

The president's budget proposals reflected the nature of the challenge. Note the following passage from the 2005 budget: Fannie, Freddie and other GSEs "are highly leveraged, holding much less capital in relation to their assets than similarly sized financial institutions. . . . A misjudgment or unexpected economic event could quickly deplete this capital, potentially making it difficult for a GSE to meet its debt obligations. Given the very large size of each enterprise, even a small mistake by a GSE could have consequences throughout the economy."

That passage was published in February 2004. Dodd can find it on Page 82 of the budget's Analytical Perspectives.

The administration not only identified the problem, it also recommended a solution. In June 2004, then-Deputy Treasury Secretary Samuel Bodman said: "We do not have a world-class system of supervision of the housing government-sponsored enterprises (GSEs), even though the importance of the housing financial system that the GSEs serve demands the best in supervision."

Bush got involved in the effort personally, speaking out for the cause of reform: "Congress needs to pass legislation strengthening the independent regulator of government-sponsored enterprises like Freddie Mac and Fannie Mae, so we can keep them focused on the mission to expand home ownership," he said in December. He even mentioned GSE reform in this year's State of the Union address.

How did Fannie and Freddie counter such efforts? They flooded Washington with lobbying dollars, doled out tens of thousands in political contributions and put offices in key congressional districts. Not surprisingly, these efforts worked. Leaders in Congress did not just balk at proposals to rein in Fannie and Freddie. They mocked the proposals as unserious and unnecessary.

Rep. Barney Frank (D-Mass.) said the following on Sept. 11, 2003: "We see entities that are fundamentally sound financially. . . . And even if there were a problem, the federal government doesn't bail them out."

Sen. Thomas Carper (D-Del.), later that year: "If it ain't broke, don't fix it."

As recently as last summer, when housing prices had clearly peaked and the mortgage market had started to seize up, Dodd call on Bush to "immediately reconsider his ill-advised" reform proposals. Frank, now chairman of the House Financial Services Committee, said that the president's suggestion for a strong, independent regulator of Fannie and Freddie was "inane."

Sen. Dodd wonders what the Bush administration did to address the risks of Fannie and Freddie. Now, he knows. The real question is: Where was he?

AMERICA NEEDS REAL FINANCIAL REFORM, NOT A BAILOUT

The SPEAKER pro tempore. Under a previous order of the House, the gentlewoman from Ohio (Ms. KAPTUR) is recognized for 5 minutes.

Ms. KAPTUR. Madam Speaker, I would like to place in the RECORD the measuring sticks against which I will weigh any proposal brought before this Congress to bail out Wall Street investment houses.

Number one, financial reform must come first. America needs reform, not a bailout. Over the last 20 years, legislation has been passed by this Congress, H.R. 1278 in 1989 called FIRREA, interstate banking in 1994 which created those big mega banks, and H.R. 10/

S. 900 in 1999, which overturned the Glass-Steagall Act that allowed banking, real estate and insurance all to be under the roof of the same firm.

Well all those bills together have created a highly concentrated financial system, particularly in housing finance, rather than a decentralized one like that which we had for most of the 20th century. This bailout is the result of high-risk misbehavior by distant financial giants. They have sucked equity out of local communities and turned local markets into derivative, debt-ridden communities rather than independent, robust, credit markets with prudent savings and lending practices.

Reform should restore those prudent and transparent banking practices defining the difference between banks and investment houses and protecting and restoring the protections that existed prior to 1999 when that Glass-Steagall Act was eliminated. Conflicts of interest at bond rating agencies should be addressed by such agencies becoming public. Reform, as I say, and regulation should come first out the door before the money, not later.

□ 2000

Number two, Main Street housing market deflation must be stabilized as step one. A moratorium should be placed on all home foreclosures for 120 days. That will take us into the new year. And deflation in the housing market really is what has triggered this credit crunch. The Federal Reserve could use its influence through its regionalized structure to bring parties together to work out affected loans in places like Ohio to stabilize local real estate and housing markets. That is where the real assets are and where the markets must clear and adjust.

What a crime it would be if people are thrown out of their homes and an institution somewhere over in England like Barclays becomes the owner of those assets and gets them at fire-sale prices. We need to put those assets back in the hands of the American people.

The traditional home loan backed by savings deposits was converted into a bond during the 1990s and then securitized into those international markets. The time-tested loan standards of character, collateral and collectibility were shelved, and therefore to reform this system it must be decentralized again, with the community savings and home loan bank system being reestablished with an emphasis on increasing savings deposits with enhanced local mortgage origination and oversight, as opposed to concentration of activity in Wall Street investment houses.

Number three, a new Financial Assets Management Board should be formed to manage this mortgage refinancing and workouts at the local level, similar to FDR's Homeowner Loan Corporation.

Fourth, the Department of Justice should be authorized to investigate the

wrongdoers, to track down the fraud, misrepresentation of asset value, insider trading and related crimes in this scandal. There should be over 500 attorneys and accountants and support staff to conduct thorough investigations, forensic accounting and prosecution.

Fifth, any Federal dollar that is expended must result in equity to our taxpayers. If our people are going to be forced to fund unlimited private sector bad debt, our people must receive an equity share in every Wall Street financial company proportional to the amount of bad debt held that is shifted to the taxpayer.

Our people are being asked to take 100 percent of the risk. They should be afforded the benefit of any future profits. A 0.25 percent transaction fee should be charged on every Wall Street trade or Chicago Board of Trade transaction, and that \$150 billion a year that will be yielded should pay the American people back over time.

Sixth, a select congressional committee should be established to hold hearings, do proper oversight and advise the next President and Congress on mortgage and financial recovery operations and additional means to assure any necessary repayment of public investment.

Seven, standards for executives and compensation structure in the financial services industry should be established. Those outlandish salaries that they get should be curbed, and all bonuses, stock options and exceptional compensation for those individuals and their boards of directors should be discouraged. We should help to pay the bill by going after some of their assets.

Finally, Madam Speaker, I would like to place this in the RECORD, and also include bankruptcy reform as one of the major changes that we need to make in any measure. These are the steps that would actually result in market recovery, not just bailing out unknown assets and bad debts from Wall Street.

KAPTUR: REAL REFORM OR NOTHING— FINANCIAL REFORM MUST COME FIRST

America needs real financial reform first, not a bailout. Over the last 20 years, legislation passed by Congress (HR 1278 in 1989, HR 3841 in 1994, and HR 10/S 900 in 1999) has highly concentrated financial activities on Wall Street—particularly housing finance—rather than decentralized them. This bailout is the result of high risk misbehavior by distant financial giants. They have sucked equity out of local communities and turned local markets into derivative, debt-ridden communities rather than independent robust credit markets with prudent savings and lending practices.

Such reform should restore prudent and transparent banking practices. Reform of the deregulated financial structure should start with defining the difference between banks and investment houses and restoring protection that existed prior to 1999 when the Glass-Steagall Act was eliminated. Each should have defined activities and be regulated separately.

Conflicts of interest at bond rating agencies should be addressed by such agencies becoming public.

Reform and regulation should come first, not later. Franklin Delano Roosevelt invented the basic framework that served

America well for the last century. Congress should adapt it to current challenges on a Jeffersonian model, not the proposed Hamiltonian approach.

**MAIN STREET HOUSING MARKET DEFLATION
MUST BE STABILIZED AS STEP ONE**

Legislation should mandate a moratorium on all home foreclosures for 120 days. Deflation in the housing market has triggered this credit crunch. The Federal Reserve must use its influence through its regionalized structure to bring parties together to work out affected loans to stabilize local real estate and housing markets. That is where the real assets are and where the market must clear and adjust. Before the Federal Reserve and Treasury, or its consultants, can foreclose upon any home, it must first certify under criminal penalty that a workout was attempted with the mortgage. A workout certification on every home will be required. Additionally, a 120-day moratorium will drastically reduce the amount of capital needed. Otherwise, millions more of our citizens will be foreclosed and financial giants like Barclay's will pick up local real estate at fire sale prices.

The cowboy banking that accelerated in the last 20 years concentrated financial power on Wall Street and huge regional mega-banks. The traditional home loan, backed by savings deposits, was converted into a bond that was securitized into international markets. The time tested loan standards of character, collateral, and collectibility were shelved. They must be restored. To reform the system, it must be decentralized, with the community savings and home loan bank system being reestablished, with an emphasis on increasing savings deposits, enhanced local mortgage origination and oversight, as opposed to concentration of activity in Wall Street investment houses. These local institutions should be empowered to do workouts and supported through any housing finance provided. The federal incentives for savings and home loan institutions, as existed pre-FIRREA, should be restored.

In a letter to Congress the CEO of BB&T states, "The primary beneficiaries of the proposed rescue are Goldman Sachs and Morgan Stanley." This is essentially unfair and improperly focused. Attention must be placed on restoring value to local housing real estate markets.

**A NEW FINANCIAL ASSETS MANAGEMENT BOARD
SHOULD BE FORMED TO MANAGE MORTGAGE
REFINANCING AND WORKOUTS (SIMILAR TO
FDR'S HOME OWNER LOAN CORPORATION)**

Board Members: Secretary of Treasury, Federal Reserve Chairman, Comptroller General of the United States, Appointees of House Speaker, House Minority Leader, Senate Majority Leader, and Senate Minority Leader, Appointee from the States Attorneys General, U.S. Attorney General.

**DEPARTMENT OF JUSTICE SHOULD BE
AUTHORIZED TO INVESTIGATE**

Creation of a Special Prosecutor position at the U.S. Department of Justice with authority and adequate funding to track down the fraud, misrepresentation of asset value, insider trading, and related crimes in this scandal.

Funds should be allocated to hire 500 or more attorneys and accountants and support staff to conduct thorough investigation, forensic accounting, and prosecution.

Recovery of assets fraudulently or illegally obtained by individuals, Boards of Directors, and institutions involved shall be required retroactive to the decade of the 1990s to the present.

EQUITY TO TAXPAYERS MUST BE MANDATED

If U.S. taxpayers are forced to fund unlimited private sector bad debt, they must re-

ceive an equity share in every Wall Street financial company proportional to the amount of bad debt held that is shifted to the government.

Since taxpayers are assuming 100 percent of the risk, they should be afforded the benefit of any future profits. Those profits should be placed in a special lock box account for Social Security. The trustee should be restrained to investments in AAA state and local bonds.

Taxpayers who have been up-do-date on home mortgage payments but who will be required to help fund the bailout should be afforded lower interest rates on their existing home mortgages to total the amount being borrowed from them.

A .25 percent transaction fee should be charged on every Wall Street or Chicago Board of Trade transaction and the funds yielded should be used to pay back the loan for U.S. taxpayers, this fee will yield about \$150 billion annually.

**A SELECT CONGRESSIONAL COMMITTEE SHOULD
BE ESTABLISHED**

A cross-jurisdictional Select Committee of Congress should be established in both chambers to hold hearings, do proper oversight, and advise the next Congress and President on mortgage and financial recovery operations and additional means to assure any necessary repayment of the public investment.

**STANDARDS FOR EXECUTIVES AND COMPENSA-
TION STRUCTURE IN THE FINANCIAL SERVICES
INDUSTRY ESTABLISHED**

Compensation for financial executives at all levels should be limited to five year rolling average, made public on a quarterly basis, similar to Securities and Exchange Commission filings.

Alternatively, compensation for top executives at financial houses should not exceed the salary of the President of the United States until such time as the federal government recovers or receives repayment for any financing that may be provided.

Anyone who had major responsibility for buying or selling these junk bonds should be permanently banned from holding any position in any company dealing with financing of any sort.

All bonuses, stock options, and exceptional compensation (present and post for 10 years) for those individuals and their Boards of Directors should be disgorged. This should be a responsibility of the Department of Justice's investigations. Since executives and Boards of Directors were paid for fraudulent transactions and likely insider trading, their earnings were assumed under false pretenses.

New leverage ratios should be devised and incorporated with this law, probably 10:1, not 30:1.

Anyone or any company involved in leveraging or selling any sub-par mortgages involved in the bailout should be banned from employment by Treasury to help in these workouts.

Secretary Paulson and all political appointees in the U.S. Treasury and the Federal Reserve should be required to renew their public disclosure statements as circumstances have changed since their original filings.

All financial institutions and executives that will benefit from this bailout in any way should be banned from making any political contributions this election cycle and during the 11th Congress.

**ADDITIONAL FINANCIAL SYSTEM REPORTING AND
TRANSPARENCY REQUIREMENTS MUST BE RE-
QUIRED**

The Financial industry, including hedge funds, shall comply with new regulations involving disclosure, capital requirements,

conflicts of interest, and market manipulation.

All hedge funds must immediately disclose holdings.

Hedge fund profits must be taxed at the sane rate as other financial corporations, their current rate is 15% on current income with a capital gains rate of only 5%.

Consumer credit debt must be reported quarterly to assure Congress has complete information on market conditions that may impact future solvency.

The source of the bailout money must be explicitly identified as well as the costs and nature of the financing agreement. If foreign nations, banks, or sovereign wealth funds provide monies, and trade or defense concessions are inherent in the agreement, Congress shall require certification from Treasury and the Federal Reserve that no side deals were transacted as a part of the agreement.

A provision should be included that if such side deals of any kind that may be implied or thought to exist, the United States is not bound by it.

As part of the legislation, the Secretary of Treasury and the Federal Reserve Chairman are required to provide a statement as to how the arrangement will be executed in order to avoid fueling inflation and rising interest rates.

BANKRUPTCY REFORM

Bankruptcy law should be changed to give bankruptcy judges the authority to: Reset primary mortgages during personal bankruptcies; and Release credit card holder from that debt in personal bankruptcy.

Our nation, our taxpayers, and our communities need real reform or nothing.

**TRIBUTE TO REX COLE AND CATO
CEDILLO**

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from California (Mr. HUNTER) is recognized for 5 minutes.

Mr. HUNTER. Madam Speaker, as we study the various proposals that are being circulated right now on the economic crisis, I thought I might take a break for just a minute from that and talk about a bright spot in this country and a shining light in this country, and that is two of the individuals in my community, in San Diego, who provided a wonderful bright spot for hundreds and hundreds of young people.

The first person I would like to talk about is Rex Cole, who was the head golf pro and manager at a place called Carlton Oaks Golf Course, a public golf course in San Diego County, for many years. Rex Cole was known for the fact that every weekend for almost 40 years, and he is now at Cottonwood Golf Course in East County, he would give free lessons to any young person who wanted to come over and be taught the game of golf.

On those Saturdays and Sundays, you would swing by that practice area and you would see that great professional, Rex Cole, out there teaching young people, whether they were 5 years old or 10 or 15, or sometimes 90, teaching them the golf grip and the basic swing and helping them, and not charging a dime.

Madam Speaker, this is a time when we are looking to heroes for inspiration. As Ronald Reagan said, you don't