

EMBARGOED UNTIL DELIVERY

**Statement of Treasury Secretary Timothy F. Geithner
Committee on Finance
U.S. Senate
May 4, 2010**

Chairman Baucus, Ranking Member Grassley, Members of the Committee, thank you for the opportunity to testify before you today regarding the Financial Crisis Responsibility Fee.

On October 3, 2008, Congress gave the Treasury Department authority to stabilize the American economy through the enactment of the Emergency Economic Stabilization Act (EESA). Congress included in the legislation a requirement that the President put forward a plan "that recoups from the financial industry an amount equal to the shortfall in order to ensure that the Troubled Asset Relief Program (TARP) does not add to the deficit or national debt."

The principle that the cost of putting out a financial fire should be recovered from financial institutions was adopted by Congress in the aftermath of the savings-and-loan crisis. The FDIC Improvement Act (FDICIA) required the FDIC to recoup any losses it incurred as a result of closing failed banks through assessments on banks. This same principle is incorporated into the financial reform proposals adopted by the House and now being considered by the Senate. Both bills require the financial industry to repay the government for any costs associated with the resolution of a failing financial institution.

The cost of this economic crisis has been enormous, hitting Americans harder than any downturn since the Great Depression. Millions have lost their jobs, their businesses, their homes, and their savings. And the resulting loss of revenue has added substantially to our national debt.

The purpose of the Financial Crisis Responsibility Fee proposed by President Obama in January is to make sure that the direct costs of TARP are paid for by the major financial institutions, not by the taxpayer. Assessments on these institutions will be determined by the risks they pose to the financial system. These risks, the combination of high levels of riskier assets and less stable sources of funding, were key contributors to the financial crisis.

The fee would be applied over a period of at least ten years, and set at a level to ensure that the costs of TARP do not add to our national debt. One year ago we estimated those costs could exceed half a trillion dollars. However, we have been successful in repairing the financial system at a fraction of those initial estimates. The estimated impact on the deficit varies from \$109 billion according to CBO to \$117 billion according to the Administration. We anticipate that our fee would raise about \$90 billion over 10 years, and believe it should stay in place longer, if necessary, to ensure that the cost of TARP is fully recouped.

We propose to assess the fee on financial institutions that have over \$50 billion in assets and were eligible for the emergency assistance programs put in place to resolve the crisis. These firms are U.S.-based bank holding companies, thrift holding companies, certain broker dealers, as well as companies that control insured depositories and certain broker dealers. The U.S. subsidiaries of international firms that fall into these categories and are larger than \$50 billion would also be covered. These firms were eligible for, and were the major beneficiaries of, the Treasury's capital investments under the TARP, the FDIC's Temporary Liquidity Guarantee Program, the Federal Reserve's Primary Dealer Credit Facility and other Federal Reserve liquidity facilities.

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We designed the fee so that it would fall most heavily on firms that fund riskier activities with less stable forms of funding. Firms would pay a fixed percentage of their assets adjusted for risk, minus their capital, insured deposits, and certain insurance policy reserves. Firms that take on more risk and fund those activities with less stable sources of financing would pay more than firms that are managed more conservatively. This framework has the significant benefit of including derivatives and off-balance sheet items not otherwise reflected under conventional accounting. In this way, the fee targets, and thereby would help discourage, activities that pose the most risk to the stability of the financial system.

The fee is designed to limit the risk of any adverse impact on lending. The fee excludes over 99 percent of U.S. banks, which currently provide the majority of small loans to businesses and farms across the country. If covered firms try to pass on the costs of the fee to their borrowers, they will lose market share to other institutions. The Congressional Budget Office (CBO), in its review of our proposal, highlighted these advantages by noting that the proposal "would improve the competitive position of small- and medium-size banks, probably leading to some increase in their share of the loan market."

As we work with Congress to design legislation to protect the taxpayer from the costs of this financial crisis, we recognize that there are a number of possible approaches to meeting the legal requirement in EESA to cover the costs of the TARP. We will work closely with the Congress on how best to meet that obligation.

As we do, we are also working with governments around the world who are considering similar efforts. We will meet the legal requirement to recoup TARP's cost in a way that makes sense for our country, but we want to design the fee in a way that improves the chances that other governments will adopt similar measures. Since the announcement of the proposed fee, a number of countries have expressed support for the approach embodied in our proposal.

This fee is designed to complement efforts to improve the stability of our financial system by providing modest incentives against funding riskier activities with less stable funding. However, it is not a substitute for our proposals to put in place much more conservative capital and liquidity requirements on large institutions. And similarly, higher capital requirements cannot be a substitute for a fee on risk by large institutions, because they would not contribute resources to the taxpayer to cover the direct fiscal costs of the crisis.

We believe this fee is an important complement to the financial reforms now on the Senate Floor. Those reforms will provide better protection for American families and businesses, require stronger limits on risk taking by large institutions, bring transparency and oversight to derivatives markets, and enable the government to break apart failing firms with no exposure to the taxpayer.

Enacting this fee now will make it clear to the American people that they will not have to shoulder the direct costs of protecting the economy from future financial failures.