

“TARP Oversight: Warrant Repurchases and Protecting Taxpayers”
Subcommittee on Oversight and Investigations
House Financial Services Committee
July 22, 2009

Opening Statement from Chairman Dennis Moore [KS-03]

The past month or two, it has been nice to see some good news regarding TARP. After some upbeat results from the stress tests on the largest financial firms, ten of the largest bank holding companies were authorized to pay back \$68.2 billion of TARP funds.

If you include smaller banks, a total of over \$70 billion has been repaid to U.S. taxpayers. And this news coming after the Treasury Department injected more than \$200 billion to more than 600 banks to stabilize the financial sector.

When Congress enacted TARP last year, we authorized the Treasury Department to request that firms receiving TARP funds issue warrants. This provides an opportunity for taxpayers to share in the upside for their investments. These warrants give us the right to buy shares of a company at a set price at some point in the future, much like an employee stock options.

But as you might imagine, whenever the government is the key actor in executing these warrants, unlike an employee stock option, there are a number of other policy issues and concerns that have to be weighed and dealt with. Even still, I am firmly committed to doing all we can to ensure taxpayers are fully repaid.

On May 8th, Old National Bancorp became the first TARP recipient bank to repay its TARP funding and repurchase their warrants held by Treasury. The bank paid \$1.2 million to buy back these warrants. But what concerned me was a professor from the University of Louisiana at Lafayette, Professor Linus Wilson, analyzed this transaction very closely.

He determined that the warrants were worth at a minimum \$1.5 million and as much as \$6.9 million. So at the low end, Treasury was off by \$300,000, and in the worst case, Treasury missed a return of an additional \$5.4 million. \$5 million might not sound like a lot of money when we are talking about billions and trillions of dollars in financial rescue aid, but if you consider the 600 other banks that will eventually need to repurchase their warrants, this money quickly adds up to a big potential return for U.S. taxpayers.

I wrote a letter to Secretary Geithner on June 2nd, urging him in no uncertain terms that he act to “protect the taxpayers’ investments in these firms by maximizing returns on these warrants.” I carbon copied SIGTARP, COP and GAO, and two weeks later, I received a joint letter from Special Inspector General Barofsky and Professor Warren expressing their commitment to transparency.

They noted a coordinated effort between COP and SIGTARP to review “whether those [warrant repurchasing] procedures provide fair value to American taxpayers.”

Earlier this month, I was glad to see COP issue a report entirely focused on TARP repayments, including the repurchase of stock warrants. Similar to the analysis done by Professor Linus, COP found in the first eleven banks that repurchased their warrants, Treasury was receiving only 66 percent of what they could have received for taxpayers. COP notes that these small banks represent only a fraction of one percent of all warrants issued, but if this trend continues, taxpayers could miss out on an additional \$2.7 billion worth of returns on their investment.

But on the same day the COP report was released, we received some good news when the *Wall Street Journal* reported that JPMorgan Chase has decided to pursue repurchasing its warrants through a public auction. They were frustrated with the Treasury Department for demanding too high a price for their warrants. I am very glad the Treasury Department is holding a tough line, especially against the largest of the TARP recipients.

And today, Goldman Sachs announced they will pay \$1.1 billion to redeem their warrants, representing an annualized return of 23 percent for U.S. taxpayers. That sounds pretty good, but is it enough? I will keep pushing to make sure every single TARP dollar that helped stabilize our financial sector is fully repaid so that our children and grandchildren are not left with the tab.

I look forward to hearing from our witnesses today, especially the new TARP administrator and Assistant Secretary for Financial Stability, Mr. Herb Allison. He has one of the toughest jobs in the country, and I look forward to Treasury's viewpoint on how they weigh these difficult decisions to stabilize the financial sector while protecting taxpayers.

And the strong oversight Congress put in place when we created TARP continues to publish what amounts to thousands of pages of oversight reports, all free and available online, examining every angle and aspect of TARP. Just this week, SIGTARP published their third quarterly report, and I look forward to hearing Mr. Barofsky, Professor Warren, and Mr. McCool's testimony today.