DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

July 21, 2009

Elizabeth Warren
Chair
Congressional Oversight Panel
732 North Capitol Street, NW
Rooms C-320 and C-617
Mailstop: COP
Washington, DC 20401

Dear Chair Warren:

Thank you for your May 26 letter concerning the funding commitment authorized under the Emergency Economic Stabilization Act (EESA), which authorizes the reimbursement of the Exchange Stabilization Fund (ESF) for any funds used for the Department of the Treasury's Temporary Guarantee Program for Money Market Funds ("Program").

As you know, on September 19, 2008, Treasury announced the establishment of a temporary guarantee program for the U.S. money market mutual fund industry. The Program was in response to disruptions experienced following a large money market fund's announcement that its net asset value had fallen below $1 per share ("broke the buck") and a run by some investors on other money market funds' assets.

Detailed answers to each of the specific questions raised in your letter are enclosed. Please let me know if you have any additional questions on this matter.

Sincerely,

Timothy F. Geithner

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cc:

Senator John E. Sununu
Representative Jeb Hensarling
Mr. Richard H. Neiman
Mr. Damon A. Silvers

Written Response to Letter from Chair Warren Dated May 26, 2009

(1) The total current and historical value of money market mutual funds participating in the Treasury Guarantee Program.

Answer: Money market funds that applied for participation in the Money Market Program represented over $3.2 trillion of money market assets as of September 19, 2008. Those funds continuing to participate as of May 1, 2009, through the Program's extension period, had an aggregate designated asset base of nearly $2.5 trillion calculated as of September 19, 2008.

(2) The extent to which the investments in the money market funds that are guaranteed under the Treasury Guarantee Program are also insured or supported by programs initiated by the Federal Reserve in response to the financial crisis and the interplay between these liquidity and guarantee programs.

Answer: The Federal Reserve has facilitated temporary support for the money market mutual fund industry and the commercial paper market primarily through its Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF); Commercial Paper Funding Facility (CPFF); and Money Market Investor Funding Facility (MMIFF). The AMLF provides loans to U.S. depository institutions and bank holding companies to finance purchases of asset-backed commercial paper from money market funds. The CPFF provides a special purpose vehicle which purchases three-month unsecured commercial paper and asset backed commercial paper directly from issuers who can then repay commercial paper investors, such as money market funds. Through the MMIFF, the Federal Reserve Bank of New York provides funding to a series of private sector special purpose vehicles to finance the purchase of certain money market instruments from money market funds.

The Federal Reserve facilities that provide support to various aspects of the money market mutual fund industry address fundamental problems with liquidity, which reduces the possibility of triggering a guarantee under the Treasury Department's Money Market Program if money market funds are faced with significant redemption requests. However, unlike the Money Market Program, the Federal Reserve's facilities do not provide any type of guarantee for investors.

(3) The extent to which the Treasury Department's obligations to exercise the guarantees under the Program are mitigated by its discretion to withhold payment when there are inadequate funds in the ESF given its requirement under EESA to refund the ESF when it is depleted.

Answer: Section 1(j) of the Guarantee Agreements between Treasury and the participating money market mutual funds provides that "[t]he Guarantee Payment shall in no event exceed the amount available for payment within the ESF on the Payment Date, as determined by the Treasury in its sole and absolute discretion, which amount may be further adjusted as set forth in Section 2(f)." Section 2(f) provides that in the event multiple requests for Guarantee Payments are received by Treasury on the same business day and exceed the amount available within the ESF, as determined by Treasury in its sole and absolute discretion, certain requests receive priority (Section 2(f)(A)) and others are paid pro rata (Section 2(f)(B)). Section 131 of the EESA did not alter the terms of the Guarantee Agreements. The amount available for payment within the EST on a given payment date would depend on a number of factors, including when EESA reimbursements of the ESF would become available and the extent to which ESF assets are not subject to other commitments.

(4) The amount of TARP funds, if any, the Treasury Department has reserved for the possibility of its obligation to pay the guarantees under the Treasury Guarantee Program.

Answer: Section 115(a) of the EESA limits the authority of the Treasury Secretary to "purchase troubled assets under this Act" to specified amounts. In reimbursing the ESF as required by Section 131, Treasury would not be purchasing or holding troubled assets. Therefore reimbursements of ESF authorized under Section 131 of the EESA are not considered in calculating the limits established by Section 115(a). Accordingly, no amounts have been reserved within the Section 115(a) limits for ESF reimbursement.

Section 131 of the EESA requires that Treasury reimburse the ESF "from funds under this Act." Section 118 of the EESA provides a funding mechanism-- in effect a permanent, indefinite appropriation-- "For the purpose of the authorities granted in this Act..." Because there is no other appropriation under the EESA, "funds under this Act" in Section 131 refers to funds made available under Section 118.

(5) The Treasury Department's position on its legal responsibility to reimburse Program participants in the event that TARP money has been totally expended.

Answer: See answer above. It is Treasury's view that funds are sufficiently authorized under Section 118 of the EESA to reimburse the ESF for any guarantee payments under the Program.

(6) Whether the Treasury Department has any plans to extend the program beyond September 18, 2009.

Answer: Pursuant to the terms of the Guarantee Agreements, the guarantees and Treasury's payment obligations under the Program terminate on September 18, 2009. The Guarantee Agreements do not provide for further extensions of the guarantees. The EESA prohibits the use of the ESF to fund any future money market guarantee programs.