US Congress approves government bailout of mortgage giants

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Less than two weeks after the Bush administration called on Congress to approve an unprecedented plan to authorize the use of unlimited public funds to bail out the mortgage finance giants Fannie Mae and Freddie Mac, the Senate on Saturday joined the House of Representatives in passing the necessary legislation and sending it to the White House for President Bush's signature.

The bill passed by Congress gives the treasury secretary unilateral authority to allocate taxpayer funds to rescue the two corporations, which are chartered by the government but privately owned. To make room for the bailout, the bill raises the federal government's debt ceiling by $800 billion to $10.6 trillion. This increases the cushion between the debt limit and the current federal debt to $1.1 trillion. The legislation thus opens the way for a government bailout of Wall Street that would make the $160 billion rescue of the savings and loan industry in the late 1980s and early 1990s pale in comparison.

The House passed the bill last Thursday by a vote of 272 to 152, with 45 Republicans joining 227 Democrats in favor. The Senate vote, conducted in a rare Saturday session, was 72 to 13, with all of the Democratic senators voting to pass the bill.

The extraordinary rapidity by which the bailout legislation was passed demonstrates the most fundamental fact of American political life: the complete subordination of Congress and both parties to the American financial aristocracy. When it comes to the vital interests of Wall Street, the much bemoaned gridlock in Congress disappears and both parties jump to attention and provide the votes needed to bail out the big financial interests. (See "US bailout of mortgage giants: The politics of plutocracy")

The emergency bailout provisions in the bill were attached to Democratic-sponsored housing legislation that had been wending its way through Congress for months. Under conditions in which millions of Americans were losing their homes as a result of predatory and reckless lending practices by mortgage companies and banks, Congress had failed to act to provide even the minimal relief contained in the Democratic proposal. Only the near-collapse of Fannie Mae and Freddie Mac, which hold or guarantee more than half of the country's $12 trillion mortgage debt, prompted Congress to pass the housing bill to which the lenders' bailout had been appended.

The actions of President Bush underscore the plutocratic reality behind the façade of American democracy. Bush had for months threatened to veto the housing bill, citing a provision allocating $4 billion to states and localities to buy and refurbish foreclosed homes. He reiterated his veto threat earlier last week. But within days, after a discussion with Treasury Secretary Henry Paulson—the former CEO of Goldman Sachs whose net worth is estimated in the hundreds of millions of dollars—Bush reversed himself and said he would sign the combined housing and Fannie Mae/Freddie Mac bailout legislation.

The bill passed by Congress is 694 pages long. It is certain that few, if any, of the congressmen and senators who voted for it even read the massive text of the legislation. The *New York Times* reported Sunday one "little-noted provision" hidden in its language that gives the Federal Deposit Insurance Corporation greater authority to shore up the savings and loan system. It allows the FDIC to create "bridge institutions" for failing savings and loans banks such as California's IndyMac, which failed earlier this month, along the lines of a power that has existed since 1991 for failed banks.

The legislative package also provides $15 billion in housing-related tax breaks, a portion of which fund a $7,500 tax credit for first-time homebuyers, with the rest going to home builders and other large corporations. There are other items "buried deep in the legislation," according to the *Times*, which provide special favors to specific corporate interests. The *Times* writes: "And there is a provision tailored narrowly for Chrysler to ensure that it can benefit from a corporate tax incentive even though the company is now structured as a partnership not a corporation."

The rest of the bill amounts to a pittance for ordinary mortgage holders. The legislation includes provisions to assist several hundred thousand homeowners facing foreclosure by allowing banks to refinance their mortgages with government insurance on slightly more favorable terms. If everyone who qualifies for the program decides to refinance under the new terms, only one sixth of the 2.5 million homeowners expected to foreclose this year will be affected. But of the 400,000 people who qualify for the provision, only a fraction are expected to receive assistance. Moreover, since the government insurance plan will be offset by additional fees to homeowners, the actual government expenditure is expected to be negligible.

The congressional budget office estimates the homeowner assistance portion of the bill will cost the Federal Government only some $2.5 billion over the course of the next five to seven years. This figure stands in stark contrast to the essentially unlimited government funds being made available to the financial companies, under the sole discretion of the treasury secretary.

The federal government chartered Fannie Mae and Freddie Mac in 1938 and 1970, respectively, to expand financing options for homeowners. In recent years the firms have been partially supplanted as the secondary mortgage market expanded. But Fannie and Freddie retained a competitive advantage because markets assumed that their debt was guaranteed by the government, allowing them to borrow at lower rates. Despite a string of management scandals, the firms retained their privileged position through their formidable lobbying efforts.

Before Paulson's call for government assistance two years ago, the US government had no expressed commitment to defending Fannie Mae and Freddie Mac. Testifying before Congress in October 2003, former Treasury Secretary John Snow said, "We don't believe there is any government guarantee" for the two lenders, adding, "It's not in our view a reality, but it's a perception of an implied guarantee." Regardless of this stated position, both parties and all sections of the government have now sprung to the companies' rescue.

The new bill's rapid and overwhelming passage underscores the fact that both parties are united in support of Wall Street, with the Democrats in many cases taking the lead over Republicans in calling for more government funds to be channeled into troubled financial firms. Immediately following the bill's passage in the Senate, Democratic presidential nominee Barack Obama gave his implicit approval to the unlimited Wall Street bailouts advocated by Paulson and Federal Reserve Chairman Ben Bernanke, commenting, "I think that Chairman Bernanke was handed a pretty tough hand and I think some of the decisions he's made have been the right ones."