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Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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February 19, 2013

LAWRENCE J. BRADY
STAFF DIRECTOR

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

Dear Chairman Bernanke:

The Subcommittee on Economic Growth, Job Creation, and Regulatory Affairs of the Committee on Oversight and Government Reform is concerned about the nation's current monetary policy and the stagnant state of the economy. As the Federal Reserve System continues its bond-buying program into 2013, I am troubled by the corresponding effect that the Federal Reserve's expanding portfolio could have on current and future economic growth. Accordingly, I ask that you assist the Subcommittee in continuing to understand the full nature and extent of the Federal Reserve's current portfolio and its future plans to unwind the portfolio.

I am especially concerned that the historically low interest rates brought on by the Federal Reserve's monetary policy have hampered economic growth by distorting traditional financial incentives. Younger Americans who have been working to save their income have faced meager returns in bank accounts and larger balance requirements, slowing their overall accumulation of wealth.¹ Likewise, older Americans living off of interest-bearing accounts have been forced to move to riskier investments to maintain their standards of living.² Most strikingly, by maintaining low interest rates, the Federal Reserve has distorted the real cost of the national debt, effectively "incentiviz[ing] the U.S. government to borrow and overspend."³

The Committee has previously written to you with concerns about monetary policy in the United States.⁴ In July 2011, after a meeting between Committee staff and Federal Reserve staff, the Committee requested that you provide all Federal Reserve studies used to determine the value of Federal Reserve assets and "what the potential losses would be based on different

¹ See A. Gary Shilling, *Who Loses When Fed Keeps Interest Rates Low?*, Bloomberg, Oct. 30, 2012.

² Anthony Davies & James Harrigan, *Ben Bernanke's War on Senior Citizens*, Forbes, Dec. 12, 2012.

³ Creighton Univ., *The Mainstreet Economy Report* (Jan. 2013).

⁴ See Letter from Darrell Issa, H. Comm. on Oversight & Gov't Reform, to Ben Bernanke, Board of Governors of the Fed. Reserve System (July 19, 2011); Letter from Darrell Issa, H. Comm. on Oversight & Gov't Reform, to Ben Bernanke, Board of Governors of the Fed. Reserve System (Aug. 1, 2012).

unwind scenarios regarding the Federal Reserve's portfolio"⁵ The Committee also requested that you provide "all estimates and analysis of the potential costs of payment of interest on reserves" that would incentivize banks to maintain excess reserves.⁶ In response, you provided only publicly released studies, and you did not provide any precise estimates of the future cost of reserve interest rate payments.⁷

In August 2012, Chairman Issa wrote to you with a series of additional questions about the nation's monetary policy and the Federal Reserve's plan for future action.⁸ In these questions, he highlighted the concerns of three well-regarded individuals – Professor Allan Meltzer, David Stockman, and Andy Kessler – who had expressed worry about the Federal Reserve's use of money policy to generate short-term solutions at the expense of a riskier balance sheet.⁹ Your responses to these questions defended the Federal Reserve's actions, explaining that they "have helped to promote a stronger recovery than otherwise would have occurred, and to forestall the possibility of a slide into deflation."¹⁰ You also signaled possible future easing, writing that "[t]here is scope for further action by the Federal Reserve to ease financial conditions and strengthen the recovery."¹¹

In December 2012, you announced that the Federal Reserve would continue its bond-buying program into 2013, purchasing \$40 billion per month of mortgage-backed securities and \$45 billion per month of Treasury securities.¹² You stated that "we expect to continue asset purchases until we see a substantial improvement in the outlook of the labor market, in a context of price stability."¹³ Unlike "Operation Twist," where the Federal Reserve sold short-term Treasuries to finance the asset purchases, the Federal Reserve intends to fund the ongoing purchases by increasing reserves in the banking system.¹⁴ Additionally, the Federal Reserve anticipates continuing the current low short-term interest rates until unemployment falls below 6.5 percent and inflation remains close to 2 percent.¹⁵

This latest action by the Federal Reserve has spurred renewed concerns about the size of the Federal Reserve's portfolio and the consequences of its eventual unwind. As of late January 2013, the Federal Reserve's balance sheet topped \$3 trillion, more than three times the size of the portfolio in 2008 and 2009.¹⁶ Such a large portfolio could cause significant problems when the

⁵ Letter from Darrell Issa, H. Comm. on Oversight & Gov't Reform, to Ben Bernanke, Board of Governors of the Fed. Reserve System 2 (July 19, 2011).

⁶ *Id.*

⁷ Letter from Ben Bernanke, Board of Governors of the Fed. Reserve System, to Darrell Issa, H. Comm. on Oversight & Gov't Reform (Sept. 16, 2011).

⁸ Letter from Darrell Issa, H. Comm. on Oversight & Gov't Reform, to Ben Bernanke, Board of Governors of the Fed. Reserve System (Aug. 1, 2012).

⁹ *Id.*

¹⁰ Letter from Ben Bernanke, Board of Governors of the Fed. Reserve System, to Darrell Issa, H. Comm. on Oversight & Gov't Reform (Aug. 22, 2011).

¹¹ *Id.*

¹² Fed. Reserve System, Transcript of Chairman Bernanke's Press Conference (Dec. 12, 2012).

¹³ *Id.*

¹⁴ Jon Hilsenrath & Kristina Peterson, *Fed Ties Rates to Joblessness*, Wall St. J., (Dec. 12, 2012).

¹⁵ Fed. Reserve System, Transcript of Chairman Bernanke's Press Conference (Dec. 12, 2012).

¹⁶ *Fed Balance Sheet Above \$3 Trillion for Second-Straight Week*, NASDAQ, Jan. 31, 2013.

Federal Reserve begins to unwind. According to its own economists, the Federal Reserve may lose billions of dollars when it begins to sell securities to reduce its portfolio.¹⁷ The economists found that this unwind, coupled with rising short-term interest rates, might force the Federal Reserve “to sell bonds at a loss and incur higher expense on interest it pays to banks on the reserves they hold at the Fed.”¹⁸ The Federal Reserve could tally as much as \$40 billion in losses.¹⁹

Other observers predict that the Federal Reserve’s eventual unwind will likewise cause “a sharp discontinuous increase in interest rates resulting in a sharp fall in bond prices,” hurting retirement investments and bringing about a “monetary cliff.”²⁰ Philadelphia Federal Reserve President Charles Plosser worries that “[i]f [the unwind] doesn’t go smoothly, we may do more damage to the economy in terms of instability, or a rise in unemployment. I think those concerns are real and we should take them into account.”²¹ Even Atlanta Federal Reserve President Dennis Lockhart, who has supported the asset purchases, has become increasingly concerned, stating: “There is a risk, given the Fed’s cumulative share of the Treasury and MBS markets, that at some point securities purchases could have adverse effects on market functioning and financial stability.”²²

With these continued concerns about the size of the Federal Reserve’s portfolio and the potentially devastating consequences from any unwind, Congress and the public must be fully informed about the Federal Reserve’s expectations and actions. Therefore, to assist the Subcommittee in its oversight of these issues, I respectfully request the following information for the period November 25, 2008 – present:

1. All public and non-public studies, estimates, analysis, and evaluations of the value of the Federal Reserve’s assets and any potential losses associated with future unwind scenarios commissioned or undertaken by any employee, agent, or contractor of the Federal Reserve;
2. All public and non-public studies, estimates, analysis, and evaluations of the potential costs of payments of interest on reserves sufficient to prevent inflation associated with future unwind scenarios commissioned or undertaken by any employee, agent, or contractor of the Federal Reserve;
3. All documents and communications between or among employees, contractors, or agents of the Federal Reserve System and employees of the Treasury Department or the Executive Office of the President referring or relating to the value of the Federal Reserve’s assets and any potential losses associated with future unwind scenarios;

¹⁷ Victoria McGrane & Jon Hilsenrath, *Fed Risks Losses from Bonds*, Wall St. J., Jan. 29, 2013.

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ Barry Poulson, *Investors Face a Cruel Backlash from Ben Bernanke’s Operation Twist*, Forbes, Dec. 19, 2012.

²¹ Ann Saphir, *Fed’s Plosser: How to Unwind Balance Sheet a “Real” Concern*, Reuters, Jan. 5, 2013.

²² Steve Matthews, *Lockhart Says Fed Balance Sheet Expansion Raises Concern*, Bloomberg, Jan. 14, 2013.

The Honorable Ben Bernanke

February 19, 2013

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4. All documents and communications between or among employees, contractors, or agents of the Federal Reserve System and employees of the Treasury Department or the Executive Office of the President referring or relating to the Federal Reserve's cost of payment of interest on reserves.

The Committee on Oversight and Government Reform is the principal oversight committee of the House of Representatives and may at "any time" investigate "any matter" as set forth in House Rule X. An attachment to this letter provides additional information about responding to the Committee's request.

We request that you provide the requested documents and information as soon as possible, but no later than 5:00 p.m. on **March 5, 2013**. When producing documents to the Committee, please deliver production sets to the Majority Staff in Room 2157 of the Rayburn House Office Building and the Minority Staff in Room 2471 of the Rayburn House Office Building. The Committee prefers, if possible, to receive all documents in electronic format.

If you have any questions about this request, please contact David Brewer or Christopher Hixon of the Committee Staff at 202-225-5074. Thank you for your attention to this matter.

Sincerely,



Jim Jordan
Chairman

Subcommittee on Economic Growth, Job Creation,
and Regulatory Affairs

Enclosure

cc: The Honorable Matt Cartwright, Ranking Minority Member

ONE HUNDRED THIRTEENTH CONGRESS

Congress of the United States

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Minority (202) 225-5051

Responding to Committee Document Requests

1. In complying with this request, you are required to produce all responsive documents that are in your possession, custody, or control, whether held by you or your past or present agents, employees, and representatives acting on your behalf. You should also produce documents that you have a legal right to obtain, that you have a right to copy or to which you have access, as well as documents that you have placed in the temporary possession, custody, or control of any third party. Requested records, documents, data or information should not be destroyed, modified, removed, transferred or otherwise made inaccessible to the Committee.
2. In the event that any entity, organization or individual denoted in this request has been, or is also known by any other name than that herein denoted, the request shall be read also to include that alternative identification.
3. The Committee's preference is to receive documents in electronic form (i.e., CD, memory stick, or thumb drive) in lieu of paper productions.
4. Documents produced in electronic format should also be organized, identified, and indexed electronically.
5. Electronic document productions should be prepared according to the following standards:
 - (a) The production should consist of single page Tagged Image File ("TIF"), files accompanied by a Concordance-format load file, an Opticon reference file, and a file defining the fields and character lengths of the load file.
 - (b) Document numbers in the load file should match document Bates numbers and TIF file names.
 - (c) If the production is completed through a series of multiple partial productions, field names and file order in all load files should match.
 - (d) All electronic documents produced to the Committee should include the following fields of metadata specific to each document;

BEGDOC, ENDDOC, TEXT, BEGATTACH, ENDATTACH,
PAGECOUNT,CUSTODIAN, RECORDTYPE, DATE, TIME, SENTDATE,
SENTTIME, BEGINDATE, BEGINTIME, ENDDATE, ENDTIME, AUTHOR, FROM,

CC, TO, BCC, SUBJECT, TITLE, FILENAME, FILEEXT, FILESIZE, DATECREATED, TIMECREATED, DATELASTMOD, TIMELASTMOD, INTMSGID, INTMSGHEADER, NATIVELINK, INTFILPATH, EXCEPTION, BEGATTACH.

6. Documents produced to the Committee should include an index describing the contents of the production. To the extent more than one CD, hard drive, memory stick, thumb drive, box or folder is produced, each CD, hard drive, memory stick, thumb drive, box or folder should contain an index describing its contents.
7. Documents produced in response to this request shall be produced together with copies of file labels, dividers or identifying markers with which they were associated when the request was served.
8. When you produce documents, you should identify the paragraph in the Committee's schedule to which the documents respond.
9. It shall not be a basis for refusal to produce documents that any other person or entity also possesses non-identical or identical copies of the same documents.
10. If any of the requested information is only reasonably available in machine-readable form (such as on a computer server, hard drive, or computer backup tape), you should consult with the Committee staff to determine the appropriate format in which to produce the information.
11. If compliance with the request cannot be made in full by the specified return date, compliance shall be made to the extent possible by that date. An explanation of why full compliance is not possible shall be provided along with any partial production.
12. In the event that a document is withheld on the basis of privilege, provide a privilege log containing the following information concerning any such document: (a) the privilege asserted; (b) the type of document; (c) the general subject matter; (d) the date, author and addressee; and (e) the relationship of the author and addressee to each other.
13. If any document responsive to this request was, but no longer is, in your possession, custody, or control, identify the document (stating its date, author, subject and recipients) and explain the circumstances under which the document ceased to be in your possession, custody, or control.
14. If a date or other descriptive detail set forth in this request referring to a document is inaccurate, but the actual date or other descriptive detail is known to you or is otherwise apparent from the context of the request, you are required to produce all documents which would be responsive as if the date or other descriptive detail were correct.
15. Unless otherwise specified, the time period covered by this request is from January 1, 2009 to the present.
16. This request is continuing in nature and applies to any newly-discovered information. Any record, document, compilation of data or information, not produced because it has not been

located or discovered by the return date, shall be produced immediately upon subsequent location or discovery.

17. All documents shall be Bates-stamped sequentially and produced sequentially.
18. Two sets of documents shall be delivered, one set to the Majority Staff and one set to the Minority Staff. When documents are produced to the Committee, production sets shall be delivered to the Majority Staff in Room 2157 of the Rayburn House Office Building and the Minority Staff in Room 2471 of the Rayburn House Office Building.
19. Upon completion of the document production, you should submit a written certification, signed by you or your counsel, stating that: (1) a diligent search has been completed of all documents in your possession, custody, or control which reasonably could contain responsive documents; and (2) all documents located during the search that are responsive have been produced to the Committee.

Schedule Definitions

1. The term “document” means any written, recorded, or graphic matter of any nature whatsoever, regardless of how recorded, and whether original or copy, including, but not limited to, the following: memoranda, reports, expense reports, books, manuals, instructions, financial reports, working papers, records, notes, letters, notices, confirmations, telegrams, receipts, appraisals, pamphlets, magazines, newspapers, prospectuses, inter-office and intra-office communications, electronic mail (e-mail), contracts, cables, notations of any type of conversation, telephone call, meeting or other communication, bulletins, printed matter, computer printouts, teletypes, invoices, transcripts, diaries, analyses, returns, summaries, minutes, bills, accounts, estimates, projections, comparisons, messages, correspondence, press releases, circulars, financial statements, reviews, opinions, offers, studies and investigations, questionnaires and surveys, and work sheets (and all drafts, preliminary versions, alterations, modifications, revisions, changes, and amendments of any of the foregoing, as well as any attachments or appendices thereto), and graphic or oral records or representations of any kind (including without limitation, photographs, charts, graphs, microfiche, microfilm, videotape, recordings and motion pictures), and electronic, mechanical, and electric records or representations of any kind (including, without limitation, tapes, cassettes, disks, and recordings) and other written, printed, typed, or other graphic or recorded matter of any kind or nature, however produced or reproduced, and whether preserved in writing, film, tape, disk, videotape or otherwise. A document bearing any notation not a part of the original text is to be considered a separate document. A draft or non-identical copy is a separate document within the meaning of this term.
2. The term “communication” means each manner or means of disclosure or exchange of information, regardless of means utilized, whether oral, electronic, by document or otherwise, and whether in a meeting, by telephone, facsimile, email (desktop or mobile device), text message, instant message, MMS or SMS message, regular mail, telexes, releases, or otherwise.

3. The terms “and” and “or” shall be construed broadly and either conjunctively or disjunctively to bring within the scope of this request any information which might otherwise be construed to be outside its scope. The singular includes plural number, and vice versa. The masculine includes the feminine and neuter genders.
4. The terms “person” or “persons” mean natural persons, firms, partnerships, associations, corporations, subsidiaries, divisions, departments, joint ventures, proprietorships, syndicates, or other legal, business or government entities, and all subsidiaries, affiliates, divisions, departments, branches, or other units thereof.
5. The term “identify,” when used in a question about individuals, means to provide the following information: (a) the individual's complete name and title; and (b) the individual's business address and phone number.
6. The term “referring or relating,” with respect to any given subject, means anything that constitutes, contains, embodies, reflects, identifies, states, refers to, deals with or is pertinent to that subject in any manner whatsoever.
7. The term “employee” means agent, borrowed employee, casual employee, consultant, contractor, de facto employee, independent contractor, joint adventurer, loaned employee, part-time employee, permanent employee, provisional employee, subcontractor, or any other type of service provider.