UNITED STATES SENATOR ★ SERVING THE CITIZENS OF IDAHO
LARRY CRAIG
NEWS RELEASE
HTTP://CRAIG.SENATE.GOV/PRESS/

For Immediate Release
September 26, 2008

Susan Irby (202) 224-8078
Will Hart (208) 342-7985

<u>What's At Stake With the Credit Crunch</u>
by Senator Larry Craig

A 41-year-old family-owned printing business was forced to shut its doors in March, leaving 19 workers unemployed, when its bank slashed its line of credit, forcing the company out of business.

A general store owner has had to cut his operating costs by shortening store hours and stopping the sale of fuel until he learns whether he'll receive a deferral on loan payments he needs to stay in business.

These folks and others on Main streets in Idaho are a long way from Wall Street, but they and their employees, customers and local governments were feeling the effects of the credit crunch long before this crisis exploded into the national news last week.

The National Small Business Association says 67 percent of business owners were affected by the credit crunch in August, up from 55 percent in February.

The problem stems from the collapse of the sub-prime home mortgage market in which financial institutions lent money to non-qualifying individuals to purchase homes at adjustable interest rates on the promise that buyers would profit when the homes' values continued rising. When home prices instead fell and interest rates rose, homeowners defaulted, leaving banks and other institutions holding so much bad debt, they no longer had the capital to loan money or stay in business.

If unchecked, the credit crisis trickling down to Main Street could impact a family's ability to obtain a mortgage to buy a home, or get a loan to purchase a car or send their children to college. It could devastate 401(k) funds and pensions.

On September 19, Treasury Secretary Hank Paulson proposed a rescue plan to have the federal government buy these mortgages from afflicted financial institutions, hold them until the market stabilizes and they regain most, if not all, of their original value, and then resell them to recoup the government's investment.

[MORE]

The plan is not to take over any companies, nor hand sums of money to company heads or their board of directors. The plan is for the federal government to purchase assets – homes – that these institutions are currently unable to sell, but which are preventing them from making good loans to keep small businesses across America in operation and to help families purchase homes, vehicles, and major appliances and plan for the needs of their children.

My conservative philosophy tells me that the federal government should not intervene in our open markets. And I abhor the thought of obligating hundreds of billions of tax dollars to clean up a mess caused by a few greedy players. But I have become convinced over this week that the failure to take any action whatsoever will be catastrophic to the economy and ultimately hurt vast numbers of innocent citizens.

If Americans are unable to obtain credit, many businesses could close and many individuals could be unemployed and homeless.

That said, to be acceptable, government action should make the protection of the taxpayer its priority. It should be limited and focused. If federal funds are invested, any monies from the sales of these mortgage assets should come back in full to the Treasury and not be diverted to Washington spending. There can be no compensation – no so-called golden parachutes – for the heads of the financial institutions which receive the taxpayers' rescue. And there must be some type of independent oversight board to monitor this plan and the Treasury's administration of it, all on behalf of the taxpayer.

This economic rescue plan, responding to what is a financial 9/11, could very well be the most important legislation I've had to consider in the 27 years I've served as your elected representative in Washington. I won't rush to judgment on your behalf, and I won't let Congress do so, either.

[30]