Your on the Street Reporter

Uyless Black

Privatizing Profits, Socializing Losses.

Privatizing Profits. Socializing Losses

Too small to matter; too big to fail.

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Job Tenure? Gerrymandering.

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Capitalist: "Capital markets are largely self-healing and self-regulating. If left alone, they will take care of themselves. The leaders in the industry will certainly know when and where to draw the line."[1]

Regulator, "Capital markets are run by humans, which is precisely why they are not self-regulating or self-healing."

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Bank President to Treasury Secretary: "Because you did not over-see my bank, you're now taking over my bank!"

October 11, 2008

Hello from Your on the Street Reporter. Recently I heard on the street, on the golf course, in the media, and at Suzie's Bar:

Comment One: "Those greedy banks kept giving out more and more worthless mortgages."
Comment Two: "Consumers were snookered into loans for houses they couldn't afford."
Comment Three: "Americans are sick of rich CEOs making millions on their mistakes."
Comment Four: "Frannie and Freddie are as bad as the banks."
Comment Five: "The bail-out bill was passed. A catastrophic crisis has been averted."
Comment Six: "See what the Republicans' deregulation has done?"
Comment Seven: "Congress can now fix the problem."

To which this writer responds:

Comment One: "Those greedy banks kept giving out more and more worthless mortgages."

Sure they did. If I could lend you money and make money on the loan, yet at the same time, have someone else pay off the loan if you defaulted, how could I not be greedy? Here are five interrelated examples:

Example One:
"Fannie Mae never actually made loans. It was essentially a mortgage insurance company, buying mortgages, keeping some but reselling most to investors and, for a fee, promising to pay off a loan if the borrower defaulted."[2]

Result: 1. Bank makes mortgage loan to prospective home owner.
2. Bank passes the mortgage to Fannie Mae who assumes risk for the loan.

[1] Spoken by New York Mayor Michael Blomberg about the mortgage crisis, during "Meet the Press," on October 28, 2008.
[2] Charles Duhigg, "Pressured to Take More Risk, Fannie Reached Tipping Point," *The New York Times*, October 5, 2008, pp. 1 and 30.

3. Debtor defaults on loan; bank doesn't care.

Example Two:
Then, there are the ***credit default swaps*** (red ink emphasized), parts of so-called derivatives that Warren Buffet warned (as far back as 2003) were, "weapons of financial mass destruction."[3] They represent the key to understanding the jam we are in. As best as I understand (many readers are more versed in this subject than I, and I look forward to your views):

"What the bankers (JPMorgan, in 1994) hit on was a sort of insurance policy: a third party (such as AIG) would assume the risk of the debt going sour, and in exchange would receive regular payments from the bank, similar to insurance premiums. The (banks) would then get to remove the risk from its books and free up (huge amounts of) capital in reserve to (make more loans)."[4]

Result:

1. Bank makes mortgage loan to prospective home owner.
2. Bank passes mortgage risk off to AIG; paying AIG a fee for a credit default swap.
3. AIG sells the credit default swap to, say, a foreign bank. (The bank gets a better interest rate than on Uncle Sam's Treasuries.)
4. One small problem: Credit default swaps are not insured and have no reserve capital backing them up.
5. Debtor defaults on loan; bank doesn't care, because bank no longer owns the loan.
6. Foreign bank comes back to AIG to be compensated for the sour loan.
7. AIG does not have sufficient funds to back up the credit default swaps.
8. Uncle Sam and the American taxpayer have to bail-out AIG.

According to an expert on "60 Minutes," if credit default swaps had been called by a title with "insurance" in the name, they would have been regulated and subject to capital reserve requirements.[5] (For example, all states require a specific amount of capital be guaranteed for failed insurance companies. In my state, Idaho, the maximum is $300,000 per person.) The expert said "swaps" are not regulated by the federal government.

Example Three:
Around 1997, in one of the early credit default swaps, JPMorgan packaged loans, cut them into pieces, identified the *riskiest* 10% of them and sold them to investors (the so-called Bistro (Broad Index Securitized Trust Offering)).[6] Guess who bought these risky packages? Insurance companies and pension funds; perhaps your 401(K) company.

[3] Andy Serwer and Allan Sloan, "The Price of Greed," *Time*, September 29, 2008, pp 35-37.
[4] Matthew Philips, "The Monster that Ate Wall Street," *Newsweek*, October 6, 2008, pp 46-47..
[5] "60 Minutes," CBS, October 5, 2008.
[6] Philips, ibid., p. 46

As JPMorgan's Terri Duhon bragged, "We made it possible for banks to get their credit risks off their books and into nonfinancial institutions like insurance companies and pension funds."[7] How benevolent.

Hmm. Duhon is using the pronoun "their." She's a banker. Let's alter her statement to reflect these facts, "We made it possible for *our* bank to get *our* credit risks off *our* books and into nonfinancial institutions like insurance companies and pension funds." It doesn't sound quite as benevolent now. Sounds like a capitalist at work; an unregulated capitalist.

Result: 1. Bank makes risky mortgage loans to home owners.
2. Bank sells risky (sub-prime) mortgages to (say) your 401(K) company who assumes the risk for the loan. But don't be concerned. Your company buys insurance (credit default swaps) on these loans from an insurace firm.
3. The debtor defaults on loan; the bank doesn't care because it no longer holds the loan.
4. Your 401(K) company holds the loan and thinks it has credit default swaps to back up the sour loan. It does, but because credit default swaps are not regulated they have no capital reserves behind them. In other words, they have no money to back them up.
5. Uh oh. The insurance company has insured too many bad loans. It can't meet the calls for all of the mortgage defaults that it has insured.
6. Damn! Your 401(K) contains all those loans that were supposed to be insured. And they are, but the insurance company has insured too many bad loans. Your 401(K) tanks. Sorry,…go back to work. And see Example Four:

Example Four:
The housing boom came. The Federal Reserve kept dropping interest rates and Americans started buying homes at record numbers:

1. Home prices kept going up.
2. Banks (and other home mortgage lenders) were motivated to lend more money for mortgages because they were not culpable for bad loans if the loans were backed by credit default swaps.
3. More prospective home buyers entered the market, and the lending institutions---suffused with greed, hubris, and ignorance of the real-estate cycle---dropped their thresholds for (a) getting a loan and (b) making the conventional 20% deposit. (Some new owners put down almost nothing).
4. Success breeds success, but the banks were running out of people to whom they could lend money. Solution? Lend to more risky individuals, to the less than prime part of the population: Now known as the subprime market. By 2006, subprime mortgages totaled $600 billion, about 1/5 of the home loan market.[8]
5. In other words, a substantial part of the home mortgage market was financed for people who most likely could not pay for the loan, if the slightest downward blip occurred on their income curve. What was that blip? One (among other variations) was the 2-28 loan.

[7] Philips, ibid., p. 46.
[8] Wikipedia. Key in "Subprime Market."

It offered a low initial interest rate that was fixed for 2 years. The loan was then reset to a higher adjustable rate for the remaining life of the loan: 28 years. Joe and Josephine Six-Pack (as Sarah affectingly calls them), forgot to read the fine print in the mortgage contract.

6. With any boom, speculators abound. The housing boom was no exception. Speculators would find a pliable loan institution and get a loan for a house. They would buy it, and turn it around in a few days or weeks for a handsome profit. They had very little invested and reaped huge gains. When the collapse came, they walked away from what real-estate they had; they already had made their nest egg.

Example Five:
As the market heated up, mortgages were pooled together, sliced and diced into bonds, and sold to, well just about everyone, banks, insurance companies, pension funds, your 401(K) company, etc. These mortgages were placed in ***mortgage backed securities*** (red ink emphasized). They were bought by the millions by investors. **Credit default swaps** were taken out on ***mortgage backed securities*** to protect against defaults.

Thus, the mortgage backed securities were backed by (a) mortgaged-to-the-hilt home owners, (b) flaky speculators, and (c) capital-starved, non-insured credit default swaps.

Comment Two: "Consumers were snookered into loans for houses they couldn't afford."

Yes and no. During the subprime boom, subprime lending companies advertised widely, offering to help practically anyone buy a home. Billboards. TV spots. Newspaper ads. All of them promised the ultimate home. Just another (but expensive) materialistic extension of our self-image and our self-worth.

As described earlier, the lending institutions did not have to carry the burden of the loans they made. They were passed to Fannie or Freddie, or otherwise "insured" with credit default swaps and/or mortgage backed securities.

At the risk of dwelling on an old man's past experience, permit a brief diversion. In my youth, I took out a college loan from the Lovington National Bank. Here was the transaction, roughly paraphrased:

- Bank President Mr. Jones, "OK, no need for paperwork. We know you and your family. The question is, when can you pay back the loan?"
- Your future Reporter, "One way or another, Mr. Jones, I'll have the loan and interest paid back by a year after I graduate."
- Mr. Jones, "Fine. Sign the contract (one page), and take this slip to the teller. She'll write you a check."

I got the loan. The loan stayed at the Lovington National Bank. It was not sliced-and-diced; nor guaranteed with nonexistent reserves; nor backed with mortgage securities; nor backed with mortgage securities backed with nonexistent reserves; nor backed with bonds that were based on the 10% riskiest loans in New Mexico.

The loan was not going anywhere; nor was the debtor. I knew the bank. The bank knew me. In no way would I not honor this loan. To have defaulted would have been a disgrace to my family and me. The bank had a similar loyalty. It was staying put. No mergers in those days.

What's changed?

First, today, a mortgage debtor has no personal loyalty to a bank. Nor does the bank have a loyalty to a debtor. In times past, and as a general statement, as long as a person had a penny in his or her pocket, he or she would never default on a loan. I think the vast majority of homeowners today fit this mold. But the personal relationship of the home-town bank with its depositor has been sliced and diced to the point where personal responsibility is no longer part of the relationship. Does this matter? I think it does. It has led to a loan culture in which the lender and borrower have no mutual, ethical obligations. A loan should be a very personal contract. In today's culture, it often is not.

Second, the last four decades of mergers and acquisitions have led to the anti-capitalistic notion that capitalistic institutions are too big to be allowed to fail. I don't pretend to know the economic rationale for the trend toward "bigness." I'm told it deals with economies of scale; that the larger the institution, the better this institution uses its resources. Thus, the better its stockholders reap their rewards.

Again, and admittedly, I'm out of my element here, but I've wondered to whose benefit goes "bigness?" With each merger---as Crestor Bank becomes American Bank, which becomes SunTrust Bank, I notice no difference except ordering new checks.

Yet, with each merger we Americans lose one more choice. Today, there is less competition in the marketplace than ever before. I'm not speaking of just banks. Look around you. A McDonald's at every other corner, interspersed with a Taco Bell. When will Walmart become too big to fail?

The irony of the situation is stunning: We've allowed our institutions to merge and become so big, all in the name of being more competitive, that we're now told we can't afford for them to fail. This great country as morphed from a land where we prided ourselves in "privatizing profits and privatizing losses" to a country where we now are "privatizing profits and socializing losses."

What is particularly ironic is that the heart and soul of America, small businesses, are not too big to fail. Many of them will fail these next few months, but not because they are failures. They will close because of the failure of our regulators to regulate.

What happened? Credit default swaps, mortgage backed securities, and bigness happened. That old saw, "You made your bed, you lie in it," no longer holds. We've become too big to fail: "You make your bed, the government will change the sheets for you to lie in it." And we taxpayers will pay for the sheets.

Lehman Brothers was not big enough to count. Uncle Sam let the company go down the tubes. On the other hand AIG was too big to fail. And Freddie and Fannie? Many of their guaranteed mortgages had been bought by foreign central banks. These banks liked the slightly higher interest rates than U.S. Treasuries. Uncle Sam had to bail-out Freddie and Fannie to keep the foreign countries spending their money to fund America's trade and budget deficits.

Subprime is not for prime borrowers. I've been living in La-La Land regarding the subprime market. When I first heard the word, I thought it referred to a market in which solid companies or families obtained a loan at a rate less than the prime rate. (This term used to refer to an interest rate given to "prime" customers, favored because of their high credibility.) Then, I learned the term referred to customers that were---not prime at all---but quite risky. I said to myself, "OK, that's probably not a bad idea. Just ask for a big down payment, say 30%, and a default will be unlikely."

Sure, and 20% has been the traditional down payment. Things have changed: One of my acquaintances at the gym told me his nephew secured a mortgage loan with a substandard credit rating with only a 3% down payment. I'm not an economist, but during my days at the Federal Reserve, I attended the Stonier Graduate School of Banking. During this training, we were told: *Make certain the borrower has a stake in the loan*. In other words, demand a high down payment. In addition to the "stake," the resultant loan will have lower monthly payments for the payer.

I'm dumbfounded that a huge part of America's vital mortgage industry is founded on the very premise that those loans are at risk, yet the down payments were less than 5%. Around 20% of the market is subprime.

It gets worse:

Inflation and variable rates. The situation can become intolerable for a subprime home owner. He or she is already strapped. The "sub" is in the name for a good reason. After, say, two years, the artificially low interest rate becomes a variable rate, subject to inflation (indexed to various banking rates). The lower rate is for 2 years. The new rate (higher) is for the remaining 28 years.

Yet, all concerned---bankers, insurance companies, Fannie, Freddie, borrowers, real estate brokers---brought into this Ponzi scheme.

Responsibility of individuals and responsibility to individuals. In the final analysis, it is the responsibility of the person taking out the loan to understand the concept behind the monthly loan payment. The old saying, "You make your bed, you lie in it," is a wise way to approach taking out a loan.

On the other hand, if Sarah Palin's Joe Six-Pack loses his job, and can't find another, I'm in favor helping Joe keep his house. I admit I have a problem with this last statement. Personal responsibility, as well as good and bad luck, is part of the human equation. I pay my debts. You pay yours. I lose my job, that's not your problem. You lose your job, that's not my problem.

But my attitudes toward Joe Six-Pack's plights have changed. It is not possible to place all the nuances of capitalism, globalization, and NAFTA up to Joe's front porch, and declare, "Here you go Joe. We moved your job to South Korea. Life is tough. Need a home? Sure you do; it's the

American dream. Here's the deal. You're damn near broke. OK, no-down payment. For the first couple years, we start you off with an artificially low mortgage payment. Then it balloons past your ability to pay for it. We care less. We've sold your loan, along with our 10% riskiest loans to someone else."

Make no mistake, Joe's creditors understand. They know about it all. In the past, Joe's creditors would deny Joe's loan. After all, it was not just institutional benevolence (a contradiction in terms), it dealt with the recognition that they did not want to be saddled with an empty house. In the past they said to Joe, "No way Joe. We can't take the risk."

We all believe in personal responsibility. But responsibility is a two-way street. Business responsibility entails doing a deal of *value for value*. Once the value for value equation becomes lopsided, one of the parties will opt out of the redefined *value for no-value* reality.

Comment Three: "Americans are sick of rich CEOs making millions on their mistakes."

Two senior officers at Fannie Mae, Franklin D. Raines and J. Timothy Howard, helped this institution (between 2001-2004) increase their investment in the subprime market from $160 billion to $540 billion. Amid increasing concerns from competitors and rumors that Fannie was doing some book-cooking, these guys resigned. Between 1998-2004, Mr. Raines received about $90 million; Mr. Howard received about $30.8 million. Last I heard, these stalwarts of the Peter Principle still had this money in their (insured, ha) bank accounts.

Dick Fuld, CEO of Lehman Brothers, made $490 million in stock options. To keep profits growing….as well as Fuld's stock options…Lehman Brothers borrowed to such an extent that its debts were 35 times its capital, much higher than its peers. Many of Lehman Brothers' employees were "financially eviscerated" when the firm went under. But not Fuld.[9]

And so on. Every day, we read about millions of dollars paid out to officers in publically-held companies for average or below average performance. I emphasize publically-held enterprises. If you are in a private company, and you make a lot of money, great.

On the other hand, it seems perverse for senior officers at public companies to rake-in millions of dollars while their employees and stockholders rake-in nothing.

Meanwhile, Sarah's Joe Six-Pack and Uyless' Joe Citizen end up with the shaft. Same for the Enron and WorldCom employees. The situation almost has me in favor of unions making a comeback.

Comment Four: "Frannie and Freddie are as bad as the banks."

Yes and no. Let's look at the facts:[10]

[9] Andy Serwer and Allan Sloan, ibid., pp 35-37.
[10] Sourced from Duhigg, ibid., p.30.

During the home mortgage boom, Fannie Mae came under pressure to buy more subprime (riskier) loans from the financial institutions that were making the loans in the first place. If Fannie did not take on these loans, these institutions threatened to “sell” them to someone else.

Congress put on the pressure to make more loans. It was immense pressure, and is covered in comments five and six.

Some of Fannie Mae’s shareholders were livid. They lobbied the company was not taking enough gambles in chasing profits: To Fannie Mae, “Are you stupid or blind?”…..”Your job is to make me money!”

Fannie Mae’s culture was to serve America’s borrowers. So, during 2005-2007, the company tripled its acquisition of mortgages with down payments of less than 10%.

The senior man at Fannie Mae, Daniel H. Mudd, was warned by some of this staff that the market had overheated and a bubble had formed. Fine, but Mr. Mudd was still being pressured by the marketplace (including foreign banks), the shareholders, and Congress to take more risks.

Mr. Mudd says it was impossible to foresee problems because Fannie only interacted with lenders and not borrowers. (An Ostrich with its head in the sand.)

Sidebar: The Pyramid Scheme.

Easy mortgage loans led to a demand for more *new* homes; which led to pressures to grant more easy loans. Which also led to a demand for *bigger* homes. After all, why build *low-scale* affordable homes, when *high-scale* homes were also affordable? (Even though they were not really affordable.) As the housing bubble began to grow, so did the size of the homes, some resembling a miniature pyramid. All part of a Ponzi, pyramid scheme.

Comment Five: “The bail-out bill was passed. A catastrophic crisis has been averted.”

Not averted. Only delayed. No one knows the amount of credit default swaps that are sulking about in the shadows. The commentator on “60 Minutes” cited a figure between $50 – 60 trillion. The current national debt is about $10 trillion (and increasing about $3 billion a day). If this estimate is correct, we must eventually find out how much of that $50 – 60 billion is “toxic.”

The $700 billion “bail-out” might be putting a band-aid on a severed limb.

Comment Six: “See what the Republicans’ deregulation has done?”

The old saying, “Capital markets regulate themselves” is nonsense. They can’t regulate themselves because they are made up of humans. By that very fact, they lean toward Darwinian success and it doesn’t matter how the success is attained; just as long as it is attained.

The problems were created by both Democrats and Republicans. Regardless of the party in power, there is a loophole in the law, a human will find it.

- "Let's call them Credit Default Insurance."
- "Naw, then they'll come under the law. Let's call them Credit Default Swaps."
- "Yeah! That way, we're under the radar."
- "Sure, and who cares if we pass billions of dollars of risk away from ourselves and onto someone even more greedy than us."
- "Yo bro! Pass the Champagne!"

Don't forget the Law of the Lag Effect: *It takes a while after something happens to show it happened.* You know, things like pregnancy, AIDs, a hang-over, and legislative ineptitude. Those dates when non-regulated credit default swaps passed muster with Uncle Sam did not take place during the Republicans' watch. They took place during the Clinton year. So, Ms. Pelosi, cut the partisan BS about Bush being asleep at the wheel.

During Mr. Mudd's tenure at Fannie Mae:[11]

- "Lawmakers, particularly Democrats, leaned on Fannie and Freddie to buy and hold those troubled debts."

- And this from the man who was a key player in the bail-out, Chairman of the House Financial Services Committee, Barney Frank, " 'I'm not worried about Fannie and Freddie's health, I'm worried that they won't do enough to help out the economy. That's why I've supported them all these years---so they can help out at a time like this."

I'm not a fan of Bill O'Rielly and the rest of his superficial, bombastic ilk (right or left). But last week, he was on the mark on his show when he shouted to Barney that the Congressman was incompetent and should be fired. Frank shouted back that he would not back down. Bill shouted back something that I couldn't hear because Frank was also shouting.

Incompetency? I think so. But not everyone agrees. On the "60 Minutes" program cited earlier, one of the nation's top financial CEOs, Robert Pickel (of the International Swaps and Derivative Association (ISDA)) responded that nothing was wrong with credit default swaps; that the problem was with the underlying mortgage-backed securities.

What? Mr. Pickel, those credit default swaps have no capital reserve behind them. I watched you contemplate Mr. Kroft's questions (the "60 Minutes" commentator) and then respond to them. Let's replay part of your interview with Mr. Kroft:

> ISDA's CEO, Robert Pickel, says there is nothing wrong with credit default swaps, and that the problem was with underlying mortgage securities.
>
> "Well, there's clearly something wrong with the system if all of these leveraged bets, hidden leveraged bets, caused a collapse in the financial system," Kroft remarks.
>
> "It is something that we all need to look at and learn lessons from. And we all need

[11] Duhigg, ibid., p. 30.

to work together to understand that and design a structure in the future that works more effectively," Pickel says.

"My point is, the people that made these mistakes are the people you represent in your organization. And many of them sit on the board. I mean, if they didn't get it right, who would?" Kroft asks.

"These people understand the nature of these products. They understand the risks," Pickel replies.

"Well…they didn't or they wouldn't have bought them. They wouldn't have used them," Kroft says.

"These are very useful transactions. And the people do understand the nature of the risk that they're entering into…but I'm not sure that…," Pickel says.
(Reporter: $50-60 trillion worth of "useful" transactions; none insured; none regulated.)

"Useful?" Kroft interrupts. "How come they brought down the financial system?"

"Because, perhaps they didn't understand the underlying risk, and nobody really saw the effects that were going to flow through from the subprime lending situation," Pickel says.

(Reporter:"Subprime" is called "subprime" for a very good reason. And don't forget, much this slicing-and-dicing was done on the riskiest loans which were graded as high quality by the rating agencies. Yep, Moody's and others told us this shit was solid. Yeah, solid waste. These people should be in prison.)

I think it was LBJ who said, "I know the difference between chicken shit and chicken salad." Mr. Pickel, you fit the former category.

Comment Seven: "Congress can now fix the problem."

Other than in a crisis-mode and superficial manner, I have lost confidence in Congress to fix any significant problem in this country. I'm not being negative for the sake of being negative. I'm actually a rather positive person.

Our founding fathers counted on "deadlock" to preserve what had been created in the past. They did not trust the wisdom of their successors to make things better.

But after a while, it becomes obvious to even a casual observer, that while our country's financial fabric is falling apart. Our leaders are focused on debating issues such as naming post offices, and getting elected again.

If Bill O'Reilly is correct about Barney Frank being incompetent and should therefore be fired, Bill will be disappointed. Our Congress people have managed to build-in tenure to their jobs. Of the 535 House seats in contest this fall, "60 Minutes" said roughly 50 of them were up for meaningful competition.

In previous essays, I made the claim that our country is in deep financial trouble. The mortgage crisis is another nail in our coffin. We're running out of time to fix ourselves. Meanwhile, Congress is deadlocked by ideologies reflected by their constituents in their gerrymandered voting districts.

I've also come to believe that in the past two decades or so, gerrymandering has had the effect of undermining the premise of our Republic. A *republic* has people elect representatives to exercise power for them. Gerrymandering is having the opposite effect: It results in *only* selected people of a House of Representative's constituency being represented. The others are ignored.

Regardless of the abstract theory about the idea, gerrymandering is favoring selected constituents in the full voting constituency. This situation doesn't reflect the premise of a republic. It has lead to "safe seats" in many of the House seats.

If gerrymandering somehow kept voting competitive, it would not be so onerous. But it does not, and it is.

I've also come to believe that gerrymandering is undermining the premise of our Democracy. A *democracy* permits the equal right of *every* person to participate in government, usually by electing representatives to represent the majority of those people. Gerrymandering does not give every person that equal right.

It is also undermining the principle of democratic accountability. The country is so "gerrymandered" that Congress people don't even bother to explain their earmarks. They simply say that yes, they are voting on bridges to nowhere in their district. If we don't like it, tough! The voters in the district do.

America Needs Some Repairs, but They Can be Done

Are we at the tail-end of our forefathers' ideas about republicanism and democracy? I say no, but we are in need of major repairs. Further, is this "bail-out" a signal that America's capitalistic, republican democracy is at an end? I say no, but we are in need of major repairs.

Regardless of the structure of our country; regardless of whose fault it is that things went amiss, it sometimes becomes necessary for the government to step-in, to bail out agencies and agents who have slid under our regulated, capitalistic fence.

We are not alone in this regard. Since 1991, the governments of Finland, Sweden, Mexico, Japan, and South Korea have had to "bail-out" various incompetents and never-to-wells in order to save the economic infrastructure of their countries. In Japan's situation (1997), the bail-out cost was 24% of the country's GDP. Thus far, America's bail out is "only" about 6% of our GDP.[12]

[12] "Briefing: America's Bail-out Plan", *The Economist*, September 27, 2008, p. 83.

In the final analysis, it is a matter of, “We must hold our noses while the medicine is administered.” I only hope our leaders understand which part of America’s body they must shove the needle.

Patriotism…again

Obviously…if you’re still awake…you know I’m raising serious issues in this report. As stated in previous essays, America is drifting into fissures that cannot easily be mended.

In making these criticisms, Sarah Palin might brand me as unpatriotic. I disagree. My country is dear to me. I know enough to understand that America is an ongoing experiment. Contrary to past attempts of governing in the world, the United States is still an admirable model. But we are on the wrong course.

Anon and Econ 101 offer this piece of advice: “A regulator should not allow banks to lend to anyone if the bank has no assumption of risk.”

Else, greed will prevail and the lender will lend recklessly. The borrower might default, without consequence to the lender. Who loses? Whomever assumed the risk of the loan in the first place. Who is that? As of this writing, it is you and me, the American taxpayer.

Your on the Street Reporter