To: Interested Parties
From: Simon Rosenberg and Dr. Robert Shapiro
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Re: Keep People in Their Homes

A decade of reckless deregulation, mismanaged regulation and equally reckless private mismanagement has now brought the American and global economies to a crisis point. Investment banks, hedge funds and other financial institutions have borrowed hundreds of billions of dollars to sink into securities widely recognized to entail extraordinary risk, passing that risk along to millions of Americans whose retirement plans, pension funds and money market accounts found their way into funds set up by such mismanaged financial titans as Lehman Brothers, Bear Stearns, Merrill Lynch and AIG.

Through it all, the White House, Treasury and Federal Reserve have practiced their own reckless regulatory mismanagement, allowing the gradual accretion of the biggest financial house of cards in history. Now it has caught up with them and the rest of us, and those who let it happen are asking taxpayers to spend hundreds of billions of dollars to clean up this mess.

This crisis is far from over, and its effects are still spreading. We need a broad plan that will actually work to restore financial and economic stability. But those who have had little or no hand in it – America's taxpayers and most Members of Congress – should not be steamrolled into giving a blank check to those in the Administration who failed to head off this crisis. First, the check they want us to write is unlike any ever written before during financial crises. When Washington last took over the failing assets of private institutions, during the savings and loan bailout, taxpayers first took over the institutions themselves and then sold the assets, while the regulation of the remaining S&Ls was tightened and reformed to preclude another round of the same problems down the road. This time, Congress is being told that it must use taxpayers' money to buy up the degraded assets of hundreds of financial institutions while they continue operating as private entities and without any guarantee of regulatory changes that will prevent it from happening the next time. That's a bad bargain and terrible policy.

Second, it's doubtful that the plan will even work in its own terms. If the Paulson Treasury plans to buy the deteriorating securities at their current, low market values, it may help the institutions holding them to avoid further deterioration, but it won't reduce the losses they've already taken. Consequently, this bailout cannot actually lead us out of the crisis – unless the Treasury plans to pay these institutions above-market prices for the

tanking securities they now hold, which would produce the largest direct transfer of money from taxpayers to shareholders and executives ever seen.

Third, the plan does not address the forces which continue to drive this crisis. At the base of the pyramid scheme that has infected our financial markets – underneath the credit default swaps and collateralized debt obligations created with borrowed money to “guarantee” mortgage-backed securities created with more borrowed money, in a housing market swollen by a historic bubble — lies the only real assets in the picture, the mortgaged homes of tens of millions of Americans. On that critical score, the Administration plan offers nothing. The only way to stop the cascading financial crisis consuming not only investment banks, investment funds, mortgage lenders and insurance companies, but also pieces of most Americans’ retirement security, is to stabilize the housing market from which all of the rest arises. The Treasury and the Administration propose to use taxpayers to bail out the institutions which speculated in the securities based on that market. Given the system’s current precarious position, a bail out of some kind cannot be avoided. But our government owes at least as much attention to homeowners facing foreclosure. If the Treasury and Fed had been willing to spend $85 billion on loans to strapped homeowners, as they did to AIG last week, the crisis might never have crested into the conditions that now require a system-wide bailout.

These mortgages are at the root of the crisis. It’s their mounting defaults driving down the overall housing market which has brought venerable banks like Lehman Brothers and Bear Stearns. Before Congress leaves this week or next, it should enact legislation that either provides a mechanism for direct loans to people to avoid foreclosure or allows them to renegotiate their mortgages. This single step will keep untold numbers of people in their homes, help stabilize the housing market, help contain the crisis at one of its critical origins, and thereby help shore up the financial system. Paired with a program to provide more liquidity to financial institutions and an orderly way to write down their failing holdings, this step could finally take us past this crisis.

Even so, only a small share of the costs of this historic mismanagement are apparent today. This financial shock, on top of the housing and energy shocks that preceded it, have almost certainly pushed our economy into recession. That will further reduce the value of the assets held by tens of millions of American through their pension funds, retirement accounts, money market and mutual fund investments. The squeeze will be hardest on the rising numbers of Americans who will also lose their jobs. The need to help these people and millions of others keep their homes is urgent, then, for a host of economic and social reasons.

When Congress returns in December or next year, it will find itself with far fewer resources to finance badly-needed new initiatives in health care, climate change and tax policy. One urgent order of business, however, will be entirely within its capacity: adopt and apply strict and appropriate transparency, capital and other regulatory standards to all financial institutions. And the politicians who hailed the hands-off attitude that enabled this crisis to fester and break out, and who now blame greed instead of their own negligence, must be held accountable.