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FOREIGN RELATIONS
SPECIAL COMMITTEE ON AGING

February 26, 2013

The Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
Twentieth and Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Bernanke,

As you know, during your testimony before the Banking Committee today, I asked you about the payment of interest on excess reserves and the selling of bonds in your portfolio as the means to withdraw monetary support once the economy recovers. I made the argument that the Fed could be in a position where it would have to print money to pay interest on excess reserves and to sell securities at a loss. My exact quote was the following:

"You're getting ready, I guess, in a few years as you alluded to when interest rates rise to basically have to print money to sell securities at losses."

But it seems that we had a miscommunication. In an effort to rectify this, I will ask these questions in a slightly different way:

If interest rates were to rise and your securities portfolio were marked to market, is it not possible that you could be rendered insolvent at least on a balance-sheet basis? And if so, what kind of risk would that present?

What I would ultimately like to understand is the following: do we have a serious policy problem brewing here, or is this simply an optics problem about which we should not be concerned?

I look forward to your response.

Sincerely,

Bob Corker

Bob Corker
United States Senator