

United States Senate
WASHINGTON, DC 20510

November 7, 2008

The Honorable Henry M. Paulson, Jr.
U.S. Secretary of the Treasury
United States Department of Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Paulson:

In light of recent and disturbing reports about the Capital Purchase Program, we are writing to express our concern about its implementation. While we support efforts to thaw the credit freeze that has gripped our markets, we believe such efforts should be focused on inducing financial firms to offer more loans to businesses and individual Americans. These loans must not be used to acquire healthy banks, hoard in their coffers, or pay shareholder dividends.

When Congress authorized the Capital Purchase Program through the Emergency Economic Stabilization Act of 2008, the expectation was for banks to use capital infusions to make new loans and spur economic growth, not to use the funds to acquire other healthy banks and continue or even increase dividends to their shareholders.

We are also troubled by the fact that the Treasury Department appears to be taking a “hands off” approach to this issue, preferring instead to leave decisions solely up to the discretion of senior bank executives. After seeing the consequences of years of deregulation, we can no longer afford to sit back and hope that lenders do the right thing. Banks must understand that these funds aren’t a gift and if they don’t want to play by our rules, they don’t need to cash the check.

People and businesses on Main Street are counting on banks to use this capital to free up lending, prevent foreclosures, and stimulate the economy. If used correctly, they will help students pay for college, families get auto loans, homeowners modify mortgages, and small businesses stay open and keep their employees on the payroll. On the other hand, if the money is used to acquire healthy banks and create a financial empire or to increase dividends, then this rescue package will be transformed into merely a give-away to banks, which is not in the taxpayers’ best interest.

Over the past several months, the federal government has taken unprecedented steps as it risks hundreds of billions of taxpayer dollars in order to stabilize the financial markets and prevent further economic damage. The American people deserve to know that their money is being used to provide maximum benefit for our economy and the public as a whole and not to create banking empires or reward players on Wall Street.

We urge you to issue guidelines or best practices to ensure that the Capital Purchase Program effectively addresses the needs of Main Street and protects taxpayers. Thank you for your attention to this matter. We look forward to your prompt response.

Sincerely,


ROBERT MENENDEZ
United States Senator


CHARLES E. SCHUMER
United States Senator