United States Senate
Committee on Finance

Sen. Chuck Grassley · Iowa
Ranking Member

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M E M O R A N D U M

To: Reporters and Editors
Re: Bear Stearns deal
Da: Thursday, March 20, 2008

Sen. Chuck Grassley, ranking member of the Committee on Finance, with jurisdiction over tax policy, is interested in details of the Federal Reserve's agreement to lend $30 billion to help Bear Stearns, and about the actions of company executives. Grassley made the following comment on the issue.

"I've instructed my staff to delve into the details of the deal. I want to understand what the downside risk for the taxpayer is and any upside potential. I've asked staff to compare this action to recent actions by Treasury and/or the Fed to intervene in financial troubles. For instance, in 1994 and 1995, the Clinton Administration Treasury helped alleviate the Mexican bond crisis by setting up a 1930s-era revolving fund to the tune of $20 billion to $30 billion. Treasury used $13.5 billion of the fund and made money on the transaction. Is there any upside for taxpayers in the Bear Stearns deal?

"Another long-time interest of mine is how insiders such as senior executives are treated in these kinds of deals. Corporate bigwigs shouldn't be able to profit from a deal while employees, shareholders, and creditors have to carry the burden of a company's demise. For example, during the Sarbanes-Oxley floor debate, I had an amendment that would've tightened the preferential transfer rules for corporate officers and directors when a company goes bankrupt to help police pre-filing mischief. This is an angle of the bankruptcy law that protects creditors, large and small, and others from abuse of bankruptcy by corporate insiders. I'm having my staff inquire about how the Bear Stearns insiders are being treated under this deal and whether they'll come out better than if Bear Stearns had gone into bankruptcy. My point is not that bankruptcy would've been the better course for Bear Stearns. I'm looking at a slice of the consequences. The top executives shouldn't be treated better than anyone else when a company goes under."