



# BUDGET BULLETIN



COMMITTEE  
ON THE BUDGET  
Republican Staff

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202/224-0642 <http://budget.senate.gov/repUBLICan>

111<sup>th</sup> Congress, 1<sup>st</sup> Session: No. 6a

June 25, 2009

## INFORMED BUDGETEER:

### “BAILOUT PAYOUT TOPS \$8 TRILLION” !?? “MAXIMUM CAPACITY OF GOVT. SUPPORT APPROACHES \$14 TRILLION” !?? –NOT!

- At various points over the past six months, media and other observers have attempted to summarize into one number the extent of the “bailout” for the financial system and housing crises.
- There is an inevitable media urge, and it may even be simply human, to want to distill complicated issues down to a single number, but such figures have been persistently misleading. In fact, no figure could ever be “right” because some of the federal government’s tools for intervening in the financial system have no statutory limit (e.g., Treasury’s assistance to Fannie Mae and Freddie Mac and many of the Federal Reserve’s facilities; see next page of this *Bulletin*). So adding the “value” of “infinity” or “unlimited” that represent some of the interventions to the sum of other tools that are limited cannot produce a numeric total; instead it yields infinity.
- But this is an unsatisfying conclusion that does not suppress the appetite of legislators, staff, budgeteers, the media, watchdogs, and the public to somehow get their arms around a measurement of the budgetary impact of the dizzying array of interventions taken by the federal government. If one can’t boil it all down to a single number, could one at least boil it all down to one page? It’s a fool’s errand, but this *Bulletin* undertakes it nonetheless.
- Since the government has not undertaken such a set of interventions before, we do not have a handy, common lexicon that everyone can use to mean the same things in describing the stages of the various interventions. Among the verbs used to attempt to describe the status of the “bailout” are the following: **pay out, costs, commits, spent, pledged, used, outlayed, announced, apportioned, disbursed, obligated, expended.** It is useful to explore the vocabulary that describes the various stages of government intervention or uses of legislative authority.
- To complicate matters further, the federal budget has various ways of treating credit programs (adjusted or not adjusted for market risk) and insurance programs – the former on a net-present-value accrual basis and the latter on a cash basis. In addition, the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) are not 100 percent consistent in the way they estimate and present the budgetary effects of all the financial interventions by the federal government. Also keep in mind that these financial intervention tools are temporary – some have expiration dates set in law and some have expiration dates set administratively by agencies that have the flexibility to create such tools and determine their duration. In the case of many of these tools, the agencies have the authority to extend their availability, so we don’t really know how open-ended these exposures will be.

**TARP.** Let’s consider the part of the financial rescue that perhaps has received the most attention – Treasury’s Troubled Assets Relief Program (TARP) enacted in the Emergency

Economic Stabilization Act (EESA, P.L. 110-343). When TARP was enacted in October 2008, everyone seemed to understand what the one and only number – \$700 billion – attached to that program means: it is a limit on the face value of all assets (making or buying loans, or buying stock), *outstanding at any one time*, held by the Treasury.

- But EESA also made clear that TARP is a federal credit program that should be presented in the budget under the Federal Credit Reform Act (FCRA). So does that mean that EESA “cost” \$700 billion or that Congress or the Treasury “spent” \$700 billion in enacting that law or implementing TARP? Of course not! It just means that the Treasury can lend out money in that amount. Not until many years from now, when we finally know the revenue that the Treasury derives from holding and then disposing of those assets, will we know what the actual cost of the TARP program really is.
- Under FCRA (as applied in EESA), the cost of a loan (or shares of stock) is not the same thing as the face value of the loan. When banks make loans, banks don’t think they are incurring a cost; in fact, they expect to make a profit. The same for Treasury under TARP: Treasury expects to make money on some TARP loans and lose money on other TARP loans. To the extent that Treasury loses any money on net, only that loss is a “cost” because that is the amount by which the deficit increases.
- We can think about the assets the Treasury purchases and what the estimated deficit impact could be, as follows: If Treasury uses all of its authority to lend out \$700 billion and then no one pays back even one penny of the loans, then the Treasury would be out the entire \$700 billion. In that extreme worst-case scenario, the TARP would have had a cost (i.e., increased the deficit by) of \$700 billion. But no one expects that to happen (in fact, we already know for certain that cannot happen, as \$70 billion in TARP loans have been repaid in full).
- The first column in the TARP section of the table itemizes how the Treasury has either announced it is using or has planned to use (or not) its TARP authority, based on Treasury’s press releases. It also shows what the maximum exposure to losses the federal government would have if the Treasury receives no value in return for the loans it has made or is planning to make.
- The second column shows that the Treasury has not entered into commitments to provide the entire \$700 billion in TARP assistance yet. To date, Treasury [reports](#) that it has entered into commitments amounting to only \$434 billion. (See [Donald Marron’s blog](#) for a one-stop visual summary of Treasury’s plan.)
- The third column shows CBO’s estimate ([from the March 2009 baseline](#)) of how much the deficit will increase as a result of each type of TARP assistance. CBO estimates that, while Treasury will commit all of its \$700 billion in authority before it expires at the end of December 2009, Treasury is likely to get only half of its money back. In other words, CBO is estimating that TARP will result in \$357 billion of **outlays**, or deficit increase.

| Financial Market Interventions by the Federal Govt. (\$ billions)  | Max. Federal<br>Exposure | \$ Committed/<br>Outstanding <sup>a</sup> | Est. Deficit<br>Impact <sup>b</sup> | SUBSIDY %  |            |
|--|--------------------------|---|-------------------------------------|------------|------------|
|  |                          |   |                                     | CBO        | OMB        |
| <b>Total TARP funds<sup>c</sup></b>  | <b>699</b>               | <b>438</b>                                | <b>357</b>                          | <b>51%</b> | <b>44%</b> |
| Bank stock purchases to date (as of 6/19; \$70 b returned to Treas.)   | 199                      | 199                                       | 70                                  | 35%        | 27%        |
| Remaining room under \$218b Capital Purchase Program   | 19                       | 0   | 6                                   | 35%        | 27%        |
| Targeted Investmt. Program-B of A & Citi stock purchase  | 40                       | 40  | 28                                  | 70%        | 49%        |
| Treas. assumes \$5b loss on Fed's \$306b Citi asset guarantee  | 5                        | 5   | 1                                   | 13%        | 0%         |
| Treasury purchase of AIG stock   | 70                       | 70  | 49                                  | 70%        | 83%        |
| Treasury pledge credit protection to Fed's TALF  | 20                       | 20  | 3                                   | 13%        | 33%        |
| Foreclosure relief (Making Home Affordable)  | 50                       | 18  | 50                                  | 100%       | 100%       |
| Auto Supplier Support & Warranty Guarantee Program   | 6                        | 6   | 5                                   | 74%        | 49%        |
| Auto Co. Loans (incl. \$12.5b GMAC stock purchase)   | <u>80</u>                | <u>80</u>                                 | <u>59</u>                           | 74%        | 52%        |
| <i>Subtotal - TARP programs in operation so far</i>  | 489                      | 438                                       | 270                                 |            |            |
| Asset Guaranty program - Bank of America   | 8                        |   | 1                                   | 13%        | 0%         |
| CBLI - TALF (\$35b), small bus.(\$15b), toxic bank assets (\$25b)  | 75                       |   |                                     |            |            |
| Pub/Priv Investmnt Program (PPIP-legacy real estate assets)  | 75                       |   |                                     |            |            |
| Capital Assistance Program   | ??                       |   |                                     |            |            |
| TARP funds not yet designated  | 52                       |   | 87                                  | 41%        | 33%        |
| <i>Amount above \$699 billion by which TARP could increase if needed (non-add)</i>   | 70                       |   |                                     |            |            |
| <b>Other Treasury Authorities</b>  | <b>580</b>               | <b>580</b>                                | <b>384</b>                          |            |            |
| Temporary Money Market Deposit Insurance <sup>d</sup>  | 50                       | 50  |                                     |            |            |
| To-date purchases of debt from Federal Home Loan Banks   | unlimited                | 0   |                                     |            |            |
| Cost of putting GSEs into conservatorship <sup>e</sup>   | unlimited                |   |                                     |            |            |
| Old book of business (pre-Oct. 2008)   |                          |   | 248                                 |            |            |
| New business (post-Sept. 2008)   |                          |   | 136                                 |            |            |
| To-date purchases of MBS guaranteed by GSEs (HERA)   | unlimited                | 146                                       |                                     |            |            |
| <b>FDIC</b>  | <b>2175</b>              | <b>1736</b>                               | <b>10</b>                           |            |            |
| Temp. increase of dep. insurance from \$100,000 to \$250,000   | 700                      | 700                                       |                                     |            |            |
| Temporary Liquidity Guarantee Program  |                          |   |                                     |            |            |
| Temp. guarantee of interbank debt <sup>d</sup>   | 785                      | 346                                       |                                     |            |            |
| Temp. guarantee of non-interest bearing accts <sup>d</sup>   | unlimited                | 680                                       |                                     |            |            |
| FDIC guarantees up to 5/6 of bidder's portion under PPIP   | ???                      | 0   |                                     |            |            |
| FDIC assumes \$10b loss on Fed's \$306b Citi guarantee   | 10                       | 10  | 10                                  |            |            |
| <b>Federal Reserve</b>   | <b>6287</b>              | <b>1453</b>                               | <b>0</b>                            |            |            |
| Purchase of GSE debt   | 200                      | 90  |                                     |            |            |
| Purchase of MBS guaranteed by GSEs   | 1250                     | 456                                       |                                     |            |            |
| TALF 1.0 - Term-Asset Backed Sec. Loan Facility (auto,credit card, student, SBA loans; TARP on hook for 1st \$20b of losses)       | 180                      | 25  |                                     |            |            |
| TALF 2.0 (\$800b total, TARP on hook for \$80b of losses)  | 720                      | 0   |                                     |            |            |
| Citigroup Rescue- guarantee of Citi's MBS  | 234                      | 234                                       |                                     |            |            |
| Money Market Investor Funding Facility (5 PSPVs purchase money market debt instruments from 50 institutions)                       | 540                      | 0   |                                     |            |            |
| Commercial Paper Funding Facility  | 1800                     | 129                                       |                                     |            |            |
| Asset-Backed Commercial Paper Money Market Fund  |                          |   |                                     |            |            |
| Liquidity Facility   | not stated               | 19  |                                     |            |            |
| Primary Dealer Credit Facility   | not stated               | 0   |                                     |            |            |
| Term Securities Lending Facility   | 250                      | 16  |                                     |            |            |
| Term Auction Facility  | 900                      | 337                                       |                                     |            |            |
| Primary and Secondary Credit short-term loans to banks   | not stated               | 37  |                                     |            |            |
| Bear Stearns loan (Maiden Lane I)  | 29                       | 29  |                                     |            |            |
| AIG - Five-year loan   | 43                       | 43  |                                     |            |            |
| AIG - Special Purpose Vehicle for ALICO and AIA  | 26                       | 0   |                                     |            |            |
| AIG - Special Purpose Vehicle for domestic life insurance  | 9                        | 0   |                                     |            |            |
| AIG -- Residential MBS Facility to purchase AIG assets (Maiden Lane II)  | 22                       | 18  |                                     |            |            |
| AIG -- Collateralized Debt Oblig. Facility to purchase multi-sector CDOs for which AIG has written CDS contracts (Maiden Lane III) | 30                       | 22  |                                     |            |            |
| <b>TOTAL - ALL OF FEDERAL GOVERNMENT</b>   | <b>9740</b>              | <b>4206</b>                               | <b>751</b>                          |            |            |

a. As of COB June 19, 2009, for TARP; June 10, 2009 for Treasury's other authorities and FDIC; June 18, 2009 for Fed

b. Est. of deficit impact is over life of financial instrument, until books are closed on the loan or stock purchase or insurance program.

c. Section 202(b) of the Helping Families Save Their Homes Act of 2009, [P.L. 111-22](#) reduced the TARP authority by \$1.244 billion.

d. \$770m in premiums collected by ESF; \$8 billion in insurance premiums collected through 5/31/09 by FDIC

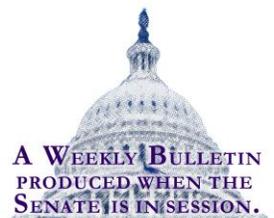
e. Sec. Paulson announced in September the minimum he was prepared to contribute to Fannie and Freddie each was \$100b; in May 2009, Treasury said it will provide \$200b in assistance to each GSE; but under law, Treasury's authority is unlimited; it can spend more than that.

Source: SBC minority staff based on data from Treasury, FDIC, Fed, CBO, and OMB

**BE SURE TO READ ON TO PART 2 OF THIS BULLETIN IN ISSUE 6B**



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## INFORMED BUDGETEER:

### “BAILOUT PAYOUT TOPS \$8 TRILLION” !? ? “MAXIMUM CAPACITY OF GOVT. SUPPORT APPROACHES \$14 TRILLION” !? ? –NOT! (continued)

- Note that, regarding the confusion about the right words to describe the stages of financial interventions by the federal government, CBO knows a thing or two about the correct use of the word “outlays.” Others who track TARP sow confusion instead, such as the [Congressional Oversight Panel](#), which incorrectly describes Treasury outlays as “face values, based on: (1) Treasury’s actual reported expenditures and (2) Treasury’s anticipated funding levels as estimated by a variety of sources, including Treasury pronouncements, GAO estimates, and news reports. The outlay concept used here is not the same as budget outlays, which... are recorded on a ‘credit reform’ basis.”
  - By contrast, the Government Accountability Office (GAO; see [page 12](#) of the most recent GAO report) provides a good example of correctly employing helpful terms to describe the various stages of TARP implementation.
  - Finally, the fourth and fifth columns show the subsidy rate estimates that the CBO and OMB have published for various types of TARP assistance. While some of the subsidy estimates for certain types vary significantly, in total, CBO’s March 2009 estimate of a weighted-average subsidy rate of 51 percent is reasonably close to the 44 percent weighted-average subsidy rate estimates that OMB presented last month in the [2010 Budget Appendix](#) (pp. 982-985). On June 25, CBO will issue its next TARP report including updated subsidy rate estimates for certain components of the TARP program.
- Other Treasury Authorities.** Treasury’s other efforts in the financial rescue are probably less familiar to most. For example, even before TARP was enacted and without asking for new legislative authority, Treasury decided to use its Exchange Stabilization Fund (ESF) to create and operate a temporary deposit insurance program for money market funds.
- While money market funds totaling more than \$3 trillion have signed up for this insurance and are paying premiums amounting to (only) \$1 billion in 2009, Treasury has limited the federal government’s total exposure to insurance claims from failed money market funds to the \$50 billion available in the ESF.
  - So even if somewhere between \$50 billion and \$3 trillion of money market funds fail this year, the most that the federal government would be required by law and by contract to pay out to money market depositors would be the first \$50 billion in money market losses. Any money market losses exceeding \$50 billion would not be entitled to an insurance payment from the ESF.
  - Because this is an insurance program, the federal budget treats it on a cash basis (not as a credit program). So even though the program is at risk for \$50 billion in losses that the \$1 billion in premiums could not begin to cover, the budget does not reflect any deficit increase from this program unless

CBO or OMB estimate such losses (but they do not estimate any losses currently) or until losses actually occur.

- This discrepancy between the universe of money market deposits subscribed to the program and the amount available for insurance claims is probably the largest contributor to the exaggeration of the size of the federal government’s potential exposure through its interventions in the financial markets. Outlets that like to cite a figure such as \$14 trillion in federal government interventions (see, for example, [the FDIC](#)) count the \$3.2 trillion in covered money market deposits, even though the federal government has put at risk only 1.5 percent of that amount.
  - The Treasury also has temporary authority provided under the Housing and Economic Recovery Act (enacted July 30, 2008) to purchase any amount of obligations or other securities from government-sponsored enterprises (GSEs – Fannie Mae, Freddie Mac, Federal Home Loan Banks) involved in the mortgage market.
  - As the words “any amount” indicate, this authority is essentially unlimited, or (now that the federal government put Fannie Mae and Freddie Mac into conservatorship in September 2008) is limited to only whatever the federal government is willing to pay to cover the GSEs’ losses and maintain them as a presence in the mortgage market. At the time of the takeover, Secretary Paulson announced that he was willing to provide “up to” \$100 billion in support of each of the two GSEs in conservatorship, but this figure was advertising and represented no real limit on Treasury’s authority under the law. Proving this point, on May 6, 2009, Treasury Secretary Geithner announced that Treasury would provide “up to” \$200 billion in support for each of the two GSEs.
  - Over time, even this amount may prove to be insufficient. CBO has decided that, with the federal government’s takeover of the insolvent Fannie Mae and Freddie Mac, the GSEs ought to appear on the books of the federal budget. CBO estimated that the federal government immediately absorbed a loss of \$248 billion for the book of business the GSEs had in September 2008. To maintain an active mortgage market, the federal government is continuing to operate the GSEs, whose new commitments entered into after September 2008 would lose an estimated \$136 billion over the 2009-2019 period according to CBO.
  - To further buttress the mortgage market, the Treasury thus far has purchased \$146 billion in mortgage-backed securities (MBS) guaranteed by Fannie and Freddie. Because MBSs are credit instruments, CBO has treated Treasury’s purchase of MBSs as well as the federal costs of conservatorship of Fannie and Freddie on a credit reform basis.
- FDIC.** In recent history, the Federal Deposit Insurance Corporation has insured depositors’ accounts in banks and thrifts up to \$100,000 (as has its smaller analogue for credit unions - the National Credit Union Administration). Like other federal insurance programs, deposit insurance is treated in the budget on a cash basis. CBO estimates expected financial institution losses will be about \$110 billion over the next five years due to the increase in bank failures (with a corresponding

increase in the federal deficit over the same period), but expects those losses to be offset by increased premium income over the next 10 years, with no net deficit effect over that longer period from this spate of bank failures.

- Following a requirement of the EESA, the FDIC has temporarily increased deposit insurance from \$100,000 to \$250,000 per account, thereby insuring another \$700 billion of bank deposits.
- The FDIC has also used previously existing authority to offer a [guarantee on interbank debt](#); currently banks have insurance outstanding on \$346 billion of such debt and have paid about \$8 billion to date in premiums for the insurance.
- For a related, new temporary product – insurance on non-interest bearing accounts – the FDIC has advertised no limit, but has subscribed about \$680 billion in such accounts.

**Federal Reserve.** Over the past 18 months, the Fed has created an array of “facilities” and taken other actions to intervene in the financial markets. For many of them, the Fed has announced a limit on the size of the facility or the loan, some of which have not been used (and appear unlikely to be used) very much, if at all. For others, such as purchases of [GSE debt](#) and [MBS](#) guaranteed by GSEs, the Fed had announced a “limit,” only to increase the limit subsequently, calling into question the meaning of any announced limit.

- For others (such as the Asset-Backed Commercial Paper Money Market Fund Liquidity Facility), the Fed has never announced a limit; one can only observe on a [weekly basis](#) the amount of loans outstanding. If the law or the Fed itself places no limit on the loans the Fed is willing to expose itself to, then it is impossible to quantify in a meaningful way what is the maximum exposure of the Fed, except for the current amount of loans outstanding under the particular facility.
- All one can legitimately do is add up the potential exposures that the Fed has announced for itself (or in the absence of announced limits, the amount of actual exposure to date) and say that represents a *minimum* of \$6.3 trillion, as itemized in the first column of the table.
- More useful than trying to get the biggest number possible (which is, presumably, the goal of those who cite figures like \$14 trillion) is to identify the extent to which the Fed *has actually acted* on the authorities that it has created. The second column suggests that, even though the Fed may be willing to make more loans in the future, thus far the Fed has an exposure outstanding of \$1.5 trillion of losses (assuming all the loans that the Fed has extended go 100% bad and the collateral that the Fed has required also ends up being 100% worthless).
- In practice, however, [the Fed](#) has put others into a first-loss position on some of its loans and is well collateralized on its exposure on many loans. CBO expects there is some risk of losses only on the Bear Stearns and AIG assets and asset guarantees of Citigroup and Bank of America.

- When the Fed ever does experience a loss on any of these loans, it will show up as a reduction in the Fed’s annual profit. Because the Fed turns over its annual profit to the Treasury (as federal revenues), the lower profit would increase the federal deficit.

**The Table.** So what is an accurate summary of the extent and budgetary impact of the federal government’s interventions in the financial and housing crises? As you can now conclude on your own, it is not as simple as a single number. It is complicated. There are lots of questions one can ask about these interventions, and clarity demands being very deliberate and painstaking in providing precise answers.

- The table in this *Bulletin* (drawn from many sources offered at various intervals by the involved agencies), even though it adds up the numbers that appear on it, cannot be said to provide just one number that is a total or that is final. Activity reported by the agencies changes every day, week, and month (the *Bulletin* will try to keep up with the changes; check the SBC Republican website weekly at <http://budget.senate.gov/republican/FinancialMarket.pdf> for updates). We won’t know for years whether the deficit effects that are currently estimated and that will evolve over time, will be on target with the actuals once they are recorded when each program or facility unwinds.

**Postscript: What Happens With Repaid TARP Funds?** With the recent repayment of \$70 billion by banks for bank stock that Treasury purchased last fall with TARP funds, there has been a lot of confusion about what happens with those repaid funds. Everything else equal, when Treasury needed the cash to buy the bank stock in the first place, it had to go out and borrow the funds and increase the debt. As required by law, now that banks have repaid \$70 billion, the Treasury will pay down \$70 billion of the debt that it had previously incurred.

- An entirely separate question is what might Treasury do in the future in terms of implementing its authority under TARP to have \$700 billion in assistance outstanding at any one time? To review in very very round terms, Treasury has thus far actually committed about \$450 billion of its TARP authority. It has “mentally set aside” about \$200 billion for programs that may or may not ever need to draw on TARP funds (some of them may never get off the ground). That leaves \$50 billion in “mad money” that Treasury has not yet indicated how it might be thinking of using it, so perhaps it is in reserve for an as yet unseen crisis.
- So Treasury would still have to use \$250 billion of TARP authority before it even gets to the issue of what it might do with the \$70 billion in new TARP authority it has available as a result of repayment by banks. With six months left before the TARP authority expires and 35 percent of the initial authority still not used, it is highly uncertain whether Treasury will ever have to decide (and justify) its use of the additional \$70 billion in TARP authority it now has available under the law (but if it does, it would then have to go out and incur new debt to extend that authority).