September 28, 2008

The Honorable John Boehner
Republican Leader
U.S. House of Representatives
Washington, D.C. 20515

Dear Leader Boehner,

I am writing to address concerns expressed about the impact of the pending financial rescue bill on the federal budget. As you know, the legislation authorizes a purchase program that allows the federal government to hold up to $700 billion in mortgages or mortgage-backed securities, and creates a program to allow federal guarantees as an alternative to direct purchases.

The $700 billion figure is substantial, of course, but the size of the problem in our financial markets requires a commitment of this size. For several reasons, however, the impact on the taxpayer will be considerably less than $700 billion.

The most important point is that the bill is not simply authorizing new spending. It authorizes the purchase of assets that, over time, will produce income and can eventually be sold. No one knows just how much these assets will sell for, but since 90 percent of mortgages are currently being paid on time and in full, we can expect a substantial payback on our investment. In some cases, if a mortgage asset is purchased at a deep discount from its face value, the taxpayer may even see a positive return on that investment.

Likewise, the guarantee program authorized in the bill is designed to be self-funded, by charging an insurance premium to cover any expected losses. When the government enters into guarantees on mortgage-related assets, the $700 billion limit for direct purchases will be reduced accordingly.

In addition, the bill authorizes the Secretary of the Treasury to accept warrants for stock in distressed financial companies, which may later be sold at a profit. Lastly, although government budget scoring does not allow us to consider macroeconomic effects, it is very likely that the financial rescue bill will prevent a devastating breakdown in our financial markets. As a result, we are likely to see higher federal revenues than would be the case without the legislation, further mitigating its cost.

I appreciate the effort you and your colleagues have devoted to considering and improving the Administration’s proposal on such short notice. The health of our economy demands nothing less. If I can be of further assistance on this matter, please do not hesitate to contact me.

Sincerely,

Jim Nussle