Congressional Oversight Panel Releases Final Report on the Troubled Asset Relief Program

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For Immediate Release

TARP Provided Critical Support but Distorted Markets and Created Public Stigma

WASHINGTON, D.C. - The Congressional Oversight Panel, which was established by Congress in late 2008 to oversee the $700 billion Troubled Asset Relief Program (TARP), today released its 30th and final oversight report. The report describes the financial crisis, summarizes and updates the Panel's prior oversight reports, and evaluates federal financial stabilization initiatives.

Federal Reserve Chairman Ben Bernanke has said that, when the TARP was created in late 2008, the nation was on course for "a cataclysm that could have rivaled or surpassed the Great Depression." It is now clear that, although America has endured a wrenching recession, it has not experienced a second Great Depression. The TARP does not deserve full credit for this outcome, but it provided critical support to markets at a moment of profound uncertainty. Even so, the program leaves behind a troublesome legacy: continuing distortions in the market, public anger toward policymakers, and a lack of full transparency and accountability.

The TARP's estimated cost has fallen, but costs alone do not account for the program's risks and shortcomings. The Congressional Budget Office (CBO) today estimates that the TARP will cost taxpayers $25 billion - an enormous sum, but vastly less than the $356 billion that CBO initially estimated. However, not all of the reasons for the TARP's falling costs are encouraging. For example, Treasury's foreclosure prevention programs, which could have cost $50 billion, have largely failed to get off the ground. Non-TARP government programs have shifted some of the costs of the financial rescue away from the TARP's balance sheet. Further, accounting for the TARP from today's vantage point - when the financial system has made great strides toward recovery - obscures the risk to taxpayers that existed in the depths of the financial crisis.

The TARP distorted markets by exacerbating "too big to fail" and magnifying moral hazard. In light of the TARP's rescue of America's largest financial institutions, it is not surprising that markets have assumed that "too big to fail" banks are safer than their "small enough to fail" counterparts. As a result, small banks continue to pay more to borrow than very large banks - an ongoing distortion in the marketplace. By protecting very large banks from insolvency and collapse, the TARP also created moral hazard: Very large financial institutions may decide to take inflated risks because they expect that, if their gamble fails, taxpayers will bear the loss. In addition, the TARP's rescue of domestic automotive manufacturers may appear to have extended the "too big to fail" guarantee to any company large enough to cause severe economic disruption if it collapsed.

The public backlash against the TARP has created stigma and constrained Treasury's options. Because the TARP was designed for an inherently unpopular purpose - rescuing Wall Street banks from the consequences of their own actions - stigmatization was likely inevitable. Treasury's implementation has, however, made this stigma worse. For example, many senior managers of TARP-recipient banks maintained their jobs and their high salaries, and although shareholders suffered dilution of their stock, they were not wiped out. To the public, this may appear to be evidence that Wall Street banks and bankers can retain their profits in boom years but shift their losses to taxpayers during a bust.

A lack of transparency and clear goals for the TARP has rendered the public unable to hold Treasury fully accountable for its actions. In perhaps the most profound violation of transparency, Treasury decided in the TARP's earliest days to push tens of billions of dollars out the door to very large financial institutions without requiring banks to reveal how the money was used. As a result, the public will never know to what purpose its money was put. A related problem is Treasury's failure to articulate or update clear goals for many of its TARP programs. For example, the Home Affordable Modification Program - which was originally intended to prevent 3 to 4 million foreclosures - now appears on track to help only 700,000 to 800,000 homeowners, yet Treasury has never formally announced a new target.

The full report is available at cop.senate.gov. By statute, the Panel will terminate on April 3, 2011.

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. The Panel members are former Senator Ted Kaufman; 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 Kenneth Troske, William B. Sturgill Professor of Economics at the University of Kentucky.