

# OTHER VIEWS

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**DAVID IGNATIUS** • davidignatius@washpost.com

## The Fed in the cross hairs

**Regulation** • Congress should reassert its authority, but not by enfeebling the Fed.

Among the cherished prerogatives of members of Congress is the right to second-guess. That ritual is now playing itself out with a vengeance as the solons of Capitol Hill attack the Federal Reserve for its role in last year's financial crisis.

The Fed made its share of mistakes in creating the bubble economy. But once the crisis hit, it was the Fed's innovative, try-anything response that saved the country from what might have been another Great Depression.

Fed Chairman Ben Bernanke deserves a public “attaboy” for finding ways to pump liquidity into credit markets that were on the verge of freezing up tight. Instead, he's getting a congressional raspberry.

Bernanke's creative policies in 2008 were possible because of the Fed's political independence and its wide-ranging authority. Those broad powers are now under attack: Congress is proposing new limits on the Fed's role as financial supervisor and “lender of last

resort” that could prevent it from responding as aggressively to the next crisis as it did to the last one.

The political challenge to the central bank's authority comes at an especially delicate moment — as the economy begins to rebound and the Fed considers future tightening of monetary policy. It will need public support to combat inflation. But as The New York Times noted in a front-page article last week, the Fed now is “under more intense attack than at any time in decades,” from both left and right.

Wall Street so far appears unfazed by the criticism of the Fed, perhaps because investors assume the protests are just political posturing.

But this could change. “If Congress even appears to be politicizing the Fed's monetary policy function, rest assured that two market developments are inevitable — a collapsing dollar and higher long-term interest rates,” warns David Smick, a Washington financial consultant.

Fed-bashers have an unlikely new champion in Sen. Chris Dodd, who last week introduced a bill that would strip the central bank of most of its supervisory functions. The Connecticut Democrat said the Fed had been “an abysmal failure” as a regulator and that its powers should be given to a new supervisory agency that, presumably, would be subject to greater congressional oversight.

How did Dodd, the gentlemanly chairman of the Banking Committee, suddenly become a neopopulist after five terms in the Senate? The answer is that in the era of anti-government indignation, Fed-bashing seems to be good politics. Dodd faces re-election next year, and he's already being attacked for supporting policies that contributed to financial bailouts.

For a sampling of the overheated attacks on the incumbent, you can visit a website called “The Dodd Crisis,” organized by former Rep. Rob Simmons, one of his po-

tential challengers. It catalogues Dodd's support for the managements of Fannie Mae and Freddie Mac, and his role in authorizing bonuses for AIG executives. It notes that Dodd was a leading recipient of campaign contributions from all three bailout recipients.

Dodd's newfound skepticism about the Fed is symptomatic of the central bank's larger problem. With unemployment above 10 percent, the public is angry about last year's financial crunch — and looking for people to blame. The Fed is just elitist enough, and Bernanke is just enough of a professorial egghead, to make them targets for popular anger.

Bernanke's supporters offer a simple argument for maintaining the Fed's current role in supervising banks. Without it, they say, the Fed would lack the information — and the “feel” for the markets — to intervene effectively in a crisis. Countries that tried to separate central banks from financial regulation, such as Britain, are now regretting it,

the Bernanke camp argues. To act effectively as lender of last resort, the Fed's proponents say, it must know its customers — which will be much harder if it's stripped of its current regulatory role.

Today's critics of the Fed weren't so vocal a year ago, when the economy was in free fall. When Bernanke briefed key members of Congress about his plan to save AIG from a catastrophic meltdown, Senate Democratic leader Harry Reid is said to have offered this waffling response: “I want you to understand that we are not giving you permission, and we're not saying no. We reserve the right to comment later.”

Perhaps it's a harbinger of good times that Congress now wants to reassert its authority. But it would be stupid, even by congressional standards, to enfeeble the Fed — one of the few institutions that actually rose to the challenge in last year's crisis.

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**ROSLAN RAHMAN** • AFP/Getty Images

Container vessels in Singapore earlier this month.

## Reverse mortgages can help provide some peace of mind

**Older adults** • Despite the scare tactics, reputable banks can help seniors remain in their homes.

**BY MARK UNANGST**

Much has been written about reverse mortgages. Some articles strictly speak to the facts; others, like a recent report issued by The National Consumer Law Center, focus on scare tactics and innuendo.

Reverse mortgages offer seniors living on restricted incomes the opportunity to use their homes as equity if they need extra cash. It is a valuable financial option when a senior is short of cash and wants to remain in his home.

Today's economic environment has increased demand for this option. A reverse mortgage is useful because it allows seniors to remain in their homes while receiving cash in the form of a lump-sum payment, monthly income or a line of credit. The proceeds from a reverse mortgage are not considered income for tax purposes, and they do not affect Social Security or Medicare benefits.

Reverse mortgages are the most transparent of financial loans. The loan-making process was created to limit hyperbole and unfulfilled promises. Each applicant is required to receive extensive counseling with certified counselors employed by a nonprofit or public agency approved by the U.S. Department of Housing and Urban Development before the actual loan process is started. The counseling is extensive and typically lasts an hour or more. Family members and authorized legal representatives are welcome.

The counselors are duty bound to give the prospective borrower every reason not to take out a reverse mortgage. The prospective borrowers are encouraged to ask questions. The counseling must be completed before a reverse mortgage application is started, and the prospective borrowers must submit a certificate that they attended a counseling session.

Reverse mortgages are not for everyone. But when they can be helpful, they can make a big difference in a senior's life. Cash is freed up for medication, household expenses and other financial demands. It can mean the difference between a comfortable retirement and one filled with stress and difficult choices. Decades ago, seniors would have had to sell their homes or secure a line of credit using their home as collateral. While it might mean that family members may not receive as large an inheritance, the homeowners may have peace of mind in their senior years.

Reputable companies don't take advantage of older adults seeking a reverse mortgages. There is full disclosure of all fees, including a one-time mortgage insurance premium and a monthly servicing fee. The origination fee is negotiable up to 2 percent. The fees are the comparable to what a borrower would find on an FHA mortgage, and they are spelled out. There are no hidden fees.

Reverse mortgages are considered nonrecourse loans, which means a lender may seek reimbursement based only on the value of the home. If that amount is not enough to retire the loan, the lender has no further recourse to other available assets or income of the borrower or his heirs. Thus, the maximum amount due on a reverse mortgage is the market value of the home at the time of repayment. If the home is sold to settle the debt and the sales proceeds are more than the loan amount, that equity will be paid to the original borrower or to the estate.

Reverse mortgage contracts should be entered into only after careful evaluation and examination. Prospective borrowers should consider all available options. For those seniors living on fixed incomes with their only major asset a debt-free home and who are in need of additional and continuing retirement income, a reverse mortgage may be appropriate and most welcome. We advise all our clients to call us to receive materials on reverse mortgages, examine carefully and fully all the materials available, schedule an appointment for counseling with an independent adviser and, only when you are certain you are ready, meet with us to complete the process.

For more than 55 years, we have provided integrity in everything we do. We are one of the most respected and trusted lenders in the county. Our experience in offering reverse mortgages is no different. We are proud of the service we provide to seniors and feel confident that they are well informed and very pleased with both the process and the end result.

Mark Unangst is senior vice president at Clayton-based Gershman Mortgage, an independent, full-service mortgage banker.

## A world out of balance



**PAUL KRUGMAN**

**International trade** • President Obama should be pressing China for fairer trade policy.

International travel by world leaders is mainly about making symbolic gestures. Nobody expects President Barack Obama to come back from China with major new agreements, on economic policy or anything else.

But let's hope that when the cameras aren't rolling Obama and his hosts engage in some frank talk about currency policy. For the problem of international trade imbalances is about to get substantially worse. And there's a potentially ugly confrontation looming unless China mends its ways.

Some background: Most of the world's major currencies “float” against one another. That is, their relative values move up or down depending on market forces. That doesn't necessarily mean that governments pursue pure hands-off policies: Countries sometimes limit capital outflows when there's a run on their currency (as Iceland did last year) or take steps to discourage hot-money inflows when they fear that speculators love their economies not wisely but too well (which is what Brazil is doing right now). But these days most nations try to keep the value of their currency in line with long-term economic fundamentals.

China is the great exception. Despite huge trade surpluses and the desire of many investors to buy into this fast-growing economy — forces that should have strengthened the renminbi, China's currency — Chinese authorities have kept that currency persistently weak. They've done this mainly by trading renminbi for dollars, which they have accumulated in vast quantities.

And in recent months China has carried out what amounts to a beggarly-neighbor devaluation, keeping the yuan-dollar exchange rate fixed even as the dollar has fallen sharply against other major currencies. This has given Chinese exporters a growing competitive advantage over their rivals, especially producers in other developing countries.

What makes China's currency policy especially problematic is the depressed state of the world economy. Cheap money and fiscal stimulus seem to have averted a second Great Depression. But policymakers haven't



**MIKE CLARKE** • AFP/Getty Images  
**Security guards remove a giant 'Time' magazine cover unfurled yesterday by activists from the Greenpeace environmental group outside the U.S. Consulate in Hong Kong.**

been able to generate enough spending, public or private, to make progress against mass unemployment. And China's weak-currency policy exacerbates the problem, in effect siphoning much-needed demand away from the rest of the world into the pockets of artificially competitive Chinese exporters.

But why do I say that this problem is about to get much worse? Because for the past year the true scale of the China problem has been masked by temporary factors. Looking forward, we can expect to see both China's trade surplus and America's trade deficit surge.

That, at any rate, is the argument made in a new paper by Richard Baldwin and Daria Taglioni of the Graduate Institute, Geneva. As they note, trade imbalances, both China's surplus and

America's deficit, have been much smaller recently than they were a few years ago. But, they argue, “these global imbalance improvements are mostly illusory — the transitory side effect of the greatest trade collapse the world has ever seen.”

Indeed, the 2008-09 plunge in world trade was one for the record books. What it mainly reflected was the fact that modern trade is dominated by sales of durable manufactured goods — and in the face of severe financial crisis and its attendant uncertainty, both consumers and corporations postponed purchases of anything that wasn't needed immediately. How did this reduce the U.S. trade deficit? Imports of goods like automobiles collapsed; so did some U.S. exports; but because we came into the crisis importing much more than we exported, the net effect was a smaller trade gap.

But with the financial crisis abating, this process is going to reverse. Last week's U.S. trade report showed a sharp increase in the trade deficit between August and September. And there will be many more reports along those lines.

So picture this: month after month of headlines juxtaposing soaring U.S. trade deficits and Chinese trade surpluses with the suffering of unemployed American workers. If I were the Chinese government, I'd be really worried about that prospect.

Unfortunately, the Chinese don't seem to get it: Rather than face up to the need to change their currency policy, they've taken to lecturing the United States, telling us to raise interest rates and curb fiscal deficits — that is, to make our unemployment problem even worse.

And I'm not sure the Obama administration gets it, either. The administration's statements on Chinese currency policy seem pro forma, lacking any sense of urgency.

That needs to change. I don't begrudge Obama the banquets and the photo ops; they're part of his job. But behind the scenes he better be warning the Chinese that they're playing a dangerous game.

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