DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

May 2, 2011

The Honorable John A. Boehner
Speaker of the House
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

Further to my letters of January 6 and April 4, 2011, I am writing again to Members of Congress regarding the importance of protecting America's creditworthiness by enacting an increase in the statutory debt limit. This letter is to inform you of the extraordinary measures the Treasury Department will begin taking this week in anticipation of the date the debt limit will be reached, and to provide an updated estimate of the Department's ability to use these measures to preserve lawful borrowing authority without exceeding the debt limit. In my last letter, I described in detail the set of extraordinary measures Treasury is prepared to take in order to extend temporarily our ability to meet the Nation's obligations if an increase is not enacted by May 16, when we estimate the limit will be reached. Because it appears that Congress will not act by May 16, it will be necessary for the Treasury to begin implementing these extraordinary measures this week.

On Friday, May 6, Treasury will suspend until further notice the issuance of State and Local Government Series (SLGS) Treasury securities. SLGS are special-purpose Treasury securities issued to states and municipalities to help them conform to tax rules that restrict the investment of proceeds from the issuance of tax-exempt bonds. These bonds are used to fund a variety of expenditures, including infrastructure improvements across the country. When Treasury issues SLGS, they count against the debt limit. Because the United States is very close to reaching the debt limit, Treasury must take this action now. However, it is not without costs; it will deprive state and local governments of an important tool to manage their outstanding debt expenses.

If Congress does not increase the debt limit by May 16, the Treasury Department will be forced to employ further extraordinary measures on that date to provide headroom under the limit. Therefore, on May 16, I will (1) declare a "debt issuance suspension period" under the statute governing the Civil Service Retirement and Disability Fund, permitting us to redeem existing Treasury securities held by that fund as investments, and to suspend issuance of new Treasury securities to that fund as investments and (2) suspend the daily reinvestment of Treasury securities held as investments by the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Plan. (Under the law, Federal employees are protected by a requirement that both funds be made whole after a debt limit increase is enacted.)

In addition, it may become necessary, at a time to be determined, to suspend the daily reinvestment of Treasury securities held as investments by the Exchange Stabilization Fund.

Largely as a result of stronger than expected tax receipts, we now estimate that these extraordinary measures would allow the Treasury to extend borrowing authority until about August 2, 2011, approximately three weeks later than was forecast last month. This is a projection and is subject to change based on government receipts and other factors during the next three months. While this updated estimate in theory gives Congress additional time to complete work on increasing the debt limit, I caution strongly against delaying action. The economy is still in the early stages of recovery, and financial markets here and around the world are watching the United States closely. Delaying action risks a loss of confidence and accompanying negative economic effects.

As I have written previously, default by the United States on its obligations would have a catastrophic economic impact that would be felt by every American. A broad range of government payments would have to be stopped, limited or delayed, including military salaries, Social Security and Medicare payments, interest on debt, unemployment benefits and tax refunds. A default on the Nation's legal obligations would lead to sharply higher interest rates and borrowing costs, declining home values and reduced retirement savings for Americans. Default would cause a financial crisis potentially more severe than the crisis from which we are only now starting to recover.

I want to emphasize that, contrary to a common misperception, the debt limit has never served as a constraint on future spending, nor would refusing to increase the debt limit reduce the obligations the country has already incurred. Increasing the debt limit merely permits payment of obligations Congress has already approved to citizens, servicemen and women, businesses and investors. In order to honor those obligations, increasing the debt limit is unavoidable. In fact, under both the President's budget and the House-passed Republican budget, the debt limit would need to be raised by roughly the same amount in order to fund the government through the end of FY2012.

Protecting America's creditworthiness and our economic leadership position in the world is a duty to our country that is shared by policymakers in both parties, in the Legislative Branch as well as the Executive Branch. Therefore any attempt by either party to use the full faith and credit of the United States as a bargaining chip to advance partisan policy agendas would be irresponsible.

President Obama is strongly committed to restoring fiscal responsibility to our government, and he has put forward a specific framework and set in motion a process to work with both parties to accomplish this critically important objective. As that process moves forward, I again urge Congress to act to protect America's economic interests by approving an increase in the debt limit as soon as possible.

Sincerely,

Timothy F. Geithner

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Identical letter sent to:

The Honorable Nancy Pelosi, House Democratic Leader
The Honorable Harry Reid, Senate Democratic Leader
The Honorable Mitch McConnell, Senate Republican Leader

cc: The Honorable Dave Camp, Chairman, House Committee on Ways and Means
The Honorable Sander M. Levin, Ranking Member, House Committee on Ways and Means
The Honorable Max Baucus, Chairman, Senate Committee on Finance
The Honorable Orrin Hatch, Ranking Member, Senate Committee on Finance
All other Members of the 112th Congress