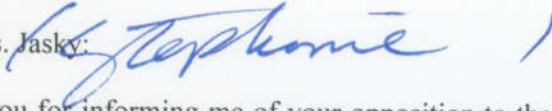


Congress of the United States  
House of Representatives

October 22, 2008

Ms. Stephanie Jasky  
2651 Dayton Drive  
Troy, Michigan 48085

Dear Ms. Jasky:



Thank you for informing me of your opposition to the Bush Administration's \$700 billion Wall Street Bailout. Your thoughts on this important matter are most welcome and appreciated.

I agree with you.

As you know, on September 19, 2008, Secretary of the Treasury Henry Paulson proposed a \$700 billion plan to bail out Wall Street and, it was argued, provide short-term stability to America's credit market. As originally proposed by Secretary Paulson, the Department of the Treasury would be granted the authority to purchase "toxic assets" from Wall Street, with little oversight from the Legislative and Judicial branches of government. Spawned by investors and speculators on Wall Street, a "toxic asset" is defined by the Secretary of the Treasury as any mortgage related asset or any other financial instrument no private investor considers valuable enough to purchase. In sum, the Wall Street bailout was premised on the federal government buying \$700 billion worth of toxic assets with your money, because no one would buy these toxic assets with their own money.

Thus, as a matter of principle, the Wall Street bailout was inherently unfair to Americans: responsible working people would be forced to bailout irresponsible powerful people; and, if they refused, responsible people would be hurt.

Nevertheless, to Congressionally authorize the \$700 billion Wall Street bailout, on September 29, 2008, Speaker of the House Nancy Pelosi (CA) moved to amend Representative Charles Rangel's (NY) H.R. 3997 (the Defenders of Freedom Tax Relief Act of 2007) with the negotiated financial stabilization language and, thereby, created the Emergency Economic Stabilization Act of 2008. If enacted, H.R. 3997 would appropriate \$700 billion for the Treasury to purchase troubled assets from Wall Street firms under a Troubled Asset Relief Program (TARP). Additionally, H.R. 3997 would establish a Financial Stability Oversight Board responsible for reviewing the policies of the program, effect on taxpayers and reporting suspected fraud, but does not give the Board any enforcement authority to act on any fraud within the TARP program. Further, this legislation would establish an optional insurance authority at Treasury for these troubled assets, but does not require private recapitalization of troubled assets before the American worker is exposed to excessive risk. Recognizing the unfair burden this places on all Americans, on September 29, 2008, with my support and the support of 95 House Democrats, the House defeated H.R. 3997 by a bi-partisan vote of 205-228.

To provide an alternative to the administration's Wall Street bailout which would ensure an orderly takeover of troubled assets without exposing taxpayers, on September 29, 2008, Representative Jeb Hensarling (TX) introduced H.R. 7223, of which I am an original co-sponsor. If enacted, this legislation would stabilize financial markets by requiring the Treasury guarantee losses up to 100%, resulting from the failure of timely payment and interest from mortgage-backed securities (MBS) originated prior to the date of enactment. Specifically, such insurance would provide immediate value to the MBS and a foundation for which they could then be sold. Additionally, under the insurance program, Treasury would be required to set risk-based premiums on financial firms based on the toxicity of their MBS assets. So too, the premium would expire when the Treasury Secretary determines the fund has sufficient resources to meet any projected losses. To bring private recapitalization to the financial industry, H.R. 7223 would also suspend the capital gains tax for two years for those individuals and

corporations who purchase unwanted MBS assets. To address executive compensation, H.R. 7223 would require the Treasury to write rules prohibiting excessive compensation or golden parachutes to executives of failed companies at the expense of taxpayers. Most importantly, H.R. 7223 represents everything the Wall Street bailout rejected: the responsibility for investments must fall with those who irresponsibly took the risk, not upon hard working, responsible Americans. Presently, H.R. 7223 awaits action in the House Financial Services and Ways and Means Committees.

Still, a recalcitrant administration continued to demand their \$700 billion Wall Street bailout. Consequently, on October 1, 2008, the Senate considered H.R. 1424, the Emergency Economic Stabilization Act of 2008, which included the same financial rescue provision the House rejected on September 29, 2008 – the provision of \$700 billion to purchase troubled assets from Wall Street at the expense of responsible American taxpayers. Additionally, H.R. 1424 would raise the federal debt ceiling from \$10.6 trillion to \$11.3 trillion. Further, this bill sought to extend expiring renewable energy tax credits, fix the alternative minimum tax, and provide disaster assistance. While I have been a consistent supporter of renewable energy, abolishing the alternative minimum tax and helping those struggling in the aftermath of natural disasters, *this bill kept the inherently unfair \$700 billion provision of the Wall Street bailout from the version previously rejected by Congress.* Unconscionably, this bill's message to responsible Americans was this: you will not get tax relief or disaster relief unless you bailout Wall Street. Regrettably, on October 1, 2008, the Senate passed H.R. 1424 by a bipartisan vote of 74-25. Later, on October 3, 2008, despite my vehement opposition, the House passed H.R. 1424 by a bi-partisan vote of 263-171. On October 3, 2008, President Bush signed H.R. 1424 into law (P.L. 110-343).

In the end, a \$700 billion bailout of Wall Street remained a \$700 billion bailout of Wall Street, with Main Street footing the bill for the powerful investors' high risk, high reward investments. The saddest part of this immorality play is how hard working people will suffer regardless. Working Americans well-deserved tax relief must never be predicated upon rewarding others misdeeds. They understand this self-described, short-term stabilization bill cannot claim with certainty to attain its professed intent, let alone solve the new global economy's latent structural dysfunctions.

Now, events have contradicted the administration's false assurances the Wall Street bailout was the only plan to turn the market around. First, following the bailout's passage, by October 10, 2008, the Dow Jones Industrial Average closed at 8,451, a drop of two thousand points in one week which cost hard working Americans over \$2 trillion.

Second, despite assurances from the administration, the domestic auto industry, car dealers and auto financiers are still waiting for relief from the credit crunch from Treasury and the Federal Reserve. Specifically, any company who wants to be eligible for the Federal Reserve's Commercial Paper Funding Facility must issue commercial paper rated A-1/P-1/F1 by a major nationally recognized statistical rating organization (NRSRO). This amounts to roughly 400 companies with the highest credit rating. Many auto financiers may not meet this threshold, which takes effect on October 27, 2008. In consequence of the bailout's failure to provide relief, on October 13, 2008, GMAC announced it would limit car loan financing only to customers with a credit score above 700 as they cannot sell securities backed by the auto loans GMAC processes.

Third, on October 14, 2008, Secretary Paulson announced he would use \$250 billion to directly purchase senior preferred stock in the nine largest U.S. banks. This new proposal represents a decided change from the bailout's intended and professed goal of injecting liquidity into financial markets to ease the credit crisis and, instead, toward recapitalizing banks. Clearly, the bailout was flawed from the start and failed to provide "short-term stability" in the financial and credit markets. Specifically, the Treasury Department will buy shares in the nine largest U.S. banks, which is simply a \$700 billion blank check authorized by a disastrously compliant Congress. Under the Emergency Economic Stabilization Act, Congress defined troubled asset as "residential or commercial mortgages and any securities, obligations... and *any other financial instrument that the Secretary, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, determines the*

purchase of which is necessary to promote financial market stability... (P.L. 110-343, Section 3(9)(B))" (emphasis added). This begs the question, what exactly can Secretary Paulson buy to stabilize financial markets? Anything he wants, courtesy of hardworking American taxpayers.

Furthermore, Secretary Paulson can determine which "institution" can participate in the TARP plan. The Emergency Economic Stabilization Act defines financial institution to be "any institution, including, but not limited to, any bank, savings association, credit union, security broker or dealer, or insurance company, established and regulated under the laws of the United States... and having significant operations in the United States... (P.L. 110-343, Section 3(5))" (emphasis added). Therefore, any company, including foreign banks, can be chosen by Secretary Paulson to receive \$700 billion in government largess, regardless of their relationship to the financial markets, if any even exists at all. Not surprisingly, Secretary Paulson has only rewarded large banks, including his former employer Goldman Sachs, Inc. and has to date ignored the small, community banks which are the engine of finance in the United States.

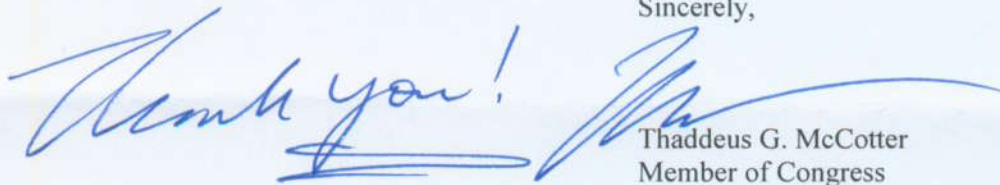
It is doubtful the present course of nationalizing banks – both healthy and unhealthy - will ultimately end this crisis, because the administration's actions remain ad hoc and hasty with no long-term solutions to the root problems in our economy; and American taxpayers continue to pay the tab for irresponsible people. If the administration truly and fully appreciated the distress of responsible, hard working Americans, their retirement savings, their children's college savings, and small businesses, the bailout's political advocates would have been honest with America from the start and worked with Congress to address the underlying root problems in the markets and in our economy. Instead, they put a band aid over a gaping wound and demanded taxpayers pay for it. Now, not only are Americans responsible for Wall Street's mistakes, their retirement savings are worse off than they were before the Paulson Plan was even proposed.

**Rest assured, then, notwithstanding this vote and the market's subsequent decline, it remains my highest priority to ensure the interests of retirees, families, and the American taxpayers are protected, and Americans possess the prosperity born of a humane and balanced national and global economy.**

Thus, your thoughts on this important issue will be remembered during the 110<sup>th</sup> Congress. Again, thank you for contacting me; and for all you do for our community and our country. Should you have any further comments or questions on this or any other issue, please contact me at the Livonia or Milford district, or Washington, D.C. office.

I work for you.

Sincerely,

A large, stylized handwritten signature in blue ink that reads "Thank you!" followed by a signature that appears to be "Thaddeus G. McCotter".

Thaddeus G. McCotter  
Member of Congress

TGM:EG



United States  
of America

# Congressional Record

PROCEEDINGS AND DEBATES OF THE 110<sup>th</sup> CONGRESS, SECOND SESSION

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## House of Representatives

HON. THADDEUS G. McCOTTER  
OF MICHIGAN  
IN THE HOUSE OF REPRESENTATIVES  
OCTOBER 3, 2008

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### Restore Our American Home: The First Financial Panic of the "New Global Economy"

"We have confronted the first financial panic of the "New Global Economy" – an economy spawned by the fall of the Berlin Wall; and the precedent we set will affect our prosperity, liberty, and posterity for generations.

Unconscionably we have rushed to misjudgment and approved a \$700 billion Wall Street Bailout the American people know is intrinsically unfair to them.

This truth is self-evident in how, initially, an exiting President and his Treasury Secretary incited a panic amongst our people and the world, all to compel a compliant Congress to deliver upon this demand:

"Main Street must bail out Wall Street, or how the people will suffer."

Justly, the People's House voiced the will of the sovereign people and refused. Recalcitrant, the administration zealously intensified its attempt to shift \$700 billion dollars worth of consequences from Wall Street onto Main Street; and pronounced a new ransom dictum:

"No bailout for Wall Street, no tax relief for Main Street, and how the people will suffer."

To this demand, the Congress capitulated.

The saddest part of this immorality play is how the people will suffer regardless; and they know it. Working Americans, who's well deserved tax relief must never be predicated upon rewarding others' misdeeds, understand this self-described, short-term stabilization bill cannot claim with certainty to attain its professed intent, let alone solve the new global economy's latent structural dysfunctions. Worse, as a multitude of economists and entrepreneurs prove, this bailout bill will re-inflate the bubble by \$700 billion and, thereby, only delay our day of economic reckoning.

It cannot be otherwise because the bailout bill's central economic construct is patently and grossly unfair to Americans. Succinctly:

Congress will buy "toxic assets" with your money that private investors won't buy with their own money. What a deal for you. Therefore, belying the ludicrous claims, this bailout is designed to save Wall Street, not Main Street.

It is small wonder Americans rejected this odious proposal; and equally unfathomable how Congress ultimately approved of it.

In the aftermath, a deeper truth emerges from the ruins.

In setting a new economic precedent during this pregnant moment fraught with consequence, we also faced a transcendent choice between two competing visions for our nation's future: global materialism versus American traditionalism; "creative destruction" versus "innovative restoration"; Wall Street versus Main Street.

In the tumultuous transition from our humane American traditions into an insane global age, we viscerally glean the evolving forces dwarfing our mortal power to protect the cherished realms of faith, family, community and country, while in each heart beats the murmur of Yeats:

Things fall apart; the centre cannot hold;  
Mere anarchy is loosed upon the world,  
The blood-dimmed tide is loosed,  
And everywhere the ceremony of innocence is drowned;  
The best lack all conviction,  
While the worst are full of passionate intensity.  
Surely some revelation is at hand...

From this Congress Americans seek reassurance their representative institutions remain vibrant and sufficient to shelter and steer our nation through the amoral global flood-tide's enveloping chaos.

You have answered them today.

In voting "yea," you have not solely chosen Wall Street over Main Street. You have chosen the big over the beautiful; the giant over the gentle; the great over the good.

And this decision now shapes our destiny.

This being the case, we bailout opponents must grudgingly admit a tinge of envy for its supporters:

Tonight, you will go to sleep praying you are right; we will go to sleep praying we are wrong; while in each breast the murmur returns.

Now the future beckons from its ominous shadows, and through the impending gloaming we can but glimpse how the people will suffer. As breaks that nightmarish day, let us arise and combine to transcend the insanity of our age; forge a humane global economy; and restore our American home to a God blessed land of hope, devotion and dreams."

## Why Paulson is Wrong

Luigi Zingales

Robert C. McCormack Professor of Entrepreneurship and Finance  
University of Chicago -GSB

When a profitable company is hit by a very large liability, as was the case in 1985 when Texaco lost a \$12 billion court case against Pennzoil, the solution is not to have the government buy its assets at inflated prices: the solution is Chapter 11. In Chapter 11, companies with a solid underlying business generally swap debt for equity: the old equity holders are wiped out and the old debt claims are transformed into equity claims in the new entity which continues operating with a new capital structure. Alternatively, the debtholders can agree to cut down the face value of debt, in exchange for some warrants. Even before Chapter 11, these procedures were the solutions adopted to deal with the large railroad bankruptcies at the turn of the twentieth century. So why is this well-established approach not used to solve the financial sectors current problems?

The obvious answer is that we do not have time; Chapter 11 procedures are generally long and complex, and the crisis has reached a point where time is of the essence. If left to the negotiations of the parties involved this process will take months and we do not have this luxury. However, we are in extraordinary times and the government has taken and is prepared to take unprecedented measures. As if rescuing AIG and prohibiting all short-selling of financial stocks was not enough, now Treasury Secretary Paulson proposes a sort of Resolution Trust Corporation (RTC) that will buy out (with taxpayers' money) the distressed assets of the financial sector. But, at what price?

If banks and financial institutions find it difficult to recapitalize (i.e., issue new equity) it is because the private sector is uncertain about the value of the assets they have in their portfolio and does not want to overpay. Would the government be better in valuing those assets? No. In a negotiation between a government official and banker with a bonus at risk, who will have more clout in determining the price? The Paulson RTC will buy toxic assets at inflated prices thereby creating a charitable institution that provides welfare to the rich—at the taxpayers' expense. If this subsidy is large enough, it will succeed in stopping the crisis. But, again, at what price? The answer: Billions of dollars in taxpayer money and, even worse, the violation of the fundamental capitalist principle that she who reaps the gains also bears the losses. Remember that in the Savings and Loan crisis, the government *had* to bail out those institutions because the deposits were federally insured. But in this case the government *does not have* to bail out the debtholders of Bear Sterns, AIG, or any of the other financial institutions that will benefit from the Paulson RTC.

Since we do not have time for a Chapter 11 and we do not want to bail out all the creditors, the lesser evil is to do what judges do in contentious and overextended bankruptcy processes: to cram down a restructuring plan on creditors, where part of the debt is forgiven in exchange for some equity or some warrants. And there is a precedent for such a bold move. During the Great Depression, many debt contracts were indexed to gold. So when the dollar convertibility into gold was suspended, the value of that debt

soared, threatening the survival of many institutions. The Roosevelt Administration declared the clause invalid, *de facto* forcing debt forgiveness. Furthermore, the Supreme Court maintained this decision. My colleague and current Fed Governor Randall Kozner studied this episode and showed that not only stock prices, but bond prices as well, soared after the Supreme Court upheld the decision. How is that possible? As corporate finance experts have been saying for the last thirty years, there are real costs from having too much debt and too little equity in the capital structure, and a reduction in the face value of debt can benefit not only the equityholders, but also the debtholders.

If debt forgiveness benefits both equity and debtholders, why do debtholders not voluntarily agree to it? First of all, there is a coordination problem. Even if each individual debtholder benefits from a reduction in the face value of debt, she will benefit even more if everybody else cuts the face value of their debt and she does not. Hence, everybody waits for the other to move first, creating obvious delay. Secondly, from a debtholder point of view, a government bail-out is better. Thus, any talk of a government bail-out reduces the debtholders' incentives to act, making the government bail-out more necessary.

As during the Great Depression and in many debt restructurings, it makes sense in the current contingency to mandate a partial debt forgiveness or a debt-for-equity swap in the financial sector. It has the benefit of being a well-tested strategy in the private sector and it leaves the taxpayers out of the picture. But if it is so simple, why no expert has mentioned it?

The major players in the financial sector do not like it. It is much more appealing for the financial industry to be bailed out at taxpayers' expense than to bear their share of pain. Forcing a debt-for-equity swap or a debt forgiveness would be no greater a violation of private property rights than a massive bailout, but it faces much stronger political opposition. The appeal of the Paulson solution is that it taxes the many and benefits the few. Since the many (we, the taxpayers) are dispersed, we cannot put up a good fight in Capitol Hill; while the financial industry is well represented at all the levels. It is enough to say that for 6 of the last 13 years, the Secretary of Treasury was a Goldman Sachs alumnus. But, as financial experts, this silence is also our responsibility. Just as it is difficult to find a doctor willing to testify against another doctor in a malpractice suit, no matter how egregious the case, finance experts in both political parties are too friendly to the industry they study and work in.

The decisions that will be made this weekend matter not just to the prospects of the U.S. economy in the year to come; they will shape the type of capitalism we will live in for the next fifty years. Do we want to live in a system where profits are private, but losses are socialized? Where taxpayer money is used to prop up failed firms? Or do we want to live in a system where people are held responsible for their decisions, where imprudent behavior is penalized and prudent behavior rewarded? For somebody like me who believes strongly in the free market system, the most serious risk of the current situation is that the interest of few financiers will undermine the fundamental workings of the capitalist system. The time has come to save capitalism from the capitalists.