United States Senate
WASHINGTON, DC 20510

June 28, 2011

The Honorable Timothy Geithner
Secretary of the Treasury
Department of the Treasury
Washington, DC 20220

Dear Mr. Secretary,

Greece and our other allies in the Eurozone face difficult fiscal consolidations. With the real and growing likelihood that Greece will default on sovereign debt, responsibilities of the United States are unclear. Our concern is that innocent American taxpayers will pay for yet another bailout—this time to one or several Eurozone countries whose spending and debt choices led them to financial calamity.

Upon signing the Dodd-Frank Wall Street Reform and Consumer Protection Act into law last year, President Obama clearly stated that "There will be no more tax-funded bailouts—period." Those were strong words, but the words will only truly be powerful with action to prevent exposure of U.S. taxpayers to bailouts of any form. Bailouts of highly indebted foreign countries are actions that make the President's statement untrue.

Moreover, the Dodd-Frank Act makes clear, in Section 1501, that the law places restrictions and responsibilities on you, the Secretary of the Treasury, to oppose loans by the International Monetary Fund (IMF) that are unlikely to be repaid in full. American taxpayers deserve assurances that you will abide by the conditions set forth in the Dodd-Frank Act.

We, our constituents, and all American taxpayers wish that tax-funded bailouts have truly ended. Yet we have recently increased funding for the IMF, prompted by the administration's advocacy, which can now be used to bail out foreign countries on the verge of default.

Under the administration's advocacy, the federal government committed in May of 2009 to increase its line of credit for the IMF by up to $100 billion and increased the U.S. quota for participation in the IMF by around $ 8 billion. Given the amounts we are providing to the IMF, the United States could end up providing tens of billions of dollars or more in bailouts to Greece and, perhaps, other Eurozone countries in the future.

Some argue that the transactions with the IMF are mere exchanges of assets of equal value, with the U.S. swapping dollars for claims on the IMF denominated in "special drawing rights." According to that argument, there is no risk to the taxpayer when the U.S. increases IMF funding.

The nonpartisan Congressional Budget Office (CBO) disagrees. CBO noted, in May 2009, the real risk that the IMF will experience significant losses in the future. Given such a risk, CBO estimated that the present-value, risk-adjusted cost of what was then a proposed increase of around $108 billion in U.S. resource commitments to the IMF was $5 billion—a cost that would be incurred by American taxpayers. Financial risks surrounding Greek debt and sovereign debt of other Eurozone countries have grown since 2009, so the expected cost to American taxpayers today is likely to be higher.

Action by the United States is critical for the IMF's use of its enhanced funding, including the roughly $108 billion of additional funds provided in 2009. For several funding measures undertaken by the IMF, an 85% majority of total voting power is needed; the United States has 16.77% voting power. Included in those measures is funding through the IMF's New Arrangements to Borrow (NAB) through which the IMF raises money from governments when it feels it needs more resources to supplement its quota resources.

To activate NAB funding, the IMF's Managing Director proposes an activation period which can become effective if it is accepted by participants representing 85% of total credit arrangements of participants eligible to vote and if it is then approved by the IMF Executive Board. The NAB has been activated twice: once in December 1998 to channel funds to Brazil; and once in April 2011 to give the IMF more funding authority following the financial crisis for actions like bailing out Greece. The next review of the NAB is to take place by November 2011, according to the IMF.

Today is a good time to review and adjust our commitment to IMF bailouts. Today is not a time to tap American taxpayers for more bailouts. American families continue to struggle in the face of high unemployment, elevated energy costs, and elevated uncertainty about the future.

Mr. Secretary, we ask for clarification of the administration's intentions regarding the debt crisis in Greece. In that regard, the President recently pledged, during a visit to the U.S. by German Chancellor Merkel, that the U.S. will "cooperate fully in working through these issues both on a bilateral basis but also through international and financial institutions like the IMF."

Will additional funding be proposed for international organizations such as the IMF for use in bailing out highly indebted foreign countries? Given reports that the sizes of proposed bailouts for Eurozone countries could grow, will you instruct the U.S. Executive Director at the IMF to cast a vote of opposition for any proposed loans that are not likely to be repaid in full? Will you direct the U.S. Executive Director at the IMF to vote against approving and accepting any further proposals by the IMF's Managing Director of activation periods intended to bail out over-indebted foreign countries? What steps will you take to protect American taxpayers from the real risk of loss on their IMF "investments?"

If it is truly the case that taxpayer-funded bailouts have ended, as the President has stated, then American taxpayers deserve assurance that they are not being forced to assume risks and losses from foreign issuers of sovereign debt.

Sincerely,

Orrin Hatch

Orrin G. Hatch

Jim DeMint

Jim DeMint

John Cornyn

Kay Bailey Hutchison

Jon Kyl

Jerry Moran

David Vitter

Kelly Ayotte