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Watchdog says U.S. bill for TARP could be huge

Financial bailout's cost to U.S. could total almost $24 trillion

The Associated Press

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WASHINGTON - The federal government has devoted $4.7 trillion to help the financial sector through its crisis, a watchdog report said Monday.

Under the worst of circumstances, the report said, the government's maximum exposure could total nearly $24 trillion, or $80,000 for every American.

The figures are part of a tough new quarterly report to Congress from special inspector general Neil Barofsky, who accuses the Treasury Department of repeatedly failing to adopt recommendations aimed at making one component of the government financial rescue effort more accountable and transparent.

The $4.7 trillion commitment to the industry equals about one third of the overall U.S. economy and takes into account about 50 initiatives and programs set up since 2007 by the Bush and Obama administrations as well as by the Federal Reserve. Barofsky oversees one of the initiatives — the $700 billion Troubled Asset Relief Program.

Much of the government assistance is backed by collateral and Barofsky's $23.7 trillion estimate represents the gross, not net, exposure that the government could face. No one has suggested that the full amount will be used.

Because of declining participation in short-term loan programs and because some infusions of money have been repaid, the maximum amount actually spent has declined to a current outstanding balance of $3 trillion, Barofsky said.

The agencies and the programs assisting the financial sector include a newly created Federal Housing Finance Agency, increased deposit insurance initiated by the Federal Deposit Insurance Corp., and 18 support programs created by the Fed under the special powers it can deploy to address a systemwide financial crisis.

Banks have cut back on their use of the Fed's emergency lending program as well as other programs to ease credit stresses. Given that, the Fed has reduced the amount it will lend to financial institutions under two programs and it has decided to let a program to support money market mutual funds to expire as currently scheduled at the end of October.

Barofsky's $23.7 trillion estimate represents the maximum exposure that the government would face if all eligible applicants requested the maximum assistance at the same time. It does not account for the fees and other costs that some of these programs charge and for the collateral that many of the programs require that participants provide.

"While quantity and quality of the assets backing all of these programs vary, ignoring that side of these programs misrepresents 'potential exposure' associated with them," Treasury spokesman Andrew Williams said.

In his report, Barofsky says Treasury has accepted some of his recommendations for greater accountability, but says the department has not taken steps to require all TARP recipients to report on their actual use of funds. He said Treasury also should report the values of its investments in banks and other financial institutions, disclose the identity of borrowers under a nonrecourse loan program and disclose trading activity under a public-private investment fund.

Barofsky says Treasury's inaction means taxpayers have not been told what the financial institutions that have received assistance are doing with the money.

Barofsky's conclusion is contained in a quarterly report to Congress and in testimony he is prepared to give Tuesday to the House Oversight and Government Reform Committee.

"The very credibility of TARP (and thus in large measure its chance of success) depends on whether Treasury will commit, in deed as in word, to operate TARP with the highest degree of transparency possible," Barofsky said.

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