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COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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August 11, 2011

The Honorable Timothy Geithner
Secretary, Department of the Treasury
Chairperson, Financial Stability Oversight Council
1500 Pennsylvania Ave. NW
Washington, DC 20220

Dear Secretary Geithner:

You wrote, on August 1st, a belated and incomplete response to my July 27th inquiry to Financial Stability Oversight Council (FSOC) members concerning Treasury's short-term cash and liquid asset positions, near-term projections of those positions, and contingency plans for events such as a ratings downgrade. Some of my inquiries seem to have simply been ignored. I write again for a more complete response.

Your letter reconfirmed August 2nd as the date Treasury "will exhaust its borrowing authority." No word on whether that means running out of cash at that time, despite my having specifically requested confirmation of August 2nd as Treasury's estimate of the most likely date of cash exhaustion. No word on Treasury's short-term cash flow projections, aside from identifying them as "highly market sensitive" and therefore not published. No word on contingency plans for the events I inquired about, including a ratings downgrade on U.S. debt.

Disturbingly, a July 30th article in the New York Times indicates that assurances were made by you to the Chief Executive of JPMorgan Chase that Treasury and the Fed had taken steps to keep the payment system functioning smoothly. Perhaps Wall Street has learned more than I have.

According to Treasury's website: "The FSOC provides new accountability to Congress and the American people to address emerging threats to financial stability and to coordinate regulatory actions to address them." I do not believe that the FSOC has followed through in any meaningful way on this promise. I do believe that claims by the FSOC to provide "for the first time, comprehensive monitoring to ensure the stability of our nation's financial system" are overly heroic and illusory.

The American people and Congress faced a considerable threat to stability from the possibility that the U.S. Treasury would have been forced to default on obligations on August 2nd, as you had been warning for some time. Was it the case that Treasury, on the August 1st date of your response to my inquiry, still projected August 2nd as its point estimate of the statistically most likely date at which Treasury would run out of cash and not have enough available to meet all incoming due obligations? Treasury's opening operating cash balance was \$68.939 billion and its closing balance was \$54.031 billion on August 2nd.

Your response concerning cash flows was elusive, identifying August 2nd as still being the date that Treasury expected “to exhaust the extraordinary measures we have employed to extend our borrowing authority in the absence of congressional action to increase the debt limit.” I asked about projections of cash exhaustion and not solely about exhaustion of measures to extend borrowing authority. Treasury could have exhausted those measures, yet still have expected sufficient cash inflows to cover expected payments of obligations that became due.

Your letter states that Treasury does not publish estimates of daily cash flows, because the information is “highly market sensitive.” I presume this means, also, that estimates of near-term cash flows are not revealed during meetings, such as the one on August 3rd, of the Treasury Borrowing Advisory Committee, composed of members that include several large Wall Street interests. I presume that the expected near-term cash position of the U.S. Treasury in the days and weeks prior to August 2nd was not discussed by Treasury or any federal financial regulator with anyone in the private sector. And, I presume that August 2nd is independently confirmable as the statistically most likely date at which Treasury expected, as of August 1st, to have run out of cash sufficient to meet all due obligations.

In the event of a future debt limit impasse, with default hanging in the balance, it appears that Congress and the public will have to again rely on estimates of Treasury’s short-term finances from think tanks and Wall Street. If the information is too “market sensitive” to share, how can Social Security recipients, our troops, or anyone worried about being paid by government know what to expect? If FSOC members have information about Treasury’s short-term finances or about their own crisis contingency plans, what are the obstacles to revealing that information? Perhaps Council members feel compelled not to reveal information out of concern over unwarranted speculation. Perhaps they are concerned that revealing information could spark panic and contribute to the very instability they are charged to guard against. It will be instructive to find out.

My request for information about contingency plans for an event of a downgrade of the U.S. sovereign credit rating was issued, in part, to avoid a repeat of the destabilizing government reactions to events observed during the recent financial crisis. Congress and the public were often informed of government plans and actions in cryptic, last-minute press releases from financial regulators. Market participants and the public did not understand what the plans of government and regulators were to address systemic instability. The added uncertainty about those plans on how to address evolving instability seems to unnecessarily add to instability.

I asked on July 27th for contingency plans regarding a ratings downgrade. It was not until August 5th, *after* the Standard & Poor’s (S&P) downgrade of the sovereign credit rating of the U.S., that I learned from yet another set of cryptic, last-minute press releases about regulatory guidance from the Federal Reserve Board, Federal Deposit Insurance Corporation, NCUA, and OCC. It was not until August 8th that I learned from a joint statement of “G7” finance ministers and central bank governors, including you and Federal Reserve Chairman Bernanke, of a commitment to taking “coordinated action where needed, to ensuring liquidity, and to supporting financial market functioning, financial stability and economic growth.” I still do not know exactly what that commitment would entail.

Following the S&P downgrade, it is important to bear in mind that other major ratings agencies have also issued downgrade warnings. S&P itself warns of further downgrades. Thus, the threat to systemic stability and to the depth and liquidity of markets for U.S. Treasury securities from additional possible ratings downgrades remains. Yet I still have not been fully informed by FSOC members about any plans that they have to address such a contingency and help preserve the integrity of markets for Treasury securities.

The consequences of further ratings downgrades would likely be significant, and could include runs on money market funds, disruptions in the tri-party repo market, and precipitous increases in borrowing costs for all Americans. Those developments could lead to more bailouts, special lending facilities, and other “backstops” observed during the recent financial crisis. I reiterate my request for information about contingency plans of members of the FSOC to address possible threats to stability from downgrades of the U.S. sovereign rating.

I continue to seek information about Treasury’s cash positions and government contingency plans for a number of reasons. First, transparency is essential wherever possible.

Second, I have oversight responsibility as Ranking Member on the Finance Committee of Treasury debt and cash operations, and I take that responsibility seriously to ensure preservation of the depth and liquidity in markets for Treasury securities.

Third, we may again have a debt limit impasse in the event of unexpectedly sluggish economic activity and receipts, or if Congress fails to follow through on deficit reduction called for in the recent debt limit legislation. I wish to avoid having Congress and the public relying on guesses about Treasury’s cash position and liquidity from think tanks and Wall Street firms.

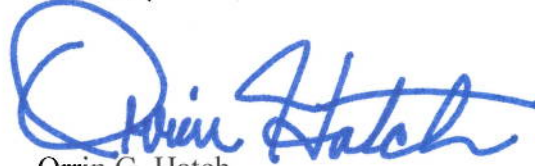
Fourth, lacking information about government contingency plans in the event of further ratings downgrades puts us back in the crisis setting where government officials react sporadically and unexpectedly at the last minute to imminent threats to stability. We need to know about any plans in place or, if those plans are cloaked behind regulators’ concerns about market sensitivity, we need to know why.

Fifth, it is unacceptable that our seniors and fighting forces were used as political poker chips in the recent debt limit crisis, and I do not want a repeat. The President unnecessarily struck fear into the financial outlook of seniors in Utah and across the country by saying that he could not guarantee that Treasury would have enough cash available to pay Social Security benefits on August 3rd. He also needlessly allowed conditions under which our military leaders told troops that their paychecks could not be guaranteed.

The threats to seniors relying on timely Social Security benefit payments and to our troops around the world were unconscionable. They were important reasons why I wrote my letter to the FSOC—to find out just how much cash Treasury had and expected to have over the short run, and how much in liquid assets was available to act to ensure ample resources for payments to troops, Social Security recipients, and others.

I urge you to carefully review questions that I raise above and questions I initially posed in my July 27th letter to FSOC members. I do not believe that you responded to several questions that I posed, and request that you do so. For contact information, please refer to my July 27th letter.

Sincerely

A handwritten signature in blue ink that reads "Orrin Hatch". The signature is fluid and cursive, with a large initial "O" and a long horizontal stroke at the end.

Orrin G. Hatch
Ranking Member

Cc: The Honorable Ben Bernanke
The Honorable Gary Gensler
The Honorable Mary Schapiro
The Honorable Debbie Matz
Mr. Martin J. Gruenberg
Mr. Edward DeMarco
Mr. John Walsh