

(October 10, 2008) Southwest News Herald: Lipinski Votes No on Second "Bailout" Bill

By DERMOT CONNOLLY

Following the Senate's approval, the House of Representatives last Friday passed by a vote of 263-171 a reworked version of the so-called Wall Street bailout bill aimed at addressing the national financial crisis after defeating the original version on Sept. 29.

But while congressmen such as Bobby Rush (D-1st) and Jesse Jackson Jr. (D-2nd) voted against the first version but in favor of the second, Cong. Dan Lipinski (D-3rd) was the only area Democrat to oppose both. Cong. Luis Gutierrez (D-4th) voted "yes" both times.

President Bush quickly signed the bill into law, but leading economic indicators such as the Dow Jones Industrial Average did not show signs of a quick recovery earlier this week.

In a statement issued following the vote on the legislation officially known as H.R. 1424, Lipinski said, "I cast this vote regrettably because I believe that we should be doing more to stabilize the credit markets so that small businesses and all Americans are not hurt by tightening credit.

"But it is more important to do the right thing than just doing something, especially when that something will cost the average American family of four more than \$11,000."

He said more than 400 economists, including Nobel Prize winners, have said this is the wrong course of action.

Lipinski maintained that the bill, titled the Emergency Economic Stabilization Act of 2008, has grown in size and scope, from \$700 billion to \$850 billion.

"From three pages to 110 pages to over 3,450 pages to legislation, this bill proves the old adage still holds true: Bigger isn't necessarily better," said Lipinski.

He said the Senate did not close the loopholes he opposed in the original version, and instead "simply added more problems to the bill."

Lipinski said he supported some of the new legislation tacked on to the bill, but thought it was fiscally irresponsible for the Senate to add them to the bailout bill.

"They are not paid for and they will bust the bank." Lipinski said.

The pros and cons of the bill were discussed at the United Business Association of Midway meeting on Wednesday, when guest speaker Alex Voorman, a policy analyst for the National Taxpayers United of Illinois, explained how the

financial crisis came about and his organization's thinking on it.

"The official policy of my organization is to oppose the bailout," said Voorman.

"It is my organization's belief that nothing should be done," he added, explaining the theory that the economy would eventually right itself when banks in default are bought by financially stable ones.

"This whole thing has the stink of socialism that nobody likes," Voorman said.

However, he added that he could see why the government felt the need to step in and do something to prevent an economic collapse.

But rather than using the \$700 billion to simply bail out banks by taking worthless mortgages off their hands, and not having any oversight, Voorman said there is a "stock injection plan" component of the bill that should be used.

He said that the stock injection would give the government, and thereby taxpayers, some oversight and a stake in banks that were bailed out.

"This is better than just cutting back on severance pay (for Wall Street executives)," he said.

Otherwise, he said the government runs the risk of "buying up \$700 billion in worthless junk" and not seeing any return.

Voorman traced the roots of the financial crisis back to 1977, when the Community Reinvestment Act went into effect.

He said that despite the noble motives of the legislation aimed at helping low- and middle-income people purchase homes, it allowed predatory lenders to give mortgages to people unable to afford homes.

"The CRA definitely needs to at least be reformed," he said.

Voorman said the problem was compounded in 1998 when Alan Greenspan, as chairman of the Federal Reserve, lowered the interest rate on U.S. Treasury bonds to 1 percent, which encouraged financial services companies to invest in mortgages because the return was between 4 and 7 percent.

As Voorman explained, good mortgages were bundled with bad ones and then sliced up and sold and resold so many times that no one really knows how many bad mortgages are out there.

"This is one time when regulation may have been helpful," he said, asserting that there could be trillions of dollars in

unrecoverable mortgages floating around.

Lipinski, in his statement, hit on many of the same points, saying that 3rd District residents "pay their bills, pay their taxes and try to do the right thing," and they and other Americans should not be "called upon to pay for these terrible decisions and irresponsible behavior" of "multimillionaire executives on Wall Street who created a system of risky financial instruments and made millions of dollars."

"The system is broke. The regulations are faulty. The loopholes are many. What's to prevent this from happening again? We need to completely revamp and overhaul the regulatory system that governs the financial industry. Without real reform, we will only be throwing good money after bad," said Lipinski.

State Sen. Martin Sandoval (D-12th), chairman of the Commerce and Economic Development Committee, also weighed in on the federal legislation, expressing the belief that it "is not enough to save jobs, help homeowners avoid foreclosures and restore credit to consumers."

"It is evident that HB 4050 that House Speaker Michael Madigan and I sponsored, and which Gov. Blagojevich suspended, was ahead of this crisis," he said, asserting that the pilot program that mandated credit counseling for homebuyers in certain circumstances "would have protected many of our neighborhoods on the Southwest Side of Chicago."

Sandoval called the bailout "a small bandage on an enormous bleeding gash. What Congress approved...is not a permanent solution. Our economy is still hurting and further action is needed."

It is "outrageous" that it is even needed, he added.

The bill does include some measures aimed at reassuring the private sector, such as raising the amount the FDIC will insure in bank accounts to \$250,000, up from \$100,000.

It also asks federal agencies to encourage loan servicers to modify mortgages in ways such as reducing the principal or interest rate.

And it also extends a temporary provision that exempts from federal income tax any debt forgiven by a bank to a borrower in a foreclosure.

While Voorman said there is a chance the bailout won't work, Walter Mahala, a UBAM board member and official with Midwest Bank, which is in good financial standing, said he preferred to think optimistically.

"Something similar was done in Sweden in the 1990s, and it worked well," he noted.

Anita Cummings, executive director of UBAM, said the feeling among the group is that the stock injection program Voorman spoke of would be the best way to handle the bailout because it gives the government some oversight.

"That just seems like the only way to do it. Accountability is what business people and taxpayers like to see. That would be a positive step. Otherwise, the trust factor just is not there anymore," she said.