

# Main Street Credit Amendment

- America needs to **quickly expand the supply of available credit** in a way that supports **responsible lending**. The best way to do that is to work with American bankers **who have good track records in making sound loans and enabling them to make more good loans**.
- We also need to **quickly reduce the cost of credit** to America's businesses and consumers by **ensuring a healthy level of competition**. The most effective way to do that is to **foster a growing number of large and small strong banks** in every part of the country.
- Many of the banks which have received **Billions in TARP bailout funds**, especially some of the largest, are unable to make large numbers of new loans, because they have substantial amounts of **Toxic Assets**.
- **Main Street America** has over 8000 banks, and the vast majority of them are **Clean Banks** (they have **clean balance sheets with no toxic assets**).
- The **Main Street Credit Amendment** will create a real partnership between America and its **Clean Banks** to restart lending and get our country growing again.

## Why is the **Main Street Credit Amendment** our Best Solution (part 2)?

- The key is to **invest new money** into established **Clean Banks** (banks with clean balance sheets) and expand their capital, so that we can make a **large and immediate impact** on their ability to make more good loans and enable businesses to hire people again.
- Note that if the federal government diverted only \$100 billion in new capital into such banks, (out of the \$750 billion already proposed in Obama's 2009 budget for bank bailouts), **Clean Banks could immediately and safely make at least \$1 TRILLION in new loans.**
- If we invested similar sums over three years in such banks, we could expect huge **improvements in the cost and availability of credit** in America, and restart our employment engine.
- This kind of alternative plan has been endorsed by many highly-qualified top economists, including Stanford's Paul Romer in his article in the Wall Street Journal.
  - [Let's Build Good Banks \(by Stanford economist Paul Romer\)](#)

# Toxic Assets Buyout Plan vs. Main Street Credit Amendment

## ■ Toxic Assets Buyout Plan:

- We pay Hundreds of Billions for Toxic Assets of dubious value at above market prices, in order to increase the lending capacity of Wall Street bankers who are now unable to lend
- We rely on Wall Street bankers (who led us into this train wreck) to increase the availability of credit at lower costs
- Taxpayers get a promise that the Treasury will do its best to minimize our losses, but provide guarantees against losses for our “partners”
- We Rely on Wall Street insiders to direct public money to other Wall Street insiders

## ■ Main Street Credit Amendment:

- We rely on bankers **who have already proven that they can lend responsibly and successfully**
- We **directly expand the lending capacity of strong banks** to provide even more credit
- We rely on **robust competition** to keep credit affordable
- Taxpayers get a diversified portfolio of stock in strong banks
- We rely on elected state officials to temporarily direct investments

# Restarting Credit Quickly/Some Recommendations

- In most states, **the Governor is well acquainted with leading members of their state's business community**, and is highly motivated to foster new local investment, credit expansion, and jobs.
- Governors are in a good position to **solicit the cooperation of local bankers to participate** in this kind of public/private partnership, and can help direct the placement of new capital with local bankers who are willing to accept it. The FDIC in turn is well equipped to help decision makers to **identify Banks with clean balance sheets in each state**.
- **Because our economy is contracting quickly**, and because time is critical, we recommend that **state Governors take the lead in implementing the Main Street Credit Amendment** allocation of new federal investment in strong local banks, at least during the 2009 budget cycle. This allocation method is not ideal, but **provides some critical advantages** (diversification of risk, wide distribution of increased credit capacity, local decision making by highly visible elected officials).
- If this program is to be successful at all, no authority to govern or to control it should be provided to either the Treasury Department nor the Federal Reserve.

# More Recommendations

- In order to **ensure that the government's investment results in maximum growth in the bank's capital, shares will not be purchased on the open market.** Only newly-issued shares will be purchased directly from the bank, as authorized by the bank's existing shareholders. The price to be paid for each bank's stock will be the average of the closing price of the shares for the one year period ending March 31st, 2009.
- Under this program, the federal government is investing in **voting shares** of a diversified portfolio of Banks with sound finances (unlike the TARP program). Unlike other federal bank investment programs (e.g. the CAP program), **this program is not structured to support the share prices of banks nor subsidize banks in any way.**
- Therefore, in order to **encourage participation by strong banks and talented bankers,** we strongly recommend that Congress institute much less onerous executive compensation requirements than those in place for other **Financial Stabilization Plan** programs.
- Accordingly, Congress should **institute only those provisions which would be expected by any major shareholder** (in a strong well-run bank) to protect the government's investment (i.e. no executive compensation that exceeds accepted norms in similar banks)

# Main Street Credit Amendment (Key Provisions)

- This amendment reallocates \$100 Billion (from the \$750 Billion slated for bank bailouts in Obama's 2009 Budget) for the purposes stated below.
- This amendment will **authorize the Governor of each state to allocate federal investment** into regular voting common stock of **publicly traded banks with clean balance sheets** that serve the population of their own state. Each state's Governor will have the authority to allocate a portion of the \$100 Billion proportionate to the size of their own state's percentage of America's population in the 2000 census.
- The **FDIC** shall also be directed by this statute to provide immediate assistance to each Governor in **identifying those banks within each state that have the cleanest balance sheets**.
- Each state's Governor will be fully authorized to promote this program in their own state, to recruit the participation of the shareholders, officers, and directors of selected banks, and to wisely allocate the available capital (for which they are authorized by this statute).

# Main Street Credit Amendment (Key Provisions)

- No more than \$1 Billion in new capital shall be invested in any one bank under this program during the 2009 budget year.
- Banks that have received more than \$10 million in TARP funds shall not be eligible to receive investments in this program.
- The bank stock purchased under this program will become the sole property of the federal government. The stock will be held for a minimum of three years by a Trustee to be appointed by the President, after which time it will be gradually sold over a period of ten years.
- All sales by the Trustee of shares procured under this program shall be at market prices. No more than 10% of the government's shares shall be sold in any calendar year. The bank that sold the shares shall have first right of refusal to buy the shares at that price.
- No bank which has sold shares to the federal government under this program shall participate in a takeover purchase of another bank for a period of two years from the date of such sale. Also no hostile takeover purchases until the federal government has sold its shares.