AGRO CAMPUS OUEST

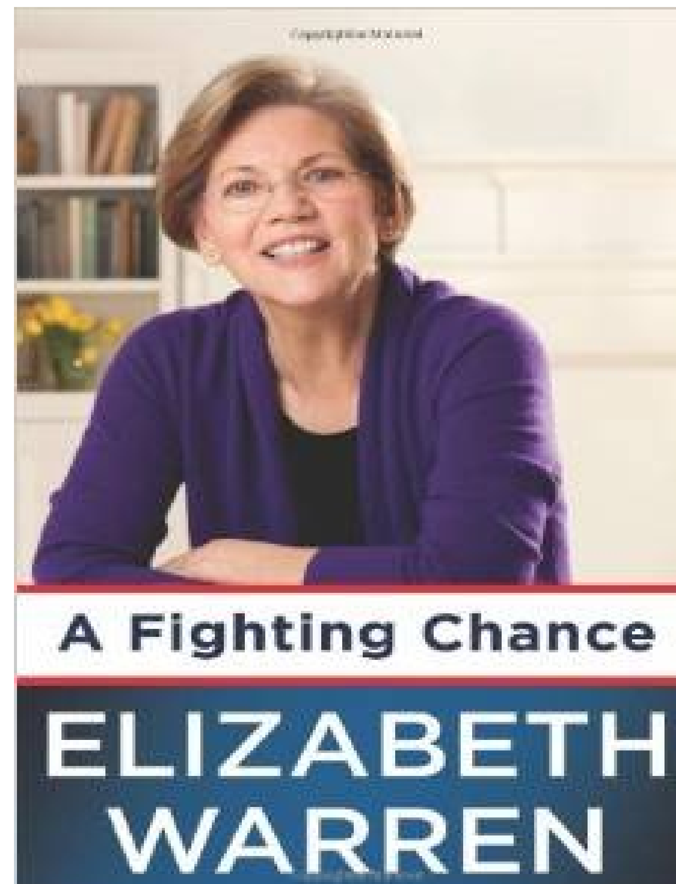
GROUPE ESSCA

The TARP bailout following the subprime crisis and the creation of the Frank-Dodd act and the Consumer Protection Agency

Based on the book 'A Fighting Chance' by Senator Elizabeth Warren

Dr David Rees

2014



Elizabeth Warren was a teacher of law at Harvard, specialised in Bankruptcy Law. She fought for better laws for 10 years and lost. She tried to hold the federal government accountable during the financial crisis but became a target for the big banks. She managed to create a consumer protection agency and helped create the Frank-Dodd act. At 62 years old she ran for office as senator and won. She has become a hero to all those who believe that America's government can and must do better for working families.

This book is also an excellent eye-opener into Washington politics, corporate lobbying, and the increasing lack of democracy in the USA

Useful links :
Elizabeth Warren's blog : http://elizabethwarren.com/blog
MoveOn : (democracy in action) http://front.moveon.org/

Quotation from the opening pages

"I will be grateful to my mother and daddy until the day I die. They worked hard – really hard – to help my brothers and me along. But we also succeeded, at least in part, because we were lucky enough to grow up in an America that invested in kids like us and helped build a future where we could flourish.

Here's the hard truth: America isn't building that kind of future any longer.

Today the game is rigged – rigged to work for those who have the money and power. Big corporations hire armies of lobbyists to get billion-dollar loopholes into the tax system and persuade their friends in Congress to support laws that keep the playing field tilted in their favor. Meanwhile, hardworking families are told they'll just have to live with smaller dreams for their children.

Over the past generation, America's determination to giver every kid access to affordable college or technical training has faded. The basic infrastructure that helps us build thriving businesses and jobs – the roads, bridges, and power grids – has crumbled. The scientific and medical research that has sparked miraculous cures and inventions from the Internet to nanotechnology is starved for funding, and the research pipeline is shrinking. The optimism that defines us as a people has been beaten and bruised.

It doesn't have to be this way.

I am determined, fiercely determined – to do everything I can to help us once again be the America that creates opportunities for anyone who works hard and plays by the rules. An America of accountability and fair play. An America that builds a future not just for some of our children but for all our children. An America where everyone gets what I got: a fighting chance."

P1-2.

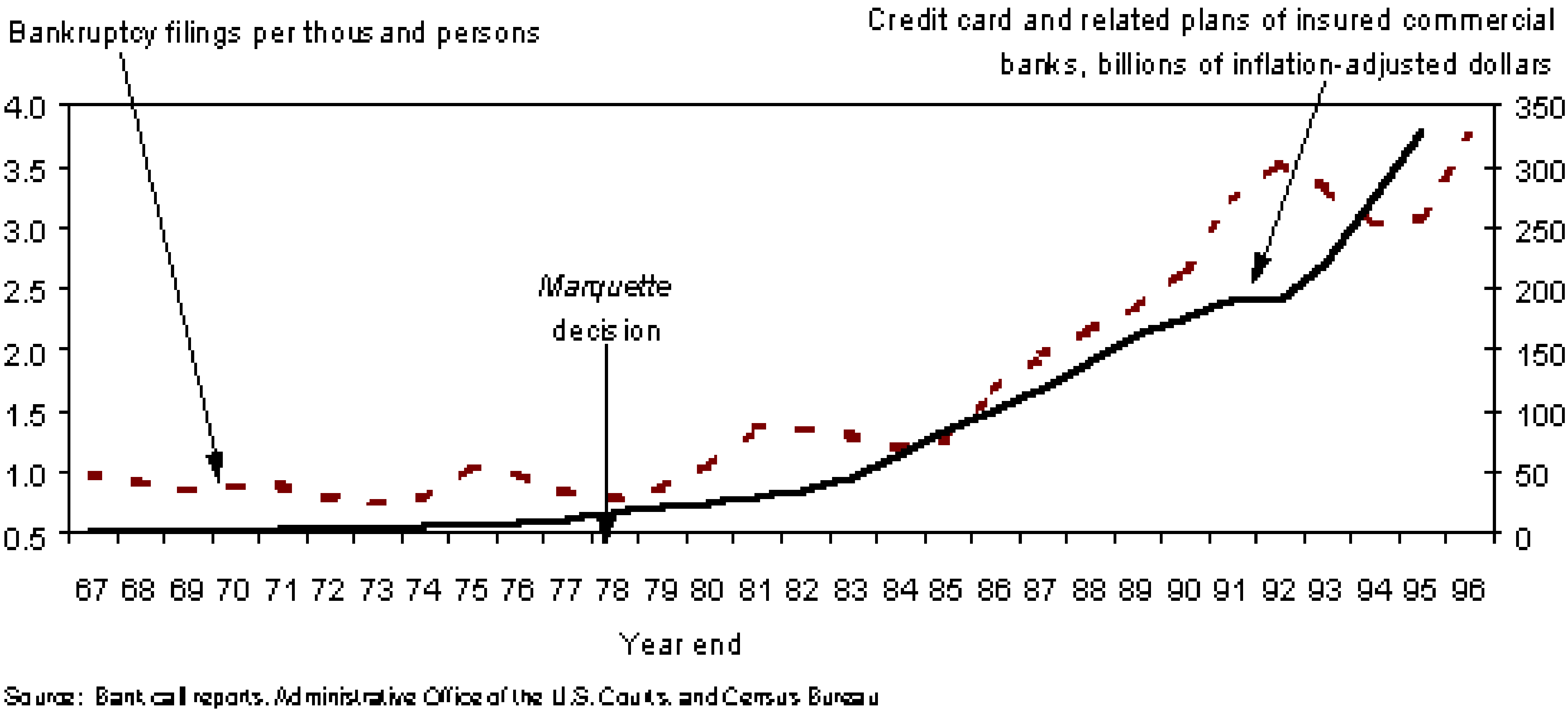
Origins of the problem – an economic paradidm shift from Roosvelt's Keynesian policies to the neo-liberal policies that started under Reagan in the 1980's

1930's (post Roosevelt's New Deal' and banking regulations (Glass-Stegall Act)
Interest rates were limited, banks financed house-buying, cars, education, small businesses...

Changed in the 1980's (the arrival of Neo-Liberalism)
Cap on interest rates removed
Usury ban for big banks disappeared
Deregulation (selling-on mortgages as financial assets...)
Bankruptcy soared.
1992 – 800,000+ families bankrupt every year.

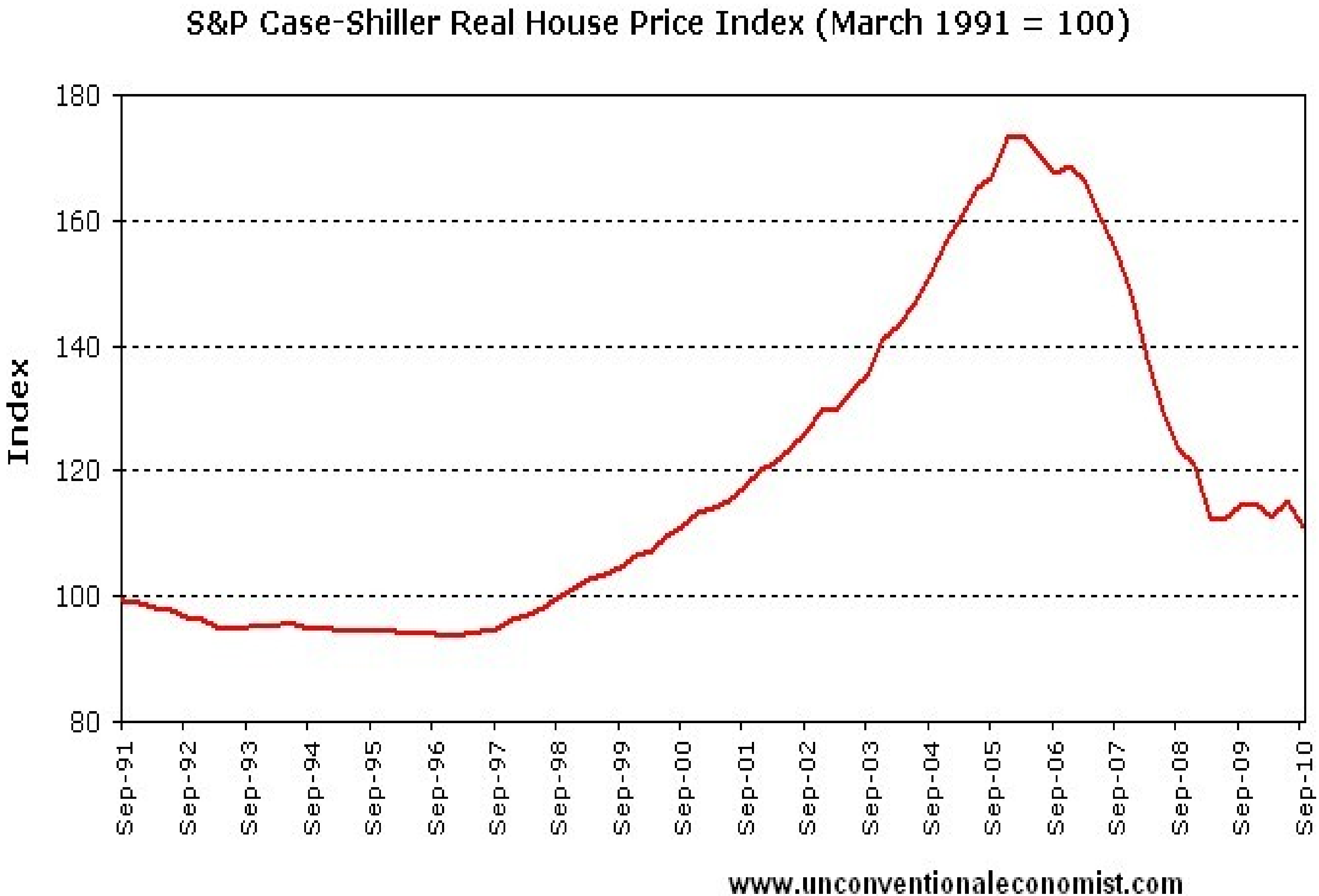
"Even with the bankruptcy losses, the banks could make more money if they kept giving credit to people who were in trouble. Yes, the banks had to absorb bigger losses when people went bankrupt. But in the meantime they could make a lot more money from all those people on the edge who didn't file for another year or so. Interest rates and fees were so high that, in the end, the banks came out ahead – way ahead." p43

The Long-Term Rise in the Personal Bankruptcy Rate Started Shortly after Interest Rate Deregulation



Marquette decision:
In 1978, the U.S. Supreme Court ruled that credit card issuers could charge out-of-state customers whatever rate was legal in the issuer's home state, igniting a race among the states to attract banks by removing their usury caps on interest rates. http://supreme.justia.com/us/439/299/case.html

Source: Wikianswers


S&P Case-Shiller Real House Price Index (March 1991 = 100)
Index
180
160
140
120
100
80
Sep-91
Sep-92
Sep-93
Sep-94
Sep-95
Sep-96
Sep-97
Sep-98
Sep-99
Sep-00
Sep-01
Sep-02
Sep-03
Sep-04
Sep-05
Sep-06
Sep-07
Sep-08
Sep-09
Sep-10
www.unconventionaleconomist.com

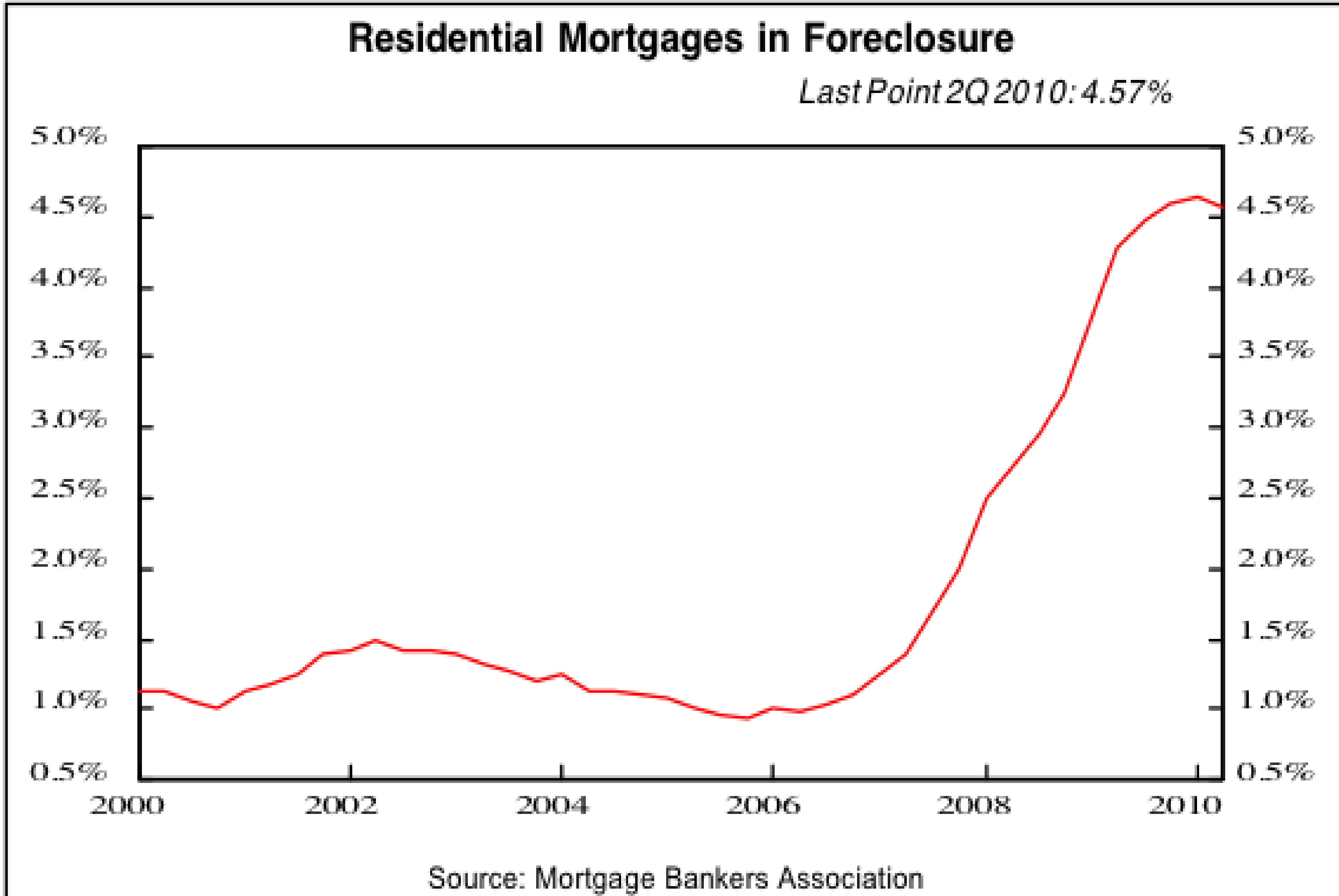
TARP

2008 – Sub-primes crisis
Troubled Asset Relief Program (TARP)
Bailout: TARP 1 - $700 billion (700,000,000,000)
Population 300 million (300,000,000)
$2,333 per person

Normally – rescues of a failing company:
CEO's get fired, shareholders lose their money, creditors take a haircut
AIG – no strings attached. Creditors got 100 %
No firing, no promises to abandon risky trading, no losses – just free taxpayers' money (less for infratsructure, education, health...).

TARP was meant to help banks lend to companies and ease interbank lending.
In fact, managers gave themselves massive bonuses but credit became difficult
500 small banks (no TARP for them) failed.
170,000 small businesses failed for lack of credit

CHART 12


Residential Mortgages in Foreclosure
Last Point 2Q 2010: 4.57%
5.0%
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
2000
2002
2004
2006
2008
2010
Source: Mortgage Bankers Association

Dodd-Frank Act
Consumer Protection Act
(both thanks to Elizabeth Warren)

The Dodd–Frank Wall Street Reform and Consumer Protection Act was signed into federal law by President Barack Obama on July 21, 2010. Passed as a response to the Great Recession, it brought the most significant changes to financial regulation in the United States since the regulatory reform that followed the Great Depression. It made changes in the American financial regulatory environment that affect all federal financial regulatory agencies and almost every part of the nation's financial services industry.

Wikipedia