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OpEd: Leasing Veteran Kluga Shares Views on Federal Bailout

Friday, September 26, 2008

Dale Kluga, president of Cobra Capital, shares his views on the government's \$700 billion bailout plan in an appeal to Treasury Secretary Henry Paulson.

Dear Mr. Paulson,

In case you are listening, please hear this: we are willing to risk our family's remaining savings to preserve our free market system. Our banking system is not suffering from a temporary liquidity crisis; it is insolvent and needs new capital or alternatively, needs to shrink very rapidly. Manipulating bank balance sheets by removing toxic securities is a temporary solution, which only reduces capital ratio requirements on paper and exacerbates the growing tumor in our banking system. Your plan does nothing to fix our broken bank business model.

With all due respect, we disagree with your efforts to socialize our banking system. We "get" that you are trying to avoid an unprecedented crisis. What we simply do not "get" is how you expect us to pay for the sins of others, irrespective of the degree of this crisis, since many of us have already lost our homes and our life savings. You are wrong when you say, "the root cause of our problem is housing". The problem is an excess supply of banks, not homes. Banks created the easy money, non-disciplined lending methods that got us into this mess. We cannot correct housing until banking is purged of it's failing institutions. Your plan will only defer our problems and concentrate wealth with fewer financial institutions that will thrive under this moral hazard scenario. Ultimately this will lead to the end of our free market financial system.

Until we reduce the excess supply of banks, our banking industry will never normalize to the point of easing this crisis of insolvency, which precludes a recovery in the housing industry. Using socialized taxpayer bailouts does nothing but defer and allow our cancerous tumor to grow. Furthermore, your effort to allow certain investment banks to enter the FDIC pearly gates to heaven is a very bad idea. Even if they no longer hold any toxic assets or liabilities on their balance sheets, they are just as guilty of systemic abuse as any other financial institution that promoted these cancerous securities because they originated and sold these toxic financial instruments to others who are now technically and operationally insolvent.

The answer is not to buy the bad assets/liabilities and let the wolves enter the FDIC gates and engineer even more dangerous future, FDIC deposit products. The answer is to cause those responsible parties to fund the first losses by forcing them to burn through their capital and to purge them from our financial system under democratic, free-market rules. We do not have the resources to allow this crisis to be funded by socialized methods because the taxpayers do not have the means to pay for it. It really is that simple no matter how it is spun. Even if it means we lose what little savings we have left.

Here is my free-market solution to your plan :

1. Congress to approve a \$100 billion injection into the FDIC fund;
2. Congress to approve another \$500 billion liquidity fund for those clean banks that can prove that they have not benefited from the toxic assets or liabilities which created this crisis;
3. Let the toxic investment/commercial banks fail.

My approach will save the clean banks and avoid local bank runs, which is the best long-term method to protect main street communities. It will also save taxpayers \$400 billion because your total plan cost is really \$1 trillion, not \$700 billion. The healthy banks will survive and thrive, as they should.

Dale Kluga
President
Cobra Capital LLC
Darien, IL

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<mailto:alex@monitordaily.com> e 610.293.1300 p 610.293.9903 f