

*Thought you might be interested in this:*

*Below is a marvelous dissertation from a good friend and loyal 401k customer of Spectrum Investment Advisors. Jerry O'Connor, President of The National Bank of Waupun, spent weeks doing research on the topic "How Did We Come to have a Mortgage Crisis in America?". Jerry is a wonderful community banker that I have a great deal of respect for. He addresses this question from the viewpoint of a community banker. Jerry gave us permission to share his work with our customers. A very worthwhile read.*

*Sincerely,  
James F. Marshall  
President*

## HOW DID WE COME TO HAVE A MORTGAGE CRISIS IN AMERICA?

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Fundamentally an economic crisis is preceded by a breakdown in one or more of the systems or operations that the affected parties originally believed would sustain and shelter them from a... crisis. What preceded the current American mortgage crisis is a fascinating study of the consequences that are experienced when there is a breakdown by and between: sound economic principles; political/social engineering agendas; artificial government intervention; a failure in regulatory oversight; large-scale unbridled greed and ignoring the *long-term values* that underlie these decisions.

Former Federal Reserve Chairman Alan Greenspan told Congress in prepared testimony in October of 2008 that "*the current global financial crisis is a 'once in a century credit tsunami' that policymakers did not anticipate.*" The current Fed Chairman Ben Bernanke speaking on the housing bubble stated he, "*never saw it coming, never, it really caught me totally by surprise.*"

Needless to say, there seemed to be few, if any policymakers, regulators or industry experts from Washington to Wall Street and down through Main Street- had a business model that would have predicted the economic consequences we as a nation are facing at this time. They acknowledged that minor market disruptions were a normal part of economic cycles, but those that are charged with governing and protecting our economy seemed to have no idea that we were about to experience a near miss for a global economic collapse.

The "American dream" has provided home ownership for millions of families and still remains the envy of most of the world. Except for a few down cycles, the American residential mortgage market was one of the most stable sectors in the global economy.

The *housing boom* leading up to the recession of late 2007 was the *engine* that propelled the entire economy for nearly 20 years. New home construction triggered expected market segments to greatly expand in areas such: lumber, plastics, building supplies, plumbing and electrical supplies, electronics, appliances, heating and cooling units, concrete, asphalt, excavators, landscapers, etc.

New markets grew out of this huge expansion that resulted in: new subdivisions (*even entirely new communities*), increased inner city home ownership, larger homes, condos, vacation homes, new retail expansion to support these markets, new office complexes, expansion of local government services and buildings, new schools and hospitals, etc. There was a large transfer of populations to places like Phoenix, Florida and other gulf or coastal regions. Literally the entire economy appeared to benefit from this economic juggernaut.

When the economy began to unwind in late 2007, it was blamed on "*sub-prime mortgage loans*". Up through mid-2008 the Fed Reserve and Wall Street/Washington power brokers told us this crisis would soon pass. However, this was promptly followed by a sharp contraction in housing starts. Suddenly, buyers were more difficult to find and the largest boom markets were facing thousands of unsold new and existing homes inventory. With the contraction in new construction starts, the balance of the economy soon lost it's footing on what was becoming an unnerving and slippery economic slope.

By 2009, this event was being referred to as the most threatening economic crisis since the Great Depression. In 2008 and 2009, we saw the government provide massive bailouts and investments and/or takeovers of Fannie Mae and Freddie Mac, AIG, large banks, General Motors, Chrysler, etc. This was only the beginning.

**What had happened to the American housing juggernaut? What changed the historically stable mortgage market so that it was the driving force leading us into what will be known as The Great Recession?**

**A LOOK BACK:** The consequences of this crisis are that we have seen a lot of good people seriously affected by the dramatic change in our nation's economic fortunes. As with most economic crises, there are multiple forces that contribute to the failure of a particular market sector.

**THIS REVIEW** will focus on a few major factors that generated the most significant influences on America's mortgage and the larger economic crisis. Certainly there were others contributors to this crisis- but this focus is on the residential mortgage related issues.

First, it is worth reviewing *past lending principles* and comparing them with the *new, changed lending guidelines*. This former system worked well for us in the past. But, it appears that the more recent changes to the loan approval process evolved into the enormous flaws that would ultimately undermine the mortgage-lending arena.

## REVIEW OF THE HISTORICALLY PROVEN MORTGAGE LENDING MODEL:

In the past, the historical free-market exercise of making residential home loans, developed into what the banking industry came to rely on to qualify and manage loan portfolio risk. The three basic components were:

- **The 28/36 rule:** These Debt-to Income ratios represent a percent of the borrowers gross income:
  - **Housing Ratio (28%):** When you add the cost of a mortgage payment (*Principal and Interest plus real estate Taxes and home Insurance -known as PITI*), this expense would not exceed 28% of gross household income
  - **Total Debt Ratio (36%);** this is the total of PITI plus any other debt service payments (*car loans, credit cards, student loans, etc*). This expense would not exceed 36% of gross household income
- **Loan to Value Guidelines (LTV):** Prudent guidelines indicate that a good loan will not exceed 90% of the appraised value of a property. These guidelines allow for a property to come through a collection process and allow the lender a margin for holding and marketing costs. This guideline reduced the risk of portfolio loss exposure in the event of a foreclosure.
- **Maximum Amortizations:** The maximum term for paying back a loan would not exceed 30 years.

**Mitigation:** With these rules in place, a lender could make occasional exceptions with tools such as: Private Mortgage Insurance for loans in excess of 80% LTV, Personal guaranties by qualified guarantors (*typically family members*) for loans exceeding the 28/36 rule or the LTV guidelines. But lenders did not stray far from these rules. These lending practices provided a relatively safe harbor for lending that proved to be quite effective for both the Lender and Borrower.

This lending model, in essence defines a well-structured or **"prime" mortgage**. This long tested free market exercise protected both lenders and borrowers- since borrowers did not want to lose their homes and lenders did not want to own them- as the result of loan defaults.

There were no artificial safety nets to protect lenders and borrowers from exercising poor judgment in this financial exchange. If they practiced poor lender/borrower choices, they would both pay for their share of the consequences.

In the end this **tempered resistance** to each other's needs provided protection for all. This was how the free market exchange was meant to work.

## A NEW LENDING MODEL: THE FORCES THAT SHAPED A TRAGEDY

### Washington's Role: Community Reinvestment Act

President Carter signed the Community Reinvestment Act (CRA) into place on October 12, 1977. The Carter-era CRA purported to prevent "redlining" -- that is, the denial of mortgages to minority borrowers -- by pressuring banks to make home loans in "low- and moderate-income neighborhoods."

The CRA forced banks to lend to un-creditworthy borrowers, mostly in minority areas. Age-old standards of lending prudence were thrown out the window. In their place came harsh new regulations requiring banks not only to lend to un-creditworthy borrowers, but also to do so- on the basis of race for a form of Social engineering. This would prove to be a well-intentioned initiative with unwanted consequences.

President Clinton supercharged the program, despite warnings from some members of Congress in 1992. Clinton pushed extensive changes to the rules requiring lenders to make questionable loans. Calls for feasibility studies or risk assessments were summarily dismissed.

Failure to comply meant your bank might not be allowed to expand lending, add new branches or merge with other companies. Banks were (and are) given a so-called **"CRA rating"** that graded how diverse their lending portfolio was. In the name of diversity, banks were under pressure to make loans that they previously would not have qualified as a good credit risk. Enforcing this initiative is a primary service provided by Community Organizers...

Meanwhile, **Congress** gave Federal National Mortgage Association (FNMA) and the Federal Mortgage Acceptance Corporation (FMAC) the go-ahead to finance these new mortgages by buying these loans from banks, then repackaging and securitizing them for resale on the open market.

However, in order to achieve the mandate for financing these less qualified loans, Fannie and Freddie had to change the approval ratios (that previously governed "prime loans") for all borrowers. That's how the contagion began. With those

changes, the “*sub-prime loan*” market took off. **From a mere \$35 billion in loans in 1994, “*sub-prime loans*” soared to \$1 trillion by 2008 (out of a \$12 trillion national portfolio).**

#### **A Monumental Change in Lending Guidelines:**

The CRA regulations were substantially revised again in 1995, in response to a directive to the agencies from President Clinton. This resulted in lending guidelines being further loosened.

##### **The new rules had to apply equally to all applicants:**

- If you raised the bar for the 28/36 rules for some borrowers- *you had to raise it for all.*
- If you raised the bar for the 90% LTV rules for some borrowers- *you had to raise it for all.*
- If you increased the 30-year mortgage term for some borrowers- *you had to increase it for all.*
- The new rules were defined and standardized by FNMA and FMAC (see more below)

##### **Consequences of the New Lending Rules That Were Instituted:**

- The 28/36 rule was stretched out to 40%/60% -and even higher;
- The shift in the LTV rules provided for mortgages up to 125%+ of appraised values
- 30 year mortgages were stretched out to 50 years or “interest only” payment requirements
- Adjustable Rate Mortgages: loans could be originated with artificially low rates that allowed a homeowner to get into a house, but left the question unanswered: “when that loan re-priced to a higher rate, would the borrower be able to continue meeting the new higher payment schedule?” Too many borrowers took this option because... it was the only way they could qualify for the loan

The change in lending qualifications applied, not just to low-income families, but also to all income brackets. This, *maybe unintentionally*, triggered what became other high risk lending zones. The new rules would provide more borrowing power for higher income earners as well as low. These changes fueled the boom in larger homes; second homes, vacation homes - especially in areas like the coastal states or retirement homes in Arizona and the Southwest. New construction in these areas exploded. Unseen by many was the fact that sub-prime mortgages were being generated in all demographic areas and included many income levels.

**Sub-Prime loan defined:** What should be noted is that all of those loans exceeding the traditional “*prime loan*” lending guidelines were by their very nature “*sub-prime loans*”. In other words, these loan structures and qualifications were embedded with the components that would subject this portfolio to higher levels of default. **This became the tectonic shift that would greatly contribute to the nation’s residential mortgage crisis.**

#### **The CRA Power Players- and Rule Makers:**

The Federal National Mortgage Association (FNMA) and the Federal Mortgage Acceptance Corporation (FMAC) are Government Sponsored Enterprises (GSE’s) that buy the lion’s share of America’s residential loans. They operated under the auspices of having an *implied* Federal Government Guaranty for the mortgages they package, securitize and sell into the marketplace. Although this guaranty was not written down- it was rightly assumed -that if something went wrong- the US government would stand behind the FNMA and FMAC mortgages.

FNMA and FMAC successfully raised trillions of dollars with this model. With the implied guaranties of the US Government, this proved to be a winning combination- for increasing both mortgage debt and home buying opportunities.

FNMA and FMAC created and enforced the new rules for mortgage lending -in step with the CRA mandates. In fact 9 in 10 secondary market mortgage loans were approved through the underwriting software provided through FNMA’s Desktop Underwriter® and FMAC’s Loan Prospector®. Every market segment seemed to accept and trust the guidelines set by these Power Players. Freddy and Fanny drove the market.

If a lender originated a loan that was approved under these underwriting programs, they were assured that they could sell the loan off to FNMA or FMAC and thereby transfer any loss exposure.

FNMA and FMAC as of 2008 owned or guaranteed about half of the U.S.’s \$12 trillion residential mortgage market. You would truly have to question the oversight being exercised by the Federal Housing Finance Authority (FHFA), which acts as the Regulator for these companies. Didn’t someone somewhere question the integrity of these new underwriting rules? Was no one considering the potential consequences of these fundamental lending guidelines?

The Bush II administration issued various warnings during 2005-2008 to Congress to reign in the exuberant lending pace of FNMA and FMAC. Their concerns were repeatedly rejected by House Banking Chairman Barney Frank and the Senate Banking Chairman Chris Dodd, for being over-reactive or excessively critical.

In reality FNMA and FMAC executives were contributing huge amounts in political contributions to both parties. This totaled \$4.8MM from 1989 to 2008. It's just that those such as Dodd and Frank, who wielded the most power and oversight of FNMA and FMAC, would get the biggest donations.

#### CHANGE IN MORTGAGE LOAN DELIVERY SYSTEMS:

Numerous regulatory changes in the banking industry brought about by de-regulation culminated under Clinton in the Banking Act of 1999. This allowed for massive expansion of the US Global Bank players ability to grow to a size that is now defined as "too big to fail". This became another implied guaranty that provided for the exercise of poor, short-term gain decisions.

Concurrently, the players who originated mortgages and the compensation models they used would come to have an immeasurable impact on the mortgage market. Lending was no longer confined to the traditionally trained lender. Basically *anyone* could get into this business with little or no experience.

New *mortgage brokers or mortgage bankers* entered the market. It is worth noting that most of these brokers originated loans, sold them off through a variety of pipelines to secondary mortgage market. These folks did not have to service these loans or walk a borrower through the collection process. They never had to set down with a family and explain that they were going to lose their home. This is a lesson not soon forgotten by a young banker.

These new breeds of lenders were sales reps... and they were motivated first and foremost by commission dollars. As this delivery vehicle evolved, it did so with a "*commission paid for a mortgage generated*" model. In this compensation model, volume trumped quality. The goal was to get a deal done and never have to worry how it worked out for the homeowner. You were not going to have to service the consequences generated from a poorly underwritten loan. Someone else would have that pleasure. You received your commission and moved on to the next transaction.

Larger banks, having a need to provide big dividends to stockholders, were being left behind. So they quickly adopted this compensation model as well- they went to paying commissions based on volume (*a model rejected upon by traditional Community bankers*). Once again volume trumped quality. They would also sell off their mortgages to FNMA and FMAC -who seemed to have no end in sight for the monies they could make available for this market. (*Traditional Bank Formula: Volume > Quality = Loss*)

Why were Fanny and Freddie buying all this paper? Because their management was also being compensated with hundreds of millions of dollars in bonuses paid for volume produced -not on quality credit.

The new delivery system was literally greed based lending model and it was primed for large scale abuse.

#### Wall Street's Role:

Up to this point, we have identified the roles played by politicians and their government sponsored enterprises (or lackeys might be a better term). Their motivation was fundamentally social and not economic in nature. These changes would certainly contribute to a crisis. However the real fuel for this fire was produced on Wall Street.

Previously noted was that FNMA and FMAC would package, securitize and sell their mortgages into the marketplace. The buyers are typically trusts, institutional investors (e.g. pension funds), regulated financial institutions; foreign governments, etc. and they are serviced by the Wall Street brokerages. Traditionally, these are conservative investors that trade lower rates for lower risk. They could feel *very safe* buying a product that, for all practical purposes, had an implicit guaranty from the Federal government of the United States.

However, Wall Street was limited in their trading- since some of these Mortgage Backed Securities (MBS's) could not pass the quality test of their buyers. Wall Street was very aware that a MBS could be packaged with both Prime loans and Sub-Prime loans. How much increased risk did this mix of good and bad assets represent? These had the characteristics of a junk bond. As such, bank regulators were critical of these investments. Without adequate bond ratings, a similar determination came from Institutional type investors.

In order to meet this challenge, Wall Street created a new hybrid financial instrument or derivative, known as a “**Credit Default Swap**”. This product represented to the buyer that -the issuer would insure the buyer of the MBS from any losses that might be incurred as a result of the sub-prime mortgage risk imbedded in the portfolio mix.

Now you had, “Made in America” real estate mortgages approved by FNMA and FMAC, the US government guarantying your MBS -and the credit default swap form of insurance to cover the toxic assets that were layered into the security offering.

What could be better? What could go wrong? AIG (*the largest US insurance carrier*) was also the largest provider of Credit Default Swaps! With this new tool, Wall Street had a product that seemingly the whole world wanted.

With this new enhancement, Regulator’s signed off on these revised MBS’s as “bank qualified investments” and the Ratings Agencies ratcheted up this mixed bag of prime and sub-prime mortgages to AAA ratings.

This new Wall Street investment has been referred to as a “cocktail investment”. The reality is that many investors literally became intoxicated when these offerings were served to the public.

The bonfire was now fully fueled and the increased market temperature began a fateful climb. However like the story of the frog placed in a pan of water... most of the marketplace had no idea of what a Credit Default Swap was or that the traditional lending rules had been dangerously altered.

Then Washington and Wall Street blessed this mixture- assuring home buyers, investors, bond holders and everyone in between that they had the tools in place to protect everyone from harm. What we knew before- and are painfully reminded of now- is the if you violate certain fundamental principles, as was done in this case- you are living in a house made of cards

#### **The Borrower’s Role:**

Not to be missed in all this activity is the Borrower’s role. Many people were unaware of the behind the scenes process related to their mortgage. Many homeowners were not and have not been affected to this date.

But many, in all income categories, found themselves with more debt payments than they could service. Property values in many areas plummeted. Frequently there had been volumes of credit card debt added at the same time because the “new rules” of lending provided for it. We had a recipe for disaster!

Many buyers should have stuck with the gut feeling that told them, *“This is amazing that I am able to buy this property- I don’t know how the lender or broker thought we could afford it?”* In reality most borrowers knew this was simply too good to be true. It would only take a short period of time to prove it.

In many cases borrowers were betting on the future- while trusting the industry not to give them a loan they could not afford... and unfortunately this strategy ended in tragedy.

#### **The Regulator’s Role:**

Interestingly, the **Banking Regulators** failed to identify this huge bubble growing. Neither did they spread cautions that the Washington/Wall Street mortgage models could end in the level of calamity we have seen.

The **Securities Regulators** did not see the Credit Default Swap as a security product- but then again the **Insurance Regulators** did not think it was an insurance product. The banks and other investors looked at this product as a risk management tool, without knowing if the companies standing behind it were solid enough to face a crisis. The **Federal Reserve** never saw this coming.

**In the end the new hybrid “cocktail investment offering”- that ultimately fueled an economic tsunami -went completely unregulated. How could that happen?**

The entire government apparatus that is supposed to protect the public was AWOL. But it should be noted that they survived the firestorm with all of their body parts in tact, since they have had more than enough fingers to blame the crisis on somebody else. To date, we are not aware of one single person in these agencies that lost their job over this colossal failure. Where is the accountability? If there is none – we are in trouble! Will they protect us in the future any better than they did over the last 10 years?

#### **THE CRISIS:**

If the economy would have remained stable for a long period of time into the future- and if property values remained stable with moderate increases in value over a long period of time- this scenario may have been tolerable.

However, this was not the case. Inflation in most markets far exceeded historical, supportable levels. In some areas it was simply unbelievable at 20-30% or more annually. The consequences of the earlier decisions described herein were accelerating and too few had the knowledge to avoid the minefields of this seriously flawed new financial model.

When the sub-prime mortgage concerns began to surface in late 2007 and into 2008, homeowners were not able to make mortgage payments. This was followed by literally billions of dollars in FNMA/FMAC MBS's moving toward default. This was followed by investors filing claims against the Credit Default Swap policies they had bought from Wall Street. There were simply too few dollars to meet this economic implosion.

America was facing a financial disaster that very few were prepared to address. Ben Bernanke and Alan Greenspan as the Chairman and former Chairman of the Federal Reserve Board confessed they had no idea this potential for such a massive economic collapse existed. Their mindset would be echoed at the Treasury Department, FDIC, Financial Regulators, by foreign governments, foreign investors, the nation's largest banks and Wall Street.

Beginning with the government mandating certain lending decisions, without accounting for the impact of these changes, America ignored and violated time proven patterns of prudent lending -where both lenders and borrowers were far more protected than they would be in the wildfire that we now find ourselves in.

What began in late 2007 as a concern for sub-prime mortgages has ballooned into the largest economic contraction since the Great Depression.

#### **END CONSEQUENCES- THE COST OF THESE DECISIONS AND POOR OVERSIGHT:**

**Every homeowner** in America has been negatively impacted. If not through a frightening failed mortgage experience, then they have been affected by greatly depreciated values of their own homes.

In 2008 the Federal Government took over **FNMA and FMAC** and we are absorbing billions of dollars of losses caused by the poor lending practices they authored and sanctioned. The original bailout cap for these two was \$400 billion dollars. Earlier in 2009, Fannie Mae and Freddie Mac requested \$800 billion dollars in available bail out money. The U.S. Treasury announced on 12/24/09 that the Treasury had now increased this guaranty to an **unlimited amount of money** through 2013.

The President never addressed the FNMA/FMAC risk scenario in the budget he presented in early 2010. Therefore, the Treasury and White House can simply implement their CRA policies and relief mechanisms through Fanny and Freddy, without a budget or Congressional oversight or constraints- all at taxpayer expense. What form of economics will they use and what agenda will drive those decisions?

To illustrate how over the top the Freddy and Fannies lending practices were, only 66,000 of 903,000 applicants have been approved for permanent debt relief so far. The balance cannot reasonably demonstrate the capacity to service the revised debt requirements.

Additionally the **Federal Housing Authority (FHA)** has another \$752B in loan guaranties for borrowers who were financed with as little as 3.5% down. *(Today those homes with 3.5% down are worth less than the outstanding loan balance. How long will this group pay for houses that aren't worth what they paid? Or how much will the government write them down?)*

On October 12, 2009 FHA in its Annual Report to Congress indicated that their capital was at .53% and loans past due 30+ days were 17.71% of the portfolio. If 30% of these loans fail, the taxpayers would be called on the pony up to \$30 billion.

The government has provided \$182 billion in bailout monies to **AIG** to cover their faulty **Credit Default Swap** products. The U.S is now the largest stockholder in AIG. Take note that out of this bailout money, sixteen banks, including Goldman Sachs, Deutsche Bank, Societe Generale and Royal Bank of Scotland, were paid more than \$62 billion to cover their bad bets- *thanks to the ever-helpful US Taxpayer*. Other firms such as Lehman Brothers were simply allowed to fail- leaving their good faith stockholders with billions more in losses.

**The American Taxpayers:** Maybe the most prominent lesson is the profound reminder that the "government" is composed of the American people. When all of these commitments and guaranties are made in the name of the Federal Government- they are not backed up by some invisible government agency or some bureaucrat – no, the buck stops with the taxpayer. We are the

ones paying for all of these losses incurred by our “government” on our behalf. It is a terrible price that will be paid for generations to come.

**How much money are we talking about?** According to a Bloomberg article, in just one short year (March 2008 - March 2009), the bailouts managed to spend far in excess of nearly every major one time expenditure of the USA, including WW1 & WW2, the moon shot, the New Deal, total NASA budgets, Iraq, Viet Nam and Korean wars — COMBINED.

- Marshall Plan: Cost: \$12.7 billion, **Inflation Adjusted Cost: \$115.3 billion**
- Louisiana Purchase: Cost: \$15 million, **Inflation Adjusted Cost: \$217 billion**
- Race to the Moon: Cost: \$36.4 billion, **Inflation Adjusted Cost: \$237 billion**
- S&L Crisis: Cost: \$153 billion, **Inflation Adjusted Cost: \$256 billion**
- Korean War: Cost: \$54 billion, **Inflation Adjusted Cost: \$454 billion**
- The New Deal: Cost: \$32 billion (Est), **Inflation Adjusted Cost: \$500 billion (Est)**
- Invasion of Iraq: Cost: \$551b, **Inflation Adjusted Cost: \$597 billion**
- Vietnam War: Cost: \$111 billion, **Inflation Adjusted Cost: \$698 billion**
- NASA: Cost: \$416.7 billion, **Inflation Adjusted Cost: \$851.2 billion**

**TOTAL: \$3.92 trillion**

A recent Bloomberg article does an excellent job of breaking down the insanity. The U.S. government and the Federal Reserve have spent, lent or committed \$12.8 trillion, “the U.S. has already spent \$4.17 trillion and has further allocated \$12.8 trillion -an amount that approaches the value of everything produced in the country last year, to stem the longest recession since the 1930s...”

#### HOW CAN WE FIX THIS PROBLEM?

**Residential Mortgages:** Go back to the model that provided protection for all parties to a mortgage product.

- Let the **Free Market System** work without artificial promises where fewer people can be hurt.
- Use mandates that prohibit forms of social discrimination without over-riding sound financing principles.
- Try the 28/36 rules and do not lend more than the property is worth! (In 2009 FNMA/FHLMC announced that they will tighten their D.T.I. ratio requirements to 36/45 percent in hopes of keeping consumers from biting off more than they can chew when buying or refinancing a property. (they still don't get it!)

Lenders want to generate loan income without losing money- borrowers want to buy and be able to keep homes. If the boundaries are clear and the risk is measured, neither lenders nor borrowers will increase their risks to where they cannot afford the consequences of bad choices.

In the end this **tempered resistance** to each other's needs provided protection for all. The system that proved sufficient in the past will do so again.

**Politicians** need to be stopped from making outrageous promises that can never be fulfilled. The failures we are experiencing today cannot continue unabated without causing an eventual collapse of the dollar and a legitimate threat to our way of life. If the current group of politicians cannot keep themselves from this behavior, then let's find new ones that see the danger we face and are willing to make the needed long-term decisions that will help to preserve America's future.

The **government** should not use *artificial* tools -to generate *artificial* opportunities –or *artificially* suggest that they can insulate the public from the real consequences experienced when we violate basic values and principles.

In this regard **Thomas Jefferson** cautioned us: “A government big enough to give you everything you want, is strong enough to take everything you have” and “Congress has not unlimited powers to provide for the general welfare, but only those specifically enumerated.” We need to restore the governance of the Constitution and return to our founding principles.

**Regulators** should better focus on the larger systemic risks in future scenarios- if they are to be the protector the public expects. There should never be another unregulated arena like we have seen in the various cocktail investments spawned by Wall Street. If the Regulators fail, they should be held accountable and replaced by those who know what they are doing.

**The Public and Private Enterprise** need to recognize that unbridled short-term greed has violent long-term consequences. In this case, greed nearly brought the world to the brink of economic collapse. We do not have the resources to stop a second economic tsunami.

Therefore, at every level of society we need to be educated about and embrace an economic model that is focused on long term success and not the greedy, "I'm getting mine now" mindset. **From the Board Room to the Break Room** we need to change the way we think about financial principles and security.

**The Citizenry-** Hopefully the American citizens will also learn a lesson and demand more accountability from their government and from the Corporate Board Rooms. This crisis demands reflection and meaningful change. Fortunately, we do not have to endure a revolution to exact change from our government- in America we have the opportunity to make our changes at the voting booth. We need to shed political apathy and get engaged in preserving the things we have come to enjoy in America.

For every person reading this article, you have a responsibility to preserve America for the generations that follow. If you don't- who will?

### **CONCLUSION- AMERICA'S PROBLEM IS A VALUES CRISIS:**

**The source of this current American crisis is not found in our economic models. America is experiencing the consequences a much larger crisis- it is a VALUES CRISIS!**

Our current circumstances are the result of a fatal combination of short-sighted government policies and a relentless pursuit of personal gains- that frequently camouflaged unabridged greed. This was true from Washington to small town America; from Wall Street to Main Street- and from the Board Room to the Break Room.

On many occasions, America has been arrogant in a basic belief that either our money or the size of our government could insulate us from the consequences of our choices. A review of the current crisis shows us that we could not have been more wrong with that outlook.

We find that many of the popular social fascinations today place the pursuit of pleasure above all other values. There is nothing sacred in most of our media. Too much of the programming going forth in America ignores the consequences of poor social choices. In fact, social degradation is glorified.

Entertainers and sports stars receive the most money and highest honors. The inner city or hospital volunteer, who seeks no accolades or fame, is routinely ignored.

There are mindsets that treat many parts of our society as throwaway people. There are those that see little value in the unattractive people of the world, the overweight, the undereducated, the people of the inner city, the country folks no one knows, convicts, the sick, the elderly, and the unborn... Too many Americans, these people are unexciting and inconvenient – so throw them some money, throw them in prison, store them in the nursing homes- or just abort them before they ever hit the streets -and throw what's left of their precious little bodies in the trash.

We are a peculiar society where we can be amazingly generous on one hand and totally callous on the other.

Frequently America is more like Rome in its last years than we are the country founded on basic biblical principles. This is not a mandate that all go to Church- but it would be helpful if we knew the values that were used to build this country and still have the capacity to sustain our society for the long haul.

**With these current social values found woven into America' fabric, is it any wonder that we allowed ourselves to be drawn into a financial crisis?** We violated economic principles, we allowed the government to promise what they could not do for infinitum, we allowed greed to reign over common sense and we ignored the consequences of all of these actions. But if you are willing to wait... here in America there should be a new sit-com coming out in the fall that will glorify these behaviors once again- ya... we can just laugh it all off.

In far too many ways we as a nation have abandoned far too many of the values that have made us a great nation- a "*shining city on a hill*". Many of us still embrace **Lincoln's** conviction that "*America ... is the last best hope of earth*".

I am concerned that if we do not embrace a *historical* American model of government and values, then we will be ruled either by socialists with a God-less society or by militant Islam. Can you think of either of these societies where you would want to relocate to? If not, you better protect the one you have.

However, in order for America to achieve and retain our past status, this city must be built on a solid foundation- and the foundation of any society is secured squarely by the values we are willing to stake our lives and future on.

This will not be easy. By most measures, all of the experimentation in social models over recent decades has resulted in a severe deterioration to our social structure.

We can recover from this decline- but not if we build on the social and economic models of recent decades. As a result of these experiments, in many ways as a society we are in decline. We need to reconsider the foundation our society is built on.

This includes the values, honor and exercise of God-consciousness in our thinking. We need to return to a mindset that consequences are directly tied to the choices we make. There is a price to pay- either now or in the not too distant future. Whether it is in economics or in living out our everyday social choices, we will be blessed or cursed as a consequence of the decisions we make.

We do need change in America. But we need the right kind of change! That change must start with a restoration in our values. I would suggest that the change America was built on in the late 1700's... would serve us very well here in 2010.