ONE HUNDRED TENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6143

MAJORITY (202) 225–5051
FACSIMILE (202) 225–4784
MINORITY (202) 225–5074

www.oversight.house.gov

April 7, 2008

Mr. Timothy F. Geithner
President and Chief Executive Officer
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Dear Mr. Geithner:

I am writing to request that you provide the Committee on Oversight and Government Reform with information about the selection of BlackRock Financial Management, Inc., to manage billions in assets that now appear to belong to the federal taxpayer.

According to your testimony before the Senate Banking Committee last week, BlackRock and its affiliates will serve the Federal Reserve as the "Asset Manager" responsible for managing the "portfolio supporting the $29 billion loan to be extended by the Federal Reserve in connection with the proposed acquisition of Bear Stearns by JP Morgan Chase." This portfolio, which will be held in a limited liability company, is composed "largely of mortgage related assets" valued by Bear Stearns at a market value of $30 billion on March 14, 2008.

Only limited details are known about the Federal Reserve's understandings with BlackRock. It appears, however, that BlackRock is now directly responsible for managing a $30 billion portfolio on behalf of the American taxpayer. If BlackRock does its job well, the taxpayers will be made whole or even experience a gain. If BlackRock is not successful, the taxpayers stand to lose billions of dollars. In effect, it appears that BlackRock is serving as a government contractor providing complex financial services to the Federal Reserve.

One question involves the award of this potentially lucrative position to BlackRock without competition. In your testimony, you explained the lack of competition by citing the extreme time constraints and the need for quick action, and I do not dispute the urgent circumstances that the Federal Reserve faced. Typically, however, emergency no-bid contracts have a short duration and are replaced with long-term contracts through full and open competition. The rationale for this approach is evident: competition ensures that the taxpayers are getting the best value for their money.

In this case, there is no indication that the Federal Reserve contemplates a future competition. Instead, it appears that BlackRock may end up managing the $30 billion fund for the Federal Reserve for up to ten years.

Another question raised by your testimony and Chairman Bernanke's testimony before the Joint Economic Committee is the apparent lack of concrete terms with BlackRock. Chairman Bernanke advised the Joint Economic Committee last week that "[t]he Federal Reserve Bank of New York engaged BlackRock on a fee-to-be-determined-later basis that is to be negotiated later." Similarly, your testimony before the Senate Banking Committee offered few specifics about the Federal Reserve's arrangement with BlackRock.

The Committee's investigations have shown that when contract terms are not defined in advance, it is usually the taxpayer — not the contractor — who suffers. In Iraq and in the response to the September 11 attacks and Hurricane Katrina, taxpayers have incurred billions of dollars in unnecessary costs when federal agencies tried to negotiate terms with a private contractor that knows it has already won the contract. Exigent circumstances were often cited in these cases to justify the absence of concrete terms.

I know that the Federal Reserve is not subject to the same contracting requirements as most federal agencies, and I recognize that the urgency of the circumstances and the complexity of the financial arrangements may necessitate unusual arrangements, so I want to assure you that I have reached no conclusions. My goal at this point is to ensure that the Committee receives the information it needs to fulfill its oversight responsibilities.

To further the Committee's understanding of this matter, I request you provide the following information to the Committee:

1. Please describe the basis for BlackRock's selection as the asset manager and advisor.

2. Please describe whether the Federal Reserve's arrangement with BlackRock allows the Federal Reserve to solicit competing bids for a portfolio manager. If the arrangement does not allow the Federal Reserve to solicit competing bids, please explain why this is in the interest of the taxpayer. If the arrangement does allow competing bids, please explain whether the Federal Reserve intends to solicit these bids and, if so, when and under what circumstances.

3. Please provide all documents that relate to the terms and conditions of the arrangement with BlackRock.

4. Please describe any specific plans the Federal Reserve has in place to oversee BlackRock's management of the portfolio.

5. Please provide a list of the names of BlackRock employees who will be responsible for managing the portfolio.

6. Please explain whether the Federal Reserve has examined BlackRock's ownership structure, investment portfolio, and other activities, such as its involvement with entities seeking to accumulate distressed mortgages, to screen for potential conflicts of interest. In particular, please address whether any BlackRock-supported ventures or board members are pursuing business goals that might conflict with management of the portfolio.

I request that you provide this information to the Committee by April 18, 2008.

The Committee on Oversight and Government Reform is the principal oversight committee in the House of Representatives and has broad oversight jurisdiction as set forth in House Rule X.

If you have any questions regarding this letter, please contact Roger Sherman or Alison Cassady of the Committee staff at (202) 225-5051.

Sincerely,

Henry A. Waxman

Henry A. Waxman
Chairman

cc: Tom Davis
Ranking Minority Member

Ben S. Bernanke
Chairman, Board of Governors of the Federal Reserve System