

# *Corsi For Congress*

## *Had Enough?*

*February 15, 2010*

### **The Cover Up**

Watching the government and major U.S. companies mismanage themselves into Insolvency is bad enough. But their attempts at a cover up make the problem even worse. Neither group has learned from the other's mistakes, and the ultimate loser will be the U.S. taxpayer.

For years, major banks -- with the blessing of the government -- made mortgage loans to people with very little money to put down, poor credit and less than stellar job histories. The loans that were offered many times consisted of a low monthly payment that featured a "teaser rate" for up to five years when a "reset" of the interest rate would kick in. These loans became known as "sub-prime" mortgages.

Those of us who questioned this practice were told not to worry. The "statistics" showed the default rate historically would be in the 2 to 3 percent range. Of course the statisticians never bothered to notice that the 2 to 3 percent range was factored in with a 10 to 20 percent down payment, a steady job history and 30-year fixed rate loans. These are known as "prime loans."

Then Wall Street got the bright idea to bundle "prime loans" and "sub-prime loans" together and sell them as securities. They bundled them so the loans could be sold as "A" rated securities to investors.

To the surprise of no one who understands economics and risk, once the loan reset occurred, the borrowers with poor credit and little money could not afford their new monthly payments and stopped making their payments. As the defaults increased in frequency, the banks and Wall Street tried to claim that they had ample reserves to cover any defaults.

The government pledged it would not intervene and resisted calls for the taxpayers to bail out these companies. As it became obvious that the banks and the insurance companies which insured these loans (i.e., AIG) did not have ample reserves to pay the buyer/ investor, members of Congress demanded hearings be held to show they were “working for the people.” At these hearings, it was learned that these banks made these loans at President Clinton’s and Congress’s request under “The Community Re-Investment Act.” And among the major guarantors of these loans were none other than “Fannie Mae” and “Freddie Mac,” quasi-government agencies which were about to go bankrupt as well. And who was in charge of oversight of Fannie and Freddie? The answer is the House Financial Services Committee and the U.S. Senate Committee on Banking, Housing and Urban Affairs -- the very committees that were holding the hearings.

As Washington politicians could not let it be known that their incompetence was a major factor in this fiasco, talk of bailouts, loan guarantees etc. filled the air. Suddenly it went from “their problem” (the banks’ and Wall Street’s) to “everyone’s problem” (that of the U.S. taxpayer). The end result: The U.S. taxpayer is now saddled with over \$2 trillion in debt for TARP, job stimulus packages and other spending boondoggles because the president, the Federal Reserve, Congress, the banks and Wall Street were not willing to face up to their mismanagement.