WASHINGTON. D.C. – A report released today by the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) confirmed findings of an Oversight and Government Reform Committee investigation that key players in the financial crisis took unprecedented actions but the impact of these decisions remains difficult to assess.

“Faced with the threat of an unparalleled economic crisis, Treasury, the Federal Reserve and FDIC implemented programs designed to help prevent a further deterioration of the economy and a significant risk of financial market collapse. It may be difficult in the near term to assess fully the impact of Treasury’s initial injections of capital to the first nine institutions on preventing an economic collapse,” the report concluded.

The report also noted that these concerns affected government thinking on the controversial Bank of America – Merrill Lynch merger and led officials to “their decision to press Bank of America to consummate the transaction and then to provide it with additional financial support to help ensure that the bank remained a viable financial institution after the merger and to avert what they thought could be another market destabilizing event.”

“Although SIGTARP finds that Federal officials were not fully honest and truthful in explaining the need for banks to receive taxpayer dollars, SIGTARP correctly notes that the underlying motivation of officials was to help the U.S. economy,” said Ranking Member Darrell Issa. “This report confirms that former Treasury Secretary Henry Paulson and officials at the Federal Reserve and elsewhere were committed to pushing through government interventions – and even a private financial transaction – that they believed were critical to the health of the U.S. economy. The jury, however, is still out on the long-term harm these decisions will have on the public trust and the health of the financial system.”

Key Findings from Committee Investigation Confirmed by SIGTARP report:

Key finding of investigation:

The federal government threatened to remove the management and board of directors of Bank of America if Lewis attempted to back out of the deal to acquire Merrill Lynch.

SIGTARP audit:

"…Paulson testified to the same committee that he told Mr. Lewis that the Federal Reserve could remove Bank of America's management and the Board of Directors if the MAC clause was invoked and the merger agreement was abandoned. He explained to SIGTARP that such a position was justified…." Mr. Lewis "confirm[ed] the threat of possible removal."

Key finding of investigation:

The federal government attempted to control public disclosure of promised taxpayer support for Bank of America.

SIGTARP audit:

“Former Secretary Paulson and Mr. Lewis told SIGTARP that, after agreeing to go forward with the merger on December 21, 2008, Bank of America executives asked for a letter committing the government to future financial support. According to Mr. Lewis, he wanted a formal commitment from the government to assure his Board of Directors that future financial support was forthcoming. However, Secretary Paulson refused to provide bank executives with written assurance of the government’s additional assistance, stating that the decision-making process for additional support had not yet occurred. Moreover, once any written assurance was provided, it would become a ‘disclosable event.’”

Key finding of investigation:

On October 13, 2008, the federal government, led by Secretary Paulson, summoned the CEOs of the nation's largest banks and forced them to accept billions of dollars of taxpayer funds in exchange for equity stakes in their institutions.

SIGTARP audit:

"Officials at Treasury, the Federal Reserve, and other federal regulators felt strongly that the nine institutions should not be permitted to reject the government's capital infusions. Documentation obtained from Treasury suggests that if the banks had not accepted, their regulators would have required them to accept the funds. …Furthermore, former Secretary Paulson told SIGTARP that if necessary, the government would make clear to the nine executives that they had no choice but to take the money. …Another executive told his board of directors that they could take all the time they needed, but it was not going to change the government's expectation of a signed agreement by the end of the day. By 6:25 p.m., all nine executives had signed the agreements and agreed to accept the CPP funds."

Key finding of investigation:

From the beginning, the operation of TARP has been plagued by a fatal lack of transparency and accountability, including for the government's actions with respect to the Bank of America – Merrill Lynch transaction.

SIGTARP audit:

"In an October 14, 2008, statement announcing the investment in the original nine institutions, Secretary Paulson stated: 'These are healthy institutions, and they have taken this step for the good of the U.S. economy. As these healthy institutions increase their capital base, they will be able to increase their funding to U.S. consumers and businesses.' The nine institutions were similarly described as healthy in a joint statement released that same day by Treasury, the Federal Reserve and FDIC, and in a separate statement released by Treasury. It is apparent, however, that senior Government officials had affirmative concerns, at the time the nine institutions were selected, about the health of at least some of those institutions: the Federal Reserve had concerns over the financial condition of several of these institutions individually and for all of them collectively absent some governmental action; and former Secretary Paulson noted concerns about the potential of an outright failure of one of the institutions. In addition to the basic transparency concern that this inconsistency raises, by stating expressly that the 'healthy' institutions would be able to increase overall lending, Treasury may have created unrealistic expectations about the institutions' condition and their ability to increase lending. Treasury and the TARP program lost credibility…."

"Ultimately, the lesson is straightforward: accuracy and transparency will enhance the credibility of Government programs like TARP and restore taxpayer confidence in the policy makers who manage them; inaccurate statements, on the other hand, could have unintended long-term consequences that could damage the trust that the American people have in their Government."