



AMERICANS *for* TAX REFORM

Grover G. Norquist
President

November 4, 2008

The Honorable Henry Paulson
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Paulson:

In October, Congress passed the “Emergency Economic Stabilization Act” in order to give Treasury authority to purchase assets adversely affected by recent market turmoil. The public policy rationale behind this was to have the government intervene where there was a clear problem in existing private markets, and where systemic industry collapse appeared imminent.

That principle is in danger of not being followed in the area of credit enhancement.

Legacy bond insurers made poor investment decisions which left them open to an imprudent amount of risk. However, there is no systemic risk in the industry. This is evidenced by WL Ross investing in Assured Guaranty, Berkshire Hathaway starting BHAC, and Macquarie-Citadel launching MIAC. **The problem is not in the credit enhancement industry in general—rather, it’s limited to a few legacy bond insurers who should face normal market correction—not a bailout.** Furthermore, despite the drop-off of many of the legacy bond insurers, credit enhancement still exists as state and local governments have simply shifted to other forms of credit enhancement (including letters of credit).

Hundreds of billions of taxpayer dollars are at stake in the “Troubled Asset Recovery Program” (TARP). It’s vital that no taxpayer funds be used to bail out companies when the downside risk of failure is something less than systemic market collapse. Giving money to a company merely so it will not fail (and not to prevent a larger problem from resulting) falls short of the strict scrutiny that should be applied to TARP expenditures.

The public policy rationale behind TARP is itself controversial. Broadening the application of TARP to bail out failing companies in healthy markets is unacceptable from a taxpayer perspective.

Sincerely,

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