THE OFFICE of the
PRESIDENT ELECT

January 15, 2009

The Honorable Nancy Pelosi
Speaker
United States House of Representatives

The Honorable Harry Reid
Majority Leader
United States Senate

The Honorable John Boehner
Republican Leader
United States House of Representatives

The Honorable Mitch McConnell
Republican Leader
United States Senate

Dear Madam Speaker, Leader Boehner, Leader Reid and Leader McConnell:

Thank you for the extraordinary efforts you have made this week to work with President-Elect Obama in implementing the Emergency Economic Stabilization Act of 2008. In addition to the commitments I made in my letter of January 12, 2009, the President-Elect asked me to respond to a number of valuable recommendations made by members of the House and Senate as well as the Congressional Oversight Panel. We completely agree that this program must promote the stability of the financial system and increase lending, preserve home ownership, promote jobs and economic recovery, safeguard taxpayer interests, and have the maximum degree of accountability and transparency possible.

As part of that approach, no substantial new investments will be made under this program unless President elect Obama has reviewed the recommendation and agreed that it should proceed. If the President elect concludes that a substantial new commitment of funds is necessary to forestall a serious economic dislocation, he will certify that decision to Congress before any final action is taken.

As the Obama Administration carries out the Emergency Economic Stablization Act, our actions will reflect the Act's original purpose of preventing systemic consequences in the financial and housing markets. The incoming Obama Administration has no intention of using any funds to implement an industrial policy.

The Obama Administration will commit substantial resources of $50-100B to a sweeping effort to address the foreclosure crisis. 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 Emergency Economic Stabilization Act will be required to implement mortgage foreclosure mitigation programs. In addition to this action, the Federal Reserve has announced a $500B program of support, which is already having a significant beneficial impact in reducing the cost of new conforming mortgages. Together these efforts will constitute a major effort to address this critical problem.

In addition to these commitments, I would like to summarize some of the additional reforms we will be implementing.

1. **Provide a Clear and Transparent Explanation for Investments:**

   - For each investment, the Treasury will make public the amount of assistance provided, the value of the investment, the quantity and strike price of warrants received, and the schedule of required payments to the government.

   - For each investment, the Treasury will report on the terms or pricing of that investment compared to recent market transactions.

   - The above information will be posted as quickly as possible on the Treasury's website so that the American people readily can monitor the status of each investment.

2. **Measure, Monitor and Track the Impact on Lending:**

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

   - The Treasury will require detailed and timely information from recipients of government investments on their lending patterns broken down by category. Public companies will report this information quarterly 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.

3. **Impose Clear Conditions on Firms Receiving Government Support:**

   - Require that 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.

   - Prevent shareholders from being unduly rewarded at taxpayer expense. Payment of dividends by firms receiving support must be approved by their primary federal

regulator. For firms receiving exceptional assistance, quarterly dividend payments will be restricted to $0.01 until the government has been repaid.

- Preclude use of government funds to purchase healthy firms rather than to boost lending.

- Ensure terms of investments are appropriately designed to promote early repayment and to encourage private capital to replace public investments as soon as economic conditions permit. Public assistance to the financial system will be temporary, not permanent.

4. **Focus Support on Increasing the Flow of Credit:**

- The President will certify to Congress that any substantial new initiative under this program will contribute to forestalling a significant economic dislocation.

- Implement a sweeping foreclosure mitigation plan for responsible families including helping to reduce mortgage payment for economically stressed but responsible homeowners, reforming our bankruptcy laws, and strengthening existing housing initiatives like Hope for Homeowners.

- Undertake special efforts to restart lending to the small businesses responsible for over two-thirds of recent job creation.

- Ensure the soundness of community banks throughout the country.

- Limit assistance under the EESA to financial institutions eligible under that Act. Firms in the auto industry, which were provided assistance under the EESA, will only receive additional assistance in the context of a comprehensive restructuring designed to achieve long-term viability.

The incoming Obama Administration is committed to these undertakings. With these safeguards, it should be possible to improve the effectiveness of our financial stabilization efforts. As I stressed in my letter the other day, we must act with urgency to stabilize and repair the financial system and maintain the flow of credit to families and businesses to restore economic growth. While progress will take time, we are confident that, working closely with the Congress, we can secure America's future.

Sincerely,

Lawrence H. Summers
Director-Designate
National Economic Council