THE BROOKINGS INSTITUTION

RESPONDING TO THE FINANCIAL CRISIS:

A CONVERSATION WITH SENATOR BOB CORKER

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Introduction:

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P R O C E E D I N G S

MR. BAILY: Welcome to Brookings. We're delighted that everybody is here, and I'm delighted that we have a chance to welcome Senator Corker to talk about TARP, the aftermath of TARP, how it's been going.

My name is Martin Bailey, I direct the Initiative on Business and Public Policy here at Brookings. We're very fortunate, Senator Corker knows quite a bit about business and public policy. He's been in the Senate now for a little over two years. He's an active member of the banking, energy, and foreign relations committees. He was widely praised for his role in the December negotiations on the auto bail-out package.

Before coming to the Senate, Senator Corker was a successful business man, he was the Tennessee Commissioner of Finance and Administration, and the Mayor of Chattanooga. Now, I did hear that Senator Corker drives around Chattanooga in a smart car; is that right?

SENATOR CORKER: I have a smart car, that's right – but another car in –

MR. BAILY: I was a little surprised given that you have GM and Nissan and Volkswagen in that state. And we hope that, you know, we need you around, so watch out with those SUV's when you're driving that smart car. Thank you very much; welcome, Senator Corker.

SENATOR CORKER: So I'm thrilled to be back at Brookings, and certainly always like being around intelligent people, I don't have that opportunity every day, and so I very much am looking forward to this next hour. Can you all hear me okay? Martin, thanks for the introduction.

I do drive a smart car in Nashville, but I do, in Chattanooga, on weekends, drive an '84 Ford pick-up truck, okay, I want you to know that. And we also obviously have Tahoes and other kinds of vehicles. But I did buy that, it was an interesting car, and I have enjoyed driving it very, very much.

I want to talk a little bit today about the assigned topic has been TARP, and interestingly, my last meeting at the Capital before I came over here was Neel Kashkari coming in who kind of carried out the TARP program, giving a debriefing as he's leaving to actually leave the Capital and to go out west with his wife for two months and just take off. I think he stayed over at this administration's request to help them through the process. But, look, TARP began back in September. We actually had to get a timeline to remember everything that happened. It was a pretty busy time. If you remember, Lehman, we had some – we had the Merrill

Lynch issue, we had the Lehman issue, we had the Fed, if you remember, the first beginning of this was the Fed stepping in to actually help AIG. That was done through Fed funds, not through Treasury funds.

But anyway, Hank Paulson came to the Hill, or presented on a Saturday a three page proposal to, in essence, create what we now call TARP. We were obviously very concerned about what was happening in the Capital markets at the time, we were watching it daily. When this was presented, I actually was in Tennessee for the weekend and flew up to Washington on a Sunday to sit down with he and Ben Bernacke and a couple other senators in our conference room just to talk about the severity of the issue.

If you remember, there was some debate about having a three page piece of legislation. I got a call one night about 10:00 from one of the other senators asking me to show up the next day at 10:00 in the Former Relations Business office, and there were three Republican senators, four Democratic senators. We sat there and basically agreed in principal to what TARP is today. We had a little interruption, if you remember. John McCain came off the campaign trail for a day or two and things got a little raucous for a little while, but by that weekend, Judd Gregg had been assigned as the major negotiator to complete the work on the Republican side. We had certainly Chris Dodd and others on the other side.

And by that weekend, I think on a Saturday night at midnight, TARP was, in essence, agreed to. On Monday there was a House vote. I guess the Senate voted first. The House – I think that's the way it went. The House voted it down. I was actually boarding on a plane, the door was closed at the D.C. airport, we had a House member from Tennessee on the plane, and if you remember, everybody was sort of watching the count, and the House turned it down.

So I flew to Chattanooga, had dinner with my wife, and flew right back to D.C., and began working with others to help cause it to become a reality by that week's end. TARP has become something, as you know, very different than what it was intended to be. In the very beginning, TARP was only going to be used for financial institutions. And if you remember, it began as something that was going to buy toxic assets. I know you all – and I think an indication of the difficulty of that is, we still have not figured out, it's May of 2009, how to buy toxic assets, right. I mean we tried to create PPITH recently, we still don't know how to buy those.

And so what happened I think at Treasury, they saw that the patient wasn't just in a severe condition, it was having a heart attack, and within about 48 hours, decided to go ahead and invest capital into institutions.

I know we have some press here. I'll just have to say that we have some differences in our office over this, but I was very fine with that.

MR. BAILY: Excuse me for interrupting. If people would like to come and set up, there are some chairs here. I know we have something like a full house, so please fill up and take advantage of the space. Excuse me for interrupting.

SENATOR CORKER: All right. So TARP's rolling along. The Treasury, realizing that there was no way that they were going to be able to price toxic assets quickly enough, began buying preferred stock in financial institutions, and then it went off course. I was in Ukraine, in a meeting, getting ready to walk in to meet with a member of Parliament there, I got a call early on a Monday morning, it was Hank Paulson, I don't know if it was Sunday night this time, I forgot all the time differences, but he called and said, Bob, I just wanted to let you know that we have purchased a large amount of AIG, and the phone just went quiet.

And to his credit, he said, I know; I told you guys that I would only buy things of value. If you remember, TARP was sold on the front end, that everything that was bought would be of value, and that the tax payer would actually make money, that these assets would increase in value. And, by the way, I think most of the assets that were bought in banks, I think that's actually going to be the case, I think that very likely will be the outcome.

AIG was the first major detour off the original intent of TARP. And from that point on, obviously, it went downhill. The next episode came when the automobile industry came to Washington. We had three executives show up in a banking hearing in November. It was a pretty fascinating meeting. They came and asked us for $25 billion, and you know, pretty interesting. They wanted TARP money. And I don't know if you remember the first hearing, they wouldn't even tell us how they were going to divide the money up. I mean we had to like really push them in the meeting, and they finally decided the proper formula was market share, you know, their market share – the respective market shares here in the United States.

I went to New York after the hearing. I figured out I'd better learn a little more about the automobile industry. I spent several days with auto industry analysts, both on the supplier side, but also the OM side and others, and came back, was, I feel like, pretty prepared.

And in the hearing, the next hearing, we had a similar type of meeting. I sat there, and actually I took more time than I should during my questioning. I was pretty interested in the subject matter. And Chris Dodd, who's, by the way, treated me incredibly well on the Banking Committee, had to go to another member. And so while I sat there, I just listened to this debate.

We had many Republicans that felt like the only solution to this crisis was for them to go into bankruptcy, okay. I knew that there was no debtor in possession financing available. One of the key ingredients to a reasonable bankruptcy is having somebody who will actually loan money during that bankruptcy period, it's called debtor in possession financing, and there just was none available. I also was very aware of the fragile nature of the supplier base. I knew that basically the large, you know, General Motors, Ford, and Chrysler was using them for financing by slow pay, okay, and the fact was that they were very, very fragile.

And so I decided that the best solution was to try to create a proposal that was a bankruptcy-like deal, where certain things had to happen, but we would go ahead and extend them money that was like debtor in possession financing.

And this caught on -- I know we're going to be short on time and we may get to this in Q and A -- this kind of caught steam. I got a call, the Republicans got behind it, I can give you the gory details of that. I got a call from Reed to come up to his office on a Thursday. Durbin was there, Schumer was there, Dodd was there, and he said, look, we like this idea, do you think you can have the legislation drafted by tonight, I said it's drafted. And I said, look, the only way you guys are going to support it is for the UAW to support it, so why don't we have them come into the room at 2:30 and let's try to get this – get the details of this legislation worked out. I had already talked to the management early that morning at GM about the proposal that we had laid out. They were all in favor of it, they liked it. In essence, what it did was three things, it asked the bond holders to take 30 cents on the dollar and turn the rest of their debt into equity. The VEBA, which is a Voluntary Employee Benefit Account, was going to be half equitized. In other words, UAW will take half in deferred payments and half in equity.

And then we wanted the UAW to be competitive with the transplants. We actually got them to tell us which transplants. Alan Ruther was sitting at the table, he was talking to Gettelfinger on the phone, who was in Detroit. And the breakdown that night came down to just one thing, we could not get them to agree to be competitive as certified by the Obama Administration's Secretary of Labor, somebody that's probably going to be pretty familiar, pretty friendly, if you will, with the UAW, we could not get them to agree to be competitive at some point during the year, 2009. And by not being able to come up with a date certain, we lost all Republicans for it, just to be candid, and the negotiation broke apart at about 10:00 at night. And, in essence, we ended up not having a bipartisan solution. As a result, what did the administration do? They went back to TARP funding. What we had proposed was funding that actually was appropriated through Congress, okay, and had certain stipulations about what had to occur.

Instead, they went to TARP funding. And obviously this was the next big huge chink in what happened in the TARP program, because now the TARP program, which was originally set up to deal with financial institutions, now had become very, very involved in what one might call industrial policy.

And then as we moved on down the pike -- and I'll stop -- we moved on down the pike, and as you know what happened in Congress, there was a revolt, we ended up – let me just give you one other little detail. The incoming administration, Schumer and I negotiated something in the original TARP funding that said that after the first 350 was spent, when they came back for the next 350, there had to be another vote in Congress. Now, it was one that was not the typical vote, you had to decline, and I won't get into details there. I asked the new administration just to tell us how they were going to use the TARP money. I actually stood on the floor and said, you don't have to tell me in writing, I mean you can just tell me what we're going to do, I want to make sure that we're not moving down the path of additional involvement in industrial policy with something that was supposed to be used to make sure that our financial system was intact, which, by the way, makes everything else not work if it's not intact. I couldn't get that done about six weeks later, so I voted against the second trunch.

About six weeks later, sure enough, the administration put five billion into the supplier portion of that. And if you remember, on that same day, something incredible happened, and that was that Congress, the House, excuse me, not the Senate, voted to, in essence, put in place a tax policy focusing on the AIG bonuses.

Now, I have to tell you that, to me, and I know there will be many people in this room that disagree, but when Congress can start surgically going after people because they don't like an action that's being taken, it's much like a banana republic, okay.

And I don't believe I've ever talked that strongly to a public official as I did that night, to Larry Summers, about both putting five billion in the suppliers, which was something they said they would not do, but secondly, this action that was being taken, and candidly, our President was encouraging that, if you remember. So I strongly, in a strongly worded conversation, asked that they walk the President back, because in this country, regardless of how you may feel about those AIG bonuses, they were under contract, and if we start going after 140 individuals, or however many it was, by legislation and Congress, because we don't like a contract, this country, I think, is on some – going down some difficult path.

So, in any event, I hope I've said a few things controversial, I will stop. I will tell you that I do think that most of the money that was invested in these financial institutions will be returned. Obviously, in the banking sector – by the way, we had another $100 billion of the TARP Program that went into foreclosure mitigation; again, that money is gone, I mean we're never going to see it again, another sort of what I would call a breach of the original investment.

I think the reason that people are willing to get behind TARP in the beginning was, even though it was $700 billion, people felt like it was going to be invested in a way that would be returned. Obviously, many of the decisions that have been made since will cause that not to be the case. I think most of what's been invested in the financial institutions will be returned. My guess is that now that we've entered the automotive side, we'll end up with at least 75 billion in these companies. By the time – you saw today where GMAC needs 11 and a half billion, there's no question in my mind after the GM restructuring occurs, there will be additional monies necessary.

So we've gone down a path that was very different than we began. There's been some good that's come out of it. We've probably gone down some unchartered territory that we'll regret in the future. And with that, I'll stop and take any questions, comments or whatever Martin might want to do with me.

MR. BAILY: Can I ask you a question now? Would you like to sit and do the thing here?

SENATOR CORKER: Sure.

MR. BAILY: Thank you, Senator. That was both provocative and interesting. You are a big supporter of free markets, as I am. In the United States, we have a number of automobile manufacturers, Toyota, Honda, Mercedes, BMW, Ford is still going strong. What made you decide that we had to step in and save General Motors or Chrysler – given your general support of free markets? Why don't we just let them go down?

SENATOR CORKER: You know, look, there's no question that the financial system and a manufacturer are very different, okay. There were three million jobs at stake with GM by the time you add all the suppliers involved.

A financial system, though, that goes defunct affects every one of you. I mean, you know, Brookings cannot function without a financial system. And I think that – I don't think, you know, a good enough job was done on the front end, causing people to understand the significance of a financial system meltdown. I think a very poor job was done of that, and that's why people have recoiled the way they have.

On the GM piece, a train was moving down the road. I had friends, and I mean this friends, I'm not just saying that, I had friends on the left that were willing to write a check for whatever amount, it didn't matter, okay, and it was going to happen.

The Bush Administration was going to make something happen, they had committed to that. I had friends on the right that, you know, wanted nothing to happen, but I knew something of some type was either going to happen through TARP, which I thought would be a tremendously negative thing, or we could solve it in a way that actually calls these companies to be stronger, okay, through a restructuring that was required.

We were being a lender, we were putting in place covenants. And so I was trying to do something that I thought was better than what was being proposed, and it almost happened, but it didn't, and now the not so better way of dealing with it is occurring, although I think, again, I think this is being done the wrong way, and I don't think a presidential administration, let's face it, I mean two-thirds of our auto industry right now, and this is a fact, I mean this is not rhetorical, is being run in Washington, D.C., that's a fact.

That's odd, okay, that's a place our country has not been. But I actually think many of the right things are being done as it relates to causing these countries – companies to go ahead in a successful way.

MR. BAILY: Thank you. Can we take some questions from the audience? Yeah. Could you identify yourself, please?

MR. CHASSIN: Dana Chassin from OMB Watch. I appreciate your comments, but there was something I'm not sure I understood. When you were talking about the executive compensation restrictions, I basically agree with you, take the same position. I wasn't sure how that sat –

MR. BAILY: Can you speak up just a little?

MR. CHASEN: I'm sorry; pointing at the executive compensation issue and basically agreeing with your position, I wasn't sure if that was inconsistent with something you were saying regarding the negotiations with the UAW.

SENATOR CORKER: No.

MR. CHASEN: No, but let me just explain. Because you said something to the effect that they didn't agree to be competitive, and so what I wondered is, I didn't understand what that meant. Was that referring to their reluctance to engage in the same interference of contract that would be brought to bear in the executive compensation objection?

SENATOR CORKER: Yeah; it was the thing, okay. Look, we – our changing of the rules in TARP no doubt led to great distrust, okay, but candidly, I was okay with, generally speaking, putting some compensation limitations on the financial institutions in general, okay, but when we surgically went after, you know, 140 people with legislation to tax their contracts at 90 percent, I thought that became a Banana Republic like activity. Whatever the number was, still, to surgically go after companies, people at one company because you didn't like the outcome I thought was a banana republic type activity, okay.

Look, do I think the compensation limits that have continually been increased and changed is a good way for our country to deal with the identity that have a contract with, absolutely not, okay. Should there have been some compensation limitations in there of certain types, yes. Doing it after the fact, to me, was the problematic part, okay, changing the rules of the game after the fact.

On the UAW piece, okay, what we actually talked with them about was, forget retirees, okay, they've already worked and they've earned their situation. The active employees need to be competitive. That doesn't mean exact, just needs to be competitive with Toyota, and Honda, and BMW, which was the basket – there was one other company, Nissan, the basket of companies that they wanted to be compared to in the year 2009. And, by the way, there were lots of things that could have been looked at to make them competitive. All of those things are being looked at now, okay, and all of those changes are actually coming into play right now. But they are things that the UAW is agreeing to through a negotiation. And what we had said was, after the – have agreed to take 30 cents on the dollar, that has to happen by March 15th, you'll have 15 days to negotiate with your members to try to do something before – the end of March to be competitive, so again, that's a negotiation, and it's just saying be competitive.

And by the way, in the process of laying that out, I became like the number one enemy of the UAW and the AFLCIO. What's interesting is, the Obama Administration is doing exactly the same thing right now, okay. Obviously, they're giving huge chunks of ownership to the UAW in the process, which I'm sure that's going to be debated by a bankruptcy judge. But it's really interesting how all of that has been received with two different messengers.

SPEAKER: Well – (off mic)

SENATOR CORKER: Yeah; then in December --

MR. BAILY: Could you identify yourself?

SPEAKER: I'm sorry.

SENATOR CORKER: Go ahead.

MR. BROWN: Coffee Brown, Talk Radio News. I believe the answer to this question will be, you misunderstood, I misunderstood, but a lot of people did, so it might be worthwhile. It looks as if we injected a bunch of money into some big companies, hoping they'd do the right thing instead of saying, when you do this right thing, we'll inject a bunch of money.

And it seems to me – it looks from the outside like that created some problems. Instead of giving money to the banks and hoping they'll loan instead of go on resort, or giving money to a car company and then hoping they'll become competitive, rather, setting benchmarks after which they would get the money. Like I say, I'm pretty sure I misunderstand this, but a lot of people do.

SENATOR CORKER: Well, actually, with the companies, the automobile companies, those were laid out in advance, okay, and that's exactly what I was trying to do in that legislation, is go ahead and put those benchmarks in place prior to the money going out, okay.

With the financial institutions, it happened far too quickly, there's no question. There were things done to try to, you know, create the proper oversight. It has never been properly overseen. And we've actually – I've actually – Mark Pryor and I have a bill right now to enhance that. There were supposed to be numbers of tax payer projections. But the bill, there's no question. Now, on the lending piece, the one thing I would say about that, there are a lot of reasons that lending is not occurring, okay, and it's, you know, actually, the major banks would put out a report I think over this last quarter and say they lent more money during this last quarter than they did a year ago, okay.

So there's a lot of issues on the lending. I mean we have regulators in this country that I think are creating a self-fulfilling prophecy, okay. It's always this case. When we have a crisis, the regulators come in after the fact and they create a worse problem by telling, hey, commercial real estate is bad, don't loan, so then they start loaning even less, and it drives it even more in the ground, the same thing with real estate.

And so I think there are a number of reasons that lending is not occurring. But I do think if we put in place criteria that says with this money, you have to lend X, we also create a self-fulfilling problem because we're getting banks to do things that may not be in the best interest of us as tax payers who now have an investment in them, okay. So I actually – the lending part, to be candid, and I know there's been a lot of complaints about that, I think there are myriads of issues relating to the lending piece. Regulators, I think there are a lot of people that have sought loans candidly that, you know, I have a lot of business guys call me and they say, look, this is the deal, you know, and I'm sitting there going, you know, I don't know if I'd loan against that either, okay.

So I think there's multiple issues, and I don't think putting money in these banks and then directing them to loan X amount, that sort of gets back to this command central type of thing that I think would be very, very unhealthy for us.

SPEAKER: Nice to see you again, Senator. Remember me from –

SENATOR CORKER: Yes, sir.

SPEAKER: Two questions; what do you think of the Chrysler deal, in particular, the 54 percent or whatever that they've given the union, is that really a viable kind of structured bankruptcy going forward? And then secondly, given the FASB ruling which has now permitted banks, as I understand it, to carry so called toxic, I think we're trapped by our metaphor there, carry an asset to maturity, they can value it higher, and that seems to have, in some ways, helped solve the problem, so maybe – do we really have to get rid of all these assets right now or can we let them ride along?

SENATOR CORKER: You know, we – can you all hear me still? Do you mind if I stand up here?

MR. BAILY: If you stand up there, I'm afraid I – technology has failed us a little.

SENATOR CORKER: So let me go to the toxic asset piece. And I know this is going to sound – it's been such a part of our vernacular, okay, we've got to get these toxic assets off. I actually don't think that is the issue that it was, I just don't. Look, these assets, in most cases, are cash flowing, okay. You know, on the security side, those were already marked down. Due to the market, those thing were already marked down to levels that probably are generally fair value, they're still cash flowing in most cases.

On the whole loan side, I still think there's a large amount of losses, that's on the asset side, if you will, but do we need to get those off the books necessarily? I think the bigger issue is having capital. So, candidly, I don't think the mark to market ruling that FASB did has changed the world a great deal. What it's done is given the executives of these institutions the ability to use their heads.

Just to give you an example, when Merrill Lynch sold its assets for 27 cents on the dollar, look, was John Payne trying to do everything he could to get out of dodge as quickly as he could; he was, right? And so he sells – he puts these out on the street at 27 cents on the dollar. The way things were at that time, other institutions that held securities like that had to do – they had to value them at roughly the same amount, okay, and instead of saying, wait a minute, we're not in a fire sale, and maybe ours are worth 40 cents on the dollar or 50 cents on the dollar.

So I think what FASB has done has given them the ability to use their head. I don't think it's changed a whole lot. And I never – this may be controversy, I never thought we should have changed mark to market a whole lot anyway, mark to market accounting anyway. I think you've got to have some measurement that people rely upon for valuing assets. So anyway, I think that one is actually sort of behind us. The Chrysler deal, where the UAW is owning 55 percent, I think of it – let me give a better analogy of the same kind of thing. If you look at the General Motors balance sheet, the same kind of thing is happening, but I know the numbers a little better.

There are $27 billion in bonds on the GM balance sheet. Now, there's no doubt some opportunists that own some of these bonds, no doubt, but they're also, you know, people of what I would call the greatest generation, the people who kind of came before my generation, who bought these bonds because GM was a company that was always going to pay its dividend, and they're holding those in their 401K's right now, okay.

So what does the administration do? For that 27 billion, it offers them four and a half percent of the company, a total bond exchange, no more bonds, we're going to give you four and a half percent of the company.

The UAW is deciding to, in this deal, they're equitizing half of their – obligation, which is ten and a half billion. So what does the government offer the UAW for ten and a half billion? They offer them 39 percent of the company. Now, I'm not going to say grace over that, I'll let you do the math, but in a bankruptcy preference, that would never be the case, I'm just telling you, that's not the way it would work, okay. And so there are a lot of things occurring right now that are unprecedented. I'm not, you know, I'm not going to give editorial comment on any of that, I'll let the bankruptcy judge figure out whether that's an appropriate situation.

The administration is driving this, but there's no question that the traditional bankruptcy preference that occurs is not occurring in this process, either at Chrysler – at Chrysler – Chrysler is a different situation. They had $7 billion in what's called secured debt. In other words, these people had title to the plants and the property and all of that.

This is where it gets sticky. And I think all of us, regardless of what side of the aisle we're on, or what side of the pendulum swing you're on, if you think about the fact that our U.S. government has such control over these banks right now, and has the podium, and they really do have a huge – these stress tests were going on during this time, right, I mean, you know, just the little flick of a pen can change the amount of capital that these institutions need. This is all being done by judgment, it is. I mean you've got 150 people going through 19 of the largest institutions in our country, it's pretty superficial, okay. I mean these are huge institutions. But at the end of the day, they were able to brow beat these large banks into taking $2 billion for their seven billion, but there were so many other entanglements that were taking place there, you can imagine.

I mean up in Michigan, I think maybe some of the Detroit papers are here, but up in Michigan, J.P. Morgan was calling and telling me, look, they're cutting our credit cards in half up there because we're bad guys because we want our money back, and it's that public pressure, if you will, that obviously, at the end of the day, calls them to succumb and do what they did. Whether it's right or wrong, it's just – when things get into the public arena, it's what happens.

MR. BAILY: Can I ask you another question? You raised the issue about the TARP and the banks and are we getting them back on their feet, and you painted a fairly optimistic view that you think maybe we'll get through this. But as I look around, I know Europe is in terrible trouble, a lot of their banks are going down. A lot of people think that commercial real estate, there's a lot of those loans that are going down. So if it turns out that major banks have to write down substantially more than had been thought and have to come back to the Treasury for more money, do you think Congress would be willing to give them more TARP money, or at this point, do you think that's –

SENATOR CORKER: I think the – I think the environment, because of the very question that you asked, I mean it's a dead on public question, okay, is such that, I think a lot of people, whether they should or not, you know, a lot of people at the Capital feel betrayed because TARP has gone down a path that was never agreed to, okay.

It happened quickly, we were in a crisis, certainly there should have been better documentation on the front end, but it's gone down a path now into industrial policy, okay, so I think it would be very difficult. I think a lot of people on the other side of the aisle would have many constituents that would say, look, so I think it's pretty tough right now.

The stress test, we sat down last night with the Fed and Treasury and went through the stress test, and look, we've got people in this country that we read a lot about. Paul Krugman, you know, he's a different end of the spectrum than me, but I read everything he writes, okay. Nouriel Rubini – well, I don't believe he had anything to say, but look, I read both sides, okay, I do, and I do think that our banking system has trillions of dollars of losses left, okay, I really believe that. So when I say I paint a rosy pictures, things feel like they're starting to move along better. I really believe we've had some decent economic indicators. I don't think that we're out of the woods.

But go back to Europe; we've had presentations – if you look at the amount of banking assets that exist per GDP in Europe, it is huge compared to the bank assets per GDP in our country, huge.

In our country, we generally have taxed our citizens at about 18 percent of GDP, 18 to 20 percent of GDP, when what that means is, we've got capacity, we don't want to use it, okay, I don't want to use it anyway, but we've got capacity here if we got into an incredible situation.

In Europe, on the other hand, tax rates are already way up there, okay. There's not much capacity. Once you move past 40 or 50 percent, you know, you're getting into a sphere that makes it very difficult for you to extract much more out of your GDP or your economy. And so I do think there are potentially some very, very severe issues that still are left to deal with in Europe. And then if you look at the weakness in Eastern Europe, combined with that, that's not where the banking assets are, but that's where many of the loans from those banks are, I think they're going to be huge issues for us to deal with down the road there. And that's why we're spending a lot of time in briefings with the IMF and others just to sort of understand that bigger picture, because it'll come back and effect us. Yes, sir.

MR. RAFFERTY: Scott Rafferty; we have a presumption in favor – Airy Group. We have a presumption in favor of organic growth that has led us to allow financial institutions to grow often through a merger to the size where they have created systemic risk that has wound up invoking the backstop that we're providing them now.

When we return these entities to the private sector, do you think there should be a presumption that we restructure them so that they will be less inclined to create these systemic risks if they do fail in the future?

SENATOR CORKER: Great question; so I think most of you heard the question, but, you know, and I think you're really talking about regulatory forms to make sure that this kind of thing does not happen again, absolutely. Now, the concern is that if we do that during a crisis, we're going to do the wrong thing or we're going to do it more than we should, okay. There's nothing we can do regulation right now, regulation-wise, to solve today's problem, right.

I mean it's already occurred, we're dealing with the aftermath of things that happened two and three and four and five years ago, and all loans, sub-prime loans, all kinds of things that should not have happened.

So it would be my sense that, let's move past this six months, whatever, let's move past the crisis, and let's, with cool heads, figure out the right regulatory regime, which, by the way, is not just something that needs to work in this country, but it's also got to be tied not in a way that makes it inferior, but we've got to relate to the rest of the world, because I think we know now that what happened in New York effected London and effected Asia, and vice versa, so we've got to sort of work together on a regime that works.

So I think we should do it, but we need to remember, if we do it today, we're going to solve for credit default swaps, right. I mean it's not – I mean that's where our focus is going to be. Well, that's not what the next one is going to be, so we've got to come up with a cause neutral way of regulating so that it works. Now, let me tell you a fear, you know, TARP, Tim Geitner, who I got to know when he was at the New York Fed when many of these problems, you know, were first beginning, we spent time up there, I want to work with him.

Look, I'm one of those kind of guys, I came up here to solve problems, I did. I talk to Larry Summers pretty often on the phone, I speak to the car czars real often on the phone and in person, but he came up the other day with a proposal, and his – one of the solutions to today is to – this is not – I'm not exaggerating, is to, in essence, codify TARP to give the Treasury the ability, permanently into the future, to use tax payer money to inject into institutions that pose a systemic risk. Now, I've got to tell you, that, to me, is not the right solution.

Fortunately, Sheila Bare was up the other day from the FDIC, and she's proposing something very, very different from that. One of the things that most Americans, and I didn't realize until this all happened, most Americans don't realize, is that we have no entity in this country that can resolve a complex financial institution's failure, none. The FDIC can go into the commercial bank portion of Citigroup, but it can't deal with anything else. That's why Lehman failed, that's why we've done what we did with AIG, and it's going to cost us $150 -- $200 billion. I don't know what the number is going to be, but it's huge, okay. But we, in this country, didn't have an entity that could come in and resolve this in an orderly way.

And so one of the things we've got to do is, get that resolution entity in place. The FDIC is probably the best place for that to occur. But when these institutions fail, we need to let them fail, okay. But we've got to do it in an orderly way so that it doesn't disrupt all of society, and that was the missing component that I think, again, most people in America say, well, why didn't you just let these guys fail, well, the only way to let them fail was to literally, like the next day they're gone, okay, well, you can imagine all the counterparty relationships throughout the country and the world that existed, and if they went into chapter seven the next day, I'm not talking about chapter 11, where you work it through, you can imagine the distress, and that's an important part of this entire TARP discussion. There wasn't any entity that could take these companies down in an orderly way, a big oversight. That needs to be part of a regulation.

MS. SULLIVAN: Ashley Sullivan, American University.

MR. BAILY: Could you identify yourself?

MS. SULLIVAN: My name is Ashley Sullivan, and I am a student at American University. My question is really to your comments on the free market. And I'm wondering, in your – not in your opinion as a senator, but in your personal feelings, what are going to be the effects of the unprecedented government expansion and increase in spending in five, ten, 15 years?

SENATOR CORKER: Well, the effect is going to be that – that you are young and very productive and you will be paying all of this back, okay. So, you know, look, this is an incredible place, our country is – and let me say, before January 20, too, then we have people on both sides, we were already on a path that was not prudent, right.

You know, the two parties, both have issues, okay, they both – we both have issues, okay. But what's happened since January 20 is like high test, okay, from the standpoint of moving us into a place of tremendous debt. And, look, I'm very concerned, that's not rhetorical on my part. We were talking – Martin and I were talking before we came in here, you know, the economy feels like it's already picking up, right, okay, it feels like we've hit bottom and maybe something – and we don't need to be not concerned about credit too soon, okay, we certainly don't need to take the accelerator off and slow down, we need to make sure we get through this, okay, I still think we got troubles ahead.

But let's say in six months things are looking even better, and we actually see some light at the end of the tunnel. I hope we can pass what I would call an anti-stimulus bill and get this money back into the Treasury before it goes out the door, because it's going to take four years to get it all out the door, okay, and I hope we can – I know that's probably not possible, but the point is, we are spending more money than we have, our relationship of debt to GDP is rising to unprecedented levels, and I'm very concerned about that, and I'm hoping that, in a bipartisan way, at a minimum, this will be a huge step, and it will be great for this administration, because it would give them some cover on short term spending that I think is irresponsible personally, okay, and everybody has a different opinion, but this would give them some cover actually and be great for our country, and that would be for us in a bipartisan way to sit down right now and let's go ahead and solve Social Security and Medicare, we can do that as a county, and that's $86 trillion in unfunded liability that's set out there, so that has nothing to do with today, okay, that's something that has only arisen out there, and if we could do that together, and we're actually beginning discussions in that regard, that would soften the burden that you and your children and their children are going to deal with.

MR. BAILY: Do you think that's possible without raising revenue?

SENATOR CORKER: I think that there's no way to solve Social Security without everything being on the table. Look, I'm just being as honest as I can, and I think the best way for us to do it, there's a bill up there right now that Kent Conrad, who's a Democrat, head of Budget Committee, and Judd Greg, who's a Republican, head of the Budget Committee, has put forth, it's the only rational way for us to deal with it, and that is to get eight Republicans and eight Democrats in a room, convened by the Treasury Secretary, half Senate, half House, and for us to come up with an up or down deal just like we did on BRAC for military closures, okay, to come up with a proposal to bring it to the floor with no amendments, and you either vote it up or down. That is the only way this problem is going to be solved, okay, because if it gets on the floor, and you can debate it or change it, it's never going to pass, I'm just telling you, it's never going to pass. So, you know, we're going to have to take some tough medicine. I don't know – everything has got to be on the table. You cannot go into a negotiation like that taking one of the elements off.

And, by the way, with Social Security, it's just math, okay. This young American University student candidly could come up with six solutions by sun down tonight, okay. We can solve that problem and we need to, and we can do it in a bipartisan way.

MR. CALABRI: Mark Calabria at Cato Institute. Whatever one's position on TARP, one could at least say there were votes in the House and Senate, it was passed. In contrast, the Federal Reserves activities, number 133, have spent trillions without a vote by either House of Congress, so my question to you is, are you comfortable with the level of transparency and oversight of the Federal Reserves 133 policies, should Congress be rethinking the structure of those powers?

SENATOR CORKER: We just passed something out this week of the Senate. It did pass this week, didn't it? Where, in essence, as it relates to the TARP activity, we, for the first time, have the ability for GAO to get in and actually look at how all of that activity is taking place. So we have begun that. Bernacke was in at lunch, I guess it was this week, on Tuesday, and he actually went through his balance sheet for the very concerns that you're laying out and so many citizens across this country are concerned about it, and he went through the balance sheet, and he obviously stands firm that he is not taking unnecessary risk.

As you know, with the TALF program, Treasury is putting up collateral of your dollars as collateral to make sure, in his opinion, that he doesn't. I think with all the activity, though, there's no question the Fed has taken risk that it's not taken in the past, it's expanding its balance sheet tremendously. One of the things that he stressed was, he really does believe he has the ability to reel that back in quickly, because obviously people are concerned, just like we are with debt, with inflation. So we've begun the process of doing some things with Treasury that have never been done before because of the hyperactivity. At the same time, I will say that I want to make sure that what we do is leave them independent, okay, because I've watched – look, I'm not from this world, okay, I was a business guy most of my life, I've been here two years and three months, and the old adage of the camel knows under the tent where – you just get barely involved, and you know, it's just like with TARP, right, I mean where did it go once – once the government got involved in something that was unprecedented.

And then watching the influence of politics; there's rarely a decision made here that doesn't have a pretty large degree of politics involved. So, you know, we need to keep our central banker independent. I think one of the concerns that people have had is, it's been such a partnership with Treasury, okay, a close partnership, that there's been concerns about his independence.

I may lose some friends in the room, but I'll say this, generally speaking, I still think he's remained pretty independent, and I – when he says things to me, I may be proven wrong, but I think he's telling me to the best of his ability the truth, and yet, I do think it's proper that we do some inside look through the GEO what's happened with some of the TARP funding through Fed, okay.

MR. BAILY: Maybe we have time for one more question.

MS. MONTGOMERY: Jean Montgomery; I'm curious, your thinking here in terms of long term fixes so that this doesn't happen again. If you reform the mortgage process so that people actually do put money down and their ability to pay off the mortgages is documented and approved, so forth, if you fix that part of it, what extra pieces do you see might be necessary or not in terms of the securitization process, in terms of the incentives on bankers to pay these large bonuses to people for activities that perhaps don't necessarily contribute to the national product, what's your thinking about where these pieces of the problem lie?

SENATOR CORKER: Well, no doubt, there's a – I mean and you could have gone on and on and on, and obviously, you've done some thinking about this yourself. But one of the things we have got to focus on, certainly the mortgage issue is wrong on two sides. I mean you had people borrowing money that had no ability to do that, and you had people hocking loans to people that, you know, that were basically committing fraud. I mean they were doing things to people also that should not have been done. But one of the big areas we've got to look at is just all of those securities that are off balance sheet.

Now, when you think about credit default swaps and the massive amounts of these trillions of dollars of these, and they were off balance sheet, we can't have that anymore, okay. I mean that is what has, you know, it wasn't even shown on the banks or these financial institution's balance sheets.

The second thing we've got to do is have a clearinghouse, where when you buy a credit default swap, you actually know who's on the other side of it and who owns how much of it and all that.

Now, we can't do that for every credit default swap, but we can do it for 80 percent of them. You know, there's always going to be some that are just specially designed for a special purpose, but there's numbers of things that we need to do to create transparency, and certainly we need to be thinking about systemic risk. I mean that's one of the things that we don't even, you know, we got everything kind of stove piped in various FDIC, the OCC, the Fed, the Treasury, we've got to figure out a way that they are more closely working together so that they're looking out on the horizon at what might be posing systemic risk. But there are numbers of things -- and that's why, getting back to the question of regulation that was asked earlier, I don't think we need to do that in a crisis.

We do things, all of us, we don't use our head best during a crisis, we're reacting to something, and this is so important. We need to start work on it, and we are, but hopefully we'll pass something, when things are a little bit calmer, and we can think through these, and what I mentioned in the past was cause neutral, but it's going to be a huge piece of legislation, there's going to be so many people effected by it.

The insurance industry is going to be effected by it in a huge way, hedge funds are going to be effected by it, private equity is going to be effected by it. And what we don't want to do in this country at the same time is stifle innovation, right. I mean we want to make sure that this country continues to be the place that innovators live and reside and have the ability to help us with wealth creation. The fact is, though, it just got out of control due to lack of proper regulation, and we need to solve it without stifling innovation. So with that, I can take some more questions, or leave, or whatever. I notice a couple of – I know a couple of folks who are asleep, but –

MR. BAILY: This is terrific, okay. Let's take one more, there was one more question here, and then I think we will probably adjourn, so one more question.

MR. BENNETT: Senator, you used – my name is Doug Bennett. You used a phrase that I haven't heard for a while, at least openly in this town, and that is industrial policy, and as you know, we've had a de facto industrial policy with the big three for some time by virtue of the bifurcated café' standards and the 25 percent tariff on light trucks.

You now have a situation where the UAW will have a majority interest in both General Motors and Chrysler, most likely at the end of the day. My question is, given that the UAW has historically engaged in pattern bargaining, and Ford Motor Company has not taken federal dollars, what will be the impact of Ford when the UAW strikes with itself favorable terms at both General Motors and Chrysler and then seeks to impute that agreement to Ford under the threat of a strike?

SENATOR CORKER: That's a problem for another day. You know, I mean all these issues are going to be issues that we have not dealt with before. I mean at GM, the initial proposal, and these are all going to change as they go through bankruptcy to some degree, and I do think – I'm not saying this because I hope it or I don't hope it, I'm just trying to be a realist. I do think GM will go through a 363 bankruptcy. I think it's going to be as simple as Chrysler was with only a few lenders. It's much more difficult when you have so many lenders dealing with GM, so many other issues, so my guess is that by the time it's all said and done, they will go through bankruptcy.

But the proposed – and that will happen June 1, if it happens. I think there's a 20 – 30 percent chance it doesn't, but most likely it will. When they go through, though, on the initial proposal, the federal government will own 50 percent, and the UAW about 49, 39 and some change. So you're right, it's going to be between government – and one of the things that we've begun talking about is, how do you quickly move away from that.

It's my hope that, Doug, what happens is, look, the money that the UAW – the ownership the UAW is getting is to pay for health benefits, and so they actually need cash. I mean you can't pay health benefits with stock, right. So it's my hope that what will happen is, and they're going to have to hire a professional manager to oversee that, to oversee their stock ownership, what I hope will happen on both the government side and the UAW side is that, very quickly, as things improve, there will be delusion, or as they sell off shares to other people to actually raise capital.

I mean at the end of the day, we as tax payers, what we want is our money back, right, and the only way we're going to get our money back is not by owning the shares, but by selling the shares.

And, you know, the unfortunate thing is, right now, I mean this is going to be the next tough decision that the auto czars are going to have to make, I mean if you look at GM's balance sheet, post all of the money that the U.S. tax payers are putting in, they're really not going to be much better off debt-wise, because what we're doing, you know, they're doing away with $27 billion in – debt, but all of our tax payer money is, you know, coming on behind it. Look, there's going to be – they're going to get qualified for something called Section 136 money, so that's going to be debt to the company, so, you know, that's going to be a tough decision that has to be made before the one you're talking about, and when the one you're talking about occurs, I hope that by that time there's been some selling off of the shares, which would only be prudent. I mean the UAW doesn't want all their eggs in one basket, I wouldn't think, if they want to pay health care benefits anyway.

But we are in unchartered territory. These things are so related to each other, the financial industry and the – sort of the ownership that we have in some ways there, the UAW, I mean, excuse me, the automotive companies, and I hope that as a country, we'll figure out quickly how to reverse back out of this and hopefully never go down this path again, but it'll take prudent regulation to keep that from happening. I'll see you. Thank you.

MR. BAILY: Thank you, thank you very much. That was a terrific presentation.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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