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NLC: Treasury Should Buy Lehman Assets

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By Audrey Dutton

WASHINGTON - The National League of Cities is urging the Treasury Department to purchase "troubled assets" resulting from Lehman Brothers' bankruptcy filing that are still held by local governments.

The group made the plea in a **July 31 letter** to Treasury Secretary Timothy F. Geithner, noting that governments in about 20 states have lost an estimated \$1.7 billion in Lehman securities that were highly rated but are now troubled assets due to Lehman Brothers' collapse.

The association, which represents 19,000 cities and towns, asked Geithner to use funds provided by the Emergency Economic Stabilization Act of 2008 to buy the securities even though Congress has not yet approved legislation pending before the House Financial Services Committee that would require such purchases.

"The losses sustained by local governments were not due to any imprudent risk-taking or investment strategies," wrote Donald J. Borut, executive director of the NLC. "The investments local governments held were in highly rated Lehman securities consistent with their fiduciary responsibilities."

Borut argued that local governments are cutting back on health care, housing, public safety, and other programs as a result of fiscal distress - all of which was exacerbated by financial losses resulting from the Lehman Brothers bankruptcy filing in mid-September.

Two weeks after that bankruptcy filing, Congress gave the Treasury Department the authority to purchase troubled assets and directed it, when doing so, to consider "the need to ensure stability for the United States public instrumentalities, such as counties and cities that may have suffered significant increased costs or losses in the current market turmoil."

Since then, Treasury has not purchased any troubled assets held by municipalities, the NLC said.

Instead of having to sue Lehman's holding company and its accountants for fraud in misrepresentation of the firm's health - as San Mateo County, Calif., did in November - local governments should be able to receive help from the federal government, the NLC argued in its letter.

Legislation introduced in January by California Democratic Reps. Jackie Speier, who sits on the House Financial Services Committee, and Anna Eshoo, would require Treasury to use part of the \$700 billion Troubled Asset Recovery Program funding to purchase at par the Lehman debt that is still held by states, localities, and other public entities.

The committee held a hearing on the legislation, but it is still pending. Speier is still awaiting a meeting with Geithner, an aide said.



The NLC's letter was drafted in the wake of negative reports about state and local governments' fiscal health and declining tax revenues, according to Lars Etkorn, federal relations program director for the group.

Several governments are being weighed down even more by the nearly worthless Lehman securities held in their investment pools, he said.

"This is what TARP is for," Etkorn said. "TARP is to restore liquidity and to make those harmed whole, especially restoring losses.

Andrew Ackerman contributed to this story.

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