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Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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January 8, 2010

The Honorable Edolphus Towns
Chairman
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Towns:

An investigation by the Committee's Minority staff has raised troubling evidence that the Federal Reserve Bank of New York ("FRBNY"), while under the leadership of Treasury Secretary Timothy Geithner, pressured American International Group not to disclose to the Securities and Exchange Commission critical information about the FRBNY's decision to pay billions of dollars to AIG's counterparties.¹ This investigation comes on the heels of evidence and testimony that Secretary Geithner played critical roles in other important issues, including the decision to pay AIG's counterparties at par, the forced merger between Bank of America and Merrill Lynch, the ongoing and problematic bailouts of General Motors and Chrysler, and the Treasury Department's failure to deliver basic transparency to the American people. Secretary Geithner's appearance before this Committee is long overdue, and we call on you to bring him before the Committee as soon as possible, by subpoena if necessary.

The FRBNY, during the presidency of Secretary Geithner, played a critical role in numerous issues that have been the subject of hearings before this Committee and of ongoing Committee investigations. AIG was pressured by the FRBNY to conceal information related to Mr. Geithner's decision to pay billions of taxpayer dollars to counterparties of AIG's credit default swaps – including Goldman Sachs, Société Générale, and Deutsche Bank – to retire the swaps at 100 cents on the dollar, instead of demanding any concessions from these firms. This decision was the subject of a report by the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP")² and

¹ For a description of this evidence, *see* Hugh Son, "Geithner's Fed Told AIG to Limit Swaps Disclosure," Bloomberg, January 7, 2010. Available at <http://bloomberg.com/apps/news?pid=20601087&sid=aXlvW4igKV38>.

² *See* SIGTARP, "Factors Affecting Efforts to Limit Payments to AIG Counterparties," November 17, 2009. Available at http://www.sig tarp.gov/reports/audit/2009/Factors_Affecting_Efforts_to_Limit_Payments_to_AIG_Counterparties.pdf.

the source of much public outrage, yet the Committee has failed to hold any hearings and to launch a full, bipartisan investigation of this issue.

On May 15, 2009, the Committee held a hearing on the numerous flaws in the AIG Trust Agreement, the contract established by Secretary Geithner while he was president of the FRBNY that governs the American people's ownership interest in AIG.³ Information presented both before and during the hearing revealed that the agreement created an unaccountable entity responsible for the management of the public's 80% share of the company.⁴ However, you did not compel Secretary Geithner to appear before the Committee to answer questions about this issue.

In addition, SIGTARP testified before the Committee on October 14, 2009, about "failures of communication" within the FRBNY and Treasury related to the payment of retention bonuses to employees of AIG's financial products division.⁵ Once again, Secretary Geithner did not appear before the Committee to answer questions.

This Committee's investigation into the merger between Bank of America and Merrill Lynch has revealed that Secretary Geithner played a central role in the Bush Administration's efforts to prevent Bank of America from renegotiating the proposed merger. Documents obtained by the Committee in the course of the investigation have shown that the promise by the incoming Obama Administration (and Secretary Geithner personally) of additional taxpayer money to Bank of America was crucial in convincing the bank to go through with the deal. Yet through five hearings and multiple panels of witnesses, Secretary Geithner was no where to be found.⁶

Members of the Committee have also raised important questions about the bailouts of GM and Chrysler and their related financing companies.⁷ Outstanding issues include the politicization of the operations of the automakers, the role of Treasury's Auto

³ See Committee on Oversight and Government Reform, "AIG: Where is the Taxpayer's Money Going?", May 13, 2009. Available at

http://republicans.oversight.house.gov/index.php?option=com_content&view=article&id=141%3A-full-committee-hearing-on-qaig-where-is-the-taxpayers-money-going&catid=12&Itemid=20.

⁴ See, e.g., testimony of J.W. Verret, George Mason University School of Law, May 13, 2009. Available at <http://republicans.oversight.house.gov/images/stories/Hearings/pdfs/20090513Verret.pdf>.

⁵ See SIGTARP, "Extent of Federal Agencies' Oversight of AIG Compensation Varied, and Important Challenges Remain," October 14, 2009. Available at http://www.sig tarp.gov/reports/audit/2009/Extent_of_Federal_Agencies%27_Oversight_of_AIG_Compensation_Varied_and_Important_Challenges_Remain_10_14_09.pdf; Committee on Oversight and Government Reform, "AIG Bonuses: Report of the Special Inspector General," October 14, 2009. Available at

http://republicans.oversight.house.gov/index.php?option=com_content&view=article&id=298%3A10-09-2009-aig-bonuses-audit-report-of-the-special-inspector-general&catid=12&Itemid=20.

⁶ See Committee on Oversight and Government Reform, hearings on June 11, 2009, June 25, 2009, July 16, 2009, November 17, 2009, and December 11, 2009.

⁷ See, e.g., Letter from John Mica to Ed Towns and Darrell Issa, September 30, 2009; Letter from Dan Burton to Edolphus Towns and Darrell Issa, October 27, 2009; Letter from Michael Turner to Edolphus Towns, Darrell Issa, Dennis Kucinich, and Jim Jordan, August 26, 2009.

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Task Force in the closure of plants and dealerships, the decision to treat certain Delphi retirees differently, and the extent to which Treasury will continue to pour additional taxpayer money down the drain of GMAC. While these developments have continued to unfold, Secretary Geithner has been conspicuously absent from any hearings of this Committee.

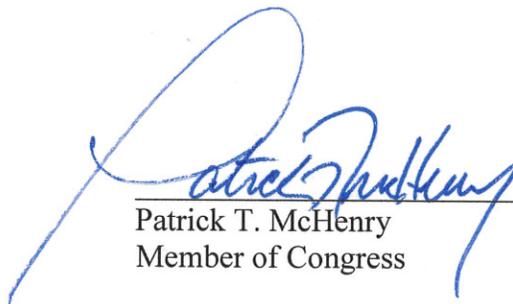
Finally, Secretary Geithner has not been held to account for Treasury's failure to deliver basic transparency regarding the Troubled Asset Relief Program. In report after report,⁸ and in multiple appearances before this Committee,⁹ the SIGTARP has described Treasury's repeated refusal to deliver the transparency that the SIGTARP has recommended and that the American people deserve. Yet throughout this process, this Committee has enabled Secretary Geithner and the Administration to escape accountability.

In summary, after a year of hearings and investigations, it is past time for this Committee to hold Secretary Geithner accountable for his decisions that have affected the lives of millions of Americans. Mr. Chairman, you cannot continue to cover up the failures of this Administration, this Treasury Department, and Timothy Geithner forever. The American people deserve answers, and they deserve them now. Once again, we call on you to bring Secretary Geithner before the Committee, and to subpoena his appearance should he refuse to appear voluntarily.

Sincerely,



Darrell E. Issa
Ranking Member



Patrick T. McHenry
Member of Congress

⁸ See, e.g., SIGTARP, Quarterly Report to Congress, February 6, 2009, April 21, 2009, July 21, 2009, and October 21, 2009. Available at <http://www.sig tarp.gov/reports.shtml>.

⁹ See, e.g., Committee on Oversight and Government Reform, hearings on July 21, 2009 and October 14, 2009.