News From
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U.S. Congress
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Garrett Demands Fed Transparency

(Washington, DC)– **Rep. Scott Garrett (R-NJ) is demanding Federal Reserve Chairman Ben Bernanke open the books of the Fed lending facilities.**

Garrett expresses his concern over the Fed's lending programs and the amount of taxpayer dollars being used in a letter to Bernanke containing follow-up questions to the November 19, 2008 Financial Services Committee hearing.

"While I agree that Congress and the Federal Reserve must work closely together and consider all options to ease the current credit crisis, I think it is essential that taxpayers know and understand the risks and value of the collateral the Federal Reserve is taking onto its books," Garrett said.

The text of the letter is included below.

December 4, 2008

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Chairman Bernanke:

I am writing to respectfully submit several questions to you that I was unable to ask during the Financial Services Committee hearing on November 19, 2008, entitled "Oversight of Implementation of the Emergency Economic Stabilization Act of 2008 and of Government Lending and Insurance Facilities; Impact on Economy and Credit Availability."

As you know, beginning with the collapse of Bear Stearns in March of this year and continuing through today, I have consistently expressed my concerns regarding the lack of transparency of the Federal Reserve's various lending programs and the amount of taxpayer dollars being used to intervene in our financial markets. While I agree that Congress and the Federal Reserve must work closely together and consider all options to ease the current credit crisis, I think it is essential that taxpayers know and understand the risks and value of the collateral the Federal Reserve is taking onto its books.

So that my House Colleagues and I can be more informed on this important issue, will you please provide the following information:

- What assets has the Federal Reserve taken onto its books as collateral for the loans made through the various funding and loan facilities including the Primary Dealer Credit Facility, Term Securities Lending Facility and the Commercial Paper Funding Facility? What losses has the Fed currently borne through any or all of these facilities? What methods were used to specifically value those assets?

- Can you please provide an up-to-date accounting of the specific asset-to-liability ratio currently on the Federal Reserve's balance sheet?

- Under Section 129 (a) of the Emergency Economic Stabilization Act (EESA), the Federal Reserve is required to submit a report to Congress if it exercises its emergency powers under Section 13(3) of the Federal Reserve Act. I understand that the Federal Reserve has exercised these powers since the passage of EESA. Have the required reports been submitted to Congress? If so, could you please provide me copies of these reports?

- Who are the specific counterparties of American International Group (AIG) that directly benefited from the government assistance provided to AIG so that it could remain solvent?

- The Federal Reserve loaned AIG's securities lending program $37 billion. Is this program still in operation?

- The Federal Reserve set up two facilities to buy AIG's Collateralized Debt Obligations and Residential Mortgage Backed Securities. How would any possible profits from this arrangement be shared? If any potential profits are shared, why would they be shared if the Federal Reserve is bearing all of the risk?

- If AIG's Credit Default Swaps are the main issue causing systemic risk, and if all of the Collateral Debt Obligations and Mortgage Backed Securities (MBS) have been taken off balance sheet, hasn't the systemic risk problem been removed? If the possible systemic risk problem that AIG posed to the broader financial system has been addressed, why is the government continuing to be involved in keeping the company solvent?

- Under the newly created Term Asset Backed Securities Loan Facility, the Federal Reserve will provide nonrecourse loans to private lenders to purchase Asset Backed

Securities (ABS) with the hope of facilitating the issuance of ABS and improving ABS market conditions. By the structure of this program, it appears that private lenders will experience any and all gains while the Federal Reserve and U.S. taxpayer will shoulder most of the losses (ie: privatized profit – socialized risk). What benefits can the U.S. taxpayer expect to receive in turn for the risks they are exposed to through this program?

- Due to the legislative language in EESA, the Department of Treasury has a great deal of flexibility in determining how to allocate funds through the Temporary Asset Relief Program (TARP). Why did the Federal Reserve set up this new program that has little-to-no oversight instead of allowing Treasury to use TARP funds approved by Congress with stringent oversight measures to fund this ABS lending facility?

- Under EESA, the Department of Treasury is required to set up an insurance program to insure certain troubled assets on the books of various financial institutions. This program has yet to be established. Using the recent agreement by the Federal Reserve, Department of Treasury and the Federal Deposit Insurance Corporation to guarantee or backstop several hundred billion dollars worth of Citigroup's assets as an example, do you believe this guarantee program can be used as a model for the insurance program under TARP required by EESA?

- The Federal Reserve recently announced its plans to purchase up to $100 billion in Government Sponsored Entity (GSE) direct obligations and up to $500 billion in GSE MBS. Because of the direct authorities and monies granted to the Department of Treasury under the Housing and Economic Recovery Act (HERA) and EESA to help stabilize the GSEs and the securitization market, why is the Federal Reserve conducting these emergency operations instead of the Department of Treasury?

I feel it is essential that members of the Financial Services Committee and U.S. taxpayers know where trillions of dollars of taxpayer money is going, and what assets are being used to secure these loans. I greatly appreciate your service to the country during these trying times and look forward to continuing to work with you as we stabilize, restore, and rebuild our nation's economy.

Sincerely,

Scott Garrett
Member of Congress