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United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, DC 20510-6225

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February 20, 2008

Luis Alberto Moreno, President
Inter-American Development Bank
1300 New York Avenue, NW
Washington, D.C. 20577

Dear President Moreno:

Thank you very much for your letter dated February 11, responding to my inquiry of February 5. I appreciate your detailed response. In addition, the Inter-American Development Bank's Executive Vice President and Chief Financial Officer provided Foreign Relations Committee staff, as well as staff from the House Financial Services Committee, information at a congressional briefing on February 12.

The losses and the actions that led to those losses at the IDB remain of great concern to me and my colleagues. As such, I would like to submit some follow-up questions:

- Would you please review the bank's communication policy with Congress to ascertain whether changes are needed to ensure that when unusual events occur - whether financial or otherwise - Congress, Treasury and other stakeholders are notified in a timely manner?
- Could you provide me with the names and affiliations of the individuals serving on the High-Level Commission on a potential capital increase? Could you please forward me a copy of its preliminary recommendation when they are ready?
- When available, could you please provide my staff with the IDB's fourth quarter SEC filing?
- Could you provide details of any and all new risk management controls that will be implemented (or have recently been implemented) as a response to the Expert Panel Report?
- Please explain how the portfolio's degree of exposure to the ABS and MBS market fit the liquidity-driven investment objectives of IDB's portfolio, with particular note to the investments highlighted in the Expert Panel Report on page 16, and especially to the October 2007 purchase of Countrywide MBSs (HELOCs) "taking Countrywide's origination risk after its shares had fallen over 50% in response to its financial stability."
- Could you confirm that at the time of the purchases of the ABS, MBS and other highly structured securities in the portfolio, that the IDB had an in-house specialist in ABS/MBS analyzing and supervising these purchases? Is the person responsible for the IDB's investment allocations and these structured investment decisions still at the IDB? If so, in what capacity?
- Would you explain how the 2005 Bank Auditor's finding from the Bank's Office of the Auditor General regarding concern regarding the significant concentration of ABS and MBS investments in the portfolio was left unaddressed by the Board. Please address how this "would go unaddressed but be presented to management as unaddressed on frequent occasions without comment or remedy," as the Expert Panel Report suggests?

- At the time of the ABS and MBS investments, was there any additional dissent or concerns raised by staff or members of the Executive Board? If so, could you please describe.

I look forward to continuing to stay in touch with you on this critical issue. Should you or your staff have any questions, do not hesitate to contact me or my staffer, Nilmini Gunaratne Rubin at (202) 224-6797.

Sincerely,

A handwritten signature in black ink that reads "Dick Lugar". The signature is written in a cursive, flowing style.

Richard G. Lugar
Ranking Member

RGL/nrk