Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name:

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract. NONE

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

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3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract. NONE

I certify that the above information is true and correct.

Signature: Josh Rosner

Date: 3/29/11

Biography

Joshua Rosner

Joshua Rosner is a Partner at independent research consultancy Graham Fisher & Co and advises regulators, policy-makers and institutional investors on housing and mortgage finance issues. Previously he was the Managing Director of financial services research for Medley Global Advisors and was an Executive Vice President at CIBC World Markets. In 2001 Mr. Rosner authored "Housing in the New Millennium: a Home without Equity is Just a Rental with Debt" warning of the risks resulting from structural changes in the mortgage finance system. In 2003 Mr. Rosner was among the first analysts to identify operational and accounting problems at the Government Sponsored Enterprises. In 2005 he was among the first analysts to identify the peak in the housing market. In February 2007, warning of the likelihood of contagion in credit markets Rosner

co-authored the Hudson Institute paper "How Resilient Are Mortgage Backed Securities to Collateralized Debt Obligation Market Disruptions?". In the co-authored May 2007 paper "Where Did the Risk Go? How Misapplied Bond Ratings Cause MBS and CDO Market Disruptions" Rosner identified the problems in structured finance. His "Toward an Understanding: NRSRO Failings in Structured Ratings and Discreet Recommendations to Address Agency Conflicts" was presented in the Winter 2009 Journal of Structured Finance. He has regularly presented on inefficiencies and market problems of the asset-backed securitization market. With Gretchen Morgenson, Mr. Rosner is co-author of the forthcoming Henry Holt book "Reckless Endangerment. How Outsized Ambition, Greed, and Corruption Led to Economic Armageddon".

Testimony of Joshua Rosner before the Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs:

"What the Euro Crisis Means for Taxpayers and the U.S. Economy."

December 15, 2011

Thank you Chairman McHenry and members of the subcommittee for inviting me to testify on this important subject.

To fully assess the risks to the United States and our proper role in the Eurozone crisis it must first be clear what the crisis is and is not. It is not a bailout of the populations of the weaker European economies such as Greece, Ireland, Portugal, Italy, Spain, Hungary or Belgium. After all, the populations of those countries are being forced to give up portions of their sovereignty in the name of austerity toward a fiscal union.

Rather, I would contend, it is a bailout of banks in the core countries of Europe, of their stockholders and creditors who, failing to gain sufficient access capital markets, would need to be recapitalized by their host country governments. It is a transfer of losses from banks and corporations onto the backs of ordinary people without requiring any recognition of losses by those banks whose risk management and lending practices created the problem. It is as much a tale of over lending as it is of over borrowing and, just as nobody should feel undue sympathy for those who miscalculated the amount of debt they could service, nobody should feel for those who miscalculated their lending risks.

The fundamental construct of the Euro is flawed and its basis depends on substantially different economies and different levels of competitiveness among those economies sharing the same currency. Those economies have proven unable to rationalize their differences in a monetary union. In the United States we have a transfer mechanism that allows tax dollars to be reallocated from the wealthiest states toward those less fortunate, - the core European countries have thus far demonstrated an unwillingness to accept such as necessity. The solution is either to move forward with a fiscal union complete with transfer of payments or to break up. Ultimately, these are political decisions and currently there appears to be little support for such a fiscal union by populations of creditor countries including Germany, Finland and the Netherlands. Unless that changes, the Eurozone will have to shrink its membership or dissolve. Either result will inevitably lead to significant stakeholder losses, which importantly may now include the Federal Reserve. It is fair to question why our central bank has adopted a policy with such fundamental policy implications, and the potential for large losses without consideration by Congress.

Proper US policy should seek to support our values around the world, not undermine them. We should support the apportioning of losses first to equity investors and then to unsecured lenders according to long-established and well-understood rules of priority. We should no longer support the privatization of gains and socialization of losses. Doing so leads to distortions of market incentives and further risk taking by those who have demonstrated an inability to properly manage risk. The European crisis demonstrates all too clearly that the problem is now well beyond moral hazard - a great many of the decisions made in the name of crisis management are not being made by the elected representatives of the people of Europe, rather they are being made by technocrats. Accordingly, the crisis is moving into a stage where it represents the death of representative democracy and also the destruction of global markets. I urge you to consider whether this is truly the approach to crisis management that our country should endorse and support.

In May 2010, the Fed reopened swap lines to the European Central Bank in an effort to make sure that there was ample dollar funding for institutions in these markets – the swap lines effectively bolster market liquidity – but at what cost? On November 30th of 2011, the Fed, working together with four other central banks and the ECB, expanded the attractiveness of these swap lines by lowering the interest rate by a half percentage point. Since these changes became effective, three month lending through the lines increased from $400 million prior to the announcement to over $50 billion. While the actions of the Federal Reserve may well be justified and consistent with US policy goals, they are nonetheless being made in near darkness and without substantial involvement by our own elected officials. As a result of our commitment of financial support to members of the European Union, we are now, in effect, supporting un-democratic approaches implemented largely by authorities who have demonstrated an ongoing inability to either recognize the scope and scale of the problems they face or to come to a consensus on the proper approach to address the rolling crisis and prevent it from spreading further. They have instead sought to deny the problems and downplay the impacts. When they don't like the markets assessments of the problems, they have chosen to 'shoot the messenger' and imperil market functions through limitations on trading of sovereign bonds and credit default swaps. Are these proper policies for the United States to endorse?

By providing unlimited swap lines to be used by institutions in the Eurozone, institutions which may in fact be insolvent, we have effectively allowed the Federal Reserve to direct US foreign policy in support of a single currency for the Eurozone. As the risks of losses to the Federal Reserve rise, in the event of a breakup of the Eurozone, they seem likely to commit us to further support of that union in its current form. While the Federal Reserve has technical expertise in these matters, such policy decisions should not be made without input from

Congress. I suggest that you consider whether the Federal Reserve's efforts should be directed more toward quantification of the problem and providing technical advice to Congress.

There are more questions raised by the Fed's actions than there are answers and we must strive to have those questions answered. Dodd Frank sought to reduce opacity and required the Federal Reserve to disclose which firms received loans from the discount window:

- In the spirit of that legislative intent, why have they not required the European Central Bank inform them of the recipients of funds from the swap lines as a condition of the arrangement?
- Are the firms that have sought liquidity support from the swap facilities still solvent and merely illiquid, or are illiquid conditions the result of insolvency?
- Who, specifically, are the beneficiaries of the Federal Reserves policy actions?
- What are the direct and indirect exposures, to Europe, of the US banks and insurance companies?
- News sources have suggested the Federal Reserve sought to have the largest US banks reduce their counterparty exposures to Eurozone sovereigns and counterparties. Why then is the Federal Reserve stepping up their commitment when US banks have seemingly backed away from many of those exposures?
- In what circumstances is it appropriate for the Fed, acting as lender of last resort, to replace private creditors and become the market?
- What are the specific policy goals of the Fed's actions?
- Are the actions of the Fed fully consistent with their mandates?
- While the Fed may argue that it has limited credit risk from these swap lines, given that their counterparty is the European Central Bank and not the financial institutions, what losses could be realized if the Eurozone disintegrated?
- During our own financial crisis the Fed assured us that the AAA tranches of CDOs posed no credit risk even though the underlying collateral was junk. What assurances do they have that Europeans would meet their obligations in such a scenario?
- If, in an event of default by a sovereign counterparty to the European Central Bank, the Fed sought to secure collateral of that institution held on reserve, would that be done with direction and input of Congress or the Executive Branch?
- What would the impact be to US trade if European banks were unable to provide historic levels of funding to Asian, Latin and other European economies?
- What are the real prospects for a resolution to the Eurozone crisis in the

event that the Eurozone enters recession?

While there are many more questions to be asked and answered, these questions suggest there are real reasons for the Fed to have concerns about the ongoing instability in the highly interrelated markets of Europe. There also appears to be a real and rational basis for the actions they have taken toward short-term stability goals during this crisis. Furthermore, we can ***believe*** that the Fed is acting appropriately, but without more information and a broader discussion, we don't ***know*** whether the Federal Reserve's focus on short-term stabilization properly aligns with longer term US policy goals.

Perhaps we should support a European Union but have our elected representatives affirmatively decided in favor of continued support for a single currency? It seems fair to consider that such foreign policy decisions should rightly be made, not by an independent central bank, but instead by the Secretary of State, US Trade Representative and the Secretary of Treasury with informed consent of the President and Congress.

Thank you, and I'll be pleased to address your questions.