

**Economics and Politics**  
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The fact is most people don't understand basic economics. The Democrat Party, supported by the liberal media, has recently been advancing the canard that the current financial crisis is the fault of the Bush Administration and Republicans. And most polls indicate that the majority of Americans have accepted this story line. But what is real and what is simply political propaganda?

First, it is important to understand that the very groundwork for today's mortgage crisis is rooted in the Community Reinvestment Act (CRA) signed into law by President Jimmy Carter in 1977. The stated purpose of the act was to encourage financial institutions to meet the credit needs of low- and moderate-income neighborhoods. Federal oversight by government agencies meant that local banks had to prove that they were providing loans to residents in these neighborhoods who might otherwise be unable to qualify. However, vague guidelines created confusion within the financial community about compliance with the law. Federal agencies required complex record keeping by local lending institutions, some contained in public records and some in confidential records. In 1989, under pressure from local community organizing groups, the CRA was amended to require public release of all records. The community groups, now armed with more information, began demanding that more loans be made to low- and moderate-income applicants and that the financial institutions be held more accountable to providing these loans.

Fast forward to 1992 when new legislation forced Fannie Mae (FMAE) and Freddie Mac (FMAC) to buy a substantial number of sub-prime loans from the local financial institutions. Prior to 1992 the lending institutions had to accept the risk of making risky loans because FMAE and FMAC would not purchase sub-prime loans that did not meet their guidelines. From 1992 onward the lending institutions could make money on originating the loans while pushing the sub-prime loans onto Freddie and Fannie. The number of sub-prime loans ballooned dramatically and so did the financial risk.

In the mid-1990's signs of trouble were becoming too obvious to ignore. In 1994, President Bill Clinton tried to implement new regulations on FMAE but was strongly opposed by Barney Frank, the ranking Democrat on the House Financial Services Committee. The leaders of FMAE included CEO Franklin Raines and Herb Moses who was hired in 1991 and was the homosexual paramour of Barney Frank. Moses and Frank lived together throughout Moses' seven-year tenure at FMAE. Although Frank now blames Republicans for the failure of Fannie and Freddie, for years he consistently blocked efforts by Republicans to regulate the two agencies. Former president Clinton has rebuked Democrats for their opposition to the oversight efforts by the Republican-controlled congress during his presidency. "I think the responsibility that the Democrats have may rest more in resisting any efforts by Republicans in the Congress and by me, when I was president, to put some standards and tighten up a little on Fannie Mae and

Freddie Mac," Clinton said recently. Clearly, the foundation for today's mortgage meltdown was laid by Democrats during this time.

Charges of mismanagement and accounting irregularities by the heads of FMAC and FMAE led to a proposed new regulatory agency to oversee the two agencies by President George W. Bush in 2003. The proposed legislation went nowhere thanks to Barney Frank and his fellow Democrats. For years liberal Democrats, led by Frank and Senator Chris Dodd, leading Democrat on the Senate Banking Committee, denied that FMAE and FMAC were taking huge risks that could lead to a financial crisis. Frank asserted that, "These two entities - Fannie Mae and Freddie Mac - are not facing any kind of a financial crisis." His colleague, Representative Melvin Watt, Democrat from North Carolina, agreed. "I don't see much other than a shell game going on here, moving something from one agency to another and in the process weakening the bargaining power of poorer families and their ability to get affordable housing," said Watt.

Matters got even worse in 2004 when HUD (Department of Housing and Urban Development) increased the percentage of sub-prime loans written. According to Republican lawmakers, a financial meltdown was imminent. In 2005, a bill sponsored by Chuck Hagel and co-sponsored by Elizabeth Dole, John McCain, and John Sununu, all Republican senators, was introduced in congress. The bill got tabled in the Democrat-controlled Committee on Banking, Housing, and Urban Affairs and died there. Despite many warnings from Alan Greenspan and the Bush administration, Democrats continued to deny any problems with the two agencies and pushed for Fannie and Freddie to provide even more sub-prime loans and more lenient screening of loan applicants. Why were Democrats so insistent on providing these risky loans? For one, Democrats count on low- to medium-income homeowners for their votes. Also, leading Democrats have been recipients of large campaign donations from employees and political action committees of Fannie and Freddie. It has recently come to light that Chris Dodd has received more than \$165,000 (the largest recipient) and presidential candidate Barack Obama has received more than \$125,000 (the third largest recipient). Franklin Raines made more than \$90 million while he was head of FMAE and is now a financial consultant to Barack Obama. As they say, "follow the money."

Now, in order to deal with a government-created problem, we have been saddled with a government-created "solution". I doubt the \$700+ billion dollar bailout will correct the financial problems we face today. There will be more bailouts to come and the taxpayers who were fiscally responsible will be called upon to save those who were not. Free-market style solutions are the real answers to the problem. Anti-capitalists take delight in the current situation but they blame the wrong party. The market would work if we could get government out of the way. Democrats do not understand this. Government is the problem - not the solution.

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