We are almost out of time if we hope to eradicate the cancer in our financial system.

Mr. Isaac, chairman of the Federal Deposit Insurance Corp. from 1981–1985, is chairman of the Washington financial services consulting firm The Secura Group, an LECG company.

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A BETTER WAY TO AID BANKS

(By William M. Isaac)

Congressional leaders are badly divided on the Treasury plan to purchase $700 billion in troubled loans. Their angst is understandable: It is far from clear that the plan is necessary or will accomplish its objectives.

It's worth recalling that our country dealt with far more credit problems in the 1980s in a far harsher economic environment than it faces today. About 3,000 bank and thrift failures were handled without producing depositor panics and massive instability in the financial system.

The Federal Deposit Insurance Corp. has just handled Washington Mutual, now the largest bank failure in history, in an orderly manner, with no cost to the FDIC fund or taxpayers. This is proof that our time-tested system for resolving banking problems works.

One argument for the urgency of the Treasury proposal is that money market funds were under a great deal of pressure last week as investors lost confidence and began withdrawing their money. But putting the government's guarantee behind money market funds—as Treasury did last week—should have resolved this concern.

Another rationale for acting immediately on the bailout is that bank depositors are getting panicky—mostly in reaction to the July failure of IndyMac, in which uninsured depositors were exposed to loss.

Does this mean that we need to enact an emergency program to purchase $700 billion worth of real estate loans? If the problem is depositor confidence, perhaps we need to be clearer about the fact that the FDIC fund is backed by the full faith and credit of the government.

If stronger action is needed, the FDIC could announce that it will handle all bank failures, except those involving significant fraudulent activities, as assisted mergers that would protect all depositors and other general creditors. This is how the FDIC handled Washington Mutual. It would be easy to announce this as a temporary program if needed to calm depositors.

An additional benefit of this approach is that community banks would be put on a par with the largest banks, reassuring depositors who are unconvinced that the government will protect uninsured depositors in small banks.

I have doubts that the $700 billion bailout, if enacted, would work. Would banks really be willing to part with the loans, and would the government be able to sell them in the marketplace on terms that the taxpayers would find acceptable?

To get banks to sell the loans, the government would need to buy them at a price greater than what the private sector would pay today. Many investors are open to purchasing the loans now, but the financial institutions and investors cannot agree on price. Thus private money is sitting on the sidelines until there is clear evidence that we are at the floor in real estate.

Having financial institutions sell the loans to the government at inflated prices so the government can turn around and sell the loans to well-heeled investors at lower prices strikes me as a very good deal for everyone but U.S. taxpayers. Surely we can do better.

One alternative is a ''net worth certificate'' program along the lines of what Congress enacted in the 1980s for the savings and loan industry. It was a big success and could work in the current climate. The FDIC resolved a $100 billion insolvency in the savings banks for a total cost of less than $2 billion.

The net worth certificate program was designed to shore up the capital of weak banks to give them more time to resolve their problems. The program involved no subsidy and no cash outlay.

The FDIC purchased net worth certificates (subordinated debentures, a commonly used form of capital in banks) in troubled banks that the agency determined could be viable if they were given more time. Banks entering the program had to agree to strict supervision from the FDIC, including oversight of compensation of top executives and removal of poor management

The FDIC paid for the net worth certificates by issuing FDIC senior notes to the banks; there was no cash outlay. The interest rate on the net worth certificates and the FDIC notes was identical, so there was no subsidy.

If such a program were enacted today, the capital position of banks with real estate holdings would be bolstered, giving those banks the ability to sell and restructure assets and get on with their rehabilitation. No taxpayer money would be spent, and the asset sale transactions would remain in the private sector where they belong.

If we were to (1) implement a program to ease the fears of depositors and other general creditors of banks; (2) keep tight restrictions on short sellers of financial stocks; (3) suspend fair-value accounting (which has contributed mightily to our problems by marking assets to unrealistic fire-sale prices); and (4) authorize a net worth certificate program, we could settle the financial markets without significant expense to taxpayers.

Say Congress spends $700 billion of taxpayer money on the loan purchase proposal. What do we do next? If, however, we implement the program suggested above, we will have $700 billion of dry powder we can put to work in targeted tax incentives if needed to get the economy moving again.

The banks do not need taxpayers to carry their loans. They need proper accounting and regulatory policies that will give them time to work through their problems.

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LET'S WORK TOGETHER TO ADDRESS THE NATION'S CURRENT FINANCIAL CHALLENGES

(Mr. DOGGETT asked and was given permission to address the House for 1 minute.)

Mr. DOGGETT. Madam Speaker, as one of those who voted against President Bush's bailout proposal, I want to express my continued interest in working together to address the Nation's current financial challenges. I do not oppose reasonable steps to intervene in the economy so long as all the burden is not placed on the taxpayers.

I recommend that the House promptly approve a resolution calling on the Administration to exercise authority it already possesses to ensure that our financial markets continue to function properly.

The FDIC should utilize its emergency powers to immediately raise the limits on federally-insured accounts at all banks. The Securities and Exchange Commission should review and consider suspension of current accounting rules on the valuation of mortgage-backed securities. And the FDIC should consider relying on the net worth certificate approach that it utilized during the savings and loan debacle of the 1980s.

These are not just my ideas, rather, they are ideas recommended to the Congress by William Isaac, President Reagan's former Chairman of the Federal Deposit and Insurance Corporation. That approach, and others that were not considered last week, should be considered now to ensure that our financial markets continue to operate.

CALLING UPON CHAIRMAN COX TO GET RID OF MARK-TO-MARKET ACCOUNTING

(Mr. BROUN of Georgia asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. BROUN of Georgia. Madam Speaker, this is a historic vote today. I'm sure that everyone who voted did so very thoughtfully, most of us very prayerfully. But, Madam Speaker, Chairman Cox, Chairman of the Securities and Exchange Commission, today could fix a lot of the problems here by, by a stroke of a pen, getting rid of mark-to-market accounting across the board. I call upon Mr. Cox to do so today. The markets will respond markedly, and I hope that he will listen and do so.

HANK PAULSON GOT HIS REJECTION NOTICE FROM CONGRESS

(Mr. DEFAZIO asked and was given permission to address the House for 1 minute.)

Mr. DEFAZIO. Madam Speaker, there are many of us from day one who questioned the Paulson premise that dumping $700 billion into bad debt on Wall Street would somehow help revive the American economy, help Main Street, help small businesses, help the people I'm here to represent. I believe today gives us an opportunity to step back and begin again to construct a package that does not put the taxpayers at risk for $700 billion.

William Isaac headed up the FDIC during the savings and loan crisis. He took a $100 billion problem and he solved it for $2 billion; he says we can do the same thing here, pennies on the dollar. And then, that would leave a lot of borrowing capacity to help begin to inject money into public works projects, infrastructure in this country, other things that benefit average Americans, put us back to work, and make us a more competitive economy.

We need to go back to the drawing board with a democratic proposal. Hank Paulson just got his rejection notice here from Congress.