

Yankee Steve's Column
for the Week of July 22, 2010

Black Hole

Congress has just passed a Financial Reform Bill. President Barack Obama with pomp and ritual signed it into law today. It is Socialistic to the core. It makes the possibility of future bailouts a certainty.

The most important thing about it is that it does not address the real problem facing the economy, or what one economist calls America's black hole. I am referring of course to FANNIE MAE and FREDDIE MAC. These two institutions are poised to bring down our economy.

When Socialists come to power the government involves itself in things it does not fully comprehend nor can effectively manage. Case in point: Fannie Mae which had the full support of President Franklin Roosevelt in 1938 whose advisors, the so-called Brain Trust, was packed with Marxist/Socialists.

What are Fannie Mae and Freddie Mac? These are lending institutions which buy mortgages from other lending institutions. Here is how it works. Pretend that you own a bank. Someone comes to you to borrow money in order to buy a home. This should be the commencement of a relationship lasting in most cases from 15-30 years or by all accounts, no less than five years at least. In other words the bank should have what has been called "skin in the game," so that if the lender defaults the bank will take a hit. That will mean that the bank for its own safety will need to carefully consider the customer in order to determine whether he or she is a good risk for a loan.

Now what would you do if the potential customer was not employed? Or what would you do if the party in question didn't have enough for a down payment? Would you finalize the loan? You would if Fannie Mae had been told by the government to buy that loan from you. Why not? You have heard of house-flipping; this is mortgage-flipping.

But who takes care of Fannie Mae when the loan defaults? We will, the taxpayers, and why, because the government has gone into the mortgage business, a business it does not understand. If it had a handle on the loan business, Rep. Barney Frank [D-MA] would not head up the committee that oversees Fannie and Freddie. Frank is an incompetent by any standard. Apparently the U.S. Congress suffers fools gladly.

FDR is long gone. Enter President George W. Bush. America once again took a step in the direction of Socialism when W instructed his henchman Henry M. Paulson, Jr. to take over Fannie and Freddie. Under the euphemism of conservatorship these two giants were for all

intents and purposes seized by the government, which is another way of saying that they were **nationalized**. What the government backs, it owns, right?

The reason for this move was apparent. Fannie and Freddie had been cooking the books. Its bosses had overstated what capital they had on hand. Foreign investors grew concerned that the companies' debts might not be repaid. Something had to be done, so the government called in the cavalry! It asked taxpayers to overlook the way Fannie and Freddie had done business. We the people coughed up no less than \$200 billion. And what else did the government do, why in February of 2008 it eased restrictions on lending for Freddie and Fannie compounding problems.

So where do we go from here? We will not see the end of this for some time to come. My guess is that the taxpayer will, after all is said and done, be liable for between \$2 and \$4 trillion.

A tsunami of debt is headed in our direction which may in fact sink the ship of state. Fannie and Freddie caused the present economic crisis and they will worsen it in the future, and you can take that to the bank.

Ever yours,

Yankee Steve Cakouros

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