Geithner Remarks on Financial Stability Plan

The following is the full text of remarks by Treasury Secretary Tim Geithner introducing the Financial Stability Plan.

As President Obama said in his inaugural address, our economic strength is derived from “the doers, the makers of things.”

The innovators who create and expand enterprises; the workers who provide life to companies; this is what drives economic growth.

The financial system is central to this process. Banks and the credit markets transform the earnings and savings of American workers into the loans that finance a first home, a new car or a college education. And this system provides the capital and credit necessary to build a company around a new idea.

Without credit, economies cannot grow at their potential, and right now, critical parts of our financial system are damaged. The credit markets that are essential for small businesses and consumers are not working. Borrowing costs have risen sharply for state and local governments, for students trying to pay for college, and for businesses large and small. Many banks are reducing lending, and across the country they are tightening the terms of loans.

Last Friday we learned that the economy had lost three million jobs last year, and an additional 600,000 just last month. As demand falls and credit tightens, businesses around the world are cutting back the investments that are essential to future growth. Trade among nations has contracted sharply, as trade finance has dried up. Home prices are still falling, as foreclosures rise and even credit worthy borrowers are finding it harder to finance the purchase of a first home, or refinance their mortgage.

Instead of catalyzing recovery, the financial system is working against recovery. And at the same time, the recession is putting greater pressure on banks. This is a dangerous dynamic, and we need to arrest it. It is essential for every American to understand that the battle for economic recovery must be fought on two fronts. We have to both jumpstart job creation and private investment, and we must get credit flowing again to businesses and families.

Without a powerful Economic Recovery Act, too many Americans will lose their jobs and too many businesses will fail. And unless we restore the flow of credit, the recession will be deeper and longer, causing even more damage to families and businesses across the country.

Today, as Congress moves to pass an economic recovery plan that will help create jobs and lay a foundation for stronger economic future, we are outlining a new Financial Stability Plan.

Our plan will help restart the flow of credit, clean up and strengthen our banks, and provide critical aid for homeowners and for small businesses. As we do each of these things, we will impose new, higher standards for transparency and accountability.

I am going to outline the key elements of this program today. But before I do that, I want to explain how we got here. The causes of the crisis are many and complex. They accumulated over time, and will take time to resolve.

Governments and central banks around the world pursued policies that, with the benefit of hindsight, caused a huge global boom in credit, pushing up housing prices and financial markets to levels that defied gravity.

Investors and banks took risks they did not understand. Individuals, businesses, and governments borrowed beyond their means. The rewards that went to financial executives departed from any realistic appreciation of risk.

There were systematic failures in the checks and balances in the system, by Boards of Directors, by credit rating agencies, and by government regulators. Our financial system operated with large gaps in meaningful oversight, and without sufficient constraints to limit risk. Even institutions that were overseen by our complicated, overlapping system of multiple regulators put themselves in a position of extreme vulnerability.

These failures helped lay the foundation for the worst economic crisis in generations.

When the crisis began, governments around the world were too slow to act. When action came, it was late and inadequate. Policy was always behind the curve, always chasing the escalating crisis. As the crisis intensified and more dramatic government action was required, the emergency actions meant to provide confidence and reassurance too often added to public anxiety and to investor uncertainty.

The dramatic failure or near-failure of some of the world's largest financial institutions, and the lack of clear criteria and conditions applied to government interventions caused investors to pull back from taking risk. Last fall, as the global crisis intensified, Congress acted quickly and courageously to provide emergency authority to help contain the damage. The government used that authority to pull the financial system back from the edge of catastrophic failure.

The actions your government took were absolutely essential, but they were inadequate. The force of government support was not comprehensive or quick enough to withstand the deepening pressure brought on by the weakening economy. The spectacle of huge amounts of taxpayer assistance being provided to the same institutions that help caused the crisis, with limited transparency and oversight, added to public distrust. This distrust turned to anger as Boards of Directors at some institutions continued to award rich compensation packages and lavish perks to their senior executives.

Our challenge is much greater today because the American people have lost faith in the leaders of our financial institutions, and are skeptical that their government has – to this point — used taxpayers' money in ways that will benefit them. This has to change.

To get credit flowing again, to restore confidence in our markets, and restore the faith of the American people, we are fundamentally reshaping the government's program to repair the financial system.

Our work will be guided by the lessons of the last few months and the lessons of financial crisis throughout history. The basic principles that will shape our strategy are the following:

We believe that the policy response has to be comprehensive, and forceful. There is more risk and greater cost in gradualism than in aggressive action.

We believe that action has to be sustained until recovery is firmly established. In the United States in the 30s, Japan in the 90s, and in other cases around the world, previous crises lasted longer and caused greater damage because governments applied the brakes too early. We cannot make that mistake.

We believe that access to public support is a privilege, not a right. When our government provides support to banks, it is not for the benefit of banks, it is for the businesses and families who depend on banks… and for the benefit of the country. Government support must come with strong conditions to protect the tax payer and with transparency that allows the American people to see the impact of those investments.

We believe our policies must be designed to mobilize and leverage private capital, not to supplant or discourage private capital. When government investment is necessary, it should be replaced with private capital as soon as possible.

We believe that the United States has to send a clear and consistent signal that we will act to prevent the catastrophic failure of financial institutions that would damage the broader economy.

Guided by these principles, we will replace the current program with a new Financial Stability Plan to stabilize and repair the financial system, and support the flow of credit necessary for recovery.

This new Financial Stability Plan will take a comprehensive approach. The Department of the Treasury, the Federal Reserve, the FDIC, and all the financial agencies in our country will bring the full force of the United States Government to bear to strengthen our financial system so that we get the economy back on track.

We have different authorities, instruments and responsibilities, but we are one government serving the American people, and I will do everything in my power to ensure that we act as one.

Our work begins with a new framework of oversight and governance of all aspects of our Financial Stability Plan.

The American people will be able to see where their tax dollars are going and the return on their government's investment, they will be able to see whether the conditions placed on banks and institutions are being met and enforced, they will be able to see whether boards of directors are being responsible with taxpayer dollars and how they're compensating their executives, and they will be able to see how these actions are impacting the overall flow of lending and the cost of borrowing.

These new requirements, which will be available on a new website FinancialStability.gov, will give the American people the transparency they deserve.

These steps build on what we've done already. We've acted to ensure the integrity of the process that provides access to government support, so that it is independent of influence from lobbyists and politics. We've committed to provide the American people with information on how their money is spent and under what conditions by posting contracts on the Internet. And, importantly, we have outlined strong conditions on executive compensation.

Under this framework, we are establishing three new programs to clean up and strengthen the nation's banks, bring in private capital to restart lending, and to go around the banking system directly to the markets that consumers and businesses depend on.
Let me describe each of these steps:

First, we're going to require banking institutions to go through a carefully designed comprehensive stress test, to use the medical term. We want their balance sheets cleaner, and stronger. And we are going to help this process by providing a new program of capital support for those institutions which need it.

To do this, we are going to bring together the government agencies with authority over our nation's major banks and initiate a more consistent, realistic, and forward looking assessment about the risk on balance sheets, and we're going to introduce new measures to improve disclosure.

Those institutions that need additional capital will be able to access a new funding mechanism that uses funds from the Treasury as a bridge to private capital. The capital will come with conditions to help ensure that every dollar of assistance is used to generate a level of lending greater than what would have been possible in the absence of government support. And this assistance will come with terms that should encourage the institutions to replace public assistance with private capital as soon as that is possible.

The Treasury's investments in these institutions will be placed in a new Financial Stability Trust.

Second, alongside this new Financial Stability Trust, together with the Fed, the FDIC, and the private sector, we will establish a Public-Private Investment Fund. This program will provide government capital and government financing to help leverage private capital to help get private markets working again. This fund will be targeted to the legacy loans and assets that are now burdening many financial institutions.

By providing the financing the private markets cannot now provide, this will help start a market for the real estate related assets that are at the center of this crisis. Our objective is to use private capital and private asset managers to help provide a market mechanism for valuing the assets.

We are exploring a range of different structures for this program, and will seek input from market participants and the public as we design it. We believe this program should ultimately provide up to one trillion in financing capacity, but we plan to start it on a scale of $500 billion, and expand it based on what works.

Third, working jointly with the Federal Reserve, we are prepared to commit up to a trillion dollars to support a Consumer and Business Lending Initiative. This initiative will kickstart the secondary lending markets, to bring down borrowing costs, and to help get credit flowing again.

In our financial system, 40 percent of consumer lending has historically been available because people buy loans, put them together and sell them. Because this vital source of lending has frozen up, no financial recovery plan will be successful unless it helps restart securitization markets for sound loans made to consumers and businesses – large and small.

This lending program will be built on the Federal Reserve's Term Asset Backed Securities Loan Facility, announced last November, with capital from the Treasury and financing from the Federal Reserve.

We have agreed to expand this program to target the markets for small business lending, student loans, consumer and auto finance, and commercial mortgages.

And because small businesses are so important to our economy, we're going to take additional steps to make it easier for them to get credit from community banks and large banks. By increasing the federally guaranteed portion of SBA loans, and giving more power to the SBA to expedite loan approvals, we believe we can turn around the dramatic decline in SBA lending we have seen in recent months.

Finally, we will launch a comprehensive housing program. Millions of Americans have lost their homes, and millions more live with the risk that they will be unable to meet their payments or refinance their mortgages.

Many of these families borrowed beyond their means. But many others fell victim to terrible lending practices that left them exposed, overextended, and with no way to refinance. On top of that, homeowners around the country are seeing the value of their homes fall because of forces they did not create and cannot control. This crisis in housing has had devastating consequences, and our government should have moved more forcefully to limit the damage.

As house prices fall, demand for housing will increase, and conditions will ultimately find a new balance. But now, we risk an intensifying spiral in which lenders foreclose, pushing house prices lower and reducing the value of household savings, and making it harder for all families to refinance.

The President has asked his economic team to come together with a comprehensive plan to address the housing crisis. We will announce the details of this plan in the next few weeks.

Our focus will be on using the full resources of the government to help bring down mortgage payments and to reduce mortgage interest rates. We will do this with a substantial commitment of resources already authorized by the Congress under the Emergency Economic Stabilization Act.

Let me add that as we go forward, President Obama is committed to moving quickly to reform our entire system of financial regulation so that we never again face a crisis of this severity.

We are consulting closely with Chairman Chris Dodd in the Senate, Chairman Barney Frank in the House, and their colleagues on both sides of the aisle on the broad outline of a comprehensive program of reforms. The President’s Working Group on Financial Markets is developing detailed recommendations.

And we will begin working closely with the world’s leading economies on a set of broader reforms to the international financial system in preparation for the G-20 Summit in London on April 2nd.

The success of our financial stability plan is going to require an unprecedented level of cooperation, here in the United States and around the world. Federal Reserve Chairman Ben Bernanke, FDIC Chair Sheila Bair, John Dugan, the Comptroller of the Currency, and John Reich the head of the Office of Thrift Supervision, are here today. I want to thank them for helping to shape this plan, and their commitment to making it work.

This program will require a substantial and sustained commitment of public resources. Congress has already authorized substantial resources for this effort, and we will use those resources as carefully and effectively as possible. We will consult closely with Congress as we move forward, and work together to make sure we have the resources and the authority to make this program work.

Later this week, I will be traveling to meet with the G7 finance ministers and central bank governors in Italy. There, I'll start the process of working with our international partners to ensure that we're working together to strengthen recovery and to help stabilize and repair the global financial system.

And we will work closely with the leadership of the IMF and World Bank so that they can deploy resources quickly to help those countries around the world that are most at risk from this crisis.

Many of the programs I've just discussed involve large numbers. But it is important to recognize that these programs involve loans, guarantees, and investments with terms and conditions that protect taxpayers and help compensate the government for risk. Because of these terms and conditions, the risk to taxpayers will be less than the headline.

Our obligation is to design the programs so that we are achieving the largest benefit in terms of supporting recovery at least cost to the taxpayer. And we take that obligation extremely seriously.

But I want to be candid: this strategy will cost money, involve risk, and take time. As costly as this effort may be, we know that the cost of a complete collapse of our financial system would be incalculable for families, for businesses and for our nation.

We will have to adapt our program as conditions change. We will have to try things we've never tried before. We will make mistakes. We will go through periods in which things get worse and progress is uneven or interrupted.

We will be guided by the principles of transparency and accountability, dedicated to the goals of restoring credit to families and businesses, and committed to moving our nation towards an economic recovery that is as swift and widespread as possible.

This is a challenge more complex than any our financial system has ever faced, requiring new programs and persistent attention to solve. But the President, the Treasury and the entire Administration are committed to see it through because we know how directly the future of our economy depends on it.

Thank you.