# MY OPEN BAILOUT LET



***October 3, 2008***

Today I cast one of the most difficult votes of my congressional career. The consequences of the legislation passed today have implications for Tennessee's economy for decades to come. The debate over the financial stabilization legislation was heated in Tennessee and in Washington. My office was flooded with calls. Some demanded I vote against the bill, speculating that to do otherwise would reward Wall Street at the expense of Main Street. Others urgently declared it would be morally irresponsible not to act and act immediately. One constituent publicly wondered if it was possible for me to understand "the depth of the dilemma." The heated tone of public discourse is the price we pay for the honor of public service and indicative of how directly this legislation affects every one of us. Still, I owe all Tennesseans a full explanation of my concerns regarding this bill, the road I traveled to come to a decision, and why I feel my vote upholds the faith my constituents put in me.

The financial stabilization legislation Congress passed today is monumental legislation that was considered for only a few days. It did not have the benefit of the painstaking deliberative process that administration proposals are subjected to. Around September 19, Treasury Secretary Henry Paulson presented Congressional leaders with an economic crisis that was staggering in its magnitude. He later disclosed that he had been concerned about this problem for some time. Secretary Paulson should be ashamed that he took so long to bring this problem to us, thereby limiting the responsible options Congress could take.

What Secretary Paulson originally requested was a blank check for $700 billion. No one in Congress found that suggestion reasonable or workable. We all went to work on a more practical solution to the problem. Bipartisan leadership issued a compromise proposal within days, and my staff went to work crafting a section-by-section summary that highlighted several problems in the legislation. The bill demanded Congress fork over $700 billion to spend on toxic mortgage assets, rejected any administrative or judicial oversight, and instituted no institutional financial reform. My colleagues and I rejected this outrageous approach.

Please do not misinterpret my response to Secretary Paulson's solution: I absolutely appreciate the magnitude of the underlying problem. I have heard first-hand from community bankers in Tennessee, retirees, and entrepreneurs who were being crushed by the frozen credit market. One constituent from Shelby County shared an all-too-common experience with me. He has a new, thriving subcontracting business in the construction field. His financial statement is healthy, but he could not renegotiate his small line of credit with his local bank. The economy has forced his suppliers to demand payment in 30 rather than 60 days. His customers are pushing back their payments to him to 90 days. He needs and deserves credit to bridge the gap, pay his employees, and keep his business above water. But with the markets frozen, he cannot get the credit he deserves, and his business is at risk.

Together with other House conservatives, I presented our first principles to the leadership. We pointed out that previous Wall Street bailouts, while not working as anticipated, had already put the taxpayer on the hook for more than $323 billion so far this year. Our proposals included offering collateral-backed FHA loans to banks, insurance, suspending the capital gains tax, cutting spending to offset costs, limiting short selling by reinstating the "uptick rule," and making financial instruments more transparent, all in lieu of a straight bailout for Wall Street ineptitude.

We were able to make the proposal far better than what was originally presented to us. and many of my colleagues were satisfied with it. The central premise of the Paulson proposal, that taxpayers should be the lenders of first resort, was still one I could not get behind. The bill raised the national debt limit above $11 trillion for the first time, without asking for a single dollar in spending cuts. This would contribute to a debilitating trend in inflating the national debt.

On Monday, I voted *no* along with more than 220 of my bipartisan colleagues, and the bill failed. I joined my Republican colleagues in a

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press conference after the bill failed to urge all members to go back to the drawing board and adopt an approach that would embrace free market proposals that would not patch but fix the economic problems ahead of us. We advocated for passage of an alternative bill (RSC Alternative Legislation). I also joined my colleagues in sending a letter to SEC Chairman Chris Cox requesting a change and immediate suspension of the fair accounting "mark to market" rule unfairly devaluing many banks' assets.

By Wednesday, the Senate had adopted a much better piece of legislation. The legislation offered regulatory solutions to provide instant liquidity, including an increased FDIC insurance ceiling and tax relief for Tennessee families in the form of a one-year extension of sales tax deductibility and prevention of AMT (alternative minimum tax) creep. The SEC also reacted to our letter by announcing it would soon offer guidance to reform the fair accounting "mark to market" rule before they leveraged taxpayer assets.

But while the legislation returned to the House Friday morning in a vastly improved condition, it did not overcome the legislation's critical failings: increased federal debt and a $700 billion bill payable by the American taxpayer. The national debt has been steadily rising for over 10 years, and this bill pushed it even higher without an attempt at spending cuts. If the American people have to foot the bill for Wall Street greed and the administration feels this is the most prudent way forward, then every non-defense or veteran-related agency should be compelled to do its part and reduce spending.

I voted *no* on final passage.

Now we must look to the problem few are talking about. Congress has slowed the economic bleeding, but the wounds have not been healed. Congress acted in a bipartisan way on the bailout proposal, but we need to keep that spirit alive and take an honest look at what got us here in the first place.

The Community Reinvestment Act of 1977 compelled banks to grant mortgages to low-income households, some who could not afford the homes they bought. In the '90s that act was strengthened and expanded. Fannie Mae and Freddie Mac got into the game in the '90s by backing or originating more and more risky mortgages and forming them into mortgage-backed securities. As government-backed entities, Fannie and Freddie implied security and support for loans and products that did not exist. Wall Street greed took the crisis the rest of the way.

I believe the federal government never should have intervened in the mortgage market as it did in 1977. Both parties initiated, propagated, and fostered that intervention. The system that made constituents happy looked good on the federal books but was a bad idea. It didn't help that federal regulators were either asleep at the switch or ignored by Congress. Now the chickens have come home to roost.

The time has come to dismantle the Community Reinvestment Act and privatize or eliminate Fannie Mae and Freddie Mac. Fannie and Freddie execs and their buddies on Wall Street need to be strictly investigated and held accountable. If normal partisan bickering is allowed to return to this issue, none of this will get done and our economy will continue to spiral. I, for one, will make this my first priority when Congress returns next year. ■

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**by Marsha Blackburn**