

An Alternative to the Bank Bailout Plan of 2008

The federal government has just given about \$129 billion to the top nine banks in the United States as part of Congress' recently announced \$800 billion bailout strategy. The actual amount of the bailout may exceed a trillion dollars. As part of the bailout, the government has promised to buy the bad nonperforming mortgages from the banks and institutional investors.

The purpose of the bailout, or so we have been told, is to shore up the capital requirements of the banks thereby allowing them to resume lending again. One of the problems with this strategy is that we are using public money to bailout private for profit institutions. When wealthy investors and shareholders of financial institutions make money, they get to keep it. When they lose money, they expect the federal government to use our tax dollars to bail them out. This is a great system if you are rich. It's capitalism if you make a profit and socialism if you lose money.

Another problem with this bailout plan is that the money comes with no strings attached. There is no requirement that the banks lend the money to businesses and individuals to prop up the economy, and there are no consequences if they don't. The banks can pretty much do whatever they wish with the money. Some are planning to use the funds to buy up smaller or financially weaker banks. There is no incentive to lend this money out to the people that really need it. Things have gotten so bad that Congress and the White House are starting to tell the banks not to hoard the money.

If I recall correctly, the purpose of the bailout was to protect the American economy by using our tax dollars. How has the bailout done that? There is no distribution of wealth, just a consolidation of wealth. How has the bailout helped the American homeowner keep their homes or to help prop up the economy?

I volunteer my alternative plan. Instead of spending hundreds of billions of dollars to buy up bad nonperforming loans from banks and institutional investors, why not give the money to reduce by 30% the debt linked to the American homeowner's primary residence, whether it be a mortgage or an equity line? The debt reduction would be available for people who still have their homes, but not for people who have already walked away from their properties.

The benefits of this plan would be immediately evident and far reaching. A 30% reduction in debt linked to their homes would reduce monthly debt service payments, create breathing room for the financially strapped homeowner, create or increase the equity in their homes so that either way there is more of an incentive for them to keep their homes. There would be less foreclosures. Public optimism would increase and the reduction of debt would give people an incentive to buy more thereby stimulating the economy further. This bailout plan would truly benefit the average American homeowner and the economy more than the current bailout of the wealthy shareholders and investors.

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