



## Consumer Federation of America

September 22, 2008

Dear Member of Congress:

We recognize that the Wall Street rescue plan being negotiated by Congress and the administration may be necessary to prevent a broader economic cataclysm that would hurt all Americans. Moreover, while we believe broader and fundamental reform of the financial markets is essential, we support allowing the bailout to move forward quickly to restore stability to the financial system.

It does not follow, however, that Congress should simply accept the administration plan as written. We strongly urge you to include Chapter 13 judicial modification relief in any legislation that is considered. We cannot support legislation that fails to help the millions of families in danger of losing their homes, while spending hundreds of billions of dollars of taxpayer money to bail out those who caused the problem. Similarly, the plan must be improved to ensure that it adequately protects American taxpayers.

How the measure is structured will determine whether this is a Wall Street rescue plan or an irresponsible bailout, whether Wall Street executives or the American people are the primary beneficiaries. The draft proposal being circulated by the administration provides too little oversight of the Department of Treasury as it implements the rescue plan, too little accountability for Wall Street firms that participate in the plan, and too little assurance that the taxpayers who have footed the bill for this rescue will share in any profits of Wall Street firms that benefit from the plan.

To rectify those short-comings and restore balance to this proposal, we believe the following principles must be incorporated into the final rescue plan:

- **Oversight.** Under the administration plan, the Treasury Department would be given expansive new authority with no accountability for how it exercises that authority. This is not acceptable, particularly since a failure of oversight by federal regulators was a major reason we are now forced to undertake this bailout. Several proposals have reportedly been advanced to provide greater accountability, including oversight either by the GAO or by a panel of respected financial leaders. Others have suggested that a separate corporation be created, along the lines of the Resolution Trust Corporation, and overseen by a board of reputable and knowledgeable individuals. What is essential is that some credible mechanism is included to ensure that the program operates efficiently, effectively, and in the public interest. This should include oversight to ensure that assets are appropriately valued when purchased by the government.

- **Taxpayer Benefits.** Wall Street firms are reportedly already lobbying to get as broad a range of assets and institutions as possible covered by the plan. Clearly, they see this as an opportunity to escape the consequences of their past recklessness and emerge as newly profitable entities. For this reason, we believe it is essential that the plan be structured in a way that ensures that those who have footed the bill for the bailout share in any profits. Toward that goal, we support inclusion in the plan of a provision granting the government warrants to purchase stock in companies that take advantage of the bailout. Such a provision would give taxpayers a chance to share in the benefits if those companies that participate in the plan turn profitable after shedding their bad debts.
  
- **Wall Street Discipline.** The American public is understandably disgusted that, even as they struggle to make ends meet, they are being asked to bail out the wealthiest titans of Wall Street, people who raked in millions from the reckless actions that have threatened to destroy the global financial system. For this plan to fly with the American public, the plan must impose some discipline on those firms that participate in the plan. Reasonable limits on executive compensation going forward, as well as a claw-back provision that allows the government to go after the millions that executives made off their irresponsible conduct, must be included for companies that participate in the plan. This is necessary not only to appease the American public, but also to put a brake on Wall Street's inclination to take inappropriate advantage of the opportunity the bailout offers to privatize profits and socialize risks.
  
- **Transparency.** Financial firms are reportedly lobbying hard to get a moratorium on fair value accounting included in the plan. Since this crisis erupted, Wall Street has been trying to sell the fiction that it is mark-to-market accounting – and not their own poor decisions – that landed us in this mess. In fact, lack of transparency and a failure to provide reliable valuations for their assets were major contributing factors at firms, such as Lehman Brothers and AIG, that were brought down by the crisis. Far from including a fair value accounting moratorium that would undermine transparency, Congress should insist that the plan include a measure to provide greater transparency going forward at those companies that benefit from the plan. Specifically, Congress should require that those firms provide enhanced disclosures of their risk management practices as well as of their exposure to credit derivatives, loans, including subprime mortgages, and mortgage-backed securities.

These provisions are the minimum necessary to ensure that the Wall Street rescue plan is both effective and fair to the American taxpayers who are bearing its enormous cost. We are gratified to see that draft proposals being circulated in Congress address a number of the concerns raised in this letter.

They do not, of course, address the broader demand for regulatory reform that must follow. For, make no mistake about it, the current crisis is a crisis of deregulation. If it achieves nothing else, it must end once and for all the argument so popular in recent years that every financial innovation is beneficial, that less is more when it comes to regulation, and that the market can be trusted to correct itself. While that broader reform must wait until careful

consideration can be given to the factors that caused the current crisis and the best way to prevent a recurrence, it cannot wait too long.

In the meantime, we urge you to send the message to the American people that Congress is looking out for their interests by guaranteeing that the rescue of Wall Street includes strong measures to ensure that the plan operates as intended, protects the interests of taxpayers as well as those in danger of losing their homes, and disciplines those who made this rescue necessary.

Respectfully submitted,

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