

Opening Statement from Chairman Dennis Moore (KS-03)

House Financial Services Oversight and Investigations Subcommittee

“TARP Oversight: An Update on Warrant Repurchases and Benefits to Taxpayers”

May 11, 2010

Leading up to our first TARP oversight hearing focused on the issues of warrant repurchases last July, there were a number of concerns raised that taxpayers were not seeing maximum returns on their investment. I wrote a letter to Secretary Geithner last June expressing that I was concerned with “recent reports that financial institutions that have received TARP funds are lobbying to buy back warrants the U.S. government received for providing taxpayer assistance at a reduced or minimal value. I strongly urge you to utilize your authority to maximize the best deal for taxpayers.”

I copied on that letter our TARP oversight entities, including the Congressional Oversight Panel and SIGTARP. Within a few days, I received a response from both that they would investigate further. Before our July hearing, COP reported that at that time, taxpayers were receiving only 66 percent of warrants value compared to their best estimate of their worth.

With the mounting pressure from Members of Congress, the TARP oversight bodies and the general public, I was pleased to learn the morning of our July hearing that Goldman Sachs announced they would buy back their warrants for \$1.1 billion. That represents a 23 percent annualized return taxpayers received on the original \$10 billion investment in the firm. At the hearing, I said: “That sounds pretty good, but is it good enough?” Since that time, other large transactions include Morgan Stanley agreeing to pay \$950 million to repurchase their warrants; JPMorgan Chase auctioned their warrants for \$950.3 million; and Bank of America auctioned their warrants for more than \$1.5 billion.

To answer my question from the July hearing – are these returns enough? – I will read from the written testimony of our witnesses today. Professor Linus Wilson says “oversight works”. Mr. Atkins for the Congressional Oversight Panel says: “The Panel has been pleased to see that Treasury’s performance in this area has improved dramatically since we first analyzed its initial warrant dispositions.” Professor Robert Jarrow remarks: “It is my belief that the Treasury’s warrant repurchase program has been a success.” In SIGTARP’s audit that we will discuss today, they write: “To its credit, Treasury has generally succeeded in negotiating prices from recipients for the warrants at or above its estimated composite value.” (*emphasis added*)

I will note that to the benefit of taxpayers, SIGTARP and COP rarely, if ever, hold back on being critical of various TARP programs and financial stability efforts, so those comments tell me that the program is working pretty well.

We should not lose sight of the forest for the trees, and before we focus on ways to improve this program, let me stress: the TARP warrants program has worked, and worked well providing over \$6 billion of additional returns for taxpayers with billions more expected. And that’s beyond the \$181 billion of repayments of the initial TARP investment. If you add the \$14 billion in total dividends, interest and distributions from TARP recipients to date, taxpayers have received an additional \$20 billion on top of the normal repayments.

If Congress had enacted the Bush Administration's original three page proposal for TARP – essentially a \$700 billion blank check with no oversight and no strings attached – taxpayers would not have these additional returns today and would be left with the tab.

But by authorizing the use of warrants, creating strong oversight entities like SIGTARP and COP which have produced thousands of pages of oversight reports that are available online, and adding a requirement that taxpayers must eventually be fully repaid, TARP will have done its job to both stabilize the economy and fully protect taxpayers.

And don't take my word for it. Consider what Professor David A. Walker from Georgetown University, a Republican witness at our O&I hearing last week said: "I believe that the TARP commitment was essential.... It is my opinion that our economy would be rebounding much more slowly than it has if we had not implemented the TARP program."

While the TARP warrants program has greatly benefited U.S. taxpayers, it is our duty to explore the program fully and ensure that it is as transparent and well run as possible. For example, I hope we explore policy questions looking at the differences between the public auction and direct negotiations with Treasury – is one option better than the other? How do we ensure there's consistency of outcomes over a subjective process in negotiating a fair value for the warrants? Also, how do TARP warrants work for smaller financial institutions compared to larger ones?

I look forward to hearing the testimony of all of our witnesses today as we continue working hard to provide tough oversight of TARP and to ensure taxpayers are fully protected.