a tax bill for the amount of debt cancelled? I have suggested temporarily changing the tax law to allow firms to renegotiate their debts without triggering additional taxation. Doesn't it make sense to allow businesses to handle their debt problem in this way, especially when they can do so without taxpayer money?

I am in favor of simplifying the tax code such that businesses and individuals get the most out of their tax dollars, particularly at a time when our economy faces nearly unprecedented challenges. If confirmed, I look forward to working with you and other members of this committee to develop proposals that would make tax law work in favor of middle class families and enable our businesses to remain competitive, globally.

ANSWERS TO QUESTIONS FROM SENATOR KERRY

1) The housing crisis caused serious damage to our economy. Similar problems are facing the commercial real estate industry and the credit card industry. In your role as the President and Chief Executive Officer of the Federal Reserve Bank of New York, you were intimately involved in the decisions to bailout the financial industry. What have you learned from this experience about what worked and what did not work? And how will your past experience shape your response to the second phase of the rescue attempt?

Financial crises, by their very nature, require strong actions, which only governments can take. The housing crisis caused serious damage to our economy, and in a crisis of such magnitude, policymakers needed to respond more aggressively and proactively than they did. However, government tools were not adequate to allow policymakers to respond with the strength, speed and care necessary to arrest the contagion early and get our economy back on track. For instance, more should have been done to avert unnecessary foreclosures.

More needs to be done still to restore lending and the effective functioning of credit markets. We have to reshape and redesign the program of financial stability to ensure that there is credit available to support recovery. We will do this with conditions to protect the taxpayer and ensure transparency.

We must also couple our critical efforts to restore financial system stability with investments that restore economic recovery and growth. The history of financial crises shows that governments too often fail to act with sufficient speed and force. If we do not do what is necessary now to solve the problem, we risk much more serious damage to living standards and negative long term consequences for the economy.

2) The housing crisis triggered our economic downtown and foreclosure need to be addresses as part of the situation. As house prices continue to decline, many borrowers, as many as 15 to 20 percent, find themselves "under water" on their mortgages. As the economy slows and unemployment rises, more households are having difficulty making their mortgage payments. Sheila Bair, Chairman of the Federal Deposit Insurance Corporation, has developed a plan to reduce foreclosures by working with banks to provide fixed rate mortgage loans at a lower interest rate to eligible delinquent borrowers. According to the FDIC, this plan is expected to initially help 2.2 million borrowers get new loans; after some borrowers re-default, 1.5 million would ultimately keep their homes. The plan would cost an estimated $24.4 billion. There are two key elements to the proposal. First, housing payments for delinquent borrowers two months or more behind would be reduced to 31% of gross monthly income. To get there, mortgage rates could be set as low as 3% for five years, before increasing at an annual rate of 1 percentage point until they hit the prevailing market rate. Loan terms could be extended as long as 40 years. Second, to encourage servicers and investors to participate, the government would

share up to 50% of the losses if a borrower who had been helped ended up in default anyway. The risk of re-default had been one obstacle to getting lenders on board with systematic modification plans. According to FDIC estimates, this plan is expected to initially help 2.2 million borrowers get new loans; after some borrowers re-default, 1.5 million would ultimately keep their homes. The plan would cost an estimated $24.4 billion. What do you think about this proposal and will you support the enactment of this type of plan as Treasury Secretary, or do you have another proposal to address foreclosures?

I believe that we must work with Congress immediately to implement smart, aggressive policies to reduce the number of preventable foreclosures. Confronting this challenge is an absolute imperative if we are to restore the health of our housing sector and financial system as a whole. We plan to reduce preventable foreclosures by helping to reduce mortgage payments for economically stressed but responsible homeowners, reforming our bankruptcy laws and strengthening existing initiatives like Hope for Homeowners. While our goals are 100% in line with the goals of the Bair proposal – reducing preventable foreclosures – and I intend to work very closely with the FDIC and other federal regulators, we are still in the process of examining all of the specific options for how best to implement a plan that would most effectively achieve this goal.

3) Many subprime and Alt-A mortgages have been sold as bonds to investors under what are called "structured investment vehicles." As we all know, too many of these instruments have declined in value. Many homeowners who are stuck in subprime loans and face foreclosure are unable to make appropriate loan modifications because their loans were included in "structured investment vehicles". As Treasury Secretary, what action would you support to change existing laws and help borrowers whose loans were included in "structured investment vehicles" obtain loan modifications? Are there changes in law that could help speed this process?

We are committed to implementing smart, aggressive policies to reduce the number of preventable foreclosures. One way to reduce the number of preventable foreclosures is to help reduce mortgage payments for responsible homeowners suffering temporary hardship due to the economic downturn. Structured investment vehicles have complicated the ability of borrowers to obtain loan modifications. In general, structured finance products such as CDOs, SIVs, and auction-rate securities played a significant part in facilitating the contagion that led to our financial crisis. Product innovation outstripped the capacity of internal risk management and regulatory oversight to keep up. We plan to examine all possibilities for changing the tax and regulatory structure affecting mortgage loan modifications as part of our plan to reduce preventable foreclosures and keep people in their homes.

4) Too many American families are facing bankruptcy due to the recent changes in our economy. Unfortunately, I am concerned that many credit card

companies, who are also facing bankruptcy, are abusing families behind on their credit card payments. For example, if you make late payments or exceed your credit limit, some credit card companies shift your account to the default penalty interest rate on your credit card, sometimes exceeding 30 percent. If your credit card company does decide to shift you to a higher interest rate, expect the penalty price to apply not only to future charges but to your past charges. Some credit card companies are undertaking a practice called double-cycle billing where the consumer is charged interest on the average daily balance of two months of charges instead of just one. What actions will you take to combat these abusive credit card practices? What legislation is necessary to stop these practices?

President Obama has proposed a number of initiatives to improve credit card transparency and empower consumers to better protect themselves. He has also proposed banning certain credit card practices such as universal defaults and retroactive rate charges. The Federal Reserve has recently finalized new regulations that apply to the credit card industry. If confirmed, I will review the proposal and the Federal Reserve rules to determine what statutory changes are needed to protect cardholders from abusive credit card practices.

I do now, and would as Treasury Secretary, if confirmed, continue to place a high priority on enforcement of all banking rules.I intend to work with Congress as well as other federal regulators to ensure effective consumer protection.

5) The Emergency Economic Stabilization Act of 2008 limited executive compensation for executives of companies that are participating in the Troubled Asset Relief Program (TARP). These restrictions include a limitation on the amount of compensation that can be deducted as an ordinary and necessary business expense. The definition of compensation was expanded to include performance pay and stock options. I have introduced legislation that would index the current limitation of $1 million and repeal the exemption for performance based pay and bonuses. What is your opinion on limiting the amount of executive compensation which can be deducted?

Excessive executive compensation that provides inappropriate incentives has played a role in exacerbating the financial crisis. This issue has been and should continue to be closely examined by the public, shareholders, boards of directors, Congress, and the incoming Administration, including Treasury and the SEC. If confirmed, I will charge my staff at Treasury, including the Internal Revenue Service, with ensuring that the regulations implementing the executive compensation provisions of the Economic Emergency Stabilization Act (EESA) are fully complied with. I will also ask them to study your proposal to limit the deductibility of executive compensation.

One specific control we would plan to impose on TARP recipients is that executive compensation above a specified threshold amount be paid in restricted stock or similar form that cannot be liquidated or sold until government assistance has been repaid. In addition, we would limit TARP recipients' ability to pay dividends. One specific measure would be a requirement that TARP recipients wishing to pay dividends obtain approval from their primary federal regulator. In addition, in the case of TARP recipients receiving exceptional assistance, quarterly dividends would be strictly limited until the government has been repaid. These controls are described in National Economic Council Director-Designate Summers' January 15, 2009 letter to the Congressional leadership.

Questions from Senator Hatch

Question 1:

Do you think that fundamental and wholesale reform of the tax code is politically possible during this new administration? Or, do you believe that it might make more sense from a practicality standpoint for the Administration and Congress to pursue a series of incremental reforms that simplify the code and improve the incentives for both households and firms?

Determining the best strategy to reform the tax code is something that can only be accomplished with close consultation and work with you and other members of Congress. I share the President's support for simplifying the tax code, restoring fairness, and encouraging pro-growth, pro-job tax policies. I also share his desire to provide middle-class tax relief and find ways to help American companies create jobs and be globally competitive. At the same time, there is a lot of work that needs to be done to eliminate unnecessary tax shelters and loopholes. We also must find ways to increase compliance and close the tax gap. If confirmed, I will work with you to improve our tax system. I believe our most urgent tax priorities are to find ways to create jobs, encourage business investment through the adoption of the economic recovery plan, and provide for long-term economic growth.

Question 2:

As you may know, Chairman Baucus and I have sponsored legislation for many years to make the research credit permanent. In 2001, we were able to get a permanent research credit passed in the Senate as part of the big tax cut bill we passed that year. Unfortunately, the permanent provision fell out in conference with the House. It seems to me that we have an extraordinary opportunity to make this vital provision permanent by including it in the stimulus bill Congress is now working on. Can you tell me if you see a better opportunity to make the research credit permanent down the road?

I share the President's desire to encourage U.S. companies to invest in research and development. The ability of companies to develop new products through research and development is vital to our long-term competitiveness and a key driver of job growth.

The President supports making the R+D tax credit permanent and I look forward to working with you and the rest of the Committee to accomplish this goal.

Question 3:

This week, shares of U.S. banks were down 20 percent to their lowest level in more than a decade. Do you anticipate more funding is needed beyond the original $700 billion to successfully implement the goals of TARP?

Right now we are focused on carefully designing and executing a comprehensive financial recovery program to complement the President's economic recovery and reinvestment plan. This program will ensure that the banks at the core of the financial system are strong enough to provide the credit necessary to sustain a robust economic recovery. It will provide substantial support to the capital markets more generally because a fully functioning market infrastructure is central to restarting lending to small- and large-businesses and corporations, commercial residential real estate lending, student loans markets, and auto finance markets. It will involve aggressive action to prevent foreclosures and support the housing and mortgage markets.

I believe strongly that we have to take all these measures in a clear and forceful way that allows people to see the impact quickly. This is a dynamic situation and we will have to monitor economic and credit market conditions very carefully. We have to be prepared to act flexibly and with speed if conditions worsen appreciably, to devote more resources if that is necessary to secure our objectives, and we have to make it clear that we will continue to act until we have restored the strength and vitality of the U.S. financial system.

<u>Question 4:</u>

Do you believe that nationalizing our financial institutions is necessary to save our economy?

I believe that the best outcome for the economy is a financial system that resides in private hands, with appropriate and effective oversight and regulation, and strong incentives for private market participants to invest. We nonetheless face a situation in which the U.S. government is currently providing extraordinary support to many financial institutions in order to avoid a catastrophic collapse in the functioning of the system and in the flow of credit to households and businesses. We believe these aggressive actions are necessary to prevent the need for an even greater outlay of funds in the future. However, we will make sure that the support the government is providing comes with strong, carefully designed conditions to protect the taxpayer, to provide much greater transparency about how the money is being spent and the results being generated, and to improve the possibility that private capital comes in and replaces government capital as quickly as possible.

<u>Question 5:</u>

In a report analyzing TARP expenditures through December 31, 2008, the CBO estimates the Treasury has paid participants of TARP (financial institutions and Big

3 auto manufacturers) roughly $64 billion over the market value of the assets Treasury received. Not only are we purchasing troubled assets from financial institutions but it seems we are doing so at an enormously inflated price. Are you confident that we are not throwing money down a sink hole?

I intend to carefully study the reports of the CBO as well as the GAO and the Congressional Oversight Panel. I believe it is essential that Treasury design its programs, consistent with EESA, to protect the taxpayer and to provide positive return on investments to the maximum extent possible. We must ensure effective oversight that thtese goals are achieved. For example, under the CPP, Treasury will purchase up to $250 billion of senior preferred shares on standardized terms, including a 5 percent dividend for 5 years, which then increases to 9 percent. The government will not only own shares but will also receive warrants for common shares in participating institutions. These warrants should allow the taxpayer to benefit from any appreciation in the market value of the institution.

Treasury's imperative is investing in banks of all sizes around the country to help stabilize the financial system and get credit flowing to our communities. The goal is not to make these investments for short-term gains, but rather to protect taxpayers by ensuring the stability of the financial system and by earning a return on these investments when they are eventually liquidated.

Question 6:

Would a refundable "make work pay" credit (even a permanent one) encourage capital formation, make workers more productive, and raise pre-tax wages? How about a cut in the corporate tax rate? Expensing of plant and equipment? Indexed depreciation allowances? Lower tax rates (extended permanently) on capital gains?

I believe that the competitiveness of U.S. companies depends on many factors such as labor costs, health care costs, research and development, technology investment, and worker education. U.S. tax rates are a factor, as well. I believe, moreover, that the rate that matters to U.S. companies is the effective tax rate, that is, the rate that companies pay after deduction and credits.

With respect both to lowering tax rates on capital gains and to refundable tax credits, I believe that investment, work and savings, and their relationship to productivity, are critical to the economic future of the country. Any option in this area needs to be evaluated against multiple criteria, including its impact on economic growth, job creation, work incentives, the promotion of our standard of living, and the tax principle of fairness. The President has said that the refundable tax credits should be available only to those Americans who work. We also need to evaluate proposals based on the requirement of being fiscally responsible and maintaining an adequate tax base.

ANSWERS TO QUESTIONS FROM SENATOR KYL

TERRORISM FINANCE AT TREASURY

1. **Mr. Geithner, in recent weeks, the press has reported on some extraordinary actions related to the U.S. effort to prevent Iran's quest to obtain a nuclear weapon; these actions were the result the work of the Treasury Department:**

    a. **In New York City, it was announced that the Treasury and Justice Departments determined that a large office building on Fifth Avenue was owned by a firm, Assa Corp, which is a front for Bank Melli, an Iranian bank which is barred from doing business in the United States since it is involved in facilitating the movement of nuclear materials for the Iranian government.**
    b. **Less than two weeks ago, the Treasury Department led an investigation involving the venerable Lloyd's of Great Britain. According to the reports, this bank agreed to a fine of $350 million for its illegal handling of financial transactions for the terrorist states, Iran and Sudan. In this case, Lloyd's was involved in stripping Iranian and Sudanese identifiers from transactions so that they wouldn't draw attention and be barred from the U.S. financial system.**
    c. **These are just a few of the examples of the outstanding work of the Treasury Department.**

I agree wholeheartedly that the Department of the Treasury has done outstanding work in ratcheting up the pressure on Iran, both by vigorously enforcing our sanctions against Iran and by sharing information with key financial actors around the world about how Iran's deceptive conduct poses a threat to the integrity of the financial system. The Treasury Department's action with respect to a Bank Melli front company and part owner of the Fifth Avenue property, undertaken in coordination with the Department of Justice, was the latest in a series of designations targeting Iranian entities involved in proliferation activities and their subsidiaries and supporters. This Iranian scheme to use a Melli front company in the United States to funnel money back to Iran is part of a larger pattern of behavior which has led the United States, the European Union and Australia to designate Bank Melli, and the United Nations Security Council to issue a call for vigilance with respect to all Iranian banks.

The Lloyds Bank action was a criminal action taken by the Department of Justice and the Manhattan District Attorney's Office. Treasury's civil investigation of Lloyds is being conducted by the Office of Foreign Assets Control and is ongoing. Treasury has also been instrumental in working with the private sector to establish new industry guidelines and practices with respect to the processing of international wire transfers that will make it easier for financial institutions worldwide to comply with their obligations under U.S. and international law in the future.

If I am confirmed, I will work to ensure that Treasury continues its outstanding work in these important areas.

2. **During the campaign, the President said "[w]e should also pursue other unilateral sanctions that target Iranian banks and Iranian assets."** ***(AIPAC, June 4, 2008)*** **Do you agree?**

   If confirmed as Secretary of the Treasury, I would consider the full range of tools available to the U.S. Department of the Treasury, including unilateral measures, to prevent Iran from misusing the financial system to engage in proliferation and terrorism.

3. **Do you pledge to keep this a robust function of the Treasury Department under your leadership and make sure that the Department requests sufficient resources to execute this function?**

   I am fully committed to the mission of the Office of Terrorism and Financial Intelligence (TFI) and, if confirmed, I will work to ensure that this office has the resources necessary to fulfill its vital mission. With the creation of TFI, Treasury has emerged as a key player in the national security policymaking process with broad responsibilities for combating threats to U.S. national security and safeguarding the international financial system against illicit use.

4. **Do we have your commitment to strongly resist any attempt to take this function away from the Treasury Department, which has been so successful as the above examples highlight?**

   I am fully committed to Treasury continuing to exercise its unique authorities to combat threats to U.S. national security and to safeguard the international financial system against illicit use. If confirmed, I will work to ensure that Treasury's Office of Terrorism and Financial Intelligence retains this important role and that the Department continues to be a vital part of our national security team.

5. **Mr. Geithner, when you came by my office, we discussed the outstanding work done by Under Secretary Stuart Levey, who has in many ways revolutionized the way the United States enforces and deters violations of our sanctions. He has traveled the world and warned of the reputational risk and possible sanctions that attach when financial institutions do business with Iran; many times these institutions do not know that they are being misled and deceived and are involved in Tehran's illegal terrorism and proliferation programs. He is credited, rightly in my mind, with turning up the heat on Iran. Do you agree?**

   a. **Now, despite these aforementioned efforts, and the efforts of our international partners, some banks continue to ignore the U.S. and**

U.N. designations and conduct business with sanctioned Iranian entities. If foreign banks continue to conduct business with Iran in violation of U.S. or U.N. sanctions, will the Treasury Department pursue punitive measures against such banks?

I agree that the team led by Under Secretary Levey has done an outstanding job on Iran and other issues. I can assure you that the Treasury Department, through its Office of Foreign Assets Control (OFAC), will continue to vigorously investigate any possible violations of U.S. sanctions with respect to Iran. To the extent that any entities or individuals continue to do business with Iran in violation of U.S. sanctions, OFAC will take appropriate enforcement actions, including the imposition of civil penalties and/or the referral of cases to the Department of Justice for possible criminal prosecution. Enforcement of our sanctions laws, particularly with respect to Iran, will remain a high priority for the Department if I am confirmed.

VALUE OF THE DOLLAR

Confidence in the value of the U.S dollar is vital to American financial competitiveness. A weak dollar makes investment in foreign markets more attractive, particularly for those who seek to diversify their portfolios as our economy slows. Further dollar weakness could precipitate a dramatic shift of money from domestic to foreign markets.

The key idea to understand here is that the value of our American dollar is an important consideration to the investor and consumer confidence. Without this confidence, our economy will have a difficult time recovering.

1. **As Secretary of the Treasury you have responsibility for managing dollar policy, do you support a strong dollar?**

   A strong dollar is in America's national interest. Maintaining confidence in the long-term strength of the United States economy and the stability of the U.S. financial system is good for America as well as our trading and investing partners. As Secretary of Treasury, if confirmed, I will act to achieve those goals.

2. **According to CBO, Treasury will need to issue an additional $1.4 trillion in debt to finance our government's operations in FY 2009. As a result, debt held by the public will rise nearly 10 percentage points to 50.5 percent of GDP. Does issuing more government debt make the dollar stronger or weaker?**

   Our top priority right now is getting the economy moving again and creating jobs with a robust economic recovery plan. In the short-term, deficits of these size are needed in order to prevent a much worse deterioration of our economy that would involve more job loss, declining incomes, and lost opportunity.

Our program to restore economic growth has to be accompanied by a clear strategy to get us back as quickly as possible to a sustainable fiscal position. We need to demonstrate with clear and compelling commitments now that – when we have effectively resolved the crisis and the recovery is firmly established – we will return to living with in our means. These are the actions that will provide the basis for maintaining confidence in the long-term strength of the United States economy and the stability of the U.S. financial system.

3. What do you intend to do to strengthen our nation's currency?

If confirmed, I will be committed to supporting the long-term strength of the United States economy and the stability of the U.S. financial system. The American Recovery and Reinvestment Plan will provide substantial support to get the U.S. economy back on track and restore faith in America's future. Acting decisively to secure the stability of the U.S. financial system and get credit flowing again with effective programs under the Emergency Economic Stabilization Act is also critical.

These are the actions that should allow us to maintain confidence in the long-term strength of the United States economy and the stability of the U.S. financial system. This is good for America as well as our trading and investing partners.

<u>CORPORATE FINANCE</u>

According to CBO, the tax rate on debt financed corporate investment is **<u>a negative</u>** 6.4 percent and the rate on equity-financed investment is 36.1 percent, a difference of 42.5 percent. Most economists believe this differential distorts the efficient allocation of capital, causes companies to take on relatively more debt and become more susceptible to bankruptcy. Increasing the capital gains tax rate would increase the tax rate on equity-financed investment further.

1. **Wouldn't eliminating or reducing this distortion have a positive impact on the economy?**

   In general, reducing distortions in business investment and financing decisions attributable to the tax system would have positive economic effects. However, many factors affect investment and financing decisions, including especially the proper functioning of credit and equity markets. In the current economic environment, our focus needs to be on restoring markets.

2. **Doesn't that suggest a need to keep capital gains and dividends tax rates low?**

   In general, reducing tax distortions has positive economic effects. Under current law, at the end of 2010, the maximum tax rate on capital gains will increase to 20 percent and the maximum tax rate on dividends will increase to 39.6 percent. Without a change to current law, the differential between the effective tax rate on debt and equity will increase. President Obama has proposed limiting the capital gains tax rate to 15 percent for taxpayers with incomes below $250,000. He has also proposed continuing to tax dividends at the same rate as capital gains. President Obama's proposal thus would reduce the differential between the effective tax rate on debt and equity that under current law would otherwise result.

REBATE CHECKS

About this same time last year, Congress was contemplating stimulating the economy by providing individuals and families with rebate checks. At the time, I argued that past experience suggested these checks would be largely ineffective because individuals would save most of the money. Marty Feldstein, who initially supported the idea of sending people rebate checks, wrote in an August Wall Street Journal editorial, "recent government statistics show that only between 10 percent and 20 percent of the rebate dollars were spent. The rebates added nearly $80 billion to the permanent national debt but less than $20 billion to consumer spending."

1. **With that in mind, it's pretty hard to argue that last years' rebate checks were a successful stimulus; so if last year's stimulus bill failed to prevent our nation from entering a recession, how will the economic stimulus bill the new Administration is proposing do any better?**

   Our view is that the American Recovery and Reinvestment Plan is designed in a way that will help improve the prospects that a larger portion of the tax benefit is actually spent. The two reasons for this is that:

   a) It is an initial down payment on a reform that President Obama would like to both make permanent and to pay for. Our hope is that this is going to be an enduring change in withholding tax treatment for Americans that are eligible and, thus, would have a more powerful effect on spending than the last round of rebates, and

   b) This proposal is designed in a way that, as opposed to the last rebate proposal where it was a one-time check, the American people will see a change in withholding statements every week. And they will have a reasonable expectation that it will be continued. We believe that this proposal will have more impact on spending behavior and have more effectiveness.

2. **CBO now estimates less than half of construction funds in the stimulus bill will be released into the economy over the next four year! Less than $4 billion would reach the economy by September – so most of the infrastructure money wouldn't hit the economy until its already recovering. And only 7 percent of the energy money will be spent in the next 18 months. So how can this spending be justified?**

   Estimates of how soon and how effective individual components of President Obama's economic recovery program will influence economic growth must be viewed within a range of likely outcomes. We disagree with projections that infrastructure spending would move slowly through the economy. Almost all states have projects that were approved in the past year or more after rigorous evaluation, but could not start due to an erosion of state revenues. Economists generally agree that direct spending would be an efficient way to create jobs and provide relatively quick stimulus. The President's program is designed to ensure that recipients of infrastructure can spend the money quickly, or will commit to returning the money to be reallocated. Much of the economic recovery proposal devoted to energy policy is targeted to increasing energy efficiency in federal and public K-12 schools. These lower tech investments would multiply by increasing short-term employment gains among lower-skilled workers and lower the federal government's expenditures on energy. I look forward to working with you and others to improve the Administration's plan and helping restart the U.S. economy.

3. **Professor Christina Romer, President Obama's Council of Economic Advisors' Chairwoman Designee wrote in a March 2007 paper with her husband that a dollar of tax cuts raises GDP by about three dollars, significantly more than the multiplier many economists ascribe to changes in spending. Do you agree with Dr. Romer?**

Dr. Romer has recently written a paper with Jared Bernstein in which they explain their multipliers for different types of spending. That paper, "The Job Impact of the American Recovery and Reinvestment Plan" – released January 9, 2009 – explains the difference in the multipliers. They note that the multipliers for the American Recovery and Reinvestment Plan are based on a leading private forecasting firm and the Federal Reserve's FRB/US model. The multipliers were considered "for the case where the federal funds rate remains constant, rather than the usual case where the Federal Reserve raises the funds rate in response to fiscal expansion, on the grounds that the funds rate is likely to be at or near its lower bound of zero for the foreseeable future."

The Romer/Bernstein paper gave as the output effects of a permanent stimulus of 1% of GDP as follows:

- In Quarter 1, Government purchases would be 1.05 and tax cuts would be 0.00.
- In Quarter 4, Government purchases would be 1.44 and tax cuts would be 0.66.
- In Quarter 8, Government purchases would be 1.57 and tax cuts would be 0.99.
- In Quarter 16, Government purchases would be 1.55 and tax cuts would be 0.98.

So, due to the fact that the Fed funds rate is likely to be much lower than it was back in March of 2007, the multiplier has changed. The "bang for the buck" of the combination of the spending proposals is approximately $1.57 for every $1 spent.

Of course, the "bang for the buck" depends on the proposals as well as how they are legislatively crafted. If confirmed, I look forward to working with the Finance Committee on these issues as the legislation moves forward.

4. **If so, should the proposed stimulus bill rely more heavily on reductions in revenue than increases in spending?**

President Obama has put forward an economic recovery plan that includes strategic investments that are based on what yields the highest rate of return for the economy.

In some cases, the highest rate of return can be realized through direct government spending. In other cases, a high rate of return can be made in some tax cut proposals. For this reason, we have proposed a mixture of both tax cuts and direct spending to comprise his proposal.

5. **How can you argue that many provisions of the stimulus bill will have any appreciable simulative effect? Which ones?**

A key measure of President Obama's American Recovery and Reinvestment Plan is that it should save or create at least 3 million American jobs by the end of 2010. Proposals that create and save jobs have a definite stimulative effect.

The elements of the President's proposal that are related to such items as school repair, infrastructure and energy will likely have job growth in the manufacturing and construction industries. Proposals, such as the middle-class tax cut and fiscal relief to states are likely to help save or create jobs in all sectors of the economy.

When then-President-elect Obama met with the bipartisan Congressional leadership, he said he wanted 40% of the "stimulus" package to be tax relief. The package unveiled by the House allocates only 32% to tax cuts. And even there, a big portion of the tax cuts are really spending – and will be scored as such by Congress – because they provide money through the tax code to people who do not pay income taxes. These are the "refundable credits."

6. **When then-President-elect Obama met with the bipartisan Congressional leadership, he said he wanted 40% of the "stimulus" package to be tax relief. The package unveiled by the House allocates only 32% to tax cuts. And even there, a big portion of the tax cuts are really spending – and will be scored as such by Congress – because they provide money through the tax code to people who do not pay income taxes. These are the "refundable credits."**

What portion of the "stimulus" package will be dedicated to actual tax cuts i.e. revenue reductions?

The answer partly depends upon the legislative process. As you know, there are currently two bills that are moving through the Congress. At this point, it is unclear what the final product will be. President Obama has proposed both spending and revenue proposals that he feels provides the right combination to bring growth back to this economy. Of course, if confirmed, I look forward to working with the Committee as these bills proceed.

7. **Will you work with the Senate Finance Committee to increase the tax relief potion to equal 40% of the package?**

It is important to consider the totality of the plan. As you know, President Obama has proposed significant tax reductions. If confirmed, I will work with you and the entire Finance Committee to find the optimal mix of spending and revenue provisions that provide the needed growth and recovery to the economy.

STATE & LOCAL ASSISTANCE

A major component of the "stimulus" package, as described by the Obama Administration and embodied in the legislation proposed in the House, is about $200 billion in assistance to state and local governments. Since state and local spending has not fallen off, there is no gap or hole in demand for the federal government to fill. As such, this information implicates one of the important tests for a stimulus package: Will it work?

1. **Since state/local spending has been increasing, not decreasing, why will adding even more federal spending effectively "stimulate" economic growth?**

   I appreciate and share your commitment to pursuing the most effective measures possible to jumpstart our economy. That is why the President and his economic team favor a balanced package that includes state fiscal relief alongside substantial up-front government investments and tax cuts for middle class families and business to create jobs. Economists across the political spectrum and a range of independent organizations have confirmed that state fiscal relief can be an extremely effective way of avoiding economic contraction. In today's recessionary environment, states are facing increased fiscal burdens alongside declining tax revenues.

   Left unaddressed, these states will have to either cut back on spending or raise taxes to fill those budget gaps. In fact, several states have already been forced to raise taxes or fees. By avoiding these increases or subsequent budget cuts, appropriately designed state fiscal relief can avert a downward economic spiral and save jobs.

2. **I would like some assurance – on a program by program basis – that the dollars taken out of the private economy to finance this massive stimulus spending bill will be used more effectively by the government than they would be used by individual Americans and businesses in the economy, i.e. the Summers test? For each component, explain how investment and job creation will result.**

   As you know, the President feels strongly that the recovery and reinvestment act include substantial tax relief – both for individual families and to provide businesses with incentives to make investments and create jobs. In addition, government investments that are designed to be temporary and address critical unmet needs can help not only stimulate the economy in the near term but help increase productivity and economic competitiveness in years ahead. Some specific proposals include:

   - an up-front investment in computerizing medical records today will not only help create jobs in the private sector, but help lower the cost of health care and make American businesses more competitive going forward;

- the development of a clean energy economy – where we will double the production of alternative energy in the next three years;

- the modernization of more than 75% of federal buildings;

- improving the energy efficiency of 2 million American homes – saving consumers and taxpayers billions on our energy bills;

- equipping tens of thousands of schools, community colleges, and public universities with 21st century classrooms, labs, and libraries;

- retrofitting America for a global economy by updating the way we get our electricity, expanding broadband lines across America so that a small business in a rural town can connect and compete with their counterparts anywhere in the world;

- investing in science, research, and technology that will lead to new medical breakthroughs, new discoveries, and entire new industries,

- to provide immediate relief to states, workers, and families who are bearing the brunt of this recession;

- and the plan is designed to put Americans back to work, in new jobs that pay well and can't be outsourced – jobs like building solar panels and wind turbines, constructing fuel-efficient cars and buildings, and developing the new energy technologies that will lead to even more jobs, more savings, and a cleaner, safer planet in the bargain.

The goal is to invest in what works – in order to save or create jobs. If confirmed, I would look forward to working with you and other members of the committee to refine this package to ensure that the investments we make help create jobs and turn our economy around.

3. Would you be willing to work with Republicans to structure a portion of the state aid as a loan? The argument for loans is that states will make wiser spending decisions if they have to repay the funds.

If confirmed, I would be happy to work with you and other members of Congress to strengthen the recovery package. In this area, the President does support providing state fiscal relief in grant form through established channels like the federal Medicaid match because they have proved effective in past stimulus measures and can be put in place quickly. But I understand your concern about maximizing effectiveness of our interventions overall, and believe that we can identify common areas to move forward in that respect.

CITIBANK, WACHOVIA & WELLS FARGO

Press accounts indicate that the Federal government initially directed Citibank to purchase Wachovia in order to strengthen the financial system. In the weeks that followed Wells Fargo ended up purchasing Wachovia, not Citibank.

1. How closely did you work with Secretary Paulson on the decision relating to Citibank both with respect to the acquisition of Wachovia and the position you took on that when Wells Fargo came into the picture, as well as the judgments that you and others made regarding what Citibank needed and what it would need?

To my knowledge, the government did not direct Citigroup to purchase Wachovia. Instead, Citigroup agreed to acquire the banking operations of Wachovia under an open bank assistance transaction in which the FDIC fully protected the depositors of Wachovia. The decision by the FDIC to facilitate the acquisition in this manner was supported by the Board of Governors of the Federal Reserve and the Secretary of the Treasury in consultation with the President. Throughout most of the period in September and October, which includes the period in late September when Wachovia came under strain, regulators across the relevant agencies consulted closely with one another on the actions that were being undertaken to deal with the spreading distress in our financial system.

As president of the Federal Reserve Bank of New York, I was involved in, along with other Federal Reserve officials as well as officials from the FDIC and OCC, many of those consultations and conversations, including conversations about the degree of assistance Citigroup was seeking in connection with the acquisition of Wachovia as well as conversations about Wells Fargo's subsequent bid for the firm. As for any particular positions I may have taken in this context, these are complicated negotiations involving considerable coordination across firms and regulators and each of us expressed our views and worked to reach the consensus that you ultimately saw reflected in the actions that were taken.

INCOME TAX RETURN

1. **How many times did you sign the tax allowance application? Was that once a year for three or four years?**

   I do not remember how often the IMF distributed these applications, but I believe that form was an annual form. I worked at the IMF from 2001 – 2003, so I probably signed the application three times.

2. **You know that were doing something by signing this; that you were applying for something. What did you think you were doing when you first signed this?**

   As I said in response to your question at the hearing, I believe that form is intended to ensure that the allowance the IMF provides is calculated correctly. I signed it in the mistaken belief that I was complying with my obligations.

3. **Were there any written communications between your tax preparer and you relative to the audit which concluded that you owed additional taxes for 2003 and 2004?**

Yes. I have supplied all such communications in my possession to the Committee.

4. **Did you realize that the same mistake that was made in 2003 and 2004 was probably made for 2001 and 2002 but that the statute of limitations had run out and you didn't have to pay the tax for those other two years?**

   I did not realize that until I was going through the transition team's vetting process, and when it was drawn to my attention as part of that process, I decided it was appropriate to go back and correct the error, which I did.

5. **Was your state of mind such that it didn't even occur to you that you were taking advantage of the statute of limitations by not going back to 2001 and 2002 obligations that were identical to the 2003 and 2004 obligations?**

   I believe my state of mind at the time was focused on 2003 and 2004. At the conclusion of the audit I was told what I owed and I paid that amount. I did not think about this again until late last year, when the subject came up as part of the transition team vetting process.

Mr. Geithner, we had a long exchange during your hearing about whether you knew that you would have owed Self Employment taxes for 2001 and 2002, but that you did not have an obligation to pay those taxes because the statute of limitations had

run. After reviewing the hearing transcript, I realized that you never answered the specific question, so I would like to try again.

Please answer yes or no to the following question: At any time during or after the 2006 audit (but before you were contacted by the Obama transition team about a possible appointment), did you know or suspect that you should have paid your Self Employment taxes for 2001 and 2002, since the 2006 audit required that you pay those taxes for 2003 and 2004?

I believe now that I should have paid taxes for 2001 and 2002 at that time, but I did not believe that at the time of the 2006 audit.

Please answer yes or no to this question: At any time during or after the 2006 audit (but before you were contacted by the Obama transition team about a possible appointment) were you told or did you otherwise become aware that you did not have a legal obligation to pay the 2001 and 2002 Self Employment taxes because the statute of limitations had run (or that the audit could not reach that far back)?

I was aware in 2006 that the audit did not reach back beyond 2003.

ANSWERS TO QUESTIONS FROM SENATOR SCHUMER

As you know, for more than five years, I have been one of the leading voices in the Senate pushing China on its currency policy. First, Senator Graham and I pursued a bill to apply a tariff to all Chinese imports; then we joined with Senators Baucus and Grassley on a bill that passed the Finance Committee 20-1 but never saw floor action.

President Obama talked a little bit about Chinese currency policy towards the end of the campaign, but has not offered many specifics. What I would like to know is whether you think the economic problems facing the nation and the world make confronting China over its trade policies in the short term MORE important and urgent, or LESS important.

I would really like to understand the Administration's view on this, because some argue that our precarious economic position means we should wait, but others say that we have a window now to take meaningful action. On which side of that economic coin does the Administration fall?

President Obama - backed by the conclusions of a broad range of economists - believes that China is manipulating its currency. President Obama has pledged as President to use aggressively all the diplomatic avenues open to him to seek change in China's currency practices. While in the U.S. Senate he cosponsored tough legislation to overhaul the U.S. process for determining currency manipulation and authorizing new enforcement measures so countries like China cannot continue to get a free pass for undermining fair trade principles. The question is how and when to broach the subject in order to do more good than harm. The new economic team will forge an integrated strategy on how best to achieve currency realignment in the current economic environment.

ANSWERS TO QUESTIONS FROM SEN. SNOWE

Question 1

Thomson Financial News, a leading financial and legal publisher, describes the Lehman Brothers Failure as the point that "sent the already fragile financial system into a deep downward spiral" and which former Treasury Secretary Paulson has said was both "tragic" and "regrettable."

According to a December 15 *New York Times* editorial, there are conflicting accounts as to how Lehman -- an institution in existence before the Civil War -- was allowed to collapse. In testimony before Congress on September 24, Federal Reserve Chair Bernanke said that the Fed and Treasury declined to commit public funds to support Lehman. He testified that the failure of Lehman posed risks but that the firm's troubles had been well known for some time and investors recognized that bankruptcy was a significant possibility. "Thus, we judged that investors and counterparties had time to take precautionary measures."

The same *Times* editorial then said that Chair Bernanke changed his story and on December 1 said that "legal constraints" had prevented the Fed from rescuing Lehman. And the paper reports that a spokesman for the New York Fed, which you lead, also said that the Fed had no legal authority to intervene. Secretary Paulson also used a December 18 speech in New York to say the government's hands were legally tied, given the Federal Reserve and Treasury "don't have wind-down authority to deal with a non-bank."

Mr. Geithner, which is it? Did the Fed and Treasury allow Lehman to fail because it felt that the financial system could absorb such a collapse? Or did the Fed believe it lacked the legal authority to act? If the answer is the second, then given that Lehman's failure, according to Chair Bernanke, was a "longtime coming," why didn't the Fed ask for legal authority for a rescue if it felt that would be necessary?

I do not believe the Federal Reserve should have asked for that authority then, nor do I believe it should do so now. Under section 13(3) of the Federal Reserve Act, the Fed is prohibited from taking equity or unsecured debt positions in a firm. At its core, this restriction reflects the importance of maintaining the line between the responsibilities and authorities of the fiscal authority, and those of the monetary authority. That is not to say that the U.S. government does not need to institute a robust resolution regime for nonbanks. We have been aware for some time now that our system lacks a mechanism for resolving a systemically important insolvent nonbank that is analogous to what the FDIC is for depository institutions. The absence of any clear rules outlining the procedures for the orderly resolution of a nonbank financial institution requires the government to undertake ad hoc solutions in those situations where it judges the risk to financial stability from a disorderly default to be sufficiently high. The policy challenges created by this omission in our broader regulatory framework are significant, and have been starkly evident since the rapid deterioration in the funding conditions of Bear Stearns last March. Instituting a resolution regime for nonbanks would provide for greater clarity over how and why public funds would be used in this context, and would make government action in response to a distressed firm more transparent and predictable.

Given the view that Lehman's collapse was a "long-time coming," which seemingly provided time for analysis, how did you and your colleagues not understand the implications a collapse could have?

We were concerned about the potential for Lehman's default to disrupt other segments of the financial markets. This concern led us to first take considerable steps to try to avoid that default by trying to find a buyer for the firm once it was evident that the firm's liquidity position had eroded to the point where it would likely be unable to fund itself without significant support. Once it became clear that Lehman was not likely to be able to avoid a default, we worked as carefully and quickly as possible with other U.S. and global regulators to insulate the system from the effects of that default as much as possible. We also undertook an extensive derivatives close out exercise at the New York Fed on the Sunday afternoon preceding Lehman's declaration of bankruptcy on Monday morning. Finally, we significantly broadened the scope of the Federal Reserve's liquidity provision.

What lessons can be learned from Lehman's failure to ensure that the ill health of a single company in the future does not threaten the entire economy?

Every regulator should be taking a very careful look at what went wrong, where and why, at where we failed to use our existing tools and authorities to meet our responsibilities to protect the system from this type of deep distress, and at where our existing tools and authorities were not adequate to allow us to fulfill those responsibilities. It will likely turn out to be a little bit of both of these, and there is a significant effort underway to dimension the changes to our system of regulation and oversight that will be necessary to prevent this type of event in the future. Critical to this reform will be the development of the regime for resolving a systemically important nonbank financial institution.

<u>Question 2</u>

TARP has been criticized because it seems to have been operated in an ad-hoc manner. Although Congress was told that funds would be used to purchase illiquid securities, money went to injecting capital into banks, promoting the consumer loan market, and assisting AIG, Citigroup, Chrysler, GM, and GMAC. As Treasury accesses the second half of the TARP money, it is imperative that there be a concrete

plan for using the funds. To that end and although it was short on details, I was pleased to read Mr. Summers' January 12 and 15 letters to Congressional leaders that discussed plans to provide additional assistance to community banks, small businesses, municipalities, and consumers.

Specifically what programs do you have in mind to make that a reality – as we need to have concrete assurances this will happen?

I have since the time TARP was proposed last September said that safeguarding taxpayer dollars is a top priority. That's why I was disturbed to read a January 10 *Bloomberg* article with the headline, *Paulson Bank Bailout in 'Great Stress' Misses Terms Buffett Won*. Bloomberg concluded that Warren Buffett received 43.5 million Goldman Sachs warrants valued at $3.6 billion. In contrast, Treasury injected twice as much taxpayer money into Goldman Sachs a month later, in October, and got 12.2 million warrants worth $882 million. Moreover, *Bloomberg* noted that "If the Treasury had received the same terms as Buffett, taxpayers would have become the biggest investors in most of the bailed-out banks and existing stakes would have been diluted." With the Congressional Budget Office having reported last Friday that TARP investments are already worth $64 billion less than what Treasury paid for them, I am deeply concerned taxpayers are not being protected.

What's your view? Are taxpayers getting a fair deal, or are we getting fleeced? How will you ensure that taxpayers get properly rewarded for their investment?

I share your concerns and believe that the TARP program needs important reforms. Towards that end, I intend to make sure that the TARP funds are used to promote new lending activity, to implement aggressive measures to address the foreclosure crisis, in addition to stabilizing financial institutions. These details will be provided in the coming weeks. If confirmed, I look forward to working with Congress to ensure these programs are effective.

Throughout the process, if confirmed, I will ensure that the Treasury Department adheres to a very high standard of transparency and disclosure to the public about our objectives and actions. I will also ensure that strong measures of accountability are instituted for participating institutions and make sure that we carefully protect taxpayer resources.

Question 3

I am deeply concerned about a Government Accountability Office (GAO) report released last December and a Congressional Oversight Panel report released January 9 that concluded that more oversight over the Troubled Asset Relief Program (TARP) is necessary. Notably, both reports criticized Treasury for failing to insist on adequate transparency over how institutions receiving capital injections

as part of TARP are using the funds to promote the flow of credit and modify the terms of residential mortgages to strengthen the housing market.

Moreover, I was especially disturbed to learn that the Associated Press reported on December 22 that when it contacted 21 banks that received at least $1 billion in government money, not one could provide specific answers on how the money is being used. Worse still, the *New York Times* on January 18 suggested in its article *Bailout is a Windfall to Banks, if Not to Borrowers* that "An overwhelming majority [of the banks receiving TARP money] saw the bailout program as a no-strings-attached windfall that could be used to pay down debt, acquire other businesses or invest for the future." In fact, one banker whose institution received TARP funds said, "Make more loans? We're not going to change our business model or credit policies to accommodate the needs of the public sector as they see it to have us make more loans."

I understand from Mr. Summers' January 15 letter to Congressional Leaders that, as a condition of assistance, healthy banks without major capital shortfalls will increase lending above baseline levels and that banks will also have to implement mortgage foreclosure mitigation programs. That is, banks will no longer be able to seemingly flaunt Congress' intent. My question is two-fold: First, will these requirements apply to banks that have already received funds or will this be applied on a going-forward basis? Second, how precisely will these requirements be enforced?

Notably, with respect to executive compensation, GAO found that Treasury has not yet determined how it will monitor adherence to agreements mandating that financial institutions receiving funds limit their tax-deductible compensation and do not make golden parachute payments. That said, I was pleased to note that Treasury last Friday issued a new rule to require the chief executive officer (CEO) of an institution receiving TARP funds to certify annually it has complied with TARP's executive compensation standards. Although this is encouraging, can we have your commitment that your Treasury Department will review those filings to ensure they are accurate? Should Congress pass legislation requiring the Internal Revenue Service to ensure these rules are being adhered to?

To promote oversight and address additional deficiencies I learned about at TARP IG Barofsky's confirmation hearing last November, I introduced legislation to strengthen the IG's authority to safeguard taxpayer dollars. Among other provisions, my bill would waive applicable hiring standards to ensure the IG can quickly acquire staff, allow the IG to investigate any program receiving TARP funding, mandate the Treasury Secretary consider the IG's recommendations, and require a study of whether banks are utilizing the funds they have received to spur additional lending. All of these provisions were incorporated into legislation that the Senate passed on December 10. While the House did not take up the bill, Congress must pass this legislation this year to ensure TARP functions as Congress

intended. Can we count on you to work with us to make that happen – *OR* that, no matter what, Treasury would adopt the recommendations of the IG?

The Obama Administration is committed to using the full arsenal of tools available to get credit flowing again to families and businesses. We will ensure that support under this program is directed at making credit available to support recovery. To this end, healthy banks that take government capital under the Emergency Economic Stabilization Act will be required to increase lending above baseline levels. Transparency -- in the form of a requirement that banks receiving capital to provide detailed and timely information on their lending patterns broken down by category -- will provide a very public monitor on firms behavior. Public companies will report this information quarterly, including a description of the factors that influenced their decisions, in conjunction with the release of their 10Q reports. This will allow the public to track what kind of lending decisions firms receiving support are making and help make these firms more accountable for their lending decisions. It is not our intention at this time to seek to apply these conditions retroactively to firms that have received capital under the first tranche.

I also believe it is important that the Treasury Department apply the highest standards of oversight to this program. As you note, the Treasury Department has recently released a new rule requiring the CEO of an institution receiving TARP funds to certify the firm's compliance with the TARP's executive compensation standards. If confirmed, I will be committed to ensuring that firms receiving support under this program carry out this obligation fully and faithfully. I do not believe it is necessary that Congress pass legislation requiring that the Internal Revenue Service ensure these rules are being adhered to.

With regards to the Inspector General, we will work closely with the Inspector General to achieve our shared goal of ensuring that the performance of this important set of financial stabilization activities is consistent with the intent of the Emergency Economic Stabilization Act and that programs carried out under this authority are subject to effective oversight and accountability.

Question 4

With RealtyTrac having estimated on January 15 that 2.3 million households were the subject of a foreclosure filing in 2008 -- up 81 percent from 2007 -- I am deeply concerned that far too little has been done to keep endangered families in their homes. In fact, as of mid-December, the Hope for Homeowners program Congress passed last summer had attracted just 312 applications out of the 400,000 borrowers it was supposed to help. And the problem is only likely to get worse, as according to TransUnion LLC, a credit reporting firm, the proportion of consumers with mortgages that are 60 days or more past due will hit 7.17 percent in the fourth quarter of 2009, compared with an expected delinquency rate of 4.67 percent at the end of 2008. And given that all of these foreclosures will only further depress prices

and threaten communities, addressing this crisis, which has shaken families and the economy to their core, will be critical to restoring growth. The decline of housing markets, which represents one-sixth of our national economy, was truly a tripwire that has sent our economy spiraling into recession.

As you know, Secretary Paulson decided not to use TARP funds to help endangered homeowners. That being said, I was pleased to read Mr. Summers' January 15 letter to the Congressional Leadership that the Obama Administration plans to use between $50 billion and $100 billion in TARP rescue funds to address the foreclosure crisis. Can you provide us some details about the proposals you might have?

I have been fortunate to have benefited from tremendous input on different plans to help stem mortgage foreclosures. Many of these ideas are already in the public domain. We are seeking to deploy a systematic program that addresses each of the root causes of the housing crisis with a particular focus on affordability and foreclosure mitigation. I am committed to the targets in Dr. Summers' letter and share your frustration that more has not been done to date.

Question 5

Although there is widespread agreement on the necessity of passing stimulus legislation, one area in which there is some debate is on the size of a package. President Obama and Congress are now considering passing an over $800 billion bill. That said, some economists, such as Nobel Laureate Joseph Stiglitz and former Federal Reserve official and Bush Administration economist Larry Lindsey, believe that a package closer to $1 trillion is warranted. On the other hand, we have some colleagues who are concerned that passing an $800 billion is too expensive and will increase the debt.

Christina Romer, who President Obama has nominated to Chair the Council of Economic Advisors, and Jared Bernstein, who is staffing Vice President Biden, estimated on January 10 that the Obama plan would create 3.3 million to 4.1 million new jobs by the fourth quarter of 2010, but still leave the unemployment rate at an uncomfortable high of 7.0 percent. Could we experience faster job growth if we increased the size or altered the composition of the package that President Obama has outlined?

In my judgment, an economic stimulus bill must accomplish two objectives. First, it must provide immediate assistance to those who have been dislocated by the recession and avert an economic calamity. Second, it must sow the seeds for growth. One issue that has received little attention is how we allocate stimulus dollars between those two priorities. What percentage of a bill do you believe should go toward helping people now versus making investments to restore growth?

A key measure of President Obama's American Recovery and Reinvestment Plan is that it should save or create at least 3 million American jobs by the end of 2010. Proposals that create and save jobs have a definite stimulative effect. In order to accomplish this goal, our plan will include both investments and tax reduction to boost short-term demand and lay the foundation for sustained recovery.

There are no easy solutions or quick fixes, but the plan we are moving toward will be large enough to meet the magnitude of the challenges we face. If confirmed, I look forward to working with you and the entire Senate Finance Committee to find the right balance and best plan for both immediate assistance and to lay the foundation for a sustained recovery.

<u>Question 6</u>

It is imperative that we revamp our regulatory system so that another rescue package is never again necessary. To this end, last September, I introduced the *Federal Board Certification Act of 2008*, legislation that is designed to better assess the risk characteristics of the mortgage-backed securities that led to the financial crisis. More specifically, the bill would establish a voluntary Federal Board of Certification to certify the risk characteristics of mortgage-backed securities. The Board would verify that mortgage securities accurately represent the level of risk that the underlying mortgages pose to investors. Do you believe this legislation is worthwhile, and can I have your commitment to work to make it law either in its current or modified form?

On a more macro level, the public and Federal regulators must know if financial institutions are causing systemic risk to the economy. At the same time, we must be sure that any additional regulation is truly necessary and does not threaten legitimate transactions or economic growth. Given your experience as President of the New York Fed, and your stated desire to build "shock absorbers" for the financial system so that the failure of one firm doesn't ripple through the markets, how would you move to overhaul the regulation of financial markets in a way that protects investors for the long term?

Recent events have led me to the conclusion that much stronger regulation is necessary to make financial markets function properly. Our financial system architecture is unsound and outdated. We need a fundamental redesign. Among other things, this includes better prevention and detection methods, better enforcement authority, resolution regime for systemically important nonbanks and better checks on excessive risk. I look forward to working with Congress as we move ahead in building a more effective financial regulatory framework.

<u>Question 7</u>

Mr. Geithner, as you are well aware, the Federal Reserve and Treasury on November 25 announced a program to boost consumer spending by thawing frozen credit markets and making it easier for households to borrow money for cars, tuition bills, and new homes as part of a broad effort to stimulate economic growth. Under the $200 billion proposal, a portion of the funds will go to investors to support small business lending. More specifically, a lending facility will be created that the Small Business Administration's (SBA's) 7(a) industry can access to sell loans on the secondary market and create liquidity once again for small business borrowers.

As Ranking Member of the Senate Committee on Small Business and Entrepreneurship, I support Treasury and the Federal Reserve's action with respect to the SBA's 7(a) loans. It was truly a crucial first step to jumpstarting SBA lending and helping our nation's small businesses access the capital they need to drive economic growth and job creation. All that said, more must be done. In particular, I renew my request that Treasury and the Federal Reserve to expand its action and also allow for the purchase of SBA 504 loans, as I have proposed in the *10 Steps for a Main Street Economic Recovery Act* that I introduced last November. In light of the Obama Administrations' promises to help improve the small business credit crisis, can I count on you to strongly consider working with Federal Reserve Chairman Bernanke to make the SBA's 504 loans eligible for this program?

I am extremely concerned about the decline in credit for small businesses generally and in particular in the two major SBA programs. This is disturbing because, as you well know, small business is the engine of over 70% of new job growth, and because the small businesses being hurt are largely innocent victims of this financial crisis. Too many entreprenuers with excellent credit histories are seeing their credit lines dry up. If confirmed, I very much want to work on a strong and comprehensive initiative to restart small business lending and would very much like to discuss with you how we can use existing vehicles such as the TALF as well as possibly new initiatives to expand lending in both the 7(a) and 504 program.

Question 8

Under current law, individuals who have reached age 70.5 generally must begin to withdraw funds from their IRAs or defined contribution retirement plans, including 401(k), 403(b), 457, and TSP plans. Failure to take a required minimum distribution may result in a 50 percent excise tax on the difference between what must be withdrawn and the amount actually distributed. As you know, Congress rightly suspended required minimum distribution rules for 2009 as part of the *Worker, Retiree, and Employer Recovery Act of 2008*. Unfortunately, Congress has not suspended the rules for 2008 or 2010, as I, joined by Senator Lincoln, proposed in the *Retirement Account Distribution Improvement Act of 2009*.

After a year in which the Dow lost 34 percent and with the American Association of Retired Persons having said that retirement accounts may have lost as much as $2.3

trillion between September 30, 2007, and October 16, 2008, I believe that both retroactive and forward-looking relief is absolutely vital. Retirees should be able to recontribute 2008 withdrawals and should not have to make any withdrawals in 2010 given that it will take several years to recoup their staggering losses.

Mr. Geithner, as you know, President Obama has expressed sympathy for this issue on the campaign trail. But would you and President Obama agree with me that additional relief is warranted?

Our country is facing a set of economic challenges that rival any that have come before. We are witnessing a severe recession, historic declines in housing prices, growing job loss and a concern that these negative trends are accelerating. Most Americans are all too aware of the difficult economic challenges we face. However, Senator, you are correct, individuals near retirement or in retirement are among those hardest hit by the economic decline we have witnessed for more than a year. The President has pledged to identify ways to assist these individuals, including ways that our system of savings might be adjusted. Steps taken last year were a critical beginning. If confirmed, I look forward to working with Congress on this important topic.

<u>Question 9</u>

As President Obama and Congress work together to develop stimulus legislation, I could not help but notice that I share many of the priorities that the President expressed support for on the campaign trail. In particular, I have, with Senator Lincoln and Bunning, introduced the *Unemployment Benefit Tax Suspension Act of 2009* to exempt unemployment compensation from tax in 2008 and 2009. There is no reason why we should be taxing unemployment benefits, which so many Americans are relying on to put food on the table and a roof over their heads.

Would you agree with me that this proposal should be part of any stimulus package sent to the White House? Why or why not?

Far too many Americas have lost their jobs over the past year. As I said today in the hearing, it is imperative that we aggressively pursue a full range of measures to help restore our economic health, both in the financial sector and in the broader economy. In the meantime, there is no question that our system of unemployment compensation is a vital linchpin for many Americans who have lost their jobs and far too often their economic well being. If confirmed, I look forward to working with you on measures that will restore our economic health and on the things we can do in the meantime to assist those in who have lost their job. Your idea is one of several we should seriously consider.

Question 10

Our nation currently faces a lack of available credit to promote development and job creation. This is particularly true for low-income and rural communities. It is for this reason that Senator Rockefeller and I, joined by Senators Bingaman, Kerry, Lincoln, and Stabenow on the Committee last November sent Senate Leaders a letter requesting that the New Markets Tax Credit receive an additional allocation of $1.5 billion as part of a stimulus package.

As you may know, the New Markets Tax Credit has had a very successful history in promoting development in distressed urban and rural communities. In fact, the Treasury Department reports that the incentive has helped to develop or rehabilitate over 68 million square feet of real estate and create 210,000 construction jobs and 45,000 new full-time jobs.

With the stiff competition for Credits, the Community Development Financial Institutions Fund, which administers the incentive, indicates that it has at least $1.5 billion in qualified applications on hand and that it can allocate any additional Credit authority within 90 days of enactment. The New Markets Tax Credit Coalition research shows that based on the program's track record, this would generate 11,000 permanent jobs and 3,500 construction jobs.

Wouldn't you agree that the New Markets Tax Credit should be part of a stimulus package? Why or why not?

The downturn we have witnessed in our financial markets and in the broader economy over the past year has particularly impacted our most distressed communities and neighborhoods. While I have not had an opportunity to study the New Markets Tax Credit program in great detail, I am aware that the program enjoys a wide range of support. It is viewed by many as an important revitalization tool for our distressed cities and rural areas. If confirmed, I look forward to studying this issue more fully. Tools such as the NMTC should be examined as we consider the best ways to help our cities and rural communities.

Question 11

Mr. Geithner, while most economists agree that it is permissible to run a sizable budget deficit during an economic recession to help stabilize the economy, I share a concern you raised in your testimony about the long-term state of the nation's finances. Indeed, I am worried that once economic growth returns, we will still be confronted by a large structural budget deficit and a tremendous federal debt that is already at an unprecedented $10.7 trillion. In fact, in its most recent projections released January 7, the Congressional Budget Office projected that the nation will run a deficit in each of the next 10 years for a total shortfall of over $3 trillion. If

left unchecked, future deficits could crowd out private investment and threaten economic growth.

Given that extending tax cuts for middle-income families and small businesses, finding a solution to the Alterative Minimum Tax, and expanding the availability of health insurance, could cost trillions, how do you plan to address these competing priorities and bring the budget into balance over the longer term?

My understanding is that although Treasuries are currently in great demand and we have no immediate financing concerns, if our nation's debt levels are not addressed, there will come a point at which we will not be able to use debt except at exorbitant interest rates, which will threaten long-term growth. Given your long experience in financial markets and the sizable deficits we now face, how long do we have to address this issue?

As you can imagine, our top priority right now is getting the economy moving again and creating jobs with a robust economic recovery plan. That being said, President Obama is committed to developing a plan that will reverse our declining fiscal position by restoring a stable debt to GDP ratio. To achieve this we will have to use many tools, such as making tough decisions and reform or eliminate programs that don't work, adhering to strong PAYGO rules, and addressing our biggest long-run fiscal challenge – the rising cost of healthcare. If confirmed, I intend to work with the other members of the President's economic team as well as with this Committee to bring down the cost of healthcare and improve quality, which will help our families, businesses, and the federal budget.

As for the National debt, I should note that putting in place the fundamentals for a strong US economy is the single most important action that we can take to reduce the risk of fiscal dependency. We should also continue to be seen as a place where capital is welcome. The Obama Administration, and I, if confirmed, look forward to working with Congress to bring forward an economic recovery program and to stabilize, repair, and reform the US financial system.

Question 12

I recently had the opportunity to review the household income statistics put out by the Labor Department. One thing that struck me was that those at the very top have seen substantial household income growth over the 1988 to 2007 period. Meanwhile, those in the middle and at the bottom have seen their incomes grow less than half as quickly.

To put some statistics around those conclusions, I would note that households at the 95th percentile – those earning $177,000 or more in 2007 – saw inflation-adjusted income growth of 22.7 percent between 1988 and 2007. Income for the median household – earning $50,233 in 2007 – grew 9.6 percent over the same period.

Finally, income for a household in the 10th percentile – earning just $12,162 in 2007 rose 10 percent over the 1988 to 2007 period.

While I don't believe the United States should massively redistribute income, I am concerned that the distribution of income appears to be getting more uneven. Middle- and lower-income families are having increasing trouble making ends meet in terms of making housing payments, putting food on the table, filling up their gas tanks. How can we narrow the gap between lower- and middle class household incomes with higher-income households? Put another way, how can we help those in the middle and the bottom get ahead?

I share your concern that the distribution of income appears to be getting more uneven. As someone who has spent his entire professional career working in the public interest, and has observed the impact of public policies – for better and worse – on the living conditions and life opportunities of lower- and middle-class households, I care deeply about this problem. As a public official, I know we have a lot more work to do when middle and lower-income families are having increasing trouble making ends meet and putting food on the table.

I believe it is critical not only for us to repair our financial system but also to make the investments that will lay the foundation for a stronger economic future for all Americans. To ensure equality of opportunity for all Americans and begin to reverse the trend of growing inequality, we need to invest more in helping Americans to develop the skills for global competition and to deal with the challenges of trade and technological change. Our tax policies will play a part, too, as will our efforts to save or create 3.5 million jobs and cushioning the blow of a severe economic downturn.

If I am confirmed, I look forward to working with you to address this challenge.

<u>Question 13</u>

Mr. Geithner, one of the most frustrating taxes we have to address each year is the alternative minimum tax (AMT). Every year, we are forced to pass a so-called patch so that millions of Americans are not ensnared by this onerous levy. Indeed, if we do not pass another patch in 2009, 30 million will face this onerous levy up from approximately 4 million in 2008. Although all of us agree that the AMT should not be allowed to ensnare this nation's middle-class taxpayers, the problem is that it is extremely expensive to address. In fact, CBO and the Joint Committee on Taxation estimate that it would cost $763 billion to index the AMT for inflation over the next 10 years. It will cost hundreds of billions more to fix the AMT if we extend even just President Bush's tax cuts for the middle class.

How do you plan to address the AMT over the long term while recognizing that the nation already faces a baseline deficit of over $3.1 trillion? How do you plan to ensure that America's middle class will not get stuck having to compute their taxes twice – once under the regular system and once under the AMT – only to find out that they how hundreds of dollars more than they first thought they would have to pay?

The AMT is clearly broken and needs to be fixed. The AMT exists for an important reason –to prevent people with very high incomes from exploiting deductions and loopholes to completely avoid paying income taxes. Over the years, it has migrated far from its original intention and is now affecting millions of middle-class families. If confirmed, I look forward to working with Congress on the President's commitment to fixing the AMT in order to reduce complexity for ordinary taxpayers in a single fiscally responsible way.

<u>Question 14</u>

While China's currency has appreciated nearly 19 percent since Beijing removed it from its peg to the dollar in July 2005, manufacturers and workers in trade-sensitive industries—such as paper production in Maine—feel that the Yuan ("You-on") may still be undervalued by as much as 20 percent, making Chinese imports artificially cheaper vis-à-vis competing U.S. goods. These domestic producers argue that the undervaluation of the Yuan has contributed to the burgeoning U.S. trade deficit with China, which set another record in November 2008 of $40.1 billion.

Do you believe that China's currency remains artificially undervalued, and that this undervaluation has a trade-distortive effect harmful to U.S. producers?

Former Secretary Paulson has frequently raised the China Currency issue at Strategic Economic Dialogue meetings with Beijing, most recently last month, arguing for greater flexibility in the exchange rate. Yet the Treasury Department's inability to classify China's intervention in the valuation of its currency as "manipulation" has frustrated me and many of my colleagues who would like to see greater pressure put on China to allow its currency to appreciate more rapidly, according to market forces.

Do you believe the Bush Administration's policy of handling this issue through bilateral dialogue has worked satisfactorily, or would your recommend further actions be taken by the Obama Administration?

Finally, In July 2007 the Finance Committee—with my support—favorably reported the "Currency Exchange Rate Oversight Reform Act of 2007," which would direct the Secretary of the Treasury to identify countries with "fundamentally misaligned" currencies (i.e., currencies that do not correspond to market conditions, whether or not due to deliberate foreign government manipulation), and impose gradually increasing restrictions on financial cooperation with such countries over the course of a year, possibly culminating in the U.S. bringing a formal dispute resolution case against an offending country in the World Trade Organization.

Are these legislative changes that you would recommend the President sign into law? Would you like to see different or additional authorities granted to the Treasury Department to deal with currency manipulation?

President Obama - backed by the conclusions of a broad range of economists - believes that China is manipulating its currency. President Obama has pledged as President to use aggressively all the diplomatic avenues open to him to seek change in China's currency practices.

More broadly, we look forward to a productive economic dialogue with the Chinese government on a number of short- and long-tem issues. The Yuan is certainly an important piece of that discussion, but given the crisis the immediate focus needs to be on the broader issue of stabilizing domestic demand in China and the US. The latest figures show that China's growth in 2008 was 9%, a full 4 percentage points lower than in the previous year. Because China accounts for such a large fraction of the world economy, a further slowdown in China would lead to a substantial fall in world growth (and demand for US exports) and delay recovery from the crisis. Therefore, the immediate goal should be for us to convince China to adopt a more aggressive stimulus package as we do our part to try to pass a stimulus package here at home.

ANSWERS TO QUESTIONS FROM SENATOR STABENOW

1. **The Michigan economy is facing one of the most difficult and severe recessions in the country. However, as of December 31, only two Michigan-based institutions have received funding under the Capital Purchasing Program and none in Southeastern Michigan. In November, I wrote a letter to Secretary Paulson urging him to ensure that the Treasury programs focus the remaining funds from TARP on helping these smaller struggling institutions. The larger banks have cut back on their lending in Michigan and it's the community bankers who will be making the loans to small businesses and help provide the necessary liquidity to our markets. If confirmed, what will you to do ensure that smaller institutions, in particular those based in the hardest-hit states, receive funding under TARP?**

   Community banks are an important source of credit for small businesses. As you know, support for smaller banks through the Capital Purchase Program under the Emergency Economic Stabilization Act is ongoing. While the very first recipients of support under this program were the largest banks, I am committed to ensuring that the commitment to support smaller and community banks under this program is carried out faithfully and expeditiously. If confirmed, I will work to ensure that support from this program reaches the community banks that need it. The letter that NEC Chairman Lawrence Summers sent to Congressional Leaders on January 15th underlined the Obama administration's commitment to ensuring the soundness of community banks throughout the country.
2. **The housing market collapse is pulling down the entire economy, and to get our economy back on track, we must address housing. The Frank TARP proposal would require Treasury to develop a program, outside of the TARP, to stimulate demand for home purchases and clear inventory of properties, including through ensuring the availability of affordable mortgages rates for qualified home buyers. What do you think needs to be done to stabilize home prices and to get consumers to buy homes?**

   The Obama administration will commit substantial resources of $50-100 billion to a sweeping effort to address the foreclosure crisis. As the Obama administration carries out the EESA, our actions will reflect the Act's original purpose of preventing systemic consequences in the financial and housing markets. We will implement smart, aggressive policies to reduce the number of preventable foreclosures by helping to reduce mortgage payments for economically stressed but responsible homeowners, while also reforming our bankruptcy laws, and strengthening existing housing initiatives like Hope for Homeowners. Banks receiving support under the EESA will be required to implement mortgage foreclosure mitigation programs.

   Reducing foreclosures will play an important role in allowing home prices to stabilize by reducing the supply of homes on the market. The administration also plans to focus support on increasing the flow of credit through a variety of programs. The Federal Reserve has announced a $500 billion program of support, which is already having a significant beneficial impact in reducing the cost of new conforming mortgages. Lower costs of financing will make it easier for consumers to purchase homes and greater access to credit will increase the ability of consumers to secure financing and purchase homes.

3. **Our country is currently facing the worst financial crisis in decades. This is due in part to a lack of oversight and enforcement by our regulators. What do you think needs to happen in the regulatory overhaul of the financial system to ensure a crisis like the one we are currently experiencing can never happen again? What will be your priorities and recommendations for President-elect Obama to address this issue?**

   My first priority in thinking about our regulatory structure will be improving the capacity of our financial system to withstand shocks. There is no doubt in my mind that our financial system, as we have witnessed during this crisis, failed to meet its most basic obligations. The system was too unstable, too fragile, and too weak to withstand high levels of stress. As such, people who did everything right and played by the rules and were careful were hurt by the actions of those who took too much risk and too little responsibility. That, to me, is the sign of a system that is unfair and unjust and very much in need of reform.

   If I am confirmed, I will move quickly in consultation with Congress to build a stronger, more resilient system with greater protections – as a very high priority – for consumers and investors. Getting these basic objectives right is more critical than worrying about the exact structure of our regulatory agencies. I'd like to work with you and learn more about your views on the best options for redesigned regulatory structures. I know we can preserve the unique strengths of our financial markets in providing individuals and entrepreneurs access to capital and credit while also making our system more safe, more sound, and more just.

4. **Carbon trading is currently being considered at a scale that some believe would create the largest new derivatives market in the world. How do you think this market should be regulated and what role, if any, do you envision for Treasury in these markets?**

   The President believes that a market mechanism offers the best way of addressing the challenge of climate change. Market mechanisms have worked before as solutions to environmental problems, and they will give all American consumers and businesses the incentives to use their ingenuity to develop economically effective solutions to climate change. The extent to which the Treasury Department will play a role in administering such a program has not been determined yet. However, I look forward to working with other members of the Administration and with members of Congress to determine how to construct an efficient and effective program that best leverages federal resources.

5. **There are a number of renewable industries that are looking for reasons to remain here in the United States to produce their products instead of going overseas. Implementing certain tax policies would encourage those companies further down the supply chain. A manufacturing tax credit could act as a force multiplier and would stimulate job creation in our country. What are your thoughts on such a tax policy?**

   Our country is facing a set of economic conditions that rival any that we have seen before. The President has said that we need to be aggressive in our approach to restoring economic health. As a part of our strategy, the Administration has said that we should pursue tax policies in our economic recovery plan that work and provide an immediate jolt to sectors of the economy that will make the best use of the assistance while also establishing a framework for long-term growth.

   There is no question that among the tax policies we pursue an important sector of the economy we must consider our manufacturing base. If confirmed, I look forward to working with you on ways to ensure that our manufacturing sector is both vibrant and competitive.

6. **It is critical that companies in a loss position, many of them small and medium-sized and in the manufacturing sector, are able to participate in stimulating the economy. What are your thoughts on helping these companies who are struggling most?**

   I agree that we must not lose sight of struggling small and medium-sized businesses in our stimulus plans, especially those businesses in the manufacturing sector. Companies in a loss position may not be able to use otherwise available credits and incentives. If confirmed, I will explore with my staff the appropriateness of various proposals to help companies with losses survive these difficult times.

7. **In 2004, Congress enacted the tonnage tax to improve the competitiveness of the U.S. shipping industry. Subsequently, it became known that the statute is ambiguous about whether an S corporation is eligible for the tonnage tax. As a Senator, President-elect Barack Obama supported clarifying S corporation eligibility to elect the tonnage tax, recognizing that if they were ineligible for the tonnage tax, American vessels owned by S corporations would be at a competitive disadvantage against American vessels owned by C corporations and against foreign operators. Can you provide some guidance on S corporation eligibility to elect the tonnage tax?**

   If confirmed, I will review with my staff whether S corporations are eligible to elect the tonnage tax under current law and whether any guidance under current law, or proposed changes to current law, are appropriate.

8. **Article IV of the IMF Charter, obligates each member nation; " to avoid manipulating exchange rates or the international monetary system in order to**

prevent effective balance of payments adjustments or to gain an unfair competitive advantage over other members." The IMF has adopted surveillance provisions to guide member nations on how various IMF Articles will be interpreted. With regard to surveillance of Article IV, it defined currency manipulation as: "protracted large scale intervention in one direction in the exchange market." Over the last few years China's global current account surplus has risen to over 11 per cent of its GDP, but it has maintained an undervalued currency by massively intervening in currency markets. What do you think of China's currency policies? And, more generally, what is the best approach to ensuring countries are not engaged in manipulating currency markets around the world?

President Obama - backed by the conclusions of a broad range of economists - believes that China is manipulating its currency. President Obama has pledged as President to use aggressively all the diplomatic avenues open to him to seek change in China's currency practices. While in the U.S. Senate he cosponsored, with Senator Stabenow, tough legislation to overhaul the U.S. process for determining currency manipulation and authorizing new enforcement measures so countries like China cannot continue to get a free pass for undermining fair trade principles. The question is how and when to broach the subject in order to do more good than harm. The new economic team will forge an integrated strategy on how best to achieve currency realignment in the current economic environment.

More generally, the best approach to ensure that countries do not engage in manipulating their currencies is to demonstrate that the disadvantages of doing so outweigh the benefits. If confirmed, I look forward to a constructive dialogue with our trading partners around the world in which Treasury makes the fact-based case that market exchange rates are a central ingredient to healthy and sustained growth.

9. **During this unprecedented financial crisis, the government has provided liquidity to the nation's financial institutions through a broad range of emergency federal credit programs. The Federal Home Loan Bank System also has played a significant role in providing liquidity, providing just over $1 trillion in "advances" to its over 8,100 financial institution members during the 15-month period ending September 30, 2008. Once markets normalize, what role do you see for the Federal Home Loan Bank system in providing liquidity and credit support mechanisms to our markets?**

The Federal Home Loan Bank System has been an important source of liquidity for financial institutions during this crisis. The current crisis has proven that it is helpful for financial institutions to have multiple sources of liquidity to contend with extreme cyclicality. In recognition of the systemically important nature of these institutions, the US government has been provided with extraordinary, temporary authority under the Housing and Economic Recovery Act of 2008 to support the Federal Home Loan Bank system. It is difficult to predict, at this point, the characteristics of a normalized world, and thus the future demand for the support provided by the Federal Home Loan Bank system.

10. **As you know, our economic recovery depends on ensuring the availability of financing, especially for the housing sector. I understand that investors are currently unwilling to invest in securities backed by mortgages and that the secondary market for these mortgage-backed securities is essentially frozen. Some analysts believe a contributing factor is a U.S. GAAP accounting rule that is inconsistent with the international standard known as IAS 39. Under our U.S. Statement of Financial Accounting Standards (SFAS) No. 115, specifically known as the other-than-temporary impairment (OTTI) rule, investments must be accounted for using a theoretical current fair value which, in this market will result in losses that exceed expected economic losses. What are your thoughts on this rule and its role in the current economic downturn? If confirmed, what role would the Treasury play in working with the SEC and the FASB on studying this issue?**

    One of the top priorities of our administration in response to the current financial crisis is to increase the flow of credit in our financial sector, particularly in the secondary market for mortgage-backed securities that you mention in your question.

    The financial crisis has highlighted the urgent need to overhaul the oversight of our financial system. If confirmed, I look forward to working closely with Congress to develop a smart and effective regulatory system that will meet our current needs as well as the challenges and opportunities we will face in the years ahead. The current financial crisis has exposed a number of deficiencies in our federal regulatory system.

    The role of accounting and reporting standards is to help provide investors and the capital markets with sound, unbiased financial information. Mark-to-market accounting and reporting helps protect investors, promote transparency and market integrity and act as a risk management tool.

    I believe bank regulators could be part of the solution in helping regulated institutions ensure that they help all employees and officers fully comply with all applicable accounting rules for structured finance transactions. Inaccurate asset valuations have contributed to investor distrust about the information available to them in making investment decisions.