Still No Guarantee it Will Work; Too Costly for Taxpayers

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WASHINGTON, DC—U.S. Rep. Peter DeFazio (OR-04), an ardent and tireless advocate of the county payments program, said the addition of the vital county payments extension is not enough to persuade him to vote for a fundamentally flawed bailout that will have long lasting repercussions for individual taxpayers and the country for years to come.

The Senate is expected to pass the bailout bill tonight, and the House is expected to take it up on Friday. DeFazio has been an outspoken critic of the Bush/Paulson bailout plan because it does not fix the underlying problems in the economy and is based on a flawed premise: if the American taxpayers spend $700 billion to buy Wall Street’s toxic assets – a plan pundits have called “trash for cash” – it will create liquidity in our financial markets and will somehow trickle-down to Main Street. The Senate added a number of popular tax provisions, including a 4-year extension of the county payments program, to the bailout bill to increase support for a fundamentally flawed bill. DeFazio’s statement on the Senate proposal follows:

“Talk about lipstick on a pig -- the Senate has simply added a number of popular tax provisions, and a 4-year extension of the county payments program, to increase support for a fundamentally flawed bailout bill. They added some tax cuts so Republicans would vote for it, and added mental health parity so that progressives and liberals would pay for it. But, it’s the same flawed plan that the House defeated earlier this week. I have fought long and hard to restore the county payments program and every county in my district depends on funding from the program.

But, I cannot vote for the Bush/Paulson bailout which will jeopardize our nation’s financial future by borrowing $700 billion -- $2,300 for every man, woman and child and transfer it to Wall Street financiers. We can and must do better. We can make a few modest regulatory reforms which would address the liquidity shortfalls in our banks and free up credit at little or no cost to taxpayers. Borrowing $700 billion for this bailout will limit our ability to deal with the myriad other problems we face such as healthcare, housing, energy independence, infrastructure investments, job creation, and even a long-term solution on county payments, as well as other important regional issues.

I have proposed alternative legislation, the No BAILOUTS Act, to address the failures in the financial markets. My alternative would correct the capital shortfalls experienced by many financial institutions and help protect the integrity and quality of the securities market.

Furthermore, it could be implemented promptly meeting the demands of the Bush Administration to act immediately without putting the American taxpayer on the hook for billions of dollars.

Once Congress addresses the liquidity shortfalls in our financial markets, we can then work to address the broader economic crisis we face. Specifically, Congress must work to resolve the housing crisis across the country and pass a job stimulus bill by making much needed investments in the nation's critical infrastructure to create jobs and improve our long-term economic viability. That's the response Main Street America and Oregon counties expect and deserve."

DeFazio's plan is not in any way based on the Paulson/Bush plan. The Paulson Premise Flawed

Simon Johnson, a former chief economist as the International Monetary Fund, stated today in the *New York Times* of Paulson's plan, **"It's our view that this package, in a fundamental sense, will not solve the problem."** Other economic analysts noted yesterday that the credit markets around the world were almost entirely dysfunctional even when political leaders and investors assumed that Congress had reached a deal and would easily approve the bailout.

There is no reason to believe Paulson's plan will work.

Alternatives

DeFazio's alternative is based on five simple principles suggested by William Isaac, the chairman of the FDIC during the previous worst financial crisis in the United States during the 1980s. Mr. Isaac believes Congress can address the current crisis with simple changes to Securities and Exchange Commission (SEC) rules. Mr. Isaac points out that while we face serious financial challenges today, many banks are still in good shape.

This proposal allows Congress to take swift, uncomplicated steps to ensure the financial markets return to working order. After that, we can work to resolve the housing crisis and pass effective job stimulus.

A summary of the DeFazio plan follows:

No BAILOUTS Act

Bringing Accounting, Increased Liquidity, Oversight and Upholding Taxpayer Security

1 -- Require the Securities and Exchange Commission (SEC) to report back to Congress in six months on the effects of its reinterpretation of fair value accounting standards. This bill will require SEC to report back to Congress on the effects of its reinterpretation of fair value accounting standards. Prior to this reinterpretation, the fair value accounting standard marks assets to the market value, no matter the conditions of the market. When no meaningful market exists, as is the current market for mortgage backed securities, this standard requires institutions to value assets at fire-sale prices. This creates a capital shortfall on paper. If financial institutions can use a standard based on the economic value as bank examiners have traditionally done, this could help correct the capital shortfalls experienced by many institutions.

2 -- Require the Securities and Exchange Commission to restricting naked short sells permanently This bill will require SEC to implement a rule that blocks naked selling, selling a stock short without first borrowing the shares or ensuring the shares can be borrowed. Such practices many times harm the companies represented in the sales and hurt their efforts to raise capital. There is no economic value produced by naked short sales, but significant negative effects.

3 -- Require the Securities and Exchange Commission to restore the up-tick rule permanently. T his bill will require SEC to implement a rule that blocks short sales without an up-tick in the market.

On September 19, 2008, the SEC approved a temporary pause of short selling in financial companies “to protect the integrity and quality of the securities market and strengthen investor confidence.” This rule prevents market crashes brought on by irrational short term market behavior.

4 -- “Net Worth Certificate Program” This bill will require FDIC to implement a net worth certificate program. The FDIC would determine banks with short-term capital needs and the ability to financially recover in the foreseeable future. For those entities that qualify, the FDIC should purchase net worth certificates in these institutions.

In exchange, these institutions issue promissory notes to repay the FDIC, counting the amount “borrowed” as capital on their balance sheets.

This exchange provides short term capital, with no cash outlay.

Interest rates on the certificates and the FDIC notes should be identical so no subsidy is necessary.

Participating banks must be subject to strict oversight by the FDIC including oversight of top executive compensation and if necessary the removal of poor management.

Financial records and business plans should be subject to scrutiny while participating in the program.

In 1982, Congress approved a program, known as the Net Worth Certificate Program, that allowed banks and thrifts to apply for immediate capital assistance.

From 1982 to 1993, banks with total assets of $40 billion participated in the program. The majority of these banks, 75%, required no further assistance beyond the certificate program.

5 -- Increase the FDIC Insurance limit from $100,000 to $250,000. The bill will require the FDIC raise its limit to provide depositors confidence that their money is safe and help eliminate runs on banks which are destabilizing to the industry.