

# LaRouche Denounces 'Unlimited' Bailout

Lyndon LaRouche denounced U.S. Treasury Secretary Hank Paulson's "unlimited" bank bailout announcement Sept. 7, as "tantamount to treason" against the United States and its Constitution. Paulson's action completely confirms LaRouche's warning—ever since authorization of this Federal bailout action was demanded by Paulson in July—that the Treasury is *not* assisting Fannie Mae or Freddie Mac; It is using them to *pass through* a huge new taxpayer bailout to international banks holding Fannie and Freddie and other mortgage securities. These banks are being aided by the Treasury in postponing the inevitable write-off of trillions in worthless securities, which would expose their bankruptcy. The bailout will not work, except to worsen the ongoing financial crash.

Paulson announced, at 11:00 a.m., the government takeover of Fannie Mae and Freddie Mac, until the end of 2009, and the "unlimited" bailout by the Treasury of Fannie and Freddie securities held by banks.

Both Republican John McCain and Democrat Barack Obama announced they backed the bailout.

Paulson refused to name a figure for the bailout over any time period: Both the new capital being put into Fannie and Freddie by the Treasury, and the Treasury "Secured Credit Lending Facility" opened up to them, are open ended and unlimited (except by the current U.S. Federal debt ceiling). Worse, Paulson announced that the Treasury is mandating the two government-sponsored enterprises (GSEs) to use this Federal credit line to buy *more and riskier* toxic mortgage-backed securities (MBS), and more subprime and undocumented mortgages, through the end of 2009, than they have been buying in 2008.

Worse still, Paulson announced the Treasury *itself* will start buying MBS directly from Fannie and Freddie, whether issued by them or bought by them from investment banks.

A more transparent bailout of \$2 trillion of Fannie

and Freddie MBS held by banks and financial funds, and of lenders of mortgages guaranteed by Fannie and Freddie, could not have been proclaimed. Paulson's announcement even extends the "secured lending credit facility" to the Federal Home Loan Banks as well, although no one had reported them to be "in crisis" like Fannie and Freddie; some of the Home Loan Banks have been throwing huge bailout loans at bankrupt subprime mortgage lenders like Countrywide Financial.

Here is the evidence of Paulson's announcement:

"The second step Treasury is taking today is the establishment of a new secured lending credit facility which will be available to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Given the combination of actions we

are taking, including the Preferred Share Purchase Agreements, we expect the GSEs to be in a stronger position to fund their regular business activities in the capital markets. This facility is intended to serve as an ultimate liquidity

backstop, in essence, implementing the temporary liquidity backstop authority granted by Congress in July, and will be available until those authorities expire in December 2009.

"Finally, to further support the availability of mortgage financing for millions of Americans, Treasury is initiating a temporary program to purchase GSE MBS. During this ongoing housing correction, the GSE portfolios have been constrained, both by their own capital situation and by regulatory efforts to address systemic risk. As the GSEs have grappled with their difficulties, we've seen mortgage rate spreads to Treasuries widen, making mortgages less affordable for homebuyers. While the GSEs are expected to moderately increase the size of their portfolios over the next 15 months through prudent mortgage purchases, complementary government efforts can aid mortgage affordability. Treasury will begin this new program later this month, investing in new GSE MBS."

