APPENDIX I: LETTER FROM TREASURY SECRETARY MR. TIMOTHY GEITHNER TO CONGRESSIONAL OVERSIGHT PANEL CHAIR ELIZABETH WARREN, DATED APRIL 2, 2009

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

April 2, 2009

Ms. Elizabeth Warren
Chair
Congressional Oversight Panel
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Dear Chair Warren:

Thank you for your letters dated March 5 and 20, 2009. We look forward to continuing to work with you and the Panel toward our shared goals of financial stability and economic recovery. Over the past seven weeks, we have put in place our *Financial Stability Plan* (FSP), a comprehensive effort to help lay the financial foundations for economic recovery. In designing the FSP, we have maintained a focus on the root causes of the financial crisis. This reply is intended to address your questions from the March 5 letter by explaining our understanding of the origins of the current crisis and how they relate to the specific programs we have announced. This letter also responds to your inquiry from March 20 regarding the *Term Asset-Backed Securities Lending Facility* (TALF).

I look forward to discussing these and other issues with you and the Panel at my testimony on April 21. I would also like to offer you the opportunity for weekly briefings by my staff, so that we are able to provide you with information through an ongoing regular dialogue. Additionally, I would like to make Treasury staff available to brief you on specific policy initiatives as they are announced.

Origins of the Financial Crisis

As I have stated before, our current crisis has many causes. But at its core, this crisis began because – due to both economic changes and regulatory weaknesses – we borrowed too much and we took on irresponsible levels of risk.

A global boom in savings, partly from growing wealth in emerging economies, resulted in large flows of capital that sought opportunities for higher return – particularly in the United States, which offered a more attractive option for investment due to its deep, liquid capital markets. These flows of capital pushed down long-term interest rates and pushed up asset prices.

In this environment, investors looked for higher returns by taking on greater exposure to the risk of infrequent but severe losses. Home mortgages became cheap, and lenders developed innovative mortgage products to widen the market for home buying, especially to those who might not have been able to afford mortgages under traditional terms. Due to the widening of the mortgage market, there was a sharp increase in home prices, as buyers took advantage of lower rates and more generous terms. Rising home prices encouraged borrowers, lenders and investors to make choices that could only succeed if home prices continued to appreciate.

Demand from investors also led to the creation of new financial products, and the complexity of these products outmatched the risk-management capabilities of even the most sophisticated financial institutions. Compensation packages based on short-term profits rather than long-term returns encouraged people to take unwise risks on these instruments. Financial activity migrated outside the banking system, while regulated institutions held too little capital relative to the risks to which they were exposed. And the combined effects of the requirements for capital, reserves and liquidity amplified rather than dampened financial cycles – intensifying the boom and magnifying the bust.

At the same time, our financial system – regulated through a structure that is unnecessarily complex and fragmented – operated with large gaps in meaningful oversight and without sufficient constraints to limit these risks. Even as a growing share of lending was securitized, regulators did not respond to the challenges posed by the growth in complex financial instruments. Despite implicit or explicit forms of support from the government, investment banks, large insurance companies, finance companies, and the government-sponsored enterprises were subject to only limited oversight. These highly leveraged institutions lacked strong federal prudential regulation and they did not have established access to central bank liquidity. Moreover, they were permitted by law to choose among regulatory regimes, often allowing them to avoid a stronger regulatory authority that might have been applied if they had been supervised as bank holding companies. Meanwhile, U.S. law did not provide regulators with any effective options for managing the failure of systemically important non-bank financial institutions – which left the government with unsatisfactory choices when faced with the potential failure of institutions like Lehman Brothers and American International Group.

In this weak regulatory environment – with overleveraged firms participating in interconnected markets – a sharp decline in housing prices provided a catalyst for a broader crisis. The demand for homes began to ease in early 2006, a turning point for the economy and financial stability. That easing in demand led first to a slowing rate of home price appreciation and then to outright declines in home prices. As the price declines accelerated, receding home prices exposed the weaknesses in aggressive lending practices, as loans that made economic sense only when prices were rising sharply began to sour. Delinquencies rose, first on subprime loans, then on the more traditional fixed-rate mortgages. As a result, the value of a wide variety of financial instruments based on mortgages began to decline. Financial institutions with significant exposure to mortgage assets began to see their income shrink and their asset values decline. Firms that had specialized in writing insurance contracts on mortgage-related assets, especially subprime mortgages, found themselves unable to meet their obligations. Companies needed to liquidate

assets to meet the demands of their creditors. The result was the beginning of a vicious downward spiral that reached a crisis stage when credit markets froze in the fall of 2008. Today, banks – still burdened by bad lending decisions from the past – are holding back on new lending, and the credit that is available often carries a high cost for borrowers.

Some parts of the financial system have shown improvement recently; other parts have not. The LIBOR-Overnight Indexed Swap spread, often used as a measure of distress in money markets, fell from a peak of 365 basis points in the fall of 2008 to just above 100 basis points in the past few weeks. Even with that improvement, the spread remains high relative to the levels before the crisis: it averaged about 10 basis points in the first half of 2007. Issuance of asset-backed securities (other than those backed by mortgages) averaged about $20 billion per month in the first half of 2008; in February 2009 about $2.5 billion in non-mortgage asset-backed securities were issued.

The effects of financial market instability on the rest of the economy have been profound. Home prices have fallen sharply, homebuilding activity is down more than 80 percent from its 2006 peak, and mortgage delinquencies are at a record high. The unemployment rate rose 2.5 percentage points from mid-2008 to its current level of 8.1 percent. The after-effects of the crash in credit-sensitive sectors have been severe, and new problems have emerged. Partly in reaction to overleveraging in the past, and partly in response to the deterioration in the economy, credit is now not available to many creditworthy borrowers. This is creating another round of reduced spending leading to layoffs, which in turn further reduces spending.

The economic fallout from this instability has already caused enormous suffering, and much of the damage has fallen on families and small-business owners who behaved responsibly. Our response requires that every policy be judged by the following test: whether it gets our financial system back to providing credit to working families and viable businesses and helps prevent future crises.

In particular, our strategy must address each of the four major challenges that remain at the center of the financial crisis and continue to slow our progress towards recovery. First, falling house prices and rising unemployment have made it difficult for many responsible homeowners to meet their mortgage payments and stay in their homes. Second, frozen secondary markets have constrained the ability of even creditworthy small businesses and families to get the loans they need. Third, uncertainty about the real value of distressed assets and the ability of borrowers to repay loans, as well as uncertainty as to whether some financial institutions have the capital required to weather a continued decline in the economy, have caused both a dramatic slowdown in lending and a decline in the confidence required for the private sector to make much-needed equity investments in our major financial institutions. Finally, the existence of troubled legacy assets is straining the capital of our financial institutions and further limiting their ability to extend credit.

The FSP, which I outlined on February 10, and the steps we have taken since are designed with each of these four challenges in mind. To respond to falling home prices, the President introduced the *Making Home Affordable Plan* to support lower mortgage rates and help millions

of homeowners refinance and avoid foreclosure. In an effort to unlock frozen credit markets, we created – in cooperation with the Federal Reserve – the *Consumer and Business Lending Initiative* (CBLI) to restart activity on the secondary markets for securitized loans, bring down borrowing costs and get credit flowing again. To ensure that major financial institutions have adequate capital to lend even in a worse-than-expected economic environment, we laid out our *Capital Assistance Program* (CAP). In order to help jumpstart the market for the private real-estate-related assets that are at the core of our financial crisis, we introduced the *Public-Private Investment Program* (PPIP) to use private and government capital to purchase legacy assets.

The FSP represents a comprehensive approach to stabilizing and strengthening our financial system, and the Administration recognizes that accomplishing this goal is central to restoring economic growth. At the same time, we are also committed to modernizing our financial regulatory system for the 21st century by providing stronger tools to prevent and manage future crises. The lack of a modern regulatory regime and resolution authority helped create the current crisis, and it will limit our ability to address future crises until we put in place fundamental reforms. Last week, I outlined an approach to financial regulation that will address systemic risk, protect consumers and investors, eliminate the gaps in our regulatory structure, and foster international cooperation. As part of this reform effort, Treasury also proposed legislation for a resolution authority that would grant additional tools to avoid the disorderly liquidation of systemically significant financial institutions that fall outside of the existing resolution regime for banks under the FDIC. These reforms, accompanied by our efforts to restore the proper functioning of our banking system, are essential to our recovery.

Recapitalizing the Banking System – A Key Plank of the Financial Stability Plan

Currently, the vast majority of banks have more capital than they need to be considered well capitalized by their regulators. However, concerns about future economic conditions – combined with the destabilizing impact of "legacy assets" – have created an environment under which uncertainty about the health of individual banks has sharply reduced lending across the financial system, working against an economic recovery. Providing confidence that banks have a sufficient level of capital even if the economic outlook deteriorates is a necessary step to restart lending so that families have access to the credit they need to buy homes or pay for college, and businesses can get the loans they need to expand.

In normal times, the best way to recapitalize the banking system would be to allow private market forces to allocate capital to where it is in greatest demand and yields the highest return. Today, however, a cloud of uncertainty over the market has induced much more caution by lenders than might otherwise be the case. As the collapse of the real estate market has led to large losses in the value of legacy assets, market participants have become uneasy about the balance sheets of banks who own these assets, making it harder for banks to raise the equity they need. At the same time, because banks themselves want to ensure they will have sufficient capital to survive even an extreme, worse-than-expected recession, too many banks are hesitant to lend with the capital they have. While each bank alone may feel this behavior is rational, when done collectively by too many banks, it dries up lending, accelerates recession, and thus increases the chances that a more severe economic downturn will occur. The risk is a self-

fulfilling prophecy – where concerns about worse economic conditions help create those conditions – and it is this negative outcome that CAP is designed to prevent.

CAP is designed to help ensure our banking institutions have sufficient capital to meet potential economic challenges and help restore confidence in U.S. banking institutions. This strategy begins with the idea that in order to ensure our largest banks have adequate capital to weather a more severe economic scenario and continue to lend, we must first accurately diagnose their problems. More specifically, we believe it is crucially important to determine the capital buffer banks would need to remain well-capitalized even under more adverse economic conditions. As a result, bank supervisors are currently undertaking a comprehensive supervisory capital assessment of the 19 largest banking organizations – those with assets over $100 billion – that is slated to be completed by the end of April. Banks needing additional capital will be encouraged to access private markets to obtain it, but will also have access to a "capital buffer" provided by Treasury to help absorb losses and serve as a bridge to receiving increased private capital. The capital will be provided to eligible banking organizations in the form of a preferred security that is convertible into common equity. This security will serve as a source of contingent common capital for firms, convertible, when and if needed to retain the confidence of investors or to meet supervisory expectations regarding the amount and composition of capital. With supervisory approval, banking organizations will be allowed to exchange their existing TARP preferred stock for the new CAP preferred instrument. CAP is already open and available to qualified institutions.

In conjunction with CAP, we believe that addressing the problem of legacy assets – whose decline in value was both a direct cause and a consequence of the current crisis – is necessary to ensure banks feel confident they have the capital they need to lend. Due to the collapse in the housing market, both "legacy loans" held on bank balance sheets and "legacy securities" owned by banks as well as insurance companies, mutual funds, pension funds and other financial institutions have declined dramatically in value. As investors and banks have tried to reduce their risk, it has created deleveraging in the markets for these assets, triggering fire sales. The result has been a vicious cycle where declining asset prices leads to further deleveraging, which in turn leads to further price declines. The excessive discounts in the prices of these assets has strained capital for banks, limiting their ability to lend, while creating uncertainty that makes it difficult for financial institutions to raise capital on their own.

The creation of PPIP is intended to restart the market for these assets, while also restoring bank balance sheets as these devalued loans and securities are sold. Using $75 to $100 billion in capital from the Emergency Economic Stabilization Act and capital from private investors – as well as funding enabled by the Federal Reserve and FDIC – PPIP will generate $500 billion in purchasing power to buy legacy assets, with the potential to expand to $1 trillion over time. By providing a market for these assets, PPIP will help improve asset values, increase lending capacity for banks and reduce uncertainty about the scale of losses on bank balance sheets – making it easier for banks to raise private capital and replace the capital investments made by Treasury.

By following three basic principles, PPIP is designed as part of an overall strategy to resolve the crisis as quickly as possible with the least cost to the taxpayer. First, by partnering with the FDIC, the Federal Reserve and private sector investors, we will make the most of taxpayer resources. Second, PPIP will ensure that private sector participants invest alongside the government, with the private sector investors standing to lose their entire investment in a downside scenario and the taxpayer sharing in profitable returns. Third, the program will use competing private sector investors to engage in price discovery, reducing the likelihood that the government will overpay for these assets. By contrast, if the government alone purchased these legacy assets from banks, it would assume a larger share of the losses and risk overpaying. Alternatively, if we simply hoped that banks would work off these assets over time, we would be in danger of repeating the Japanese experience and prolonging the crisis. PPIP strikes the right balance, making the most of taxpayer dollars, sharing risk with the private sector, and taking advantage of private-sector competition to set market prices for currently illiquid assets.

While this crisis was caused by banks taking too much risk, the danger now is that they will take too little. Both CAP and PPIP are intended to return our system back to a healthy equilibrium, avoiding the excessive leverage and risk-taking that helped create this crisis while giving banks the confidence to again lend to creditworthy borrowers.

Consumer Debt

As noted above, lower borrowing costs and a lack of regulatory protections led to excessive levels of consumer debt that helped contribute to the current financial crisis. Even as we saw increased access to credit for large parts of the American economy, those gains were overshadowed by pervasive failures in consumer protection, leaving many Americans with obligations they did not understand and could not sustain. Yet it is important to recognize that today, many creditworthy consumers are suffering – through no fault of their own – because the credit crisis has sharply reduced their ability to borrow money they need to pay for a home, a car or a college education.

Recent experience has reminded us that while there is no hard and fast rule that prescribes the proper debt burden for consumers – and the optimal level of debt should vary with age, earning capacity, job security, family structure, and other factors – some levels of debt are unsustainable in any but the most optimistic of scenarios. Rising mortgage delinquencies and foreclosures are evidence that excessive debt is causing distress in the consumer sector. In 2008Q4, nearly 8 percent of all mortgages (4.2 million) were at least 30 days past due and slightly more than 3 percent were in foreclosure. Compounding the debt burden, consumer net worth dropped nearly 20 percent during 2008 because of falling asset values.

In response to declining wealth and rising delinquencies, households have begun to deleverage and save more. In early 2008, the personal saving rate was about 0.1 percent. In the most recent data available, the saving rate has risen to 5 percent. Households are adjusting to an environment in which credit is not so easy to obtain and the risk of job loss is rising. The result is an increase in precautionary saving, which is dampening aggregate demand.

Still, we know there are many households that are in solid financial condition, and it hurts our economy unduly if these households are unable to borrow, even though their income, stage of life, and employment make it prudent for them to take on more debt. The FSP is not aimed at increasing consumer debt levels. In fact, overall relative consumer debt levels should continue to fall, as homes are refinanced and mortgages are modified. But the FSP is intended to restart responsible lending, and is focused on ameliorating an unfortunate side effect of the deleveraging process: for ordinary families – even those with strong credit – it has become difficult to get student loans, car loans, and credit to finance everyday needs. By providing banks with a greater confidence to lend through CAP and our efforts to create a market for legacy assets, our intention is to ensure that lenders extend credit to creditworthy borrowers. Likewise, CBLI is directed at jumpstarting the securitization markets that supported a significant portion of all consumer lending prior to this crisis – revitalizing the market activity that provides lenders with the liquidity they need to continue making new loans. These programs are intended to restore balance to our financial system – ensuring that borrowers have access to the credit they need without encouraging the kinds of excessive risk and leverage that helped create the current crisis.

Responding to Questions About the Term Asset-Backed Securities Lending Facility (TALF)

I also want to respond to your March 20, 2009 letter on behalf of the Congressional Oversight Panel, including questions regarding the Term Asset-Backed Securities Lending Facility.

As noted above, unlocking the frozen secondary markets that support consumer lending is a key component of FSP. Last year, new issuance of consumer asset-backed securities dropped precipitously, as many traditional investors left the market and many other potential buyers lost access to the funding they needed to make purchases. The TALF – which is part of the overall CBLI – is designed to restart secondary markets by stimulating investor demand for these securities. While the TALF was initially proposed last fall to include securities backed by credit cards, auto loans, student loans and SBA-guaranteed loans, it has been expanded in recent weeks to cover additional asset classes in order to unlock the markets most likely to drive an economic recovery.

The TALF's launch last month illustrated the potential of this structure to spur activity in these markets, as $9 billion in new securitizations were completed in the program's first week – more than in the previous four months combined. Yet even as the TALF has been expanded to new assets, key elements of the program have been implemented to ensure taxpayer interests are protected. By restricting eligibility to assets with certain credit ratings (or government-guaranteed SBA loans), requiring a risk-based haircut and including a risk premium in TALF loan rates, the facility has been structured so that investors bear an appropriate level of risk. In doing so, the TALF's overarching goal is to have the greatest possible impact on lending to consumers and small businesses while minimizing credit risk to the U.S. government.

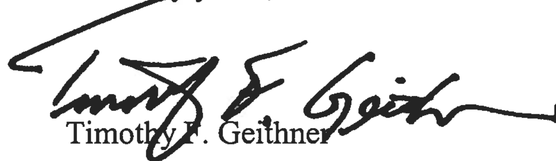
As you know, the TALF comprises two parts: (i) a secured lending facility established and administered by the Federal Reserve Bank of New York (FRBNY) and (ii) a special-purpose asset-disposition vehicle (SPV) owned and controlled by FRBNY but funded in substantial part

by a $20 billion loan commitment from the Treasury Department's Troubled Assets Relief Program. Treasury has no role in making loans or administering the lending facility. Instead, Treasury has only invested in the SPV for the purpose of providing some protection to FRBNY against losses incurred on loans made under the lending facility.

Because the questions you have raised pertain primarily to the structure and operation of the FRBNY lending facility, FRBNY staff has taken the lead in responding. Their response accurately summarizes the problems Treasury sought to address and the goals we hope to achieve by participating in the program. It is also consistent with our understanding of the analyses that were done and the choices that were made by FRBNY in structuring and developing procedures for operation of the lending facility. We believe FRBNY's responses address your concerns, but if you have any further questions about Treasury's loan to the SPV, I would be happy to make Treasury staff available to speak with you.

Thank you again for your inquiries. We are constantly seeking to ensure that we are taking the right steps to create a financial system that both provides the credit necessary for recovery, and ensures we do not find ourselves facing this type of financial crisis again. I look forward to working with you and the Panel as we seek to achieve this goal.

Sincerely yours,



Timothy F. Geithner

cc: Rep. Jeb Hensarling
Sen. John E. Sununu
Mr. Richard H. Neiman
Mr. Damon A. Silvers
Mr. John M. Reich
Mr. John Dugan

APPENDIX II: LETTER FROM CHAIRMAN OF THE FEDERAL RESERVE BOARD OF GOVERNORS MR. BEN BERNANKE TO CONGRESSIONAL OVERSIGHT PANEL CHAIR ELIZABETH WARREN, DATED APRIL 1, 2009

Board of Governors of the Federal Reserve System
Federal Reserve Bank of New York

April 1, 2009

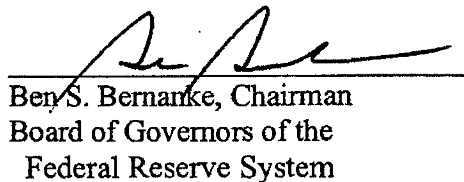
Ms. Elizabeth Warren
Chair
Congressional Oversight Panel
732 North Capitol Street, N.W.
Rooms C-320 and C-617
Washington, D.C. 20401

Dear Madam Chair:

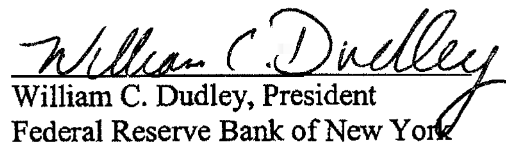
We are responding to the letters you sent to us on March 20, 2009. We appreciate the opportunity to respond to your questions. Our answers are provided in the enclosed document.

We hope this information is helpful. Our staffs are available to meet with you or your staff in person to provide additional information.

Sincerely,



Ben S. Bernanke, Chairman
Board of Governors of the
Federal Reserve System



William C. Dudley, President
Federal Reserve Bank of New York

Enclosure

cc: Rep. Jeb Hensarling
Sen. John E. Sununu
Mr. Richard H. Neiman
Mr. Damon A. Silvers

1. **Please explain in detail why the Treasury and the Federal Reserve Board believe it is wise to commit billions of dollars to rebuild the market for collateralized debt obligations and the redistribution and subdivision of interest in asset pools, in light of the risks posed for the financial system by these arrangements.**

Asset-backed securities (ABS) markets historically have funded a substantial share of consumer and small business credit, including receivables from credit card loans, auto loans and leases, student loans, small business and dealer floorplan loans, business equipment loans, and mortgage servicing advances. The disruption in the supply of credit for these routine purposes has magnified the adverse impact of the downturn in the housing cycle, and a continued dislocation in credit availability could contribute to further weakening of U.S. economic activity.

The Term Asset-Backed Securities Loan Facility (TALF) is a funding facility through which the Federal Reserve Bank of New York (FRBNY) extends three-year loans collateralized by certain types of ABS that are, in turn, backed by loans to consumers and small businesses. The facility is designed to help market participants meet the credit needs of households and small businesses by supporting the issuance of those ABS.

Any U.S. company that owns eligible collateral may borrow from the TALF provided the company maintains an account relationship with a primary dealer. A broad base of investor demand should lower the cost of funding for new TALF-eligible ABS issues and bring additional liquidity into the market. This greater demand should increase the flow of credit to and reduce the borrowing rates experienced by consumers and small businesses. In fact, results from the TALF's first subscription showed a substantial decline in funding costs for the auto and credit card issuers that came to market. If sustained, this should translate to lower credit card and auto loan rates for consumers.

The term "collateralized debt obligation" is not precisely defined, but the TALF does not accept ABS collateral that might be regarded as complex CDOs--that is, where the underlying credit exposures are themselves cash ABS or synthetic ABS. These types of cash and synthetic collateralized debt obligations, known as structured-finance CDOs, contributed to the current financial crisis by obscuring the risk of the underlying ABS collateral to the investor and are not eligible.

The *Wall Street Journal* article cited in your letter asserts that market participants' establishment of special purpose vehicles (SPVs) to function as investors and borrowers in the TALF program can be viewed as the creation of collateralized debt obligations. In our view, this analogy is misleading. The creation of SPVs facilitates broad participation in the program, which is essential for its success. It has been our long standing goal to make TALF financing available to a broad range of borrowers that meet standard

eligibility criteria. Currently, any U.S. company that owns eligible collateral may borrow from the TALF provided the company maintains an account relationship with a primary dealer. U.S. organized and managed investment funds--such as hedge funds, private equity funds, pension funds, mutual funds and other pooled investment vehicles holding eligible collateral--are considered to be eligible entities. All borrowers are subject to certain legal and compliance standards, outlined in our Master Loan and Security Agreement and our Conflict of Interest and Borrower Eligibility and Due Diligence Policies.

2. **The thrust of the TALF appears to be to attract investors with large enough pools of capital, such as hedge funds, to the ABS market by allowing them to purchase ABS on a highly leveraged basis with risk of loss largely transferred to the taxpayer directly or, through the Federal Reserve System, indirectly, in a manner that confers substantial benefits on these private investors who have little at stake. Please explain in detail the rationale for such a transfer of risk to the taxpayer with so much of the benefit transferred to private investors and please provide the facts and figures that support this rationale.**

The TALF is designed to improve credit conditions for consumer and small business loans by including a wide range of eligible participants, across a broad investor base. Any U.S. company that owns eligible collateral may borrow from the TALF provided the company maintains an account relationship with a primary dealer. Ultimately, the inclusive nature of the program helps improve access to and lowers the cost of credit to consumers and small businesses through the issuance of ABS.

Each investor bears substantial risk in the form of the equity investment needed to finance the "haircuts" that are assessed to the collateral backing the TALF loan. Moreover, investors compensate the government for the risk protection they receive by paying a premium rate charged for TALF loans.

The TALF program includes these and a number of other safeguards that protect taxpayer interests and ensure that investors bear appropriate levels of risk.

- The TALF is a collateralized lending program that uses risk-based haircuts, ranging from 5 to 16 percent, to help protect the taxpayer against losses. Thus, for every $100 in pledged collateral, borrowers commit $5 to $16 of their own capital. These haircuts represent TALF borrowers' equity interest in the arrangement, and serve as an additional buffer that is forfeited, along with the collateral, in the event the loan is not repaid. The haircuts vary across asset types depending on an assessment of the riskiness of the ABS and the average maturity of the underlying credits. Please see Appendix 1 for the current schedule of haircuts.

- Further protection is provided by the risk premium included in the TALF loan rate. TALF loans will be extended at 100 basis points over one-month Libor for

most floating rate ABS or 100 basis points above the three-year swap rate for most fixed rate ABS.[1] The Federal Reserve will claim some of the income as its cost for providing liquidity, but the remainder, which represents a large portion of the interest, will accumulate in the TALF facility in order to absorb any losses. This interest rate spread will provide a substantial buffer for taxpayers, paid for by the private sector, in the event that the ABS is surrendered in lieu of repayment.

- The current economic situation is extraordinary and the outlook is therefore especially uncertain. We accounted for that uncertainty by making very conservative assumptions when calibrating the haircuts. The haircuts are designed so that, even if the economy evolves in a manner significantly worse than we currently expect, all credit costs will be more than covered by the haircuts and the excess interest rate spread paid by investors, resulting in no credit losses for the Treasury or Federal Reserve.

- The interest rates on TALF loans are set with a view to providing borrowers with an incentive to purchase eligible ABS at yield spreads higher than in more normal market conditions but lower than in the highly illiquid market conditions that have prevailed during the recent credit market turmoil. In doing so, TALF loan rates encourage the flow of credit, but provide the private sector with an incentive to borrow only selectively from taxpayer resources.

- The TALF relies on specific collateral eligibility requirements in order to ensure that taxpayer funds are used to finance targeted asset classes whose probability of loss has been assessed by credit rating agencies. Given the important role that credit ratings play in our eligibility criteria, Federal Reserve economists have conducted due diligence on rating agency methodologies for various ABS sectors. Moreover, each issuer must hire an external auditor that must provide an opinion, using examination standards, that management's assertions concerning key collateral eligibility requirements are fairly stated in all material respects. The auditor's attestation provides a high level of assurance concerning TALF collateral eligibility requirements.

While TALF is designed with robust and conservative measures to protect taxpayer interests, no lending program is without risk. Nonetheless, we remain confident that we have designed a program that will manage these risks, and that the TALF will be a benefit to U.S. consumers and businesses, providing critical access to loans at lower cost.

3. Is the report in the *Wall Street Journal* substantially correct? If so, please explain in detail how the final terms, details, and structure of the financing

[1] The interest rate spread on TALF loans backed by collateral benefitting from a government guarantee--that is, FFELP ABS, SBA 7(a) ABS, and SBA 504 ABS--will be 50 basis points, and different reference benchmarks may apply. Please refer to the schedule of haircuts for details.

vehicles that are treated as eligible for the TALF will reflect the investment vehicles and packaging and repackaging of ABS described in the *Wall Street Journal* article, and, as part of that explanation, please explain in detail the extent to which the new financing structures differ from those involved in the mortgage-backed securities markets before March 2008. If not, please explain why not, citing specific provisions in the TALF Documents.

From the outset of the program, the TALF Terms and Conditions have indicated that "investment funds" that meet certain conditions are included among the broad range of entities that would be eligible to borrow from the TALF. This inclusion reflects a long standing objective to democratize the program by making it available to a wide range of investors. Thus, the *Wall Street Journal's* assertion that the inclusion of such funds was an "eleventh hour" concession to attract participants in the program was inaccurate.

As with other potential borrowers, investment funds are subject to certain legal and compliance standards, outlined in our Master Loan and Security Agreement and our Conflict of Interest and Borrower Eligibility and Due Diligence Policies. The Federal Reserve has not relaxed its borrowing standards with respect to investment funds. To the contrary, our guidance to date has strengthened the requirements associated with investment funds. The Conflict of Interest Policy and Borrower Eligibility & Due Diligence Policy both impose a set of responsibilities with regard to vehicles created by primary dealers.

The Federal Reserve expects to release guidance shortly that will clarify the legal and compliance standards applicable to investment funds, with the aim of ensuring that all borrowers in the program, regardless of investor type, meet a common set of eligibility standards.

4. **To the extent that the TALF Documents will permit the financing and investment structures reported in the *Wall Street Journal*, when will Treasury make public revised TALF Documents to reflect such structures? Given the Administration's expressed commitment to transparency about the terms and implementation of the TARP, please explain why it is appropriate to make changes in the terms of the TALF without making those changes public sufficiently in advance of the effective date of the changes to permit Congressional and public response?**

The Federal Reserve and Treasury are committed to transparency regarding the terms and implementation of the TALF. In an effort to better support the TALF program and its various constituents, the Federal Reserve has provided a significant amount of information through our website, and has periodically updated the Frequently Asked Questions associated with the TALF.

In establishing the TALF program, the Federal Reserve and the Treasury needed to balance the need for public consultation with the need to make the program operational

on a sufficiently timely basis for it to be effective in addressing the ongoing financial crisis, which is imposing severe costs on U.S. households and businesses. Despite this tradeoff, the Federal Reserve has consulted actively with the public and with the Congress. Federal Reserve and Treasury staff have frequently briefed Congressional staff on the progress of the design of the facility. And with the goal of fostering better public dialogue concerning the TALF, we hosted a series of interactive conference calls with the primary dealer community, including their bankers, operations personnel, compliance and legal representatives. With support from the American Securitization Forum, we hosted an issuer and a second primary dealer legal and compliance call where we fielded questions. We also hosted an investor call that was publicly announced and open to the general public. The call was oversubscribed beyond the one thousand available lines we had scheduled, and a replay of the presentation was made available for those who were not able to join the original broadcast. In conjunction with all of these efforts, Federal Reserve staff continued to engage with market participants by answering questions posted to TALF email inboxes or voice mail inboxes or inquiries that were personally directed to the staff. Input gathered through all of these channels has been constructive in shaping the direction of the TALF program and has contributed to subsequent revisions in the program's terms and supporting documentation.

The *Wall Street Journal* provided an inaccurate portrayal of our position with respect to the reported proposals of certain dealers as they regard "vehicles [created] to participate in TALF that would allow investors in the program to circumvent many of the restrictions laid out by the Fed." The Federal Reserve expects to release guidance shortly that will clarify the legal and compliance standards applicable to investment funds, with the aim of ensuring that all borrowers in the program, regardless of investor type, meet a common set of eligibility standards. The guidance will be published on our website.

5. **Two conditions of eligibility described in the TALF Documents appear to have been directed against specific abuses of the mortgage-backed securities market. These are the bar against third-party guarantees (such as, presumably, credit default swaps) of ABS to obtain TALF financing and the ban on such financing for ABS composed of loans originated or securitized by the borrower or an affiliate of the borrower. According to the *Wall Street Journal*, those conditions have recently been weakened or abandoned. Please explain if this is accurate and, if it is, why Treasury would take such steps.**

The *Wall Street Journal* report that the conditions noted in your question have been weakened or abandoned is inaccurate. Neither of these provisions has been altered in any way since the outset of the program.

Under the Terms and Conditions of the TALF, eligible collateral may not be backed by loans originated or securitized by the borrower or an affiliate of the borrower. Primary dealers are required to agree under the Master Loan and Securities Agreement that neither the primary dealer nor its affiliates will enter into any agreement with the intended effect of reducing or eliminating any loss that a TALF borrower would realize

on the sale of TALF collateral in a fair market value transaction. The Terms and Conditions also assert that eligible collateral will not include ABS that obtain credit ratings based on the benefit of a third-party guarantee.

6. **According to the TALF Documents made available online, the TALF is "intended to make credit available to consumers and small businesses on more favorable terms by facilitating the issuance of asset-backed securities (ABS) and improving the market conditions for ABS more generally." Please provide a detailed description of the "current market conditions for ABS." In addition, please provide detailed data indicating the dollar levels of securitization, on a month-by-month basis from January 2007 through January 2009, for each of the categories of loans whose ABS may be purchased with TALF financing.**

Market participants often look to the spread between ABS yields and an underlying reference benchmark rate as a broad indicator of market conditions and risk appetite.[2] As an example, AAA-rated consumer ABS historically traded at a spread of only several basis points above relevant benchmark rates. Spreads began to widen gradually in the summer of 2007, when dislocations in funding markets became apparent. This trend accelerated in March 2008 following the demise of Bear Stearns, and spreads spiked to historically wide levels of between 500 and 600 basis points in the fourth quarter as the severity of the economic downturn became increasingly apparent.

Since the TALF program was announced in November 2008, ABS spreads in the secondary market for TALF-eligible asset classes have narrowed significantly, although they still remain well above their historic norms. Five-year spreads on AAA-rated credit card ABS tightened to 300 basis points above Libor in early February 2009, down from 550 to 600 basis points in December; 3-year AAA-rated auto ABS spreads tightened to 350 basis points above swaps in March, down from 600 basis points in early January; and FFELP student loans of similar tenors and ratings fell to 175 basis points in February, down from 350 basis points in early January. Market participants noted that spreads on each of these asset classes benefitted from inclusion in the original TALF design, even before the first subscription date.

With the onset of the severe dislocation in the credit markets, new issuance of consumer ABS declined precipitously in the third quarter of 2008 before coming to a virtual halt in October. From October 2008 to the TALF's launch in March 2009, a total of $5.7 billion in consumer ABS was issued. Only $550 million of this was student loan ABS, and the rest was auto ABS; no credit card ABS had been issued. This cumulative issuance volume over the past five months compares to average consumer ABS issuance volumes of $20 billion, $18 billion and $6 billion per month during 2007, the first half of 2008 and the third quarter of 2008, respectively. For detailed data on ABS issuance, and some charts showing recent trends ABS prices and issuance, please see Appendixes 2 and 3, respectively.

[2] Reference rates are generally measured against Libor for floating rate collateral and the Libor swap rate for fixed-rate collateral.

It is encouraging that $8.3 billion of credit card and auto ABS was issued coincident with the initial TALF subscription in March, more than doubling the amount of credit card and auto ABS that had been issued since last October. Moreover, as discussed in Question 1, ABS associated with the initial TALF subscription priced at spreads between 100 and 200 basis points lower than previously issued ABS, marking a substantial decline in interest rates for these instruments. The narrowing of spreads has reportedly generated a renewed enthusiasm for ABS following the program's initial success, with more issuance being developed.

7. The TALF Documents indicate that only the purchase of AAA-rated ABS will be eligible for TALF financing. To what extent does the assignment of an AAA rating to such ABS mean that the ABS should be priced at their face value (minus the amount of any discount or the effect of any other collateral or financing requirement or financing cost)? To the extent that such assets are priced as described in the preceding sentence, please explain in detail why the provision of non-recourse financing by the New York Fed and the Treasury is necessary to stimulate the market for the loans involved.

When they are issued, most ABS, regardless of rating, are priced at or near face value, or "par." Some do not issue at par; for example, ABS issued under the Small Business Association 7(a) program are issued at prices well above par. Over time, the market values of the ABS, including AAA ABS, will move above or below par with variations in other market interest rates and variations in the perceived credit risk of the securities.

The non-recourse nature of the TALF loans allows the borrower to elect to surrender the collateral in lieu of repaying the loan. That option limits the downside risk to the borrower to the loss of the funds invested to finance the haircut. Even though, as explained in the answer to Question 2, the haircuts have been chosen to exceed the losses in value likely in nearly all future outcomes, providing investors a limit on potential losses is an important means by which the program stimulates investor demand, even for AAA-rated securities. The provision of non-recourse loans through the TALF program was therefore intended to attract broad investor interest, thus allowing issuers to bring new securities to market at lower spreads. While the nature of this arrangement has a clear value to the investor and issuer, competitive primary markets also ensure that U.S. consumers and small businesses, the ultimate beneficiaries of the program, are able to obtain credit at lower costs.

The success seen from the TALF's first subscription in stimulating new demand and issuance for these types of ABS, of which there had been little to no activity since September, seems to reinforce the program's value. If these results are sustained, this should translate to lower credit rates for households and businesses.

8. Consistent failures of the credit rating agencies were a significant factor in the sales of risky mortgage-backed securities that helped produce the current

financial crisis. In light of these failures, please explain why reliance on credit ratings for the TALF is a reasonable basis on which to protect the taxpayers, regardless of the number of credit-ratings agencies whose opinions are required.

Credit rating agencies (CRAs) continue to play a critical role in ABS markets, and are essential to their effective functioning and recovery. Regulators and industry participants, including the CRAs themselves, are working hard to address the CRA-related failures that contributed to the current financial crisis. These efforts have contributed to tighter underwriting standards and stricter ratings criteria. It is also worth noting that the CRAs' performance has shown a more stable track record with regard to consumer ABS credit ratings.

The TALF program employs a number of safeguards to protect taxpayers, including CRA ratings of eligible collateral. Given this important function, Federal Reserve economists have conducted due diligence on rating agency methodologies for eligible ABS sectors. Moreover, each issuer must hire an external auditor that must provide an opinion, using examination standards, that management's assertions concerning key collateral eligibility requirements are fairly stated in all material respects. The auditor's attestation provides a high level of assurance concerning TALF collateral eligibility requirements.

TALF investors also serve an important ongoing role in price discovery and assessing risk through their ability to demand greater credit enhancements or price concessions. In particular, the sale of securities through TALF in an arms-length transaction is an independent check not only on the underwriting practices of the issuer, but also of the efficacy of rating agency methodologies.

In addition to agency ratings, the TALF program employs other safeguards to protect taxpayer interests, including interest rate premiums and risk-based collateral haircuts. In recognition that the current economic situation is extraordinary and the outlook is especially uncertain, our economists made very conservative assumptions in calibrating the program's haircuts, which together with the interest premiums described in Question 2, provide critical first-loss buffers that shield taxpayers from credit risk should the current outlook prove inaccurate.

9. **There is no indication in the TALF Documents that Treasury has imposed any substantive requirements on any class of loans that may be securitized and financed through the TALF. For example, there are no limits on credit card or student loan interest rates or fees, and no consumer protections against predatory practices of various kinds. What is the rationale for committing taxpayer dollars without conditioning use of those funds on fair treatment of taxpayers? Please explain your answer in detail.**

The Federal Reserve is deeply committed to consumer protection and the Board of Governors has promulgated Regulation Z, designed to promote the informed use of consumer credit as well as significant other protections to consumers associated with

installment credit. We believe that consumer interests are best served under the protections provided by a regulatory regime rather than through the terms of a lending program.

10. Please explain why the Treasury and the Federal Reserve Board decided to use the TALF mechanism to stimulate lending for the classes of assets involved, rather than infusing additional funds into financial institutions for such lending.

The TALF program supports the provision of loans to consumers and small businesses. Although these loans traditionally have been financed through securitization, funding for such activities has dissipated in the current crisis. The TALF fills this liquidity gap.

The TALF is just one of many programs undertaken by the Federal Reserve, Treasury, and other agencies to strengthen financial institutions and encourage lending, including efforts to recapitalize financial institutions and to provide an abundant supply of liquidity. For example, the Federal Reserve's decisions to lower rates on and lengthen the maturity of primary credit loans, and to create the Term Auction Facility, have helped to relieve short-term liquidity strains for individual institutions and the banking system as a whole. Nevertheless, ongoing stress on financial institutions arising from their residential and commercial real estate exposures continues to constrain their ability to intermediate credit across the broader markets.

The TALF complements other policy initiatives by re-opening channels of funding for assets that had traditionally been securitized.

11. What is the rationale for financing sale of securitized debt issued by U.S. subsidiaries of non-U.S. companies under TALF?

The U.S. subsidiaries of non-U.S. companies supply credit to U.S. consumers and businesses and employ U.S. workers. Moreover, at least 95 percent of the loans backing the ABS accepted as collateral for the TALF program must be loans to U.S domiciled borrowers, i.e., U.S. domiciled students, car purchasers, small businesses and credit card customers. Consequently, financing the sale of these entities' securitized debt, provided the debt meets all other eligibility criteria outlined in the program's documentation, further advances the core policy objective of re-opening the flow of credit to U.S. households and businesses.

Note: A list of URLs for official program documentation referenced throughout this response can be found in Appendix 4.

APPENDIX 1

Schedule of Haircuts
Effective March 19, 2009

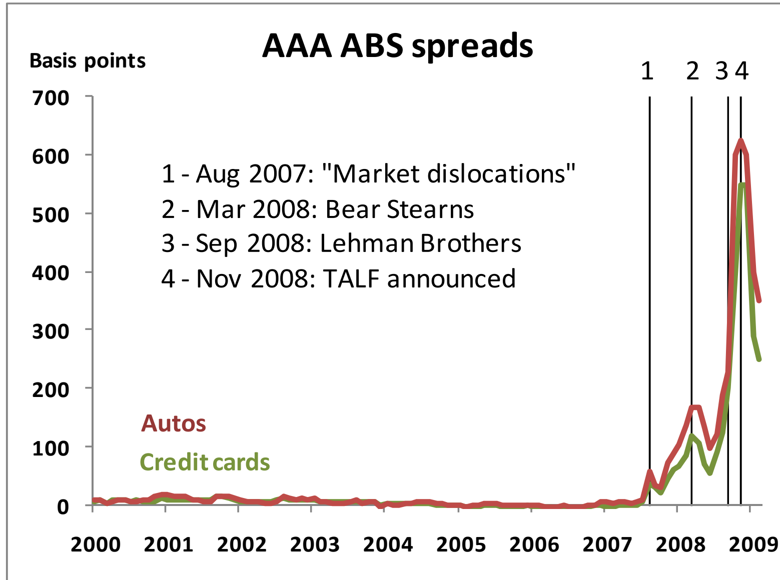
		ABS Expected Life (years)						
Sector	Subsector	0-1	>1-2	>2-3	>3-4	>4-5	>5-6	>6-7
Auto	Prime retail lease	10%	11%	12%	13%	14%		
Auto	Prime retail loan	6%	7%	8%	9%	10%		
Auto	Subprime retail loan	9%	10%	11%	12%	13%		
Auto	Motorcycle/other recreational vehicles	7%	8%	9%	10%	11%		
Auto	Commercial and government fleets	9%	10%	11%	12%	13%		
Auto	Rental fleets	12%	13%	14%	15%	16%		
Credit Card	Prime	5%	5%	6%	7%	8%		
Credit Card	Subprime	6%	7%	8%	9%	10%		
Equipment	Loans and leases	5%	6%	7%	8%	9%		
Floorplan	Auto	12%	13%	14%	15%	16%		
Floorplan	Non-auto	11%	12%	13%	14%	15%		
Small Business	SBA loans	5%	5%	5%	5%	5%	6%	6%
Student Loan	Private	8%	9%	10%	11%	12%	13%	14%
Student Loan	Gov't guaranteed	5%	5%	5%	5%	5%	6%	6%
Servicing Advances	Residential mortgages	12%	13%	14%	15%	16%		

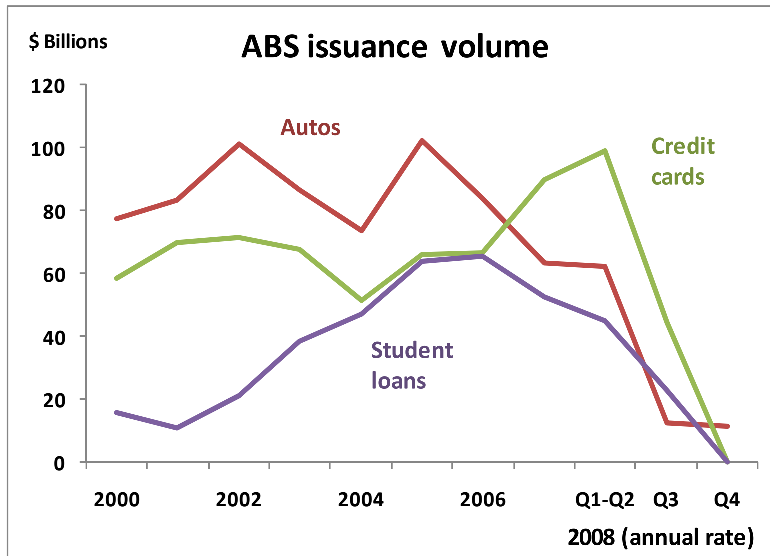
APPENDIX 2

Monthly Consumer ABS Issuance (in millions): January 2007 to March 2009						
		Credit Cards	**Auto**	**Student Loan**	**SBA 7(a)**	**SBA 504**
Year	Month	Total	Total	Total	Total	Total
2007	Jan	5,025	3,469	4,704	387	361
	Feb	10,549	7,996	6,571	349	310
	Mar	8,747	2,305	12,182	195	387
	Apr	6,474	5,277		312	378
	May	8,790	9,307	4,336	188	449
	Jun	7,255	8,878	4,871	194	386
	Jul	8,483	2,915	5,591	353	381
	Aug	6,250	4,915	1,500	408	466
	Sept	7,868	6,414	3,548	318	452
	Oct	15,633	7,580	3,918	527	414
	Nov	3,225	4,437	5,343	191	421
	Dec	1,700	2,380		740	395
2007 Total		89,998	65,873	52,564	4,162	4,801
2008	Jan	13,388	6,647	3,814	421	429
	Feb	3,660	1,876	982	231	311
	Mar	10,079	1,915	3,311	161	418
	Apr	8,594	3,446	6,531	321	492
	May	8,758	10,791	1,310	384	443
	Jun	5,909	5,814	6,516	312	412
	Jul	4,484	2,104	1,570	408	491
	Aug	3,978		4,086	214	367
	Sept	6,129	1,094		225	454
	Oct		376		136	312
	Nov		500		142	389
	Dec		1,897		102	397
2008 Total		64,980	36,460	28,120	3,060	4,916
2009	Jan	3,500	1,300		130	283
	Feb		1,073	547	280	235
	Mar	3,425	5,115	1,498	150	319
2009 Total		6,925	7,488	2,045	560	837
2007-2009 Total		**161,903**	**109,820**	**82,729**	**7,782**	**10,554**

Source: JPMC, Colson Services

APPENDIX 3





Appendix 4

TALF program documentation referenced throughout this response can be found on the Federal Reserve Bank of New York's website at the following URLs:

Terms and Conditions
http://www.newyorkfed.org/markets/talf_terms.html

Frequently Asked Questions (FAQs)
http://www.newyorkfed.org/markets/talf_faq.html

Master Loan and Security Agreement
http://www.newyorkfed.org/markets/mlsa_032709.pdf

Auditor Attestation Form
http://www.newyorkfed.org/markets/TALFAuditorAttestationForm.pdf

Conflict of Interest Policy
http://www.newyorkfed.org/markets/TALF_Conflict_of_Interest.pdf

Borrower Eligibility and Due Diligence Policy
http://www.newyorkfed.org/markets/TALF_FRBNY_Due_Diligence_Policy.pdf

APPENDIX III: LETTER FROM CONGRESSIONAL OVERSIGHT PANEL CHAIR ELIZABETH WARREN TO TREASURY SECRETARY MR. TIMOTHY GEITHNER, DATED MARCH 30, 2009

CONGRESSIONAL OVERSIGHT PANEL

Elizabeth Warren, Chair | Sen. John E. Sununu | Rep. Jeb Hensarling | Richard H. Neiman | Damon Silvers

March 30, 2009

The Honorable Timothy F. Geithner
Secretary of the Treasury
United States Department of the Treasury
Room 3330
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20222

Dear Secretary Geithner:

The announcement of the Capital Assistance Program, on February 25, 2009, described the Program's objectives as "[restoring] . . . confidence in the strength and viability of our financial institutions."[1] The announcement emphasizes a "one-time forward looking supervisory assessment" designed to test the ability of each of the nation's 19 largest bank holding companies to absorb the losses generated by a worse-than-expected decline in economic activity. As the Treasury recognizes, the ability of such institutions to maintain adequate capital under current conditions is essential to the efforts to stabilize the financial system.

Because of their importance, the Congressional Oversight Panel has undertaken a study of the theories underlying and details of the assessment. The Panel is being assisted in conducting its study by Professors Eric Talley and Johan Walden. Professor Talley is a member of the faculty of the UC Berkeley School of Law (where he is co-director of the Berkeley Center for Law, Business, and the Economy), and a visiting member of the faculty of the Harvard Law School. Professor Walden is a member of the faculty of the UC Berkeley Haas School of Business.

I am writing to you, in my capacity as Chair of the Congressional Oversight Panel (the "Panel") to obtain the information specified below (the "Specified Information") and to arrange a series of meetings (the "Meetings") to discuss the Specified Information and related topics. The Specified Information and the Meetings are necessary for the Panel to carry out section 125 of the Emergency Economic Stabilization Act of 2008, and the Panel is seeking the Specified Information and the Meetings pursuant to section 125(e)(3) of that Act.

[1]Treasury White Paper "The Capital Assistance Program and its role in the Financial Stability Plan," (February 25, 2009), page 1.

The Specified Information is:

1. all memoranda concerning, and written descriptions of, any risk management, bank capital, economic, regulatory, legal, or statistical model or theory underlying or contributing to the Assessment;

2. all memoranda concerning, and written descriptions of, what the Assessment will attempt to measure, including, but not by way of limitation, the manner in which the Program proposes to measure cataclysmic risk;

3. all memoranda concerning, written descriptions of, and simulations pertaining to, the distributional and any other assumptions on which the Assessment rests, and the theories underlying and content of the projections it will employ, both in general terms and with respect to specific institutions;

4. all memoranda concerning, written descriptions of, and simulations pertaining to, the theories underlying and content of all economic assumptions that may be incorporated in, or used as part of, the Assessment, both in general terms and with respect to specific institutions;

5. all memoranda concerning, written descriptions of, and simulations pertaining to, the thresholds, terms, and manner in which the Assessment will be applied to specific institutions, including, but not by way of limitation, the ranges of outcomes within which any judgments about capital adequacy or the need for infusion of additional capital will be made, whether in general terms or with respect to any specific institution; and

6. all information obtained during, or contained in notes or recordings of, the Meetings.

The Meetings. The Meetings will be one or more gatherings to discuss all or part of the Specified Information, attended by (i) officials of the Treasury, including, but not by way of limitation, the senior officials of the Office of the Comptroller of the Currency (the "OCC") and of the Office of Thrift Supervision ("OTS") who are responsible for the Assessment, (ii) members or staff of the Panel, or both, and (iii) Professor Talley, Professor Walden, or both.

* * * *

Capitalized terms in this letter that are not defined above are defined in a document entitled "Congressional Oversight Panel – Supervisory Assessment Request, Definitions and Protocol for Document Production and Protection, dated March 30, 2009," enclosed with this letter.

I would be happy to answer any questions about this letter that you may have. If you would prefer, a member of your staff can contact the Panel's Executive Director, Naomi Baum, to discuss any such questions. Ms. Baum's telephone number is [redacted].

Kindly respond to the requests for information, and for the meetings, described within twenty-one (21) calendar days from the date of this letter. In that connection, please provide the

Panel with the names of one or more individuals who will be responsible for responding to this letter within seven (7) days from the date of this letter.

Very truly yours,

Elizabeth Warren
Chair
Congressional Oversight Panel

Enclosure

Congressional Oversight Panel – Supervisory Assessment Request

Definitions and Protocol for Document Production and Protection, dated March 30, 2009

Documents defined in the letter, dated March 30, 2009 (the "Letter"), from Elizabeth Warren, Chair of the Congressional Oversight Panel (the "Panel"), to Hon. Timothy F. Geithner, Secretary of the Treasury, to which this document relates, shall have the same meaning in this document as they have in the Letter.

Definitions.

As used in the Letter:

1. Any reference to "assessment" means the one-time forward looking supervisory assessment described in the Treasury White Paper entitled "The Capital Assistance Program and its Role in the Financial Stability Plan," (February 25, 2009), appearing at http://www.ustreas.gov/press/releases/reports/tg40_capwhitepaper.pdf, as such supervisory assessment has been defined, designed, and implemented, and applied both generally and to all relevant bank holding companies and their subsidiaries, by staff of one or more of the Department of the Treasury, the OCC, OTS, the Board of Governors of the Federal Reserve System (including, but not by way of limitation, the Federal Reserve Banks), the Federal Deposit Insurance Corporation, and the National Credit Union Administration.

2. Any reference to "information" means any writings, drawings, graphs, charts, photographs, sound recordings, images, and other data or data compilations, by whomever prepared, whether in "hard copy" (i.e., paper) form or stored in any medium from which information can be obtained either directly or, if necessary, after translation by the responding party into a reasonably usable form, as well as the identity of any person employed by or serving as an agent or consultant for the Government, or with whom any employee or agent or consultant of the Government may have communicated, who may have knowledge relevant to the requested information and information sufficient for the Panel to contact such person including but not limited to such person's name, title, telephone number, and electronic mail address.

3. Any reference to the "Department of the Treasury," or to any other department, agency, or instrumentality of government, shall include a reference to any bureau, office, or instrumentality thereof.

Document Production.

1. The specified information is limited to any and all information described in the nine paragraphs of the Letter that is in the possession of the Treasury (directly or subject to physical or electronic storage on behalf of Treasury), or to which the Treasury has access, or the right (whether via existing agreement or under the law) to obtain access. Information is subject to the terms of this request regardless of the source of such information, the person or persons by or on behalf of whom such information was prepared or generated, and the person or persons by whom such information is now held.

2. To the extent that the Treasury is aware of any information that is not in Treasury's possession, custody, or control that would otherwise constitute specified information, please

provide information sufficient to identify and locate that information and to request its production to the Panel.

3. In the event that specified information is withheld on any basis, please provide to the Panel a written description of (i) the type of information that is being withheld; (ii) the general subject matter to which the information relates; (iii) the reason such information is being withheld, including, but not by way of limitation, the statute or regulation under which such information is being withheld and the application of such statute or regulation to such information (described with sufficient detail that the Panel can determine the applicability of such statute or regulation to the information); (iv) the date, author, and addressee, if applicable; and (v) the relationship of the author and addressee, if applicable.

4. This request is continuing in nature and applies to any newly discovered information or to information generated or received after the date of the Letter. To the extent that any information is not provided to the Panel because it has not been located or discovered as of the return date or is generated or received after the return date, please produce such information to the Panel as soon as possible after its discovery or, if the information will not be produced for any reason, please provide the Panel with the information requested in the immediately preceding paragraph of this letter.

Document Protection.

1. Any individual hired or retained by the Panel under section 125(d)(2) of the Emergency Economic Stabilization Act of 2008 will execute a confidentiality agreement with the Panel prior to obtaining access to any portion of the specified information provided to the Panel by the Treasury. The agreement will provide that such individual is subject to the ethical and non-disclosure obligations of an employee of the United States Senate and of the Panel. Any issues relating to such obligations may be directed to, and will be addressed by, the Panel's Ethics Counsel.

2. The Panel will not provide any of the specified information directly to the public. Instead, it will refer those who request such specified information to the Treasury.

3. The Panel will not disclose the text of any of the specified information in any document originated by the Panel, without notifying Treasury and providing a reasonable time for Treasury to state its objections. Notwithstanding the immediately preceding sentence, the Panel may include a general description or descriptions, analysis, or analyses of any such information in any such document. Any draft of any such documents prepared by any consultant to the Panel will be reviewed by senior staff of the Panel to assure that no improper disclosure has occurred.

4. The Panel does not intend to disclose to the public any trade secret and commercial or financial information that is contained within or as part of any specified information and that is privileged or confidential such that it is subject to the terms of 18 U.S.C. § 1905.

5. We believe that the Panel is generally not authorized to withhold information from Congress, see 31 U.S.C. § 716(e)(3), or from a court. Should the Panel receive a congressional request or court order that would require the Panel to produce any portion of the specified information, the Panel will notify the Treasury of the request prior to disclosure and provide the Treasury with the opportunity to express any concerns it may have about such production to the requester or to the court. In addition, the Panel will notify the recipient of the records of the

proprietary nature of the material, including using a legend advising that further release may be prohibited by 18 U.S.C § 1905.

6. To ensure the confidentiality and security of the specified information, the Panel will store such information in locked cabinets in a locked room on the Panel's premises, to which only the Panel's Executive Director, Deputy Director, and Chief Clerk have keys. A log will be kept of any person who is granted access to that room.

Except as provided in the next paragraph, electronic data will be stored on a single computer in encrypted form; such computer will be placed in the locked room described in the preceding paragraph. The computer will be password-protected and will not be connected to any other computer or network; the USB ports that would otherwise permit copying from that computer will be disabled. Logs will be kept of any document printed from the computer and such document will be numbered to permit its identification; any such documents will be subject to the same controls as those described above for documents originally in paper form.

With the approval of the Treasury (and, where applicable, any other department, agency, or instrumentality of the government that originated such Specified Information) Specified Information may be stored on a secure computer to which Professors Talley and Walden shall have Internet access on an encrypted basis or on a secure computer located at the Federal Reserve Banks of Boston and San Francisco.

APPENDIX IV: LETTER FROM CONGRESSIONAL OVERSIGHT PANEL CHAIR ELIZABETH WARREN TO TREASURY SECRETARY MR. TIMOTHY GEITHNER, DATED MARCH 25, 2009

CONGRESSIONAL OVERSIGHT PANEL

Elizabeth Warren, Chair | Sen. John E. Sununu | Rep. Jeb Hensarling | Richard H. Neiman | Damon Silvers

March 25, 2009

The Honorable Timothy F. Geithner
Secretary of the Treasury
United States Department of the Treasury
Room 3330
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

As you are aware, the Congressional Oversight Panel (the Panel) was established by section 125 of the Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343 (EESA), to conduct oversight of the Troubled Asset Relief Program (TARP). We are charged with reporting our findings directly to Congress.

In discharging our duties, we have sent information requests to you and requested that you appear for a public hearing. We understand that you have been dealing with many important issues, and we have tried to be flexible to accommodate those other demands. Despite repeated promises from your staff that the information we requested will be furnished shortly, we still do not have substantive responses to any of our inquiries. And despite repeated promises from your office, we have not received any dates on which you will be available for a hearing.

We have also requested more details about the economic programs Treasury has advanced. Despite our requests, we discovered that the Public-Private Investment Fund Program announced Monday explicitly required access to information about the program for the Special Inspector General and the Government Accountability Office, while omitting access to such information for the Congressional Oversight Panel. As our requests make clear, we require access to detailed program information in order to fulfill our statutory mandate.

This lack of responsiveness impairs our ability to conduct effective oversight. It is unacceptable. Section 125(e)(3) of EESA clearly spells out Congress' intent for a productive relationship between Federal departments and agencies and the Panel. Information from the Treasury Department and from the Secretary of the Treasury should be readily available to the

Congressional Oversight Panel, and your failure to cooperate jeopardizes the credibility of the recovery process.

We share a common goal of transparency; therefore we look forward to your prompt attention to these matters.

Sincerely,

Elizabeth Warren
Chair
Congressional Oversight Panel

APPENDIX V: LETTER FROM CONGRESSIONAL OVERSIGHT PANEL CHAIR ELIZABETH WARREN TO TREASURY SECRETARY MR. TIMOTHY GEITHNER, DATED MARCH 24, 2009

CONGRESSIONAL OVERSIGHT PANEL

Elizabeth Warren, Chair | Sen. John E. Sununu | Rep. Jeb Hensarling | Richard H. Neiman | Damon Silvers

March 24, 2009

The Honorable Timothy F. Geithner
Secretary of the Treasury
United States Department of the Treasury
Room 3330
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

The actions of the Department of the Treasury, and the Federal Reserve Board, in providing continued capital infusions and other assistance to the American International Group, Inc., have raised a number of important questions. These include the economic consequences of such assistance, the ultimate beneficiaries of the assistance, and the manner in which the objectives of the assistance have been defined, and their fulfillment monitored, by Treasury and the Board. The Congressional Oversight Panel is concerned about these issues. It is particularly concerned that the opaque nature of the relationship among AIG, its counterparties, the Treasury, the Board, and the Federal Reserve Banks, particularly the Federal Reserve Bank of New York, have substantially hampered oversight of the Troubled Assets Relief Program by Congress and, equally important, have impaired the understanding of that Program by the American people.

I am writing to you, as Chair of the Panel, to secure from the Department of the Treasury (the "Treasury") the information specified below (the "specified information"). The specified information is necessary for the Panel to carry out section 125 of the Emergency Economic Stabilization Act, and this information request is made pursuant to section 125(e)(3) of that Act.

The specified information is as follows:

1. All information relating to any request for, or any analysis of the need for, the provision of any financial assistance to the American International Group, Inc. ("AIG"), to whomever such request was made or by whomever such analysis was undertaken.

2. All information about the risk to the national and international financial systems, and any part of those systems, or to the financial condition of any financial institution or institutions in the United States, other countries, or both, if the financial

condition of AIG were to deteriorate or if AIG were to become insolvent or forced to enter receivership or bankruptcy reorganization.

3. All information relating to the nature and provision by the Government[1] of any financial assistance to AIG, any conditions placed by the Government on any such assistance, and the use by AIG of such assistance, including, but not by way of limitation, any conditions placed on the grant or use of such assistance, and any use of such assistance to satisfy any obligation or liability of AIG to any person, including, but not by way of limitation, any non-United States person.

4. All information relating to (i) the identity of any counterparties of AIG (an "AIG counterparty") on any credit default swap or similar instrument written, sold, or held, by AIG and any loan of securities or similar transaction entered into between AIG and any AIG counterparty, outstanding on or after January 1, 2008 (ii) the amount of the monetary exposure of AIG to such counterparty, (iii) the amount of the monetary exposure of such AIG counterparty to AIG, including, but not by way of limitation, the amount of collateral due from, and potential loss faced by, each counterparty of AIG, both absolutely and as a percentage of the total dollar amount of all transactions outstanding between AIG and such counterparty, in the event that the credit rating of AIG was downgraded, AIG sought bankruptcy or similar protection, or both, and (iv) any other relationships, economic or otherwise, between AIG and any such AIG counterparty.

5. All information relating to value of any credit default swap, similar instrument, or securities loan as shown on the financial statements of AIG filed with United States Securities and Exchange Commission (the "SEC") Form 10K for 2007, including, but not by way of limitation, (i) the accounting and valuation methods and conventions used to arrive at such value, (ii) whether such methods were in accordance with "generally accepted accounting principles" as defined by the Financial Accounting Standards Board for purposes of the reporting of financial results to the SEC, and (iii) the Government's assessment of the accuracy of such valuation, at all relevant periods comprehended by the questions contained in this letter.

6. All information relating to any counterparties of any counterparties listed in response to paragraph (4) (that is, counterparties of AIG counterparties) and the amount of the exposure of each AIG counterparty to such additional counterparty that reflected AIG's liability to such AIG counterparties, and the extent of the ability of each AIG counterparty to satisfy its obligations to such additional counterparty without the use of assets derived from the financial assistance provided to AIG.

7. All information relating to the facts described in an article entitled “Goldman Insists It Would Have Lost Little if A.I.G. Had Failed,” which was published on page B5 of *The New York Times* for Saturday, March 21, 2009.

[1] Capitalized terms in this letter that are not defined herein are defined in a document entitled "Congressional Oversight Panel – AIG Request, Definitions and Protocol for Document Production and Protection, Dated March 23, 2009,"and attached to this letter.

8. All information relating to the creation by the Federal Reserve Bank of New York of the lending facilities Maiden Lane II LLC, established to fund the purchase of residential-MBS from AIG's securities lending portfolio, and Maiden Lane III LLC, established to purchase collateralized debt obligations on which AIG had written credit default swaps. Such information shall include, but not by way of limitation, the identity of each counterparty or other person from whom purchases were made by either Maiden Lane II LLC, Maiden Lane III LLC, or both, amount of each such purchase, the current value of the assets of Maiden Lane II LLC and Maiden Lane III LLC, the consequences of such transactions for the financial condition of AIG, and the accounting and valuation methods and conventions used to value any such assets either at the time of purchase or for purposes of determining their value on the balance sheets of either such limited liability company and for determining the consequences of such transactions for the financial condition of AIG.

9. All information relating to the terms of and guidelines for the executive compensation and retention programs of AIG, including, but not by way of limitation, any reports to AIG by external compensation or other consultants concerning the same.

* * * *

I would be happy to answer any questions about this letter that you may have. If you would prefer, a member of your staff can contact the Panel's Executive Director, Naomi Baum, to discuss any such questions. Ms. Baum's telephone number is [redacted].

Kindly respond to the request for information contained in this letter within twenty-one (21) calendar days from the date of this letter.

Very truly yours,

Elizabeth Warren
Chair
Congressional Oversight Panel

Enclosure

APPENDIX VI: LETTER FROM CONGRESSIONAL OVERSIGHT PANEL CHAIR ELIZABETH WARREN TO TREASURY SECRETARY MR. TIMOTHY GEITHNER, DATED MARCH 20, 2009

CONGRESSIONAL OVERSIGHT PANEL

Elizabeth Warren, Chair | Sen. John E. Sununu | Rep. Jeb Hensarling | Richard H. Neiman | Damon Silvers

March 20, 2009

The Honorable Timothy F. Geithner
Secretary of the Treasury
United States Department of the Treasury
Room 3330
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

I am writing to you because the Congressional Oversight Panel (the "Panel"), is concerned about the terms and operation of the Term Asset-Backed Loan Facility (the "TALF").[1] More specifically, the Panel is concerned that the TALF appears to involve substantial downside risk and high costs for the American taxpayer. Equally important, the TALF appears potentially to subsidize the continuation of financial instruments and arrangements whose failure was a primary cause of the current economic crisis. In addition, the Panel is concerned because documents currently posted on the Treasury's website describing the terms of operation of the TALF and press reports about the content of those terms as they are to be implemented by the Federal Reserve Bank of New York (the "New York Fed") contradict each other.

I am therefore requesting that you answer the questions posed in this letter so that the Panel may fulfill its Congressionally-mandated oversight function. The Panel was established by section 125 of the Emergency Economic Stabilization Act of 2008, Pub. L. No. 110-343 ("EESA"). The information sought by this letter is necessary for the Panel to carry out section 125 of EESA, and this information request is made pursuant to section 125(e)(3) of EESA. Your prompt response to the Panel's requests is greatly appreciated.

The operation of the TALF is explained in documents (the "TALF Documents") issued on March 3, and March 17, 2009, by one or more of the Federal Reserve Bank of

[1] The launch of the TALF was announced jointly by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the Department of the Treasury (the "Treasury") on March 3, 2009. U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, *Joint Press Release* (Mar. 3, 2009) (online at www.federalreserve.gov/newsevents/press/monetary/ 20090303a.htm).

New York (the "New York Fed"), the Federal Reserve Board, and the Treasury.[2] The TALF Documents describe a mechanism for "facilitating the issuance of asset-backed securities" ("ABS") involving pools of, *inter alia*, credit card, automobile, student, and small business loans. The Documents explain that the TALF will provide 90 per cent non-recourse financing, through one or more special purpose vehicles established by the New York Fed and funded by the New York Fed and the Treasury, for the direct purchase of ABS by investors. The TALF Terms impose several conditions on eligibility that are seemingly designed to avoid some of the abuses of the securitization process that helped produce the financial meltdown.

Notwithstanding the TALF Documents on the official website, the *Wall Street Journal* reported on March 14, 2009, that the New York Fed has agreed to what appears to be a fundamental alteration in the TALF and delayed the start of TALF auctions for several days for that reason. According to the *Journal*:

> "Wall Street dealers, including J.P. Morgan Chase & Co. and Barclays PLC's Barclays Capital, have created vehicles to participate in the TALF that would allow investors in the program *to circumvent many of the restrictions laid out by the Fed. The vehicles resemble collateralized debt obligations, or CDOs, and use some of the financial engineering that was partially responsible for the collapse of the credit markets.* (Emphasis supplied.)
>
> . . . .
>
> "Under the new proposal, a bank such as Barclays or J.P. Morgan would set up a trust to buy securities with money borrowed from the Fed. The trust would then sell investors securities in the trust. Those securities would give returns similar to the TALF loan, but without the strings attached.

[2] The TALF Documents are: (i) Federal Reserve Bank of New York, *Term Asset-Backed Securities Loan Facility: Terms and Conditions* (Effective Mar. 3, 2009) (the "TALF Terms") (online at www.newyorkfed.org/markets/talf_terms.html); (ii) Federal Reserve Bank of New York, *Term Asset-Backed Securities Loan Facility (TALF) Frequently Asked Questions, Effective March 17, 2009,* (the "TALF FAQs") (online at www.newyorkfed.org/markets/talf_faq.htm); (iii) U.S. Department of the Treasury, *The Consumer and Business Lending Initiative, A Note on Efforts to Address Securitization Markets and Increase Lending* (Mar. 3, 2009) (online at www.treasury.gov/press/releases/reports /talf_white_paper.pdf); and (iv) U.S. Department of the Treasury, *Guidelines for the Consumer and Business Lending Initiative (CBLI) Program* (Mar. 3, 2009) (online at www.treasury.gov/press/releases/reports/talf_white_paper.pdf).

"The dealers say they could create markets for these derivative securities to trade, and a presentation by Barclays says they may be rated by credit-ratings companies and listed on the Irish Stock Exchange, a home for many CDOs."[3]

Questions.

1. Please explain in detail why the Treasury and the Federal Reserve Board believe it is wise to commit billions of dollars to rebuild the market for collateralized debt obligations and the redistribution and subdivision of interests in asset pools, in light of the risks posed for the financial system by these arrangements."

2. The thrust of the TALF appears to be to attract investors with large pools of capital, such as hedge funds, to the ABS market by allowing them to purchase ABS on a highly leveraged basis with risk of loss largely transferred to the taxpayer directly or, through the Federal Reserve System, indirectly, in a manner that confers substantial benefits on these private investors who have little at stake. Please explain in detail the rationale for such a transfer of risk to the taxpayers with so much of the benefit transferred to private investors and please provide the facts and figures that support this rationale.

3. Is the report in the *Wall Street Journal* substantially correct? If so, please explain in detail how the final terms, details, and structure of the financing vehicles that are treated as eligible for the TALF will reflect the investment vehicles and packaging and repackaging of ABS described in the *Wall Street Journal* article, and, as part of that explanation, please explain in detail the extent to which the new financing structures differ from those involved in the mortgage-backed securities markets before March 2008. If not, please explain why not, citing specific provisions of the TALF Documents.

4. To the extent that the TALF Documents will permit the financing and investment structures reported in the *Wall Street Journal*, when will Treasury make public revised TALF Documents to reflect such structures? Given the Administration's expressed commitment to transparency about the terms and implementation of the TARP, please explain why it is appropriate to make changes in the terms of the TALF without making those changes public sufficiently in advance of the effective date of the changes to permit Congressional and public response?

5. Two conditions of eligibility described in the TALF Documents appear to have been directed against specific abuses of the mortgages-backed securities market. These are the bar against third party guarantees (such as, presumably, credit default swaps) of ABS to obtain TALF financing and the ban on such financing for ABS composed of loans originated or securitized by the borrower or an affiliate of the borrower. According to the *Wall Street Journal*, those conditions have recently been

[3] Liz Rappaport, *TALF is Reworked After Investors Balk*, The Wall Street Journal, at B4 (Mar. 14, 2009) (the "Wall Street Journal Article").

weakened or abandoned. Please explain if this report is accurate and, if it is, why Treasury would take such steps.

6. According to the TALF Documents made available online, the TALF is "intended to make credit available to consumers and small businesses on more favorable terms by facilitating the issuance of asset-backed securities (ABS) and improving the market conditions for ABS more generally."[4] Please provide a detailed description of the "current market conditions for ABS." In addition, please provide detailed data indicating the dollar levels of securitization, on a month-by-month basis from January 2007 through January 2009, for each of the categories of loans whose ABS may be purchased with TALF financing.

7. The TALF Documents indicate that only the purchase of AAA-rated ABS will be eligible for TALF financing. To what extent does the assignment of an AAA rating to such ABS mean that the ABS should be priced at their face value (minus the amount of any discount or the effect of any other collateral or financing requirement or financing cost)? To the extent that such assets are priced as described in the preceding sentence, please explain in detail why the provision of non-recourse financing by the New York Fed and the Treasury is necessary to stimulate the market for the loans involved.

8. Consistent failures of the credit rating agencies were a significant factor in the sales of mortgage-backed securities that helped produce the financial meltdown. In light of these failures, please explain why reliance on credit ratings for the TALF is a reasonable basis on which to protect the taxpayers, regardless of the number of credit-ratings agencies whose opinions are required.

9. There is no indication in the TALF Documents that Treasury has imposed any substantive requirements on any class of loans that may be securitized and financed through the TALF. For example, there are no limits on credit card or student loan interest rates or fees, and no consumer protections against predatory practices of various kinds. What is the rationale for committing taxpayer dollars without conditioning use of those funds on fair treatment of taxpayers? Please explain your answer in detail.

10. Please explain why the Treasury and the Federal Reserve Board decided to use the TALF mechanism to stimulate lending for the classes of assets involved, rather than infusing additional funds into financial institutions for such lending.

11. What is the rationale for financing sale of securitized debt issued by U.S. subsidiaries of non-U.S. companies under the TALF?

[4] TALF Terms, at 1.

I would be happy to answer any questions that you may have about this letter. If you would prefer, a member of your staff can contact the Panel's Executive Director, Naomi Baum, at [redacted].

Kindly respond to the request for information contained in this letter within seven (7) calendar days from the date of this letter

Sincerely,

Elizabeth Warren
Chair
Congressional Oversight Panel

APPENDIX VII: LETTER FROM CONGRESSIONAL OVERSIGHT PANEL CHAIR ELIZABETH WARREN TO TREASURY SECRETARY MR. TIMOTHY GEITHNER, DATED MARCH 5, 2009

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

March 5, 2009

Hon. Mr. Timothy F. Geithner
Secretary of the Treasury
U. S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Geithner:

Thank you for your February 23, 2009 letter. During your brief tenure, Treasury has taken important steps towards improving accountability and increasing transparency in its financial stabilization programs, and starting to implement a plan of relief for struggling home owners.

Your letter and, more important, your actions as Secretary of the Treasury, have addressed many of the Congressional Oversight Panel's concerns. I am writing, however, as part of our ongoing oversight obligations under the Emergency Economic Stabilization Act of 2008 because of the Panel's concern that many of the questions we raised remain unanswered. The Panel cannot fulfill its obligations to the Congress unless it can obtain complete and candid answers to its questions in a timely fashion. We understand that you and your staff face many immediate challenges, and we are willing to work with you to set a reasonable timetable for a response to the Panel's open questions. But meaningful answers are essential.

There are many questions that we believe must be addressed in coming weeks, but we ask you to focus your attention on one immediate issue. Treasury has not explained how its financial stabilization programs fit together to address the problems that caused this crisis. This failure to connect specific programs to a clear strategy aimed at the root causes of the crisis has produced uncertainty and drained your work of public support. Financial institutions, businesses, and consumers will not return to healthy investment in the economy if they fear that the federal government is careening from one crisis to another without an intelligible road map.

For these reasons, we ask that you provide answers to the following questions about Treasury's current views and the approach outlined in the Administration's recently-issued

Financial Stability Plan. Please answer each question in detail and please indicate the economic or other evidence on which your each answer rests:

1. What do you believe the primary causes of the financial crisis to have been? Are those causes continuing? How does your overall strategy for using Treasury authority and taxpayer funds address those causes?

2. What is the best way to recapitalize the banking system? How does your answer relate to your assessment of the causes of the financial crisis?

3. What is your view of the economic status of the American consumer and the amount that constitutes a healthy debt burden for the consumer? The Consumer and Business Lending Initiative and elements of the Homeowner Affordability and Stability Plan are designed to restart consumer purchases of homes and automobiles, but the success of these programs depends on the ability of consumers to absorb more debt. Has Treasury developed any data to determine whether consumers can shoulder the additional debt to power these initiatives?

In order to advance our understanding of Treasury's strategic plan, I request that, in addition to providing the Panel with written answers by March 20, you share the core of those answers in a Panel hearing on Financial Stability Program strategy on March 12 or March 19, 2009.

The Panel looks forward to working with you in its oversight capacity as you address the economic crisis. If we can be of any assistance, please do not hesitate to contact me or have a member of your staff contact the Panel's Executive Director, Naomi Baum, at [redacted] or [redacted].

Sincerely,

Elizabeth Warren
Chair
Congressional Oversight Panel

cc: Sen. John E. Sununu
cc: Rep. Jeb Hensarling
cc: Mr. Richard H. Neiman
cc: Mr. Damon A. Silvers

APPENDIX VIII: LETTER FROM CONGRESSIONAL OVERSIGHT PANEL CHAIR ELIZABETH WARREN TO TREASURY SECRETARY MR. TIMOTHY GEITHNER, DATED JANUARY 28, 2009

Congressional Oversight Panel

732 North Capitol Street, NW
Rooms C-320 and C-617
Mailstop: COP
Washington, DC 20401

January 28, 2009

Mr. Timothy F. Geithner
Secretary of the Treasury
U. S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Geithner:

Congratulations on your successful confirmation as Treasury Secretary. I am writing as Chair of the Congressional Oversight Panel to affirm the Panel's commitment to working with you as we carry out the duties assigned to us by Congress in Section 125 of the Emergency Economic Stabilization Act of 2008, Public Law 110-343.

In your opening statement to the Senate Finance Committee during your confirmation hearing on January 21, 2009, you committed to ensuring that Troubled Asset Relief Program (TARP) funding be allocated "with tough conditions to protect the taxpayer and the necessary transparency to allow the American people to see how and where their money is being spent and the results those investments are delivering." The Panel was encouraged by this statement and by your emphasis on transparency and accountability in your answers to the written follow-up questions you received from the Finance Committee after the hearing. Many of your proposed changes to TARP reflect the concerns we have expressed in both of our oversight reports.

In our first oversight report, we sent your predecessor ten questions consisting of forty-six sub-questions, seeking more information on behalf of the American public on Treasury's strategy, the selection process for TARP recipients, the uses to which this funding is being put, Treasury's plan to help families through this crisis, and any metrics Treasury may have as evidence of TARP's effectiveness. Your predecessor replied, but twenty-six of those sub-questions had no response. Among the nineteen remaining sub-questions, some open questions remain as well.

Our second report addressed your predecessor's response to our original questions, and identified four key areas of critical concern for Treasury to implement TARP in accordance with the will of Congress. We focus particularly on: 1) more bank accountability for the use of funds, 2) increased transparency, 3) a plan for foreclosure mitigation, and 4) the articulation of a clear overall strategy.

While we understand that this is a time of transition for your department, economic events are unfolding rapidly. We ask that you address these key areas of concern by Wednesday,

February 18, 2009. We also urge you to keep the American public informed on the uses and effects of TARP money and the steps being taken to safeguard the taxpayers' investments in financial institutions.

We look forward to working with you to meet the challenges posed by this crisis. If I can be of any assistance, please do not hesitate to contact me or have a member of your staff contact the Panel's Executive Director, Naomi Baum, at [redacted] or [redacted].

Sincerely,

Elizabeth Warren
Chair
Congressional Oversight Panel

cc: Rep. Jeb Hensarling

Sen. John E. Sununu

Mr. Richard H. Neiman

Mr. Damon A. Silvers