Congressional Oversight Panel Assesses TARP Exit Strategy

January 14, 2010

For Immediate Release

Divestment Principles Sometimes at Odds, So Broad That Measuring Success Will Be Problematic

Even After Every Asset is Sold, Unwinding the Implicit Guarantee Created by TARP Will Remain a Challenge

WASHINGTON, D.C. - The Congressional Oversight Panel today released its January oversight report, "Exiting TARP and Unwinding Its Impact on the Financial Markets." The Panel found that the repayment of TARP assistance represents only the first stage of exiting TARP. Even after repayments are complete, Treasury will hold a massive pool of assets, worth hundreds of billions of dollars, for several years to come. Managing these assets will present extraordinary challenges. Furthermore, any effective exit strategy must address the unwinding of the implicit guarantee created by TARP.

Treasury has articulated three principles guiding its strategy to unwind TARP: maintaining a stable financial system, preserving individual institutions, and maximizing the return on taxpayers' investments. The Panel found that these principles will sometimes be at odds with one another. For example, the most profitable moment to sell a TARP asset may not be the moment that best promotes systemic stability or the moment that best serves a particular institution. Further, these three principles are so broad and subjective Treasury could justify almost any divestment decision using this approach, effectively giving no metric to determine whether its actions met its stated goals. These concerns are compounded because Treasury is a unique market participant: TARP investments are so large that the decision to hold or sell has the potential to impact the financial markets.

Treasury must learn from the mistakes made in the past and demand greater disclosure in funds spent this year. In announcing his decision to extend TARP through October, Secretary Geithner said TARP funds would be used, for example, to provide capital to small banks to increase lending to small businesses. Treasury failed to require the recipients of the first infusions of TARP funds to account adequately for how they put taxpayer dollars to work. The Panel recommends Treasury require that future recipients provide much greater disclosure of their use of TARP dollars.

Even after every TARP asset is sold, unwinding the implicit guarantee created by TARP will remain a serious challenge for policymakers. The financial rescue created moral hazard that distorts pricing and infects calculations of risk. There is broad agreement that a new approach to systemic risk regulation is necessary so that businesses are not insulated from the effects of their own bad decisions.

The full report is available at cop.senate.gov.

The Congressional Oversight Panel was created to oversee the expenditure of the Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform. The Panel members are: former Securities and Exchange Commissioner Paul S. Atkins; J. Mark McWatters; Richard H. Neiman, Superintendent of Banks for the State of New York; Damon Silvers, Policy Director and Special Counsel for the AFL-CIO; and Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard Law School.