

October 21, 2008

Mrs. Lena XXXXXX
XXXXXXX
XXXX, Oklahoma XXXX

Dear Mrs. XXXX,

Thank you for contacting me about the economic stabilization legislation recently passed into law. As you can imagine, I have received a large volume of letters and calls and look forward to having a chance to respond. I appreciate the valuable input I have received over the past several weeks from my fellow Oklahomans on this issue.

After hearing the concerns of my fellow Oklahomans who were angry and suspicious of this proposal and the anxiety of other Oklahomans who were concerned about the consequences of failing to pass this recovery bill, I struggled with what was best both for taxpayers and the economic future of our nation, our children, and our grandchildren. After much consultation and consideration, I decided to vote for the plan.

Our country finds itself in the midst of difficult economic circumstances due to tremendous strain on worldwide financial markets. I believe the challenges created by this situation are so great that failure to address them could spill over into the broader economy and negatively affect every American.

In recent months, the Treasury Department and the Federal Reserve have attempted to address the situation through arrangements with Bear Stearns, insurer AIG, and Fannie Mae and Freddie Mac. While many Oklahomans are rightly uncomfortable with bailing out large banks and corporations at the expense of taxpayers, the purpose of the legislation was to protect ordinary Americans and not Wall Street executives. The economic stabilization bill addresses a different problem in a different way, and is just a set of tools that can prevent a worsening crisis for Oklahoma citizens.

As a staunch advocate for free enterprise and the elimination of wasteful government spending, many have wondered why I chose to support this legislation. To answer that question, it is important to know how we have gotten to this point.

Plummeting home values have left many homeowners with mortgages that exceed the market value of their homes, making it uneconomical for them to sell and making it impossible to refinance their adjustable rate mortgages into more affordable loans. As a result, many people have become delinquent on their mortgages and, in many cases, have entered foreclosure.

The financial institutions holding those troubled mortgages have, in turn, found themselves unable to collect on those mortgages or resell them to other investors. Because these assets cannot be liquidated, the banks holding them have significantly cut back on the amount of money they lend as they try to preserve their capital. This in turn is severely restricting the amount of money that Americans can borrow.

Families and businesses alike rely heavily on financial markets. Families borrow to purchase cars, appliances, furniture, and other consumer items. Businesses borrow for various essential reasons as well-for everything from overcoming short-term cash flow problems to investing in new equipment or new ideas. A collapse of the financial markets would prevent consumers and businesses from getting the funds they need to consume and invest-undermining two key drivers of the U.S. economy.

What is missing from this account is the role Congress played in creating these economic troubles in the first place. For years, Congress pursued "affordable housing" policies with the goal of providing loans (subprime loans) to borrowers that could not pay them back. Fannie Mae and Freddie Mac - companies chartered by Congress - encouraged banks to make subprime loans by purchasing the loans from banks and turning them into investments. Investors believed that the mortgage-backed investments were a safe investment because of the implied backing of the federal government and purchased them in great amounts.

These policies, along with low interest rates, pushed housing prices artificially high and created the often discussed housing price bubble that could not be sustained in the long run. Once the housing bubble burst and prices declined, investors were left with mortgage-backed investments that were worth less than their face value, and because of an accounting rule (mark to market) financial institutions had to value them far below their true value thus causing the banks to show much less capital than they actually have. The effect of these policies has been the crippling our country's financial system.

As much as members of Congress want to find scapegoats, the root of this problem is political greed. Members of Congress from both parties wanted short-term political credit for promoting home ownership even though they were putting our entire economy at risk by encouraging people to buy homes they couldn't afford. Then, instead of conducting thorough oversight and correcting obvious problems with unstable entities like Fannie Mae and Freddie Mac, members of Congress chose to ignore the problem and distract themselves with unprecedented amounts of pork-barrel spending.

If the American people are angry about the financial situation of this great country, there is only one place they need to direct their anger - the United States Congress. The economic recovery bill does not represent a new and sudden departure from free market principles as much as it represents an emergency response to congressional actions that have ignored free market principles, and our Constitution, for decades. If anyone in Washington should offer their resignation it should be the members of Congress who peddled the fantasy of free home ownership without risk. No institution in our country is more responsible for the myth of borrowing without consequences than the United States Congress.

In 2006, along with nineteen other Senators, I called for major regulatory reform with regard to Fannie Mae and Freddie Mac. We warned of the dangers of these laxly regulated entities, and the enormous risk they could pose to the housing market, the financial system, and the economy as a whole. Yet Congress failed to take any action and the problem grew worse until we have found ourselves faced with an imminent financial catastrophe.

Failure to act now could have devastating effects on our economy. If banks continue to fail and stop lending, many Americans could lose their job, be unable to secure a loan for a car, home or college education, and find their life savings and retirement in jeopardy. Our economy depends on having liquid assets available for credit and lending just as an automobile engine needs oil. If those liquid assets stop flowing, our economy will be seriously damaged and will require far more costly and lengthy repairs.

My first priority in the Senate is to protect the American taxpayer. The plan put forth by Treasury Secretary Paulson and the Bush Administration is not perfect, but I believe is the right action to take at this moment. Consequently, I worked with my colleagues in the Senate to secure the following key provisions to protect taxpayers in the final version of the economic rescue package:

- Reduces Taxpayer Exposure - Rather than a \$700 billion blank check, as requested by the Bush Administration, \$250 billion would be available immediately to the Treasury Secretary with stringent oversight. Any additional funds would require further Congressional approval.
- Wall Street Helps Bail Itself Out - Addresses the frozen assets clogging up the financial system.

Participating institutions holding these assets would pay the insurance premiums - in effect helping bail themselves out rather than rely on taxpayers' hard-earned money.

- Increased Oversight and Transparency - While the Paulson proposal explicitly removes any judicial oversight and lacks transparency provisions, the negotiated economic rescue package establishes a bipartisan oversight committee that requires honest and transparent reporting to Congress and the public. In addition, the programs will be monitored by a Special Inspector General, and reviewed and audited by the Government Accountability Office.
- Increased FDIC Insurance - FDIC insurance limits for bank accounts were increased from \$100,000 to \$250,000.

Taxpayers who want to ensure that this doesn't happen again should send a very clear message to Washington that it is time for Congress to live within its means and restore the principles of limited government, balanced budgets and free markets that made this country great. I will do everything in my power to ensure that this bill does not lead us down a slippery slope to European style socialism and slow economic growth. I will also promise taxpayers that I will do everything in my power to block what I expect will be hundreds of attempts by politicians in Washington to continue business-as-usual borrowing and spending in the next Congress.

In a time of crisis, American families have to make hard choices between budget priorities. So should Congress. If politicians want to create new programs they should eliminate duplicative programs or reduce funding for less important programs. The only way we can put this crisis behind us is for Congress to rejoin the real world of budget choices and consequences which, as we have seen in recent days, can be ignored for only so long.

Again, thank you for contacting me on this most important issue.

Sincerely, **A**

Tom A. Coburn, M.D.
United States Senator

TC: KAK