



Commercial Real Estate Views

My 3, 6, 3 Plan

Last Sunday I heard a pundit suggest that the administration now believed that the recession would not be over until the economy started to create new jobs. Ya think! As brokers, developers and business professionals we need to weigh in on what our government is doing and suggest real solutions for very real problems. We can no longer complain and blame the other guy – because we are the other guy.

I believe that the simplest solution is often the best. I further suggest that our legislators can often take a simple solution and craft it into our worst nightmare. I believe we are about to see the results of exactly this phenomenon in the form of The Credit Card Accountability Responsibility and Disclosure Act. This legislation was designed to level the playing field between banks and consumers using credit cards. The result will be a nightmare of epic proportions.

First the legislation deals with the problem by restricting what a bank can do with regard to specific penalties, interest and payments. Instead of creating a new set of rules from scratch, the law bans certain practices. A study conducted by the Pew Charitable Trusts suggests that every card and bank they reviewed currently uses practices considered “unfair or deceptive” by the Federal Reserve. Now banks are using other rules, not affected by the legislation, to raise interest on clients not in default, increase minimum payments, and substantially lower credit limits in addition to denying credit altogether.

I want to put this in perspective, if the Federal Reserve did to banks what banks are doing to consumers, every single bank in the country would immediately fail. The Federal Reserve is making money available to banks at rates below one percent – now imagine what would happen if the Reserve invoked a penalty rate of thirty percent or substantially reduced the amount of available funds. Bankers are reading this and laughing because they know that it would shut down the entire economy. Yet families are shut down every day because of the actions their banks take while these same banks blame the government for making the actions necessary. In fact, credit card companies warned in late October that special introductory offers would disappear and lower-income applicants would be denied cards if the Government pressed ahead with its planned crackdown on the industry. I wonder what happens when a consumer threatens a bank.

We hear rumors of recovery but we are seeing the results of one time stimulus infusions, recovery will come when the average consumer returns to the marketplace. Credit is an integral part of the equation and we are doing nothing to restore this credit in the economy. I hope that I am missing something here, and encourage everyone to go out and buy toys,

jewelry, cars and houses and prove me wrong. But if you, like me, are worried about paying for everything twice then my guess is that you will buy what you can afford. The sections of the economy fueled by reasonable credit will simply have to wait.

I do have a simple solution. The federal government could deal with the consumer directly. Any taxpaying citizen could borrow up to a year's salary (*maxing out at 50K*) directly from the government at a fair interest rate. For the sake of argument, let's say 6%. Your federal income tax bill each year would include the interest on the outstanding debt. Bankruptcy could not be used eliminate the debt on the loan – but the interest could be lowered in times of hardship to a break even 3%. So you if you lose your job, are ill or disabled you are not penalized out of your home. If the money is not repaid by your 67th birthday a payment would be deducted directly from your social security check amortized to your 80th birthday. The consumer can now use the money to reduce credit card debt, buy a car or home, start a new business, retire, or pay for additional education.

To fund the program, the government would make tax free bonds available to those who have money at a return rate of 3% which is higher than the rates now offered. Banks could administer the loans for a 1% fee and would have to negotiate with consumers on a far more level playing field, and the government profits from the program instead of bailing out the banks with direct influxes of cash. Cash, by the way, that is currently not finding its way to the consumer.

Many will suggest that the Federal Government should not get into the business of consumer lending. I would argue that in attempting to regulate banks they already are. The current plan of trying the rewrite the fine print that few read and fewer understand is not working. Some may want to suggest that the Federal Government is happy to enter the automobile, insurance, securities, health care, construction, and hundreds of other businesses as a stakeholder, isn't it about time they made an investment in their citizens. As for me, I'm just looking for real solutions to real problems that produce real results. Call me simple.

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