House, not only because of his knowledge of procedures but because of his ability to maintain order in a calm and fair fashion.

Representative LAHOOD has a long and distinguished record of serving his district, from his leadership in establishing the Abraham Lincoln President Library and Museum in Springfield to his work to spur economic growth while protecting the environment. A teacher by training, he has worked to preserve and improve the Library of Congress—our Nation's preeminent library.

I will miss RAY LAHOOD and, like his constituents, I wish him all the best and thank him for his years of public service.

AN ALTERNATIVE TO THE PAULSON PLAN

HON. VIRGINIA FOXX

OF NORTH CAROLINA

IN THE HOUSE OF REPRESENTATIVES

Friday, September 26, 2008

Ms. FOXX. Madam Speaker, I submit the following for the RECORD:

BRANCH BANKING & TRUST CO.,
Winston-Salem, NC, September 26, 2008.

Hon. VIRGINIA FOXX,
House of Representatives, Cannon House Office Building, Washington DC.

DEAR REPRESENTATIVE FOXX: Unfortunately, while under normal circumstances there would be a free market solution, given the publicity and psychological mindset which has been created. Congress not acting is extraordinarily risky. Therefore, an alternative to the Paulson Plan must be developed. A much more effective, far less expensive solution to the financial crisis than the Treasury Secretary presented is outlined below.

It is important to recognize that the fundamental problem is in the real estate market. We have built too many houses, built too expensive houses, built houses in the wrong places, etc. We have an excess of housing inventory. Problems in the mortgage market which are causing the problems in capitals markets are being created by the problems in the real estate market. House prices in many areas have been out of line with peoples income and rental alternatives. In the long term, the price of houses is determined by production costs, people's incomes (affordability) and the relative cost of rental alternatives. Based on these factors, the price of houses in the United States on average need to fall approximately 30% from the peak of the market to sell the unsold inventory. (The numbers used here are rough approximations and vary significantly by individual market, but they make the point.) We have effectively wasted $600 billion on housing which should have been put to more productive uses such as technological investment, education, agricultural advancement, etc. Without Freddie Mac and Fannie Mae and the affordable housing program (sub prime), we could never have made a misallocation of capital of this magnitude.

However, the mistakes have been made and we have to live with them. Housing prices nationally have already fallen approximately 20%. The good/bad news is approximately $500 billion of the projected $600 billion in losses have already been taken by financial institutions, and substantial capital raised to cover some of the losses. House prices need to fall another 10% or approximately $100 billion to clear the market. Ironically, if the market knew that housing prices were going to fall exactly 10%, the market would stabilize. Uncertainty about the bottom of the market is what is creating the disruption in the capital markets.

The goal is to cut the effective economic cost to the buyer without cutting the price to the seller which will solve the problem in the housing market. Congress can approve a house purchase income tax credit equal to 10% of the cost of the house with some maximum (such as $40,000). This will cut the effective economic cost to the buyer without cutting the price to the seller. The tax credit would be available to anybody and would be a true tax credit in the sense that you would still get the interest deduction. The government would be sponsoring a "fire sale" of houses. The tax credit would only apply to existing house inventory, i.e. new houses which were completed or under construction as of September 1, 2008 and existing houses which could be proven to be on the market as of September 1, 2008. The tax credit would be available for a limited time, for example until June 30, 2009. In order to motivate rapid sales activity. Congress would approve a fixed amount of tax credit and make it available on a first come, first serve basis. For example, the amount of the tax credit could be $100 billion to the first purchasers of houses. This would force individuals to act quickly. The goal is to entice people to make real estate investments who otherwise would not and clear the housing inventory.

Let me give you some concrete examples. There is a house on the road which I travel to work that has been on the market for $200,000. I am not interested in purchasing at that price. However, a 10% tax credit of $20,000 makes the effective cost of the house to me $180,000. At that cost, I would be willing to purchase the house. In addition, the tax credit makes it an even better deal since I personally hate to pay taxes.

Tom, who owns the home, wants to sell his house so he can buy a new home that is a few blocks away. If he can sell his house for $200,000. he would have enough equity to buy his new house. (He sells for $200,000 and yet the house cost me $180,000.)

I already have a house and do not need to have a second house to live in, so this house would be an investment for me because I think house prices will ultimately appreciate, particularly off of the 10% reduced cost base. I would be motivated to rent the house because having an empty house is not productive. I would rent it based on the $180,000 price or less because any rental income would be better than none. I may rent it to Fred and his family who are moving out of a falling-down mobile home which would improve the quality of their life. Tom would have a better house for himself and his family. Fred would have a better house for himself and his family, and I would have a good investment. The realtor who sold both houses would have more income to pay for her house and the builder would be out from under a financial bind. The bank that financed the new house would have less risk and more capital. Having an empty house is not only a waste of capital, it reduces the standard of living,

Here is another concrete example. Janet and Jim who live in the northeast have long coveted a vacation/retirement house in Florida. With this once in a life time buying opportunity covered by the housing tax credit, and given that house prices in Florida have already fallen significantly, Janet and Jim would be motivated to buy that dream vacation/retirement home in Florida and they can afford to do it at this reduced price. Because they are not ready to retire, they may put the house they have purchased up for rent for vacationers and/or for individuals living in Florida at a lower rental rate based on the cost and the fact that any rental income is better than no income. Again, this would be a good situation in that Janet and Jim would be happy, the builder would be better off financially, the bank that financed the house would be better off financially, the realtor in Florida who sold the house would be able to make her house payments and the renters or vacationers would have a better quality of life.

This program can all be accomplished for $100 to $150 billion and solves the real estate problem and with it the capital markets problem. While expensive, this program is dramatically less expensive than Paulson's $700 billion dollar program.

Our program would be a huge economic stimulus far more effective than sending people $100 checks so that they can eat out an extra meal. Rich people would benefit from the tax credit (this is not an egalitarian measure), but the country as a whole would tremendously benefit. All homeowners would benefit because this would stabilize housing values nationally. The interesting fact is that there are less than a million extra houses for 300 million people in American. The incentive does not have to impact the decision making of many families to have a significant impact on the U.S. economy.

To understand the problem in a broader context, it is appropriate to reflect on it from a very basic perspective. My early career in the bank was devoted to financing farmers. An interesting thing happens in agricultural markets, farmers have to guess what to produce based on what they expect the price to be in the fall. Hedging helps but production can not be totally hedged. In the spring, many farmers think that soybean prices will be high in the fall so they grow a lot of soybeans. The weather is very good and soybeans production is good and soybean prices fall because there are so many soybeans. This is an economic miscalculation, and it is an unavoidable calculation because as human beings we are not omniscient. The fact that farmers would have been better off growing more sun flower seeds and fewer soybeans is not known before the process starts. The soybean market corrects almost immediately. The reason this happens is that soybean farmers have an interesting dilemma; they have soybeans which they have to do something with because they can not eat them all themselves. They can sell the soybeans or store them. If they choose to store them they have the cost of storage, the risk of physical damage and the risk that the price will be even lower in the spring. That is a risk some farmers assume and others don't, but the market quickly clears all the soybeans that are for sale, and the people that store them are making a rational economic decision based on the facts. They are at risk if the decision is wrong so they are more likely to sell.

In theory the housing market should work in the same way, i.e., housing prices should have quickly fallen 30% and we should be through the market correction, particularly given that the housing market has been in a correction for over 2 years. Unfortunately. we have factors that prevent the natural free market correction process from working effectively in the housing market. One factor is human psychology in that people tend to make less rational decisions in regards to their home because of the emotional attachment (which farmers do not have for soybeans). There is probably not much we can do about this fact.

The other factor is structural and it reflects on who is taking the risk. Let me give you an example. You make a loan to James who is someone you know, but not a close friend. James is buying a $200,000 house and he is willing to put $10,000 down and you loan him $190,000. You think you are safe with your investment because you think house prices always go up.

Then some unfortunate events occur. James develops a drinking problem, loses his job and can not pay his mortgage home payment. Simultaneously, to your and James' surprise, the price of houses have fallen and the home that James owns that you have financed is now only worth $180,000. James has lost his total investment and has nothing else to loose at this point. You have lost $10,000 but you are highly motivated to get the house sold or rented. Since James can not lose any more, he immediately appeals to the legal system and declares bankruptcy and puts the house in foreclosure. In many states like Florida, James can delay the liquidation of his house for 12 months, and effectively live in the house free, while continuing to drink and not go back to work. The combination of the judicial system and ''do-gooders'' keep the housing market from correcting thereby causing additional losses. However. this means that Alfred, who is hardworking and honest, and would like to rent or buy the house from you, continues to live with his family in a mobile home at risk of a hurricane, while James, the alcoholic, gets to live in a nice house. In other words, the legal system acts as an impediment to normal market correction process which happens every few minutes in agricultural commodity markets. The commodity prices are constantly adjusting reflecting expectations for the values of different products and services based on imperfect human knowledge.

By the way, the reason Bernanke and Paulson can not see the solution is they are making a fundamental epistelogical (thinking) error. Bernanke is thinking from economic theory and Paulson is thinking from a capital market theoretical perspective. To solve the problem, we have to deal with the real physical world, i.e., the fact that there is a physical inventory of houses that needs to be cleared and we must grasp what motivates real individuals (not theoretical collectives) to act.

A carefully designed housing tax credit and ending Fair Value accounting (as currently implemented) will fix the real estate markets, capital markets and the economy. This program will likely actually increase tax revenue by stimulating the economy by increasing taxable income. There is likely to be a net gain to the government.

I hope you will give this issue serious consideration.

Sincerely,

JOHN ALLISON.

IN HONOR OF MARY CARPENTER

HON. MICHAEL N. CASTLE

OF DELAWARE

IN THE HOUSE OF REPRESENTATIVES

Friday, September 26, 2008

Mr. CASTLE. Madam Speaker, it is with great pleasure that I rise today to recognize Mary Carpenter for her 50 years of support to the Pilot School in Wilmington, Delaware. As the principal founder of the Pilot School, Mary has seen her dream blossom into a reality: an innovative, individualized learning facility that has impacted the lives of countless children and their parents in the Delaware Valley area.

The Pilot School serves to provide a learning environment for children who need individualized, therapeutic attention to build basic academic and social skills. In 1957, the Pilot School began as a class of five young boys and two teachers who met at the Christ Church Sunday School in Greenville, Delaware. One of these students was Keith Carpenter, Mary's fourth child. Mary's vision for a school that could meet her son's learning needs inspired four other parents, who supported Mary in realizing this vision. The groundbreaking teaching of these instructors proved so successful, the teachers, parents, and Mary recognized that this "pilot" program must become an established, ongoing school. Pilot has grown into a teacher-designed facility with 50 staff members educating approximately 160 students ages 5 to 14 each year.

Today, Mary serves on the Board of Trustees to the Pilot School, helping to set school policy, manage finances, raise financial support for tuition aid, and oversee maintenance to the school's facility. As such, she serves on the Financial Aid Committee and the Executive Committee. While she remains heavily involved in the overall workings of Pilot, Mary still reaches out to the teachers and parents of Pilot students as a person who understands the challenges that face those who seek to properly intervene for children with language-based learning difficulties. If she hears of a need, Mary meets that need, often sending supplies, materials, and thoughtful gifts to teachers for their classrooms.

I acknowledge and thank Mary Carpenter for her many years of service and numerous contributions to the Pilot School and education in the State of Delaware. I am confident that she will remain an influential part of the Pilot School for many years to come.

EARMARK DECLARATION

HON. JIM GERLACH

OF PENNSYLVANIA

IN THE HOUSE OF REPRESENTATIVES

Friday, September 26, 2008

Mr. GERLACH. Madam Speaker, pursuant to the Republican caucus standards on earmarks, I am submitting the following information for publication in the CONGRESSIONAL RECORD regarding earmarks included at my request in H.R. 2638, Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009.

Department of Defense Appropriations.

Account: Operation and Maintenance.

Defense Wide: Collegiate Consortium for Workforce and Economic Development, 4747 South Broad Street, Philadelphia, Pennsylvania—$800,000 for the Delaware Valley Continuing Education Initiative for National Guard and Reserve. The funding would be used to provide job-skills training and continuing education to Veterans, National Guard and Reserve personnel returning from Iraq and Afghanistan. Military and civilian personnel displaced by the closure of the Willow Grove Naval Air Station will also be eligible for education and job-training services.

Bentley Systems, Inc., 685 Stockton Drive, Exton, Pennsylvania—$1 million for U.S. Navy Mobile Condition Assessment System Pilot for Commander, Navy Region Mid-Atlantic (CNRMA). The funding would be used to develop and test the U.S. Navy Mobile Condition Assessment System Pilot; a mobile condition assessment system that could quickly assess damage and infrastructure recovery needs to improve response time to natural disaster or terrorist attack.

Account: Research Development Test and Evaluation.

Defense Wide: Morphotek Inc., 210 Welsh Pool Road, Exton, Pennsylvania—$1.6 million for Mismatch Repair Derived Antibody Medicines to Treat Staphylococcus-derived bioweapons. The funding would be used to develop antidotes against staphylococcus-based bio-weapons. Previous work has resulted in the discovery of potent lead drugs that, with supplemental funding, will advance to preclinical studies required as part of a package required to file an Investigational New Drug (IND) application for proof-of-concept in human trials.

Army: Global Seating Systems LLC, 150 Gordon Drive, Exton, Pennsylvania—$3 million for the Next Generation Protective Seat. The funding would be used to continue improving military seating systems to protect U.S. troops on the battlefield. Focus would be on improving mine blast/IED blast mitigation technology, occupant crash protection, weight reduction, platform integration, troop seat development, gunner seat development and improved fire protection.

Thomas Jefferson University Hospital, 925 Chestnut Street, Philadelphia, Pennsylvania—$1.6 million for the Center of Cardiac Surgery Robotic Computerized Telemanipulation as part of a comprehensive approach to advanced heart care. The funding would be used to add a new Program for Advanced Heart Care at Thomas Jefferson University Hospital. The center would concentrate on use of robotics in open-heart procedures through the implementation of a DaVinci Robot System, and improvements in patient care, length of hospital stay and overall cost.

Rajant Corporation, 400 East King Street, Malvern, Pennsylvania—$4 million for Portable Emergency Broadband System. The funding would be used on developing the second generation system with an effort to quadruple the data communications capabilities of the current system, add options for military and public-service radio frequencies, and transparently bridge to existing public, private and government communication systems.

Air Force: Johnson—Matthey Fuel Cells, Inc., 435 Devon Park Drive, Wayne, Pennsylvania—$1 million for Affordable Lightweight Power Supply Development. The funding would be used to complete the development and testing of a lyotropic LCP micro-composite fuel cell membrane. This would allow the Air Force to have a membrane electrode assembly for its fuel cells that will operate at temperatures up to 120 C.

Analytical Graphics Inc., Valley Creek Corporate Center, Building 220, Suite 100, Exton, Pennsylvania—$2.8 million for COTS Technology for Situational Space Awareness. The funding would be used to develop responses to threats to our space-based assets—these include Anti-Satellite (ASAT) weapons and the risks to U.S. satellites from space debris as a result of ASAT deployments.