RSC Republican Study Committee

Financial Services Working Group

Congressman Scott Garrett (R-NJ), Chairman | Congressman Tom Price (R-GA), RSC Chairman

March 10, 2010

BAILOUTS FOR BEACH HOUSES

Last month, 36,000 people lost their job. Rather than develop a comprehensive bill focused on broad, growth-oriented, permanent incentives for economic activity across all sectors and industries, the Democrats continue the failed bailout approach that only exacerbates our economic woes.

This most recent scheme is the **Beach House Bailout**, aimed at bailing out Florida and California, while shifting risk to taxpayers in other states. It provides federal reinsurance for state natural catastrophe funds which currently exist only in Florida and California. This legislation has a direct cost to the taxpayer of **$175 million**, while potentially putting the taxpayer on the hook for **$225 billion** in guarantees and liabilities.

BEACH HOUSE BAILOUT TALKING POINTS

- There is no need for a government bailout; natural catastrophes are already covered by private insurance.
- This legislation has the potential to displace the private insurance and reinsurance markets, which is another example of the government creating uncertainty in the marketplace through unnecessary intervention.
- The government will be shifting risks from coastal property owners in catastrophe-prone states to residents in other states by providing federal reinsurance for state natural catastrophe funds, therefore rewarding risk and punishing private insurance at a cost to taxpayers.
- This legislation creates a moral hazard by providing a federal backstop for state catastrophe insurance programs.

CONSUMER FINANCIAL PROTECTION AGENCY (CFPA)

Senate regulatory reform negotiations continue between Banking Chairman Chris Dodd and Committee Republicans. One proposal mentioned was to empower the Federal Reserve as the watchdog for consumer protection.

Regardless of the form it takes, the Democrats' **CFPA will limit consumer choice and reduce consumers' access to credit**. It is:

- Simply another example of something taxpayers can't afford
- Simply another example of government overreach
- Simply another example of increasing the power of federal bureaucrats at the expense of individuals, AND
- Simply another example of the Federal Reserve being the personal piggybank of the current "powers-that-be" in Washington D.C.

ON THE HORIZON: GEITHNER TESTIFIES ON FANNIE/FREDDIE BAILOUT, MARCH 23

Three months after he orchestrated the Christmas Eve bailout of Fannie Mae and Freddie Mac, Treasury Secretary Tim Geithner will have to answer to the House Financial Services Committee about his actions. Fannie and Freddie's blank check from the Treasury department poses a huge risk to the American taxpayer as they are essentially allowed an endless bailout.

Republicans must continue to demand transparency and accountability from the administration, and **keep our constituents informed about how their tax dollars are being spent when no one's watching.**

FANNIE AND FREDDIE NUMBERS

$291 billion: added to federal deficit in 2009 to support Fannie and Freddie according to CBO

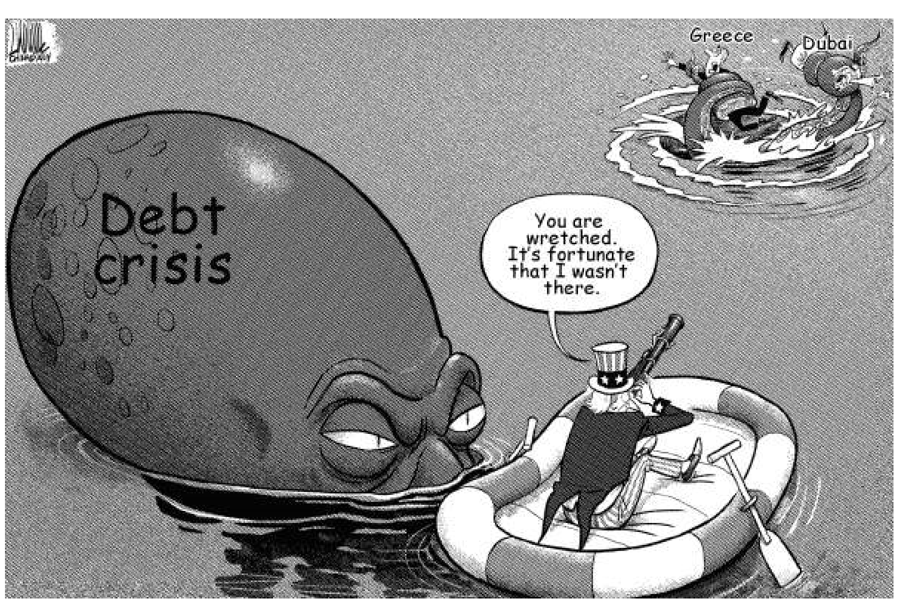
$389 billion: estimated cost of Fannie and Freddie to the taxpayers over 10 years according to CBO

$1.5 trillion: size of Fannie and Freddie's retained mortgage portfolios

$1.6 trillion: debt issued by Fannie and Freddie now explicitly backed by the taxpayer

$8.1 trillion: Fannie and Freddie securities outstanding according to data released by the Federal Reserve on December 10, 2009

UNLIMITED: Taxpayer assistance available to Fannie and Freddie through 2012



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THE WALL STREET JOURNAL

Athens and the 'Speculators'

Blaming the very folks who buy Greek debt.

Greek Prime Minister George Papandreou met President Obama in Washington yesterday, hoping to win U.S. support for a crackdown on speculative traders. "Unprincipled speculators are making billions every day by betting on a Greek default," the Prime Minister said Monday, adding yesterday that Mr. Obama's response was "very positive."

The European Commission also got into the act, endorsing on Tuesday earlier calls to ban "speculative" trading in credit-default swaps on sovereign debt in Europe. These days, of course, any purchase of Greek debt is a form of speculation—a fact reflected in the 320 basis-point spread over German bonds that Greece was forced to pay.

Too bad this finger-pointing does nothing to solve Greece's actual problems. As soon as Athens presented its latest €4.8 billion austerity package last week with across-the-board spending cuts, the pressure on the euro and Greek bonds eased. While the euro strengthened against the dollar late last week, yields on Greek debt fell below 6% for the first time since mid-February. The news of deeper cuts and higher taxes even helped to facilitate a hitherto doubtful 10-year Greek bond issue.

Unfortunately, this demonstration that the markets could be assuaged by some more-vigorous belt-tightening did not put Greek conspiracy theories to rest. In protest against the planned austerity measures, Greek tax and garbage collectors again walked off their jobs. The country's two main unions have urged more than a million civil servants and private workers to strike tomorrow. This second general strike in as many weeks will paralyze much of the country.

These protests do real economic harm and thus reduce government revenues, and Mr. Papandreou also does his economy no favors by railing against the very "speculators" he needs to buy his debt. Our advice is to double down on reform, beginning by ending the civil service's constitutional right to lifelong employment. That would do more to shore up Greece's fiscal credibility than any number of tax hikes.

The bets against Greek solvency are the result, not the cause, of Greece's debt problems. The way to turn speculator profits into losses is by reining in government and reviving private growth.