

AN ALTERNATIVE RESCUE PACKAGE

THERE IS ONE MEASURE THE FEDERAL GOVERNMENT CAN DO WHICH WOULD JUMP START THE HOUSING MARKET, PREVENT THOUSANDS OF FORECLOSURES AND STOP THE FINANCIAL MELTDOWN.

IF THE MORTGAGE RATES WERE TO BE CUT BY HALF; SAY FROM THE CURRENT LEVEL OF ABOUT 6% TO 3% SUDDENLY HOME BUYING WILL BECOME AFFORDABLE TO MANY AMERICANS; THOUSANDS OF FORECLOSURES WILL BE PREVENTED, THE BACKLOG OF HOUSES SITTING ON THE MARKET WOULD BE SNATCHED BY EAGER BUYERS CURRENTLY SITTING ON THE SIDELINE.

BUT HOW CAN THIS BE DONE WHEN THE INTEREST RATES ON MORTGAGES ARE MARKET DRIVEN? THIS SOLUTION WOULD HAVE NOT BEEN POSSIBLE AND COULD NOT HAVE BEEN PROPOSED HAD IT NOT BEEN FOR THE FANNIE MAE AND FREDDIE MAC DE FACTO NATIONALIZATION, THE AIG BAILOUT AND THE MOST RECENT \$850 BILLION RESCUE PACKAGE. ALREADY THE FEDERAL GOVERNMENT HAS INTRODUCED MASSIVE INTERVENTIONS INTO THE WORKINGS OF THE FREE MARKET.

HOW WOULD THIS WORK? THE BROAD OUTLINE OF SUCH A PLAN WOULD BE THAT THE TREASURY WOULD SUBSIDIZE THE DIFFERENCE BETWEEN THE CURRENT MARKET RATE ON MORTGAGES AND THE PROPOSED LOWER INTEREST RATE, WHICH WOULD BE DESIGNED TO MOTIVATE BUYERS TO ACT AND PREVENT FORECLOSURES. THIS SUBSIDY SHOULD BE FOR A SPECIFIC PERIOD OF TIME, SAY TWO YEARS, AND SHOULD BE ACROSS THE BOARD TO ENSURE EQUITY, SO HOMEOWNERS WHO MADE AN EFFORT TO CONTINUE TO BE IN GOOD STANDING ON THEIR MORTGAGES WOULD NOT BE PENALIZED AND WOULD ALSO BENEFIT FROM THE INTEREST RATE REDUCTION. THE SUBSIDY WILL THEN BE PHASED-OUT GRADUALLY, SAY FROM THE THIRD YEAR OF ITS INTRODUCTION TO THE FIFTH YEAR, AFTER WHICH MORTGAGE RATES WILL BECOME, AGAIN, MARKET-DETERMINED. DURING THIS FIVE YEAR PERIOD THE PROBLEMS PLAGUING THE HOUSING AND THE FINANCIAL MARKETS WILL BE WORKED OUT.

THE ADVANTAGES OF THIS PLAN ARE:

- 1. IT WILL CURE THE AILMENTS OF THE HOUSING MARKET FASTER THAN ANY OTHER PLAN INCLUDING THE RESCUE PACKAGE WHICH WILL ONLY BUY THE BANKS' TOXIC ASSETS AND WOULD NOT ADDRESS THE ROOT CAUSE OF THE PROBLEM (THE HOUSING SLUMP).**
- 2. IT WILL CREATE STAKEHOLDERS AND WILL HAVE THE SUPPORT OF THE AMERICAN PEOPLE AS IT WILL ADDRESS THEIR PROBLEMS AND HELP THEM EITHER BUY A HOME, SELL A HOME OR STAY IN THEIR HOME AND AVOID BANKRUPTCY;**
- 3. IT WILL HELP THE BANKS AS THEY WILL BE AVOIDING THE COST OF WRITING-OFF MASSIVE AMOUNTS OF BAD DEBTS AND INCURRING THE COSTS OF FORECLOSURES;**
- 4. A REBOUND IN THE HOUSING MARKET WILL HELP A BROADER ECONOMIC RECOVERY, EMPLOYMENT AND WILL HELP IMPROVE CONSUMERS' CONFIDENCE.**

FINALLY HOW WILL THIS PLAN BE FINANCED? AGAIN WE LOOK AT THE TREASURY. IT WILL BE COSTLY. HOWEVER, IF ONE DOES A COST/BENEFIT ANALYSIS, THE BENEFITS OF SUCH A PLAN WILL FAR OUTWEIGH ITS COST, WHICH OF COURSE WILL BE SHOULDERED BY THE TAX PAYERS. THEY WILL, HOWEVER, ENDORSE IT READILY AS IT WILL BE PERCEIVED AS HELPING OUT MAIN STREET AND NOT WALL STREET AND EVERYONE WILL BE ABLE TO SEE THE LIGHT AT THE END OF THE TUNNEL.