

# Washington decision to bail out banks leaves taxpayers with mixed emotions, empty wallets

BY BENLONG

Reporter

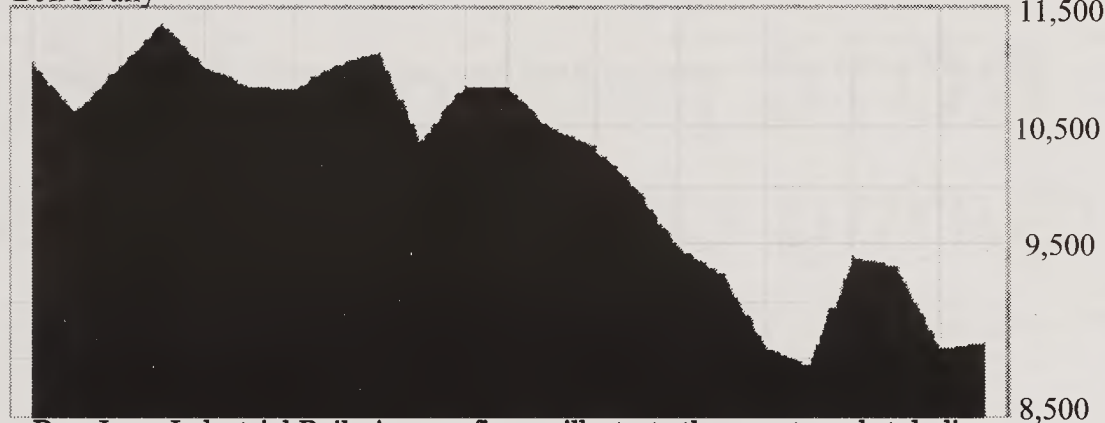
While the sub-prime mortgage crisis may seem irrelevant to high school students, its effects are wide ranging enough to be of serious concern for all Americans. The crisis has risen to a serious enough level that it could cost taxpayers upwards of \$700 billion and already drawn comparisons to the Great Depressions.

Few if any people fully understand the sub-prime mortgage crisis, an extremely complex issue. People with moderate to poor credit often receive sub-prime mortgages at very low rates. These types of loans grew in favor from 1997 to 2006 when housing prices were increasing rapidly.

At the time, people assumed home values would continue to increase, which resulted in banks awarding progressively riskier loans. Banks began offering "Adjustable Rate Mortgages" (ARMs), which initially had low "teaser" rates (as low as 4%) but would soon increase substantially to rates most people could not afford.

Low rates enticed people who did not have enough money to purchase houses because the buyers believed that as their home values increased, they could later refinance or apply for a second mortgage. Even worse than ARMs were

DJIA Daily



Dow Jones Industrial Daily Average figures illustrate the recent market decline.

the poorly named "ninja loans," which were given to people with "no income, no job, and no assets."

Additional to risky loans, many consumers purchased "investment properties" or houses bought for the purpose of selling later at profit. Many who bought these "investment properties" could not actually afford the home loans, but speculated that housing prices would continue to increase, allowing them to pay off the loans later.

High-risk loans worked out until 2006 when the housing bubble finally popped. As ARM rates increased, home owners could not make payments and soon defaulted on their loans. As more people defaulted on loans, a huge increase in available houses resulted, which in turn drove down house prices. With low

housing prices, people were unable to refinance their ARMs, which caused a vicious cycle of home-owners defaulting on their mortgages and housing prices plummeting.

Banks previously expected some sub-prime mortgages to fail, but with so many loans issued, they assumed the profits from the others would cover these failures. When people began to default at such high levels however, banks did not make enough money to cover the delinquent loans, consequently they lost money. In fact, banks lost so much money that they soon may be unable to cover customer withdrawals, and loans to consumers who want to buy houses or expand businesses.

As the sub-prime problem increased, the government took several steps to counteract the problem, such as cutting the

interest rate by the FDIC and developing the economic stimulus plan. The most recent attempt to correct the problem involved the Emergency Economic Stabilization Act.

Originally rigidly rejected in the House, the act was changed to garner more bipartisan support, leading to its passage in the Senate and the House. The Bill proposes the government spend \$700 billion of taxpayer's money to bail out failing banks by purchasing their bad loans, attempting to support failing lenders and restore confidence in the economy.

This particular bill is highly controversial because of the amount of money falling upon taxpayers. Many people are upset because company CEOs who knowingly approved bad loans will make millions of dollars from the

buyout. The CEOs have what is known as a "Golden Parachute," which is a guaranteed multi-million dollar severance pay. Some people believe that a guaranteed million dollar severance pay encouraged CEOs to make risky business decisions in the hope of making more money. Opponents of the bill feel that if it passes, the government will pay for these people's mistakes, allowing them exemption from any consequences for their reckless actions.

Supporters of the bill consider it extremely important for the nation's overall financial future because the lending organizations are so large that their failure would cause a collapse of the global economy. These same supporters also claim that while the crisis may have been caused by greedy CEOs, the safety of the world economy is more important than worrying about retribution against the CEOs.

Another important aspect of the act is taxpayers may actually make money off of the bill. When the government buys the bad home loans, it should be able to sell them off after the housing market rebounds for a profit. This means that while the bill will now cost Americans an almost inconceivable \$700 billion; they may be able to recoup much if not all of the funds at a later date.

## Davis delights freshman crowd

BY BETSY SUMERFORD

Reporter

Six-foot eight, 335 pounds, the once linebacker for the New England Patriots, Keith Davis, is a serious looking man. He also has a serious message to share with young people.

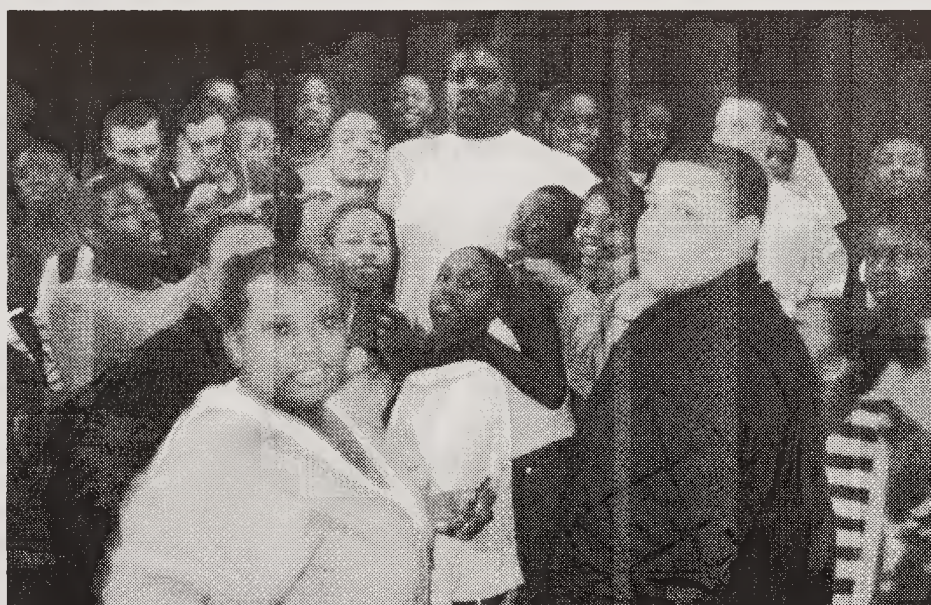
"If your life isn't heading in the direction you know it should be, make a U-turn quickly," said Davis to the freshman class on Thursday, Oct. 2 during third period.

Overcoming obstacles is a subject Davis understands very well. Born into a poverty-stricken family, he grew up in inner-city Los Angeles where he frequently struggled in school.

He later coped with the suicide of his father and overcame his personal involvement with weed. Davis realized he needed to make a U-turn when, at his first press conference, the police showed up to charge him with possession. Despite such difficulties, Davis refuses to allow these circumstances to consume his life.

He appears on numerous television shows to spread his message, he enjoys a most satisfying job, and he finds comfort from caring and supportive family members.

"What I'll remember most about the assembly is how Keith Davis gave examples of good dreams and bad



Keith Davis bonds with freshman after his motivational speech. Davis took photos with students and gave out autographed football cards. Brady photo

dreams. He made me think about making good choices in life," said freshman Alex West.

During the assembly, Davis encouraged students to make the right friends, people who respected themselves, and to be obedient to their moms.

"When I looked around the auditorium and saw how happy all of the kids were, jumping up and down, I realized Keith Davis was a good speaker. He encouraged us to do better in school and change

our bad habits," said freshman Sahira Gordon.

Freshman Kevin Watson was also quite impressed with Davis's speaking engagement.

"I recommend that he come back to Grimsley to share his important and special message with next year's freshmen," said Watson.

Davis successfully worked his crowd and encouraged vocal responses. He ended his speech on a serious note: "And remember: life is not a game."

### Retraction

In our September 30 issue (Volume 84 No.1), we reported in "Physical changes on campus freshen atmosphere, add appeal" that the newly constructed benches along the Main walkway were built by a team of contractors. The benches were actually built by Mr. Degraffinreadt with the money raised by the Class of 2007-2008. We apologize for this error.

### Congratulations

to the following seniors who have been named Commended Students in the 2009 National Merit Scholarship Program:

Jack Woolard  
Madeline Sperling  
Kartik Sethuraman  
Sarah Shope  
Elena Aronson  
Kevin Englar  
Evan Frierson  
Michael Kattman  
William Leimenstoll  
Virginia Miller  
Gianmorco Pagliai  
Justin Pescoscolido  
Henry Read