



## Principles for a Patriotic Bailout Plan

The three-page, \$700 billion bailout plan presented to Congress by the Bush Administration last Friday is an appallingly superficial response to years of bad decisions and greed of Wall Street firms empowered by a long-standing, bipartisan federal policy of deregulation and deliberate neglect.

There are many questions that have yet to be answered about the basics of the bailout: Who will be entitled to get the taxpayers' money, and on what basis? How was the \$700 billion calculated? What criteria should be met to determine what the government will pay for "troubled assets"? Why cover all financial companies – not just those involved in bad mortgages – as well as foreign companies? We don't have the answers to these most basic questions. And, perhaps most important: Why should the hundreds of millions of Americans who did nothing wrong be required to pay \$10,000 per family in this country? These are questions that must be answered to the satisfaction of the nation before Congress authorizes any taxpayer relief. Finally, any economic rescue package that bails out Wall Street must include new rules and protections for average Americans in exchange for the unprecedented taxpayer support.

### **1. Cap Interest Rates on Credit Cards and Mortgages from Bailed Out Companies**

Any company that receives taxpayer funds should be prohibited from charging an interest rate higher than the Federal Reserve's Discount Window rate, at which these companies are borrowing taxpayer money (currently 2.25%), plus a small markup – 3 percentage points would be generous – for consumer credit or mortgage and home loan debt. Taxpayers should not have to pay interest rates of 7% to 25% to bailed-out institutions that borrow our money from the Federal Reserve at a 2.25% rate.

There should also be a national moratorium on foreclosures by any bank on loans with an interest rate in excess of the Discount Rate +3% cap so long as homeowners maintain payments reset to the interest rate cap. And judges should be authorized to reduce mortgage payments to homeowners about to be foreclosed upon.

The plan should restore the states' power to protect their citizens from abuses in the lending industry. The federal government not only failed to curb the abusive lending practices that helped create this crisis, but also blocked the states from policing them.

Reversing this policy is a necessary component of any fix to the broken model of “anything goes” that created the current crisis.

## **2. Give Taxpayers a Stake in Bailed-Out Companies With Creation of America’s Mutual Fund**

In exchange for purchasing companies’ bad debt and “troubled” assets, the government shall be given an ownership stake in the firms in proportion to the amount of taxpayer risk. Company warrants will be held and managed by a publicly run office to be known as “America’s Mutual Fund,” which will also gain a seat on the board of any company receiving a bailout. America’s Mutual Fund’s goal will be to liquidate these assets as companies’ stock values rise enough to compensate taxpayers, with interest, for the bailout.

## **3. Restore Corporate Accountability**

Both federal bailout officials and the banking industry itself must be subjected to oversight and regulation to effectively carry out this bailout and to prevent another economic debacle in the future. But there are also measures that Congress should take right now to ensure corporate accountability in any bailout scheme.

Recipients of bailouts should be prohibited from applying for or receiving a contract to manage any of the government’s newly held assets. This would create a gross conflict of interest. Additionally, companies that receive taxpayer assistance must agree to a ban on lobbying Congress or bank regulators until the taxpayers have been repaid. The bill also should block revolving doors by prohibiting federal employees who work on any aspect of the government bailout from going to work for any recipient of taxpayer assistance until two years after the expiration of the Treasury Department’s program. And bailout company executives should have a similar two-year cooling off before any government service on financial programs.

Wall Street executives who violated existing law should be prosecuted by the Justice Department.

The financial services industry must be subjected to new regulatory standards, such as greater transparency and disclosure requirements, increased regulation of investment banks and hedge funds, stringent limitations on leveraged investments and offshore financial instruments to avoid scrutiny and taxes, and prohibitions against the riskiest investment practices. The program should make bailouts contingent on executives of participating companies accepting strict salary caps and standards for compensation packages that guard against bad incentives.

## **4. Ensure Government Accountability and Transparency**

There is no place for secrecy and immunity from accountability in extraordinary legislation giving the Treasury Department \$700 billion to bail out Wall Street. Congress

must give the Treasury Department guidance on how to exercise its authority or it risks having the entire scheme struck down as unconstitutional. The private asset management companies Treasury wants to hire should not be paid at usual Wall Street rates for each asset purchased, but at a fire sale rate.

Moreover, all Treasury actions must be subject to ordinary judicial review, not immune from review as the Bush Administration requests, and any new program or authority must be subject to ordinary open-government laws such as the Freedom of Information Act and the Sunshine Act.

The program also must provide for extensive reporting by the Government Accountability Office, whistleblower protections to ensure the free flow of information from insiders who can call public attention to waste, mismanagement, or corruption, and oversight by the Congress and the Inspector General of the Treasury Department, who should have subpoena power to ensure adequate investigations in the event of any stonewalling by government or industry officials.

These provisions will help ensure effective oversight by the courts, the Congress and – most important – the general public.

## **5. Take the Time to Do it Right**

Wall Street is threatening Congress and the nation with global economic ruin if a \$700 billion blank check is not legislated within days. At the same time, members of Congress have campaign plans all over the country next week. The pressure to get things done quickly can only result in the poor management of a massive pot of taxpayer money. At this point, no one even knows if \$700 billion is the right number or if we can ensure that the “distressed” loans and other financial instruments will be valued appropriately when bought with the bailout money. No justification or criteria has been offered by the Treasury Department. Congress should put the interests of the public ahead of rushing to respond to Wall Street’s threats or adjourn for the campaign. At \$700 billion, these decisions need to be made with a level head, not a gun to the country’s head. Congress must not be blackmailed into hasty action by Wall Street and the Bush Administration. Poorly drafted and ill-considered congressional action could result in irrevocable damage.