April 16, 2008

The Honorable Henry M. Paulson
Secretary
Department of Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington DC 20551

Dear Secretary Paulson and Chairman Bernanke:

We are writing regarding the recent collapse of Bear Stearns and the subsequent actions taken by the Federal Reserve to facilitate Bear Stearns' sale to J.P. Morgan Chase. These steps have had an immediate impact on our nation's financial markets and have the potential to drastically alter the future regulatory structure of our entire financial system.

For the first time since the Great Depression, the Federal Reserve voted to open the discount window to primary dealers. While it has been suggested that this authority has been available to the Federal Reserve since 1932, the decision to use it at this time has raised questions about whether and when the Federal Reserve should intervene to help a particular industry or firm in the name of market stability.

With the Federal Reserve approving the financing arrangements of the sale of Bear Stearns to J.P. Morgan Chase, as well as guaranteeing $29 billion in securities currently held by Bear Stearns, the Federal Reserve has possibly exposed the American taxpayers to a tremendous amount of financial loss. We have concerns that this will establish a precedent that could lead to future instances of companies in similar financial trouble expecting the same government intervention.

We know the long-term health of our economy is of the utmost importance to you both. However, these extraordinary actions have raised a number of complex questions. Below, we have included a list of some of the specific questions that we believe highlight areas of significant importance.

**Questions**

1. In testimony before the Senate Banking Committee on April 3, 2008, it was indicated that the assets the Federal Reserve will accept as collateral for the $29 billion loan are highly-rated, that J.P. Morgan Chase will keep the riskiest and most complex Bear Stearns assets, and that the Federal Reserve set parameters for the quality of assets that it

would or would not accept. What was the minimum threshold for asset quality?

2. The Securities and Exchange Commission (SEC) states that it monitored Bear Stearns' capital and liquidity positions on a regular basis, and that levels of both capital and liquidity appeared adequate going into the week of March 11-17. Given the subsequent rapid deterioration in Bear Stearns' financial condition, does the SEC have the capability and/or authority it needs to assess risk in systemically-important broker/dealers, especially at the holding company level?

3. Now that primary dealers are granted the privilege of borrowing directly from the Federal Reserve (through the Primary Dealer Credit Facility), should they be subject to the same oversight that commercial banks must undergo to be eligible to borrow at the discount window? What are the possible negative implications of such regulations?

4. Bear Stearns has been described by some as "too interconnected to fail," as opposed to "too big to fail." How can regulators identify which firms are too interconnected to fail? Also, some administration participants have justified federal involvement with this transaction by suggesting that one interconnected company could unilaterally bring down our country's entire financial markets system. How would that be possible in this instance?

5. Why wasn't the "loan" made as a traditional discount window loan to J.P. Morgan Chase? If, as stated in President Geithner's testimony to the Senate Banking Committee, the Federal Reserve did not have the authority to acquire an equity interest in J.P. Morgan Chase or Bear Stearns, what authority allows it to create and finance an LLC to purchase assets?

6. If the $29 billion is not to be made available to J.P. Morgan Chase until the merger with Bear Stearns is completed, why is the loan necessary at all? Why is J.P. Morgan Chase unwilling to hold assets that have been priced at current market value and are highly rated?

7. In 1991, the Federal Deposit Insurance Corporation Improvement Act (FDICIA, P.L. 102-242, 105 Stat. 2236) set a limit on the Federal Deposit Insurance Corporation's (FDIC) ability to borrow from Treasury at $30 billion. The statute establishes certain standards, including rate of interest standards but leaves other terms to the Secretary of the Treasury and the FDIC. At the pertinent part it reads:

*The Corporation is authorized to borrow from the Treasury, and the Secretary of the Treasury is authorized and directed to loan to the Corporation on such terms as may be fixed by the Corporation and the Secretary, such funds as in the judgment of the Board of Directors of the Corporation are from time to time required for insurance purposes, not exceeding in the aggregate $30,000,000,000 outstanding at any one time, subject to the approval of the Secretary of the Treasury....Any such loan shall be used by the Corporation solely in carrying out its functions with respect to such insurance....(12 U.S.C. § 1824)*

Did this $30 billion limit have any role in the Bear Stearns negotiations? How did that figure emerge?

8. A separate provision of the FDIC Act added by FDICIA requires the FDIC to resolve failed institutions on the basis of least cost to the insurance fund but permits the suspension of that requirement when following the least cost standard "would have serious adverse effects on economic conditions or financial stability ... and ... any action or assistance [beyond what would be the least cost resolution] would avoid or mitigate such adverse effects." [12U.S.C. § 1823(c)(4)(G)(i).] This authority may not be invoked, however, without consultation with the President and the written recommendations from the FDIC and the Federal Reserve Board.

Was the President consulted? Were there any written findings by the Federal Reserve or the Department of the Treasury or any documents projecting the potential adverse effects without the intervention and the mitigation that would be effectuated by the intervention?

9. Is there any known information regarding any potential conflicts of interest of any of the parties involved in this transaction?

We appreciate your service to the country and look forward to working with you closely on these issues as we move forward. Thank you for attention to these concerns.

Sincerely,

Scott Garrett

Steve King

Thelma Drake