

Committee on Oversight and Accountability
U.S. House of Representatives
2157 Rayburn House Office Building
Washington, DC 20515

November 19, 2024

Dear Representative:

On behalf of the 25 undersigned organizations, we are writing to urge you to vote against H.R. 9040 the “Taxpayer Exposure Risk Reduction Act of 2024” or the TERRA Act of 2024. H.R. 9040 mandates that federal agencies transfer all credit and guarantee risk assumed by the government to the private sector, to the maximum extent possible. This mandate would put Wall Street in the driver’s seat in the rollout, access, pricing, and servicing of critical federal guarantee programs ranging from home mortgage lending to small business and farm loans to disaster relief and could result in significantly increased costs for taxpayers and diminished or more expensive access to credit for families, farms, and small businesses.

Transferring credit risk to the private sector does not necessarily minimize the cost of such risk to taxpayers. The private sector must be compensated to accept credit risk. The sometimes widely varying costs of such compensation may and often do exceed the financing costs that would be experienced by the federal government. And if private guarantors fail to deliver, the federal government may nonetheless be called upon to backstop critical credit functions.

Furthermore, in times of financial stress, private sector guarantors are more likely to be unable to execute on their credit guarantees than the federal government. Experience has shown that in times of economic stress investors often prefer to deal with the government, and private sector guarantors may fail to deliver on credit guarantees. Several striking examples of this occurred during the 2007 to 2009 financial crisis. During this period, private sector bond insurers almost all failed and mortgage insurers became too financially weak to cover losses, suddenly leaving individuals and firms uninsured.¹ In addition, private student lenders exited student loan markets, requiring the federal government to intervene to make sure students could continue to receive funding for college.²

The certainty of a federal government backstop provides greater surety compared to private sector guarantees, especially when the possibility of a failure to deliver during market stress is taken into account. This means that both taxpayers and beneficiaries of guarantees can benefit from risk guarantees that are assumed by the federal government in a clear and transparent way. Attempts to transfer all of these risks to the private sector may be harmful to the public, especially in instances where a private market guarantor is no longer able to fulfill its obligations. The sweeping mandate to transfer all risks to

¹ Bergstresser, Daniel, Randolph Cohen and Siddarth Shenai. “[Financial Guarantors and the 2007-2009 Credit Crisis](#).” Harvard Business School Working Paper 11-051. November, 2010; Thomas, Helen, “[Mortgage Insurers, the Latest Link Under Strain](#).” FT Alphaville, April 9, 2008.

² U.S. Department of Education. Office of Federal Student Aid. “[The Ensuring Continued Access to Student Loans Act of 2008](#).” June 19, 2008.

the private sector in H.R. 9040 is misguided and appears designed more to benefit financial intermediaries who want federal government business than it is to benefit taxpayers or the public.

We are also concerned that the sponsor has not taken account of all the potential implications of the sweeping language in this bill. Federal risk guarantees and backstops exist in numerous areas of financial markets, including mortgage debt,³ student debt,⁴ farm loans,⁵ small business loans,⁶ and disaster insurance including flood and earthquake insurance.⁷ Credit assistance to the financial sector during market stress, such as the Treasury line of credit for bank resolution or Federal Reserve emergency lending, can also be viewed as a credit guarantee, and a guarantee the financial markets value for greater certainty. Moreover, this bill is likely to reduce access and increase the cost of credit, further exacerbating racial wealth gaps and further widening the racial gaps in homeownership rates, small business formation, and family farm viability.

The broad mandate in H.R. 9040 to transfer all possible credit risk to the private sector could lead to profound changes across all of these areas, including an increase in costs and a decline in funding reliability during emergencies, when everyone in the private sector is struggling to access credit. At the very least, much more study is called for before enacting the sudden landmark changes as proposed in H.R. 9040.

We therefore urge you to reject H.R. 9040. Thank you for your attention.

Sincerely,

20/20 Vision
Americans for Financial Reform
Arkansas Community Organizations
Center for Responsible Lending
Consumer Action
Farm Action Fund
HEAL (Health, Environment, Agriculture, Labor)
Food Alliance
Institute for Agriculture and Trade Policy
Integrated Community Solutions, Inc
Legal Aid Center of Southern Nevada
Main Street Alliance
Maine People's Alliance
Maui Economic Opportunity, Inc.

MICAH — Metropolitan Interfaith Council on
Affordable Housing
National Association for Latino Community Asset
Builders (NALCAB)
National Community Reinvestment Coalition
(NCRC)
National Consumers League
National Fair Housing Alliance
National Housing Resource Center
National Young Farmers Coalition
Nevada Coalition of Legal Service Providers
Northern Nevada Legal Aid
Public Citizen
Rural Coalition
Woodstock Institute

³ Schlecker, David and Andrea Pincus. "[Bond Insurer FGIC Ordered To Stop Writing Policies and to Cease Paying Claims.](#)" *Policyholder Perspective*. December 11, 2009.

⁴ Ross, Marc L. CFA Institute. "[The ARS Debacle: The Forgotten Crisis of 2008.](#)" January 31, 2017.

⁵ 7 USC §762.

⁶ U.S. Small Business Administration. "[7\(a\) Loans.](#)" July 24, 2024.

⁷ Jacobs, Tom and Kris Elaine Figuracion. S&P Global Market Intelligence. "[P&C carriers make up majority of US insurers placed in receivership in 2023.](#)" January 11, 2024.