CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CONGRESSMAN KEVIN BRADY

RANKING REPUBLICAN HOUSE MEMBER

NEWS RELEASE

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STATEMENT OF CONGRESSMAN KEVIN BRADY

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I am pleased to join in welcoming Inspector General Barofsky before the committee this morning. His office is one of the most important and effective guardians of the trillions of dollars taxpayers have at risk in the massive bailouts of large financial institutions.

Unfortunately, as Kansas City Federal Reserve President Thomas Hoenig testified earlier this week, these bailouts "risk prolonging the crisis, while increasing the cost." In this context, I found Inspector General Barofsky's most recent report quite disturbing. Mr. Barofsky, your report contains very troubling information that has not been previously disclosed.

This report identifies many key weaknesses in the design and implementation of the government bailouts that could greatly increase their cost. For example, according to the report, the Treasury Department has "indicated that it will not adopt SIGTARP's recommendations that all TARP recipients account for the use of TARP funds; set up internal controls to comply with such accounting; and report periodically to Treasury on the results, with appropriate sworn certifications." The complexity and lack of transparency in TARP programs is further reason for concern. The key question before the committee this morning is why the Treasury Department continues to resist adopting many of the safeguards recommended in your report.

Regarding the Public-Private Investment Program (PPIP) unveiled by Secretary Geithner, your report notes, "Many aspects of PPIP could make it inherently vulnerable to fraud, waste, and abuse." Vulnerabilities include the huge size of the program along with conflicts of interest, collusion, and money laundering. With regard to money laundering, your report notes that it would be unacceptable if TARP or related funds "were used to leverage the profits of drug cartels or organized crime groups." Unlike banks and retail brokers, these partnerships are not currently subject to comparable disclosure rules to prevent money-laundering and abuse. Furthermore, the report demonstrates how interactions between two different bailout programs could encourage excessive leverage and greatly magnify taxpayer losses.

With regard to another component of the bailouts administered by the Fed, the report said, "Treasury should require additional anti-fraud and credit protection provisions specific to all MBS, before participating in an expanded TALF, including minimum underwriting standards and other fraud prevention measures."

According to the latest estimates, the amount of losses from toxic assets in the U.S. alone may be as high as $2.7 trillion. This clearly is a huge potential liability for American taxpayers. Unfortunately, the Treasury's financial rescue plan seems designed to marginalize Congress and avoid the appropriations process. Nonetheless, Congress should not finalize the 2009 budget resolution without considering the tremendous costs of the ongoing bailouts.

Economic research shows that the national debt following this financial crisis may increase by as much as $8.5 trillion in as little as 3 years. This grim fiscal prospect should be an overriding consideration as we consider budget priorities and proposals for yet more spending. Congress should not go on an irresponsible spending spree with trillions of dollars of bailouts already threatening the taxpayers.

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