Congress must ban CDOs, MBSs and CDSs

Congress must pass legislation to ban all mortgage backed securities (MBSs), collateralized debt obligations (CDOs) and credit default swaps (CDSs). President Bill Clinton signed the Financial Services Modernization Act (1999) which allowed mortgage backed securities and collateralized debt obligations. This legislation repealed the Glass-Steagall Act of 1933.

With the support of Treasury Secretary Larry Summers, President Clinton signed the Commodity Futures Modernization Act (2000) which allowed credit default swaps. Under this legislation all derivatives and CDSs were deregulated. The federal government was prohibited from regulating derivatives. Warren Buffett calls credit default swaps "financial weapons of mass destruction."

The Financial Services Modernization Act which Clinton signed in 1999, allowed the creation of mortgage backed securities. The legislation repealed the Glass-Steagall Act of 1933. It removed the barriers between the commercial banks, insurance companies, securities firms and investment banks. Banks could now sell their mortgages to the investment bankers.

Many economists have criticized the repeal of the Glass-Steagall Act as the major reason for the mortgage crisis. Clinton let banks sell their mortgages to investment banks that packaged them into mortgage backed securities. Buyers of MBSs bought credit default swaps CDSs to insure their investment. This was garbage insuring garbage. Those morons who created CDSs didn't consider what would happen if the parties on the other side of the bet couldn't pay up.

The Commodity Futures Modernization Act which Clinton signed in 2000, allowed the creation of credit default swaps (CDSs). Both the Securities and Exchange Commission (SEC) and the Commodities Futures Trading Commission (CFTC) were prohibited from regulating derivatives trading by this legislation. Clinton caused the deregulation of derivatives in 2000. Wall Street used the credit default swaps (CDSs) to insure the mortgage backed securities (MBSs).

In 1994, J.P. Morgan created the idea of CDS in a meeting in Boca Raton, Florida. J.P. Morgan had to keep huge amounts of capital in reserve in case any of their loans defaulted. They created a device that would supposedly protect them if any of their loans failed. The CDS let institutions use capital that should have been kept in reserve in case any loan defaulted. Merrill Lynch, AIG, Bear Stearns, Fannie Mae, Freddie Mac and Lehman Brothers all collapsed due to CDSs.

Congress must pass legislation that prohibits the slicing and/or bundling of assets. CDOs, MBSs and CDSs must be abolished. Even CDOs that bundle municipal bonds and corporate bonds are now worthless. Once you bundle assets, then there is no way to be able to value these securities and they consequently become worthless. Bundled securities must be unwound or unbundled so they can be converted back to the underlying assets and restored to their original state.

Clinton sent our jobs overseas when he signed the Permanent Most Favored Nation Trade Status for China (March 2000). This increased our trade imbalance, weakened the USD and increased the global demand for oil. Clinton repealed the Glass-Steagall Act of 1933 which has caused the mortgage crisis. Clinton signed legislation that deregulated derivatives. These derivatives have destroyed the world economy and now are a heap of toxic worthless junk.