

## **Open Letter Opposing the Wall Street Bailout**

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Dear Fellow Citizen,

Even a small amount of thought reveals many mechanisms by which the government can avert a short term credit "crisis", if there is a genuine risk of this, without handing \$700 billion to badly run investment banks. Notably, the Federal Reserve was created in part for situations like this. The Federal Reserve can make funds available to FDIC insured commercial banks that are in good financial shape to cover payrolls and other vital functions. The Fed can include "use it or lose it" provisions in the loans to ensure that the loans are in fact used for the desired purposes immediately. If there is any statutory limit on this, it is trivial for the Congress to authorize the Fed to include "use it or lose it" provisions.

If there is a genuine credit "crisis", this is because the Federal Reserve and the US Treasury have not been doing their job. They have been spending hundreds of billions of dollars to prop up or bail out incompetent investment banks and other financial firms (AIG, Fannie Mae, Freddie Mac, and many others) instead of providing credit for payrolls and other vital functions channeled through sound, well run banks, credit unions, government lending agencies, and so forth. That is what the Fed is supposed to have been doing. The Federal Reserve and the US Treasury should not function as private checking accounts or speculative investment funds for badly run investment banks and other financial firms.

Clearly, the government should consider any action on the scale of a \$700 billion bailout carefully. There should be no few week rush to judgement. There should be open public hearings and investigations. There should be an open public *audit* of the mortgage backed securities that are the heart of the proposed \$700 billion bailout (see below). Secretary Paulson should recuse himself from this matter since he has a clear conflict of interest due to his close association with Goldman Sachs, one of the affected firms.

**Audit the Books**

Potential buyers including the Federal Government can value mortgage backed securities by untangling the contracts. The securities are backed by pools of mortgages. One can track down the actual mortgages and mortgage holders, determine their income, credit rating, the value of the property, and so forth. Potential buyers have either done so and found the securities that Wall Street is trying to unload valueless or would be able to do so if they were allowed to perform "due diligence" on these assets. It is folly for the public to purchase valueless assets at above market rates. *The Congress should perform a full public audit before even considering approving one penny.*

The proposed bailout continues to have no significant provisions to prevent a dangerous "negative bubble" in houses and housing. There are several ways that the government can greatly limit or prevent a wave of millions of foreclosures that would leave millions homeless and depress housing prices for all Americans. These include:

1. Revising the bankruptcy code to exempt the person's principal residence from bankruptcy. This one measure would eliminate the problem.
2. Lock in the teaser ARM rates used to lure the victims into many of these questionable loans. Yes, many people showed poor judgement in taking on these ARM loans. That is no reason to throw them into the street or devastate the nation and the world's economy by dumping millions of foreclosed homes into the market.
3. Many other proposals to enable people to stay in their homes exist such as those proposed by economist Dean Baker.

In supporting this bill, legislators -- Republican, Democrat, Conservative, Liberal -- of all stripes are blatantly abandoning their stated principles and laying the groundwork for a severe depression by not addressing the underlying economic problems, but instead further enriching a small group of greedy, short-sighted men.

Sincerely,

John