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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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Contact: Christopher Frenze
(202) 225-3923

Huge Bailouts Threaten Taxpayers' Future

It is a pleasure to join in welcoming Chairwoman Warren before the Committee this morning.

With nearly $3 trillion at risk and the lack of transparency that veils the Troubled Asset Relief Program (TARP) and its costs, we need as much oversight as possible to protect the taxpayers. The stress tests of the 19 largest banks did appear to clarify a number of issues with respect to their financial position, even if some aspects of the stress tests raise questions.

For example, some of the economic assumptions used in the stress tests are not very severe, even under the adverse scenario presented. The assumption of an unemployment rate of 8.9 percent in 2009 and 10.3 percent in 2010 is not pessimistic, but instead appears to be fairly optimistic given that the unemployment rate has already reached 9.4 percent and is expected to go significantly higher. The stress tests' application of relatively high potential losses on loans and securities investments does offset the insufficiently adverse economic assumptions to some extent.

Given the huge amounts of money and credit injected into the economy by the Federal Reserve, it is reasonable to expect some economic recovery by next year. However, the unprecedented size and scope of the actions undertaken by the federal government to deal with the financial crisis do pose risks to the government's financial health and to a sustained economic recovery.

For instance, huge federal deficits and mounting debt under Administration policies will continue into the foreseeable future, undermining the financial position of the U.S. government. As the *Financial Times* noted of a recent U.S. Treasury auction, "the issue of bond supply came into sharp focus…as the Treasury auctioned $101 billion of new notes – part of an expected $2,000 billion of new issuance in the financial year to fund the U.S. budget deficit." The article goes on to discuss how the "surge in yields also sent the fixed U.S. 30-year mortgage rate above 5 percent – prompting speculation that the Fed might increase its Treasury buy-backs."

As the OECD has noted, governments worldwide are projected to issue about $12 trillion in debt this year, adding to upward pressure on interest rates. The very real threat that these massive government debts may be monetized raises the specter of future inflation and increases the potential for long-term interest rates to move even higher. Higher long-term interest rates are already increasing mortgage rates and making home refinancing and home purchases more expensive and difficult. The danger is that the government's fiscal irresponsibility will force up interest rates and undermine the prospects for economic recovery, a recovery on which a return to financial stability depends. If higher interest rates further depress the housing market and mortgage investments, losses on mortgage loans and investments will only worsen, raising the cost of TARP.

Deterioration in financial conditions would increase the costs of TARP, but there are other potential costs of this program that result from its faulty design. Recently, Neil Barofsky, Special Inspector General of TARP (SIGTARP), issued a disturbing report that 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."

Regarding the Public-Private Investment Program (PPIP) unveiled by Secretary Geithner, the SIGTARP 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, the 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." With regard to another component of the bailouts, 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."

I have repeatedly called on Secretary Geithner to adopt these SIGTARP recommendations to protect the trillions of taxpayer dollars at risk in TARP. The question remains: Why does the Treasury refuse to adopt these recommendations to prevent waste, fraud, and abuse in TARP? The government's extensive intervention in the economy has gone way too far even allowing for a financial crisis, but the least we can expect is that taxpayer money not be misappropriated or stolen. Treasury should act quickly to implement the SIGTARP recommendations.

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