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Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve
20th Street & Constitution Avenue, NW
Washington, DC 20551

Chairman Bernanke:

I am writing to you concerning an apparent conflict of interest involving Blackrock. Eric Lipton of New York Times recently reported that former executives of Countrywide Financial have created a business called PennyMac to buy up and collect on the bad mortgages their former company helped to underwrite. While this is striking and perhaps unseemly, it should not be a surprise that vulture businesses seek to manage legacy assets for profit. I am struck, though, that one new entity is being funded by the investment management firm Blackrock.

As it turns out, Blackrock is not only an investor in this new firm whose business is buying up bad assets and collecting on them, but is also the entity tasked with managing and, most importantly, *pricing* the bad assets from Bear Stearns and AIG that were bought by the Federal Reserve's Maiden Lane entities. Tens, perhaps hundreds, of billions of dollars of these bad assets may sit on the balance sheet of the central bank; back in March 2008, Blackrock was the company hired to figure out what they are worth and presumably to manage and eventually liquidate them. Less than a year later, Blackrock is investing in what is essentially a vulture fund to buy these same or similar securities, either now or when the Federal Reserve begins the process of moving them off its balance sheet. Is this a coincidence?

There are more serendipitous elements of this deal for Blackrock. In order to price the bad assets held by the Federal Reserve, Blackrock presumably has proprietary access to the underlying loan data. Yet, also coincidentally, neither the Federal Reserve nor Blackrock is releasing detailed data on the performance of these assets to the public, supposedly out of what your General Counsel told my staffer were the privacy concerns of the borrowers. Yet, this may well be a flagrant and massive conflict of interest or even a questionable subsidy of billions of dollars to a private entity.

Blackrock thus is now being given proprietary access to the details of tens or even hundreds of billions of dollars of legacy assets, and is then investing in companies tasked with buying up similar legacy assets, companies run by the people whose activities engendered such irresponsible and in many cases fraudulent activities in the first place. That is a remarkable situation. Given that Bloomberg has reported that PIMCO, which is tasked with evaluating $118 billion of assets guaranteed partially by the Federal Reserve, has also started a vulture fund specializing in mortgage-backed securities, this suggests some important questions, as follows:

One, what is your conflict of interest policy regarding companies managing or pricing assets through section 13(3) of the Federal Reserve Act? Two, how does Blackrock's stewardship and pricing of the Federal Reserve holding company assets square with this policy? Three, what was your process for selecting Blackrock to price these assets? Four, what other pricing services bid on measuring this enormous trove of public assets? Five, what steps are you taking to inform the public regarding your management of the economy, besides starting a new website aggregating publicly released data?

Sincerely,

Alan Grayson

Congressman Alan Grayson