

# STIMULUS PLAN A SCAM TO BENEFIT THE RICH

By Sean Olender

Congress is about to sell us the biggest fraud in American history.

It's been highly touted as an economic stimulus bill that will help millions of Americans — and has the backing of both President Bush and House Speaker Nancy Pelosi. In the coming year, individuals would receive rebates of up to \$600 and families up to \$1,200. There are other goodies, too, including tax write-offs for small businesses and an expansion of the child tax credit.

But, as the old adage goes, nothing comes for free. As part of the bill, Congress is set to rush through an increase in the mortgage loan limits for Fannie Mae and Freddie Mac (and Federal Housing Admin-

## Higher loan limits will lead to Fannie Mae, Freddie Mac bailout

istration insurance, too) — from \$417,000 to \$729,750 — the first step toward a massive financial disaster in which taxpayers will end up paying through the nose.

Here's how we got to this point. Domestic and international investors hold hundreds of billions of dollars in bad debt, because U.S. investment houses sold them junk securities based on often fraudulent mortgages. Many of these mortgages were sold to unqualified buyers under terms that made widespread foreclosures a certainty once the housing market began to fall.

Investment banks and bond rating agencies sat down and tried to

figure out how to describe Americans with insufficient incomes and little for a down payment as great credit risks on loans too big for their incomes. The new rules focused on credit scores, because it was a good excuse to avoid looking at income and down payment, factors that would have restricted this moneymaking fiasco.

Now, thanks to Congress, junk bond investors will be able to pawn off their bad debt to Fannie and Freddie, instead of suing the big investment houses for ripping them off. This shift will certainly doom Fannie Mae and Freddie Mac, so don't be surprised if we, the taxpayers, have to bail out poor Fannie

and Freddie — to the tune of more than \$1 trillion.

Why more than \$1 trillion? If Goldman Sachs is correct in its recent projections that home prices in California are going to drop 35 to 40 percent, the state's losses alone would top \$2 trillion, because California has a disproportionate number of jumbo loans. The irony here is that the collapse in housing prices could make Fannie insolvent even without raising the loan limit. Increasing Fannie's limit is like going on a spending spree with your credit cards because you know you are going to file for bankruptcy in a few months. Only here the taxpayer is left hold-

ing the bag. Our children will pay interest on this debt in perpetuity. It is our debt. It is inescapable.

In the coming months, Fannie and Freddie will buy up mortgages based on old, fraudulent appraisals and on loans with bogus inflated incomes. Unfortunately, many of these loans will still default.

But that's just the start. Brace yourself for another wave of faxes, phone calls and junk mail urging you to refinance at only 1 percent. With zero new regulation, the same bad actors that caused this crisis can once again inflate property appraisals and begin a new cycle of fraud.

There are firms that rent assets

to people to help them fraudulently qualify for a mortgage — like loaning them money to keep in their bank account for a couple months so they can fool the lender with documented savings that evaporate the day after the mortgage is signed. Another popular ruse: The borrower pays an employer to pay him a lot of money in a fake job for a month or two so he can show a fat paycheck in his loan docs. Some real estate agents and mortgage brokers actually refer buyers to these services.

Contrary to popular myth, Fannie holds a lot of subprime debt, option ARM debt and other dodgy securities. Fannie and Freddie owned or guaranteed almost 45 percent of all mortgages in Amer-

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San Francisco Chronicle

## INSIGHT

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*When your house drops 20 percent in value, then it doesn't matter whether you're prime or subprime. It's better to walk away, even if you're wealthy.*

Jim Cramer,  
host of CNBC TV's "Mad Money"

SECTION  
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# PRIMARY VIEWS

Several dozen prominent Bay Area residents representing a wide variety of interests and political views were asked by The Chronicle to write about their choice for president. We asked: Why is your candidate the best person to lead the country now? What issues does your candidate address that are most important to you? Here are the responses we received. (Statements from those who supported John Edwards and Rudy Giuliani are not included, because those contenders are no longer in the race.)



# PRIMARY VIEWS



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## John Chambers

**Candidate: John McCain**

*John T. Chambers is chairman of the board and CEO of Cisco Systems, Inc.*

One of the many things I admire about Senator McCain is his ability to listen and to surround himself with people who complement his strengths and bring expertise to solving problems. That's what a president has to do and that's the kind of leadership we need for the future. John McCain has the experience and track record of advancing policies designed to drive economic growth, and to keep our state and nation at the forefront of innovation.

We need a leader who is able to bring

people together, who can collaborate with others and who can make decisions during periods both of rapid growth and challenging times.

There's no doubt Senator McCain is such a leader. He has the ability to listen, discuss and decide the toughest issues and challenges we, as a nation, face today and in the future.

That's why I'm such a strong supporter of John McCain and believe he will make an outstanding president of the United States.



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## Markos Kounalakis

**Candidate: Hillary Rodham Clinton**

*Markos Kounalakis is president and publisher of Washington Monthly magazine and washingtonmonthly.com; he co-anchors the weekly "Washington Monthly on the Radio" on XM Satellite Radio's POTUS '08 channel, and is married to Clinton supporter Eleni Tsakopoulos-Kounalakis (page E1).*

Imagine: A failed MBA president will likely be succeeded by the victor from a progressive "CEO" group ("Clinton, Edwards, Obama").

I am privileged to know all three, to have featured each one on the cover of my magazine, the Washington Monthly, and to have had all but Edwards to my home on multiple occasions. Though my magazine does not endorse candidates, in this election I am personally "Inclined to State."

Inclined. Despite my official nonpar-

a preference; in fact, the majority of us are really Democrats registering a soft protest of their party without punishing it at the polls.

This election has forced me to come out of the Decline to State closet and admit I'm for Hillary Rodham Clinton. My reason is simple: As a former foreign correspondent who covered wars and revolutions in Afghanistan, Eastern Europe and Central America, I am looking for the best commander in chief. Obama would do fine; Clinton

## Taxpayers will have to bail out bad loans

► **OLENDER**  
From Page E1

ica last year. BusinessWeek noted in 2007 that Fannie and Freddie have "moved more prominently into low-documentation loans, which require little or no proof of the borrower's income." Expansion of Fannie and Freddie's reckless lending is exactly what Congress wants because it's plausibly deniable. Teary-eyed lawmakers can take to the airwaves a year from now and declare: "We had no idea Fannie could go under, but we can't cut and run now. We have to bail out Fannie and Freddie for the good of America! It's going to be a tough slog, but you're getting used to those, no?"

Those same lawmakers won't mention the fact that they get paid far more by real estate lobbyists than they do from our Treasury.

I've spoken with borrowers who stopped making mortgage payments seven or more months ago. None has received a default notice. Defaults may be much higher than banks are letting on. The data lags are growing suspiciously long. Nobody knows what's going on. Seven months without making a single payment! Will Fannie guarantee those loans because they aren't in formal default yet? Nobody wants to know, because if they know, they might be called to testify next year. That's why lawmakers want to raise the limits now and ask questions later.

This shortsighted plan poses a terrible risk to every American taxpayer, especially retirees, because Social Security money will be needed to bail out Fannie and Freddie. And even if you live in high-priced San Francisco, Los Angeles or New York — and stand to benefit from the increased loan limit — this is a horrible fraud on you, too, because raising the limit to \$730,000 risks a systemic crisis that will cost far more than any temporary rebate check.



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... registered both as an Independent and Democrat in the past. I currently belong to the largest growing category of newly registered Californians — those who do not state or desire a party affiliation. That does not mean we don't have

would be better.

Clinton has built trusting relationships with the Pentagon brass and soldiers in the field, been a former president's trusted representative with foreign leaders overseas and done eight years of bipartisan Senate spade work. She is ready to lead.

## Craig Newmark

**Candidate: Barack Obama**

*Craig Newmark is founder of craigslist.org and serves as its customer service representative.*

I'm a nerd, not a wonk, but I've made a living in customer service for almost 13 years, and have worked with thousands of people at (virtual) street level.

Americans feel that we want to make things better and that we know how to do stuff, but that we have been disengaged, politically and morally, by the current administration. We need someone in the Oval Office who's more than a president; we need someone who's a genuine leader. We need someone to restore the values of fairness and equality to the American system, to reverse the administration's tilt toward the privileged few.

Many of the current candidates are genuinely qualified, but I feel we need someone who can lead

by example, to unify and bring us together to face the challenges headed our way. We need someone with whom we can make a difference. That rules out divisive partisanship and candidates who're surrounded by lobbyists and who were suckered into unfortunate events like the Iraq war.

I've heard Barack Obama speak and have seen and felt the effect he has on people. He's inspired me to step up a bunch of my personal efforts, including support for groups that honestly support the troops, such as Iraq and Afghanistan Veterans of America.

I am voting for Barack Obama because I believe he is that rarest of politicians, a genuine leader, and we sure need that now.

In support of the economic stimulus bill, Bush will have to face "working American families" and explain that some of their tax money is going to be spent guaranteeing \$730,000 mortgages on \$1 million homes. It's like some sort of upside-down communism where the poor pay the rich welfare. Why should taxes from families earning \$48,000 a year be used to support expensive mortgages in New York, Los Angeles and San Francisco? Welfare for the hungry and homeless is evil, but welfare for million-dollar homeowners facing a tough refi . . . well, that's called "helping the economy."

I can imagine the president's radio address playing in the heartland: "We have some families with million-dollar homes on the coasts who are really hurting and so we need you, the working families of America, to stand together with them and help them avoid the kind of home price depreciation that might leave them without a new Lexus for years."

I guess Congress' hope is that median-income families will be too busy using their rebates to buy much-needed groceries to notice that the rich folk are getting way with a new scam.

Several months ago, economist Nouriel Roubini of New York University's Stern School of Business suggested that the housing market has been effectively nationalized. At first it seemed crazy, but now it's fairly obvious. In August alone, Fannie and Freddie increased their loan portfolios by \$62 billion, and the Federal Home Loan Bank by \$110 billion. That total of \$172 billion would come to just over \$2 trillion annually — not much less than the entire federal budget.

Everyone seeking a loan, securitizing a mortgage, and buying or selling a mortgage security will now be dealing, in one way or another, with the U.S. government. This type of intervention is very expensive and will eat everything in its path, including Social Security.

If we're going to have a government-financed intervention, it should be to make sure that Social Security benefits go to those who paid for them, that the poor are fed and housed, or that the army of uninsured receive health benefits. If, as they say, we don't have enough money for those important things, then I think we don't have enough money to bail out banks and bond investors.

Don't let me down, my fellow Americans. Let's vote out anyone0 who dares to vote for this scam.

*Sean Olender is an attorney in San Mateo. Contact us at insight@sfchronicle.com.*

## Michael Chabon and Ayelet Waldman

**Candidate: Barack Obama**

*Novelists Michael Chabon and Ayelet Waldman live in Berkeley.*

Ayelet had known Barack Obama in law school, and we were both impressed by his keynote address at the 2004 Democratic convention, but what sold us on the man and his candidacy was, naturally, something that he wrote.

It was the passage in his book "The Audacity of Hope" in which he describes his impressions of the day that he was sworn in as a U.S. senator. The occasion was marked by an address by Sen. Robert Byrd of West Virginia, the longest-serving member of the U.S. Congress and a man generally regarded, in Obama's phrase, as "the very embodiment of the Senate, a living, breathing fragment of history."

Obama lays the scene — the splendor of the Old Senate Chamber, the story of Byrd's rise from tragedy and abject poverty to power and prestige. Obama takes time to recount and to admire Byrd's grasp of Senate history and protocol, the grandiloquence of his oratory. As Byrd rumbles on, the newly minted senator begins to hear the faint, distinct echoes of history itself, of the earliest days of the

Capitol and its great founders, a time when, as he says — it's really breathtaking — "neither I nor those who looked like me would have sat within these walls."

Because Byrd, Obama remembers, began his political career as a member of the Ku Klux Klan, as a Dixiecrat, and that history, along with the larger history of shame that encompassed it, is part of the story of America, of Byrd and Obama and all of us. "Senator Byrd's life," Obama writes, "— like most of ours — has been the struggle of warring impulses, a twining of darkness and light."

A twining of darkness and light. That phrase seemed to embody the heart of Barack Obama's vision of his own life, of the lives of ordinary people, of the life and history of America itself.

"The test of a first-rate intelligence," F. Scott Fitzgerald wrote, "is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function." We think of that line every time we hear somebody criticize Obama for lacking experience, for no one could possess a first-rate intelligence without



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benefit of hard-earned experience of the way darkness and light are forever entwined in a human life. But Obama's life, his work, his candidacy, all imply more than mere recognition, or even acceptance, of the tensions and the ambiguities, of the "opposed ideas" that make up and animate a human life. For Obama

the twining of darkness and light is a source of strength, of character, of reason for optimism even in times of hardship and despair.

That seems like something we might like to see in a president of the United States. And it certainly doesn't hurt that the man can really write