

FedUPUSA.org Straight Facts

Financial Crisis – What you need to know!

Meltdown... Crisis... “... greatest threat since 911...”

Yes, there is a crisis, but there are solutions that do not involve a massive taxpayer bailout of those who caused this mess. You need to know some facts about what is going on so that you can separate the lies from the truth so that Banker won't separate you from your money!

We've listed a few 'frequently asked questions' that summarize this crisis and what can be done. We encourage you to get even more in-depth information, reports and videos from our website: <http://www.FedUPUSA.org>.

Q: *We had heard until recently that the ‘economy was sound’ and that subprime loans ‘were contained’ what happened?*

A: Yes, we heard that too. Every American heard that 'subprime was contained', that 'the economy was sound' and that a few weeks before Freddie Mac and Fannie Mae collapsed, that they were 'well capitalized.' We all were repeatedly assured that bailout after bailout would 'do the trick', but now we're being told that we have to throw an immense amount of taxpayer money at the problem, **yet we get no assurances that it will work.**

Should we continue to trust the insight and advice from our leaders who ignored obvious signs, disregarded pleas from a slew of economists and other financial professionals and assume that their plan is the 'only' one? ***Of course not, it is plainly apparent that they are incompetent.***

Q: *Who, or what, caused the financial crisis?*

A: There are easily a dozen 'reasons' why this happened, but the main three (which have to be addressed if we want this crisis to end and prevent another one from happening) are:

1. **Fictional Accounting** – Firms were allowed to engage accounting practices that did not accurately portray their true financial position. They could put assets of questionable quality into an entry called 'Level 3' where they could make claims on value that were not supported. (For example, if you owned a piece of land that you felt was worth \$10,000, but really could only be sold for \$2,000, you could write down \$10,000 to make it appear you were \$8,000 richer than you actually were.) Also, firms could count 'capitalized interest as revenue'. For example, if a homeowner had a 'Option' mortgage and paid \$1000 per month, but should be paying \$3,000, the bank would write down the \$3,000 and base their revenues, profits and stock dividends on this number.
2. **Credit Swap Free for All** – Credit Swaps allow companies to hedge risk. For example, a company issuing bonds can ask another company to help insure the bonds in a credit swap so that the issuer can then get a better rating on the bond (AAA or other grade) and hopefully a lower interest rate. The problem is that many who 'wrote' the swaps did not set aside any reserve to cover any potential claims and in some cases resold their swap (at a profit) to another firm and pocketed the difference as profit – simply by being a middleman in the deal. All along the line this was done, repeatedly, with little to no reserves set. Once losses started, companies had to pay, but had not set aside money to do so.
3. **Over Leverage** – Financial Firms could take a base amount of capital and borrow over and over, using the assets they purchased as 'collateral' for the next loan (see point #1 why this is a problem). For example, if a company had \$1,000,000 in capital, they could eventually 'lever up' to borrow and invest into \$30,000,000 or more. The problem is if the underlying assets or investment go bad, the loss on the investments make a huge dent in the capital base. The firm has to sell assets to regain their base, causing a downward pressure on assets and markets.

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Q: *What is the Bailout supposed to do?*

A: Paulson, Bernanke and Bush all claim that without the bailout our market will seize up, all lending will stop, effectively gutting out our economy. They say that if we purchase all of the 'bad' assets at full price that will allow the banks to clear up their balance sheet, give them the cash they need to get their operations back up.

All this is is a mass-transfer of wealth. Taxpayers will eat any difference between the 'full' value of the assets the Treasury buys and the discount price they sell them for (which, by the way, the same bank we give money to will use that money to purchase the very same assets, but this time for pennies on the dollar – which then we subsidize the difference.)

Supposedly this will 'save' the stock market and the pensions and give taxpayers 'equity' in the financial companies that they bailout. However, any equity the taxpayer is given will dilute (reduce) the value of existing stockholders. If your 401k or pension happens to be invested in those firms, those investments will be reduced as well. It's a ZERO net gain for the 'taxpayer-investor.'

Q: *If the Government doesn't bailout Wall Street, what will happen?*

A: If we don't make any changes in the three points we listed above, our credit markets will continue to size, companies will hesitate to lend and we will see a huge dislocation in our markets. However, strong companies will be able to protect themselves and eventually emerge as leaders in the market. We will see job loss, we will see major changes on how we live, as many of the conveniences in life will be temporarily suspended – such as credit cards, until we know what companies will survive and which will fail.

If our leaders do make the changes we outline – prudent financial accounting, establish a central clearinghouse for derivatives and regulate them, as well as require more reasonable levels of leverage – we will still see a market correction. It will be a deep recession, but recovery will be quicker and healthier than if our government does not insist on changes; and certainly better for all of us if we allow our Treasury to be robbed.

Q: *If the Government does bailout Wall Street, what will happen?*

What do we get... a huge tax bill and some 'equity' in companies that have questionable practices and questionable futures. We will also see our Treasury get gutted, investors unwilling to purchase our bonds (and our national debt servicing costs skyrocket), our dollar declining (causing an upward spiral in food and fuel), and absolutely no accountability for those who ruined our financial market. **And NO guarantees or assurances that this will even work. In fact, we know it won't and will not only DELAY the eventual crash, but will make it WORSE.**

Q: *What can we do to protect our interests?*

Call and fax your Congressman or Senators. Then call again. Get involved in local protests and inform your friends and family about what is going on and how they shouldn't turn over their hard earned money to bail out irresponsible Wall Street execs. Demand that Congress investigate, indict and enforce regulatory policies and get rid of those in the SEC, FDIC and other agencies who have blindly looked the other way. Refuse to vote, regardless of party affiliation, of any Congress person who votes against America's interests and tell those who seats are not up, that they CAN be recalled and that you will remember their actions when their seat is due.

We should not be held financial hostage because other, fairer, and better solutions exist!