



For Immediate Release
Friday, Nov. 14, 2008

Grassley Seeks Inspector General Review of Treasury Bank Merger Move

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, today asked the Treasury Department inspector general to review the circumstances and any possible conflicts of interest involving the Treasury Department’s administrative move that gives a big tax break to banks that acquire poorly performing banks.

“Treasury’s move took a lot of people by surprise,” Grassley said. “It was a big policy change for an agency to take administratively. Treasury didn’t involve Congress, so there were no checks and balances to vet the policy. The relationships of the players involved might give the appearance of conflicts of interest. I’m asking the inspector general to look at Treasury’s move after the fact and make sure the agency was fair, unbiased and above board in its actions.”

The text of Grassley’s request letter to the inspector general follows here.

November 14, 2008

Via Electronic Transmission

The Honorable Eric M. Thorson
Inspector General
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Inspector General Thorson:

I am writing to ask you to conduct an investigation into the facts and circumstances leading to the Treasury Department’s issuance of Notice 2008-83

("Notice") on September 30, 2008, as well as possible conflicts of interest involving Department of the Treasury ("Treasury") officials, former Goldman Sachs executives, and board members in the sale of Wachovia Corporation to Wells Fargo.

The Notice changes the rules governing the deductibility of losses under section 382(h) of the Internal Revenue Code as it applies to banks. While section 382 provides Treasury the authority to issue regulations to implement section 382, Treasury's action raises significant questions about whether it exceeded implementing authority by attempting to change the law. Prior to the Notice, the amount of income that an acquiring bank could shelter in order to be able to absorb the losses of a bank it acquired was limited. Now, the Notice allows an acquiring bank to use an acquired bank's losses to shelter its income without limitation.

As you know, Treasury Secretary Henry M. Paulson, Jr. was formerly the Chairman and CEO of Goldman Sachs. Former Goldman Sachs board member Edward M. Liddy was selected to lead AIG when the Treasury loaned AIG the first \$85 billion of \$150 billion of taxpayer funds. Neel Kashkari is the head of Treasury's new Office of Financial Stability, created to oversee the \$700 billion of funds authorized by Congress for the bailout, and was a former vice-president at Goldman Sachs. Secretary Paulson's team at Treasury also includes senior advisors formerly at Goldman Sachs, such as Dan Jester and Steve Shafran.

Given these relationships, there is reason for concern about the appearance of preferential treatment created by the Treasury Department's decision to issue Notice 2008-83. The Notice, issued just days before Congress voted on the Emergency Economic Stabilization Act of 2008, appears to have had the effect of benefiting Wachovia Corporation executives and Wells Fargo. Robert Steel, the CEO of Wachovia, was a former Undersecretary for Domestic Finance and was a vice chairman at Goldman Sachs prior to that. He joined Treasury in 2006 to work on issues pertaining to Fannie Mae and Freddie Mac. Mr. Steel left Treasury to become chief executive of Wachovia just this summer.

Treasury's issuance of the Notice apparently enabled Wells Fargo to take over Wachovia despite a pending bid from Citibank. Without the issuance of the Notice, Wells Fargo would have only been able to shelter a limited amount of income. Under the Notice, however, Wells Fargo could reportedly shelter up to \$74 billion in profits. It also potentially enabled Wachovia's senior executives to qualify for parachute payments that may not have been available under the Citibank deal.

The facts and circumstances surrounding the issuance of the Notice, particularly as it relates to Wells Fargo's purchase of Wachovia Corporation, raise concerns about the independence of the decision makers. Since the Notice and the FDIC's intervention are part of the federal government's larger efforts to stabilize the economy, I ask that your office conduct this investigation since you have broader jurisdiction over Treasury than the Treasury Inspector General for Tax Administration. As part of your investigation, please obtain and review all documents and communication related to the issuance of

Notice 2008-83, including all records of communication between Treasury officials, individuals at Wells Fargo, and/or Wachovia Corporation or their representatives.

Should you agree to conduct the examination, please provide periodic updates on your progress. Moreover and in the event that the Office of the Inspector General has any difficulty obtaining access to any of the materials or persons needed to conduct this review in an efficient and effective manner, I request that you contact me immediately. Thank you in advance for your assistance in this matter and should you wish to discuss this request in further detail please contact Ellen McCarthy and Jason Foster of my staff at (202) 224-4515.

Sincerely,

Chuck Grassley
United States Senate