



AMERICANS FOR LIMITED GOVERNMENT

9900 MAIN STREET SUITE 303 • FAIRFAX, VA 22031 • PHONE 703.383.0880 • FAX: 703.383.5288 • WWW.GETLIBERTY.ORG

February 26th, 2009

To the House of Representatives and Senate,

On February 10th, Treasury Secretary Timothy Geithner unveiled the Administration's latest \$2.8 trillion bank bailout plan, the end result of which will be the nationalization of banks. Despite the enormous burden it will place upon taxpayers, Mr. Geithner intends to execute much of this plan without any Congressional authorization or appropriation. This blatantly flies in the face of the Separation of Powers.

Ultimately, the plan will perpetuate and worsen the financial crisis as the government once again intervenes to change the rules in the middle of the game. To date, government interventions have severely destabilized the housing market, and any possibility of a timely market correction.

Further interventions will only have the predictable, continued result of destabilization. The subprime, Alt-A, and ARM mortgage failures had reached critical mass in summer 2007, and if government had stood out of the way then and not sought "stabilize" home values, the situation would have already stabilized itself through market forces. The reason the securities cannot be valued is because it is continually unclear, based on shifting government plans, which ones will be worthless at the end of the day.

It remains unclear under the President's \$275 billion mortgage refinancing plan which homeowners will ultimately qualify for assistance, which homes will eventually be foreclosed upon, and therefore what the value of the mortgage-backed securities really are.

These problems are compounded, in particular, by the legislation now being proposed—H.R. 1106—to modify bankruptcy law that would give bankruptcy judges the arbitrary authority to reduce mortgage principals, lower rates, and otherwise modify the terms of loans. The law would apply to existing homeowners, adding more uncertainty as to which mortgages may ultimately be modified.

The change in law will also take negotiations over troubled mortgages out of the hands of lenders, reduce incentives for investors to back mortgages, and clog up bankruptcy courts. It will force banks to eat the costs of the cram-downs, who in turn will have to tap more of the taxpayer-funded TARP to recoup losses. It will therefore increase the dependency of mortgage lenders on government aid.

[A study done by Credit Suisse](#) warns that the changes to bankruptcy law could incentive a spike in bankruptcy filings, and clog up those courts, thereby necessitating a significant increase in the number of judges. Moreover, under current bankruptcy law, it is required that filers undergo credit counseling prior to bankruptcy. But the new law repeals this provision, meaning filers may not be presented with alternatives to bankruptcy prior to filing.

In 2008, approximately 2.3 million homes faced foreclosure, and now the Administration warns that as many as “6 million households [are] facing possible foreclosure.” But, there are only 368 bankruptcy judges nationwide. These courts will likely be overwhelmed in short order with the housing market as weak as it is, and the introduction of bankruptcy proceedings into the mix will on further “toxify” assets that cannot be valued.

Overall, the cram-down is not much more than a sell off to the bankruptcy bar, who will get more business—and presumably more appointments to the federal bench—from the change in law. Furthermore, Credit Suisse reports that the bankruptcy-mortgage cram down plan would only reduce foreclosures by 20 percent, meaning as many as 4.8 million of the foreclosures the Administration foresees would not be prevented.

The Administration, as noted above, also goes much further than this change in bankruptcy law by dedicating at least \$75 billion plus another \$200 billion to Fannie Mae and Freddie Mac—without any vote—for ill-conceived foreclosure “prevention” and mortgage rate reductions that will have the net detriment of incentivizing further defaults on mortgages, credit card payments, student loans, and on down the line.

Meanwhile, behind the scenes the banks will continue receiving hundreds of billions of taxpayer dollars in bailouts to “pay” for the unnecessary perpetuation of a crisis the government has created and worsened. You should think of this plan not as a financial “stability” plan, but what it actually is: a financial destabilization plan.

To “pay” for not allowing the market to correct itself, President Obama and Secretary Geithner propose a \$2.8 trillion bank bailout. Based on Mr. Geithner’s plan published on [FinancialStability.gov](#):

- Up to \$600 billion will continue to be used to purchase bad paper from Fannie Mae and Freddie Mac *without any vote*, the Government Sponsored Enterprises Fannie Mae and Freddie Mac, two institutions that played a tremendous role in dramatically inflating the mortgage markets for the past decade, and also selling mortgage-backed securities all over the world with the implicit backing of the federal government.
- Up to \$1 trillion will be devoted to a so-called “public-private investment fund” to purchase “toxic” securities from the banks *without any vote*. As you know, \$700 billion was already allocated by Congress in 2008 for this purpose. And now Mr. Geithner and Mr. Obama are determined to throw more of the American people’s hard-earned money into a bottomless pit.

- In addition, the Treasury would use \$100 billion to leverage up to \$1 trillion in new lending initiatives from the Federal Reserve for which the taxpayers are ultimately responsible for—to dramatically expand credit markets—again, *without any vote*.

Not only is this outrageous—it is unconstitutional. As our Representatives and Senators in Congress, on behalf of our hundreds of thousands of members nationwide hereby call upon you to fulfill your mandated duty as enunciated under Article 1, Section 9, Clause 7 of the U.S. Constitution: “*No money shall be drawn from the treasury, but in consequence of appropriations made by law...*”

This is just more of the same: bailouts without any accountability. And to make matters worse, they only exacerbate the problem. And in light of the market alternative, the bailouts are actually unnecessary.

The solution always was and still is to let borrowers who cannot afford to pay back loans to be foreclosed upon. To let failed financial institutions that made loans that could not be paid back and are otherwise insolvent to be allowed to fail, and then subsequently acquired by other private entities. As a result, the securities would have already been opened, the good sorted from the bad, and the values thereof already determined. The housing market would already be stable, and the winners and losers already established.

Instead, as the crisis has been prolonged, banks have been and are still being handed hundreds of billions of dollars each to help them cover for government-mandated malfeasance. Now, under the new plan, banks and other financial institutions are once again being forced to participate in a risky gamble. And every single cent of it will come out of the pockets of taxpayers. Yet, neither you nor the taxpayers will have any say whatsoever in where it goes, how much of it’s spent—or even whether it should be spent at all.

The taxpayers are sick and tired of the same old games of Washington pilfering our money to pay off special interests and making problems it created only worse. It is finally time you put a stop to it.

This gargantuan plan places new burdens upon an already-troubled financial system, and can only be paid for by the federal government either borrowing trillions more dollars from overseas, raising taxes, or printing more money. Despite the fact that the asset bubbles that led to the current global financial crisis were caused by too much credit, too much lending, too low interest rates, and too much easy money from the Federal Reserve, the government is ready to borrow more, spend more, and lend more.

Ultimately, the taxpayers wind up being stuck with the bill—paying for this \$2.75 trillion bank bailout in the form of higher interest rates, more taxes, and inflation—*without any vote*.

Meanwhile, the Treasury still cannot fully account for the first \$700 billion it received in TARP funds to bail out the banks. The Federal Reserve still refuses to account for some \$2 trillion in loans it gave in 2008.

It is with that in mind that, on behalf of Americans for Limited Government, I request your active and favorable consideration of the following:

- As our nation's Representatives and Senators, you stand up against the outright theft of over \$2 trillion to be borrowed, printed, and/or spent by the Treasury and Federal Reserve without any say-so from the American people—and without any vote by you, their elected Representatives and Senators.
- That government interventions to “stabilize” home values, “prevent” foreclosures, allow bankruptcy judges to modify mortgage terms, and otherwise tinker with the terms of loans, prolong the time when mortgage-backed securities will actually be valued by market forces, and prop up failed financial institutions cease immediately.
- An up-or-down vote be held on the entirety of the \$2.75 trillion bank bailout now being proposed and all future Treasury and Federal Reserve-administered initiatives, including the sale of U.S. Treasuries to finance the national debt, and that this plan ultimately be rejected.
- Congressional hearings called to investigate the unaccountable activities of the Treasury and Federal Reserve.
- The U.S. return to sound monetary and fiscal policies—price stability and debt reduction—that will be the only avenue for setting a sustainable foundation for prosperity.

Finally, we strongly urge you to end the bank bailouts once and for all. These trickle-down-bailouts are not working, they are only making matters worse, and they are only burdening us, our children—and our children's children—with a mountain of debt that can never possibly be paid back.

Sincerely,

A handwritten signature in cursive script, appearing to read "William A. Wilson".

Bill Wilson
President
Americans for Limited Government