

## [China Demands U.S. Taxpayer Bailout of Fannie Mae/Freddie Mac Bonds; Refuses to Repay Chinese Government Bonds Held by Americans](#)

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U.S. Treasury Secretary Hank Paulson is trying his best to sell out United States taxpayers & bondholders to China. See the following two articles:



China Will Get Paid for Loving Freddie, Fannie: Andy Mukherjee

Commentary by Andy Mukherjee

July 15 (Bloomberg) -- Lenders to Fannie Mae and Freddie Mac were being skittish for no reason.

The risk premium on the beleaguered mortgage financiers' debt began rising in May and was, until last week, headed toward levels seen before the collapse of Bear Stearns Cos. in March.

Equity investors, not knowing how an eventual rescue will affect their interests, had reason to be nervous. Bondholders' pessimism was uncalled for.

The latter, after all, had China on their side.

And that means a lot.

Even if commercial creditors harbored any doubts about the intent or ability of Henry Paulson and Ben Bernanke to save Freddie and Fannie, they shouldn't have expected China to twiddle its thumbs, accept a big loss and still be willing to provide more capital to the U.S.

Foreign central banks, led by China and Russia, hold at least \$925 billion in U.S. agency debt, including bonds sold by Freddie and Fannie, according to official U.S. statistics.

That figure "is almost certainly an understatement," says Council on Foreign Relations economist Brad Setser, who estimates the total is more likely to be about \$1 trillion, or a fifth of outstanding agency debt.

The so-called government-sponsored enterprises are too big, too vital to housing and too important to the Chinese ``for their debt ever not to be honored on time and in full," Setser says. Other economists say the very reason behind the rescue plan is to prop up the debt.

`Limited Amount'

``In the short term, it's been critical to support GSE debt -- key to the value of the dollar and held by all sorts of central banks," said a report by Washington-based Federal Financial Analytics Inc.

Russia's Finance Ministry issued a statement yesterday saying it had placed a ``limited amount" of its international reserves -- though none of its oil riches -- in U.S. agency debt.

Not a word from China.

Not only does China hold a lot of these securities, it has, of late, been buying them with gusto. In the 12 months through April, official Chinese additions of U.S. agency debt -- purchases net of sales -- amounted to \$67 billion, a 26 percent increase from a year earlier.

Ever since the bailout of Bear Stearns, China must have been doubly confident that Freddie and Fannie weren't going under: Sooner or later, Treasury Secretary Paulson and U.S. Federal Reserve Chairman Bernanke would ease the crisis of confidence by making the implicit government guarantee on agency debt explicit.

Perfect Outcome

From China's perspective, Paulson's ``Three-Part Plan for Immediate Action" is a perfect outcome if it succeeds in lowering the risk premium on Freddie Mac's 10-year debt over U.S. Treasury notes of similar maturity. The capital gains that this narrowing of spread will produce for China will be quite a bonanza. The process may already be under way: The excess yield fell to 73 basis points yesterday from 94 points on July 10.

Paulson's comments about a possible recapitalization of Freddie and Fannie helped the U.S. dollar to strengthen in Asian trading yesterday. If the dollar rally is sustained, the yuan, up almost 7 percent this year, may get a breather from further appreciation. China's increasingly vociferous pro-growth lobby, complaining about the loss of export competitiveness, may be able to rest a little easier.

The yuan dropped for the first time in three days yesterday.

Beginning of End?

Finally, if the resolution of the Freddie/Fannie saga marks the beginning of the end of troubles in the subprime-ravaged U.S. financial industry, that will mean good news for China Investment Corp.: The sovereign wealth fund's stakes in Blackstone Group LP and Morgan Stanley have shriveled since China Investment picked them up in May and December last year, respectively.

At present, this is a bit far-fetched.

There's little reason to believe that the worst in the U.S. housing crisis is over.

Analysts at Goldman Sachs Group Inc. and CreditSights Inc. warned of dividend cuts and additional capital-raising plans at U.S. regional banks, following the collapse last week of IndyMac Bancorp Inc., a California mortgage lender.

Besides, to the extent the U.S. has to resort to using real money to shore up confidence in Freddie and Fannie, the result may not be all good for China. A key risk is that Paulson's bailout plan may expand the U.S. budget deficit, which may be inflationary and push Treasuries lower.

At last count, China owned \$502 billion in Treasuries. Including agency debt, its holdings are more than \$1 trillion, about a quarter of China's gross domestic product, Setser says.

Will China panic and dump U.S. assets? Perhaps not.

Like most of China's economic policies, the nation's approach toward reserve diversification will also be gradualist. With China's reserves reaching \$1.8 trillion in June -- a \$280 billion increase this year -- Freddie and Fannie, even after losing their yield premium, are assured of the Asian country's reluctant patronage.

Andy Mukherjee is a Bloomberg News columnist. The opinions expressed are his own.

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## **Memories May Fade, But Fine Print Doesn't**

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*(CBS) This story was written by CBS News producer Stephanie Lambidakis for CBSNews.com.*

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For more than a half century, the Laband family of Orange County, California, has been waging an unsuccessful legal fight to force China to make good on a promise that was etched in gold. The promise came in the form of bonds sold by China, backed by gold reserves along with the full faith and credit of China's government.

From 1900 to 1938, the Labands and thousand of other Americans eagerly snapped up the bonds as a sound investment and a patriotic way to help China, an ally, build its economy.

But since 1939, China hasn't paid a nickel to the Labands or the 15,000 other mostly working-class families who counted on the interest payments for economic survival. By their tally, The People's Republic of China owes them collectively at least \$260 billion.

The Chinese government formally repudiated the payments in 1983, claiming it does not recognize the debts of pre-Communist governments. Tired of being ignored by China and snubbed by the federal government, the bondholders have gone to Congress.

Today, the families plan to show a House Foreign Affairs subcommittee the ornate bonds and the fine print that says in four languages that the debt is binding "upon the Government of the Republic of China and its successors."

Pierre Laband, 60, is among the bondholders who travelled to Washington at their own expense. His father, Walter Laband, started buying the bonds in 1913 and depended upon the 5-percent interest payments to help make ends meet. He is outraged that China still refuses to pay.

Jonna Bianco, the President of the American Bondholders Foundation, told CBS News that the bondholders helped build China's economic might, and at a time when Americans are hurting economically, "We need to hold people's feet to the fire. We need to hold China accountable."

Bianco is pressing Congress to approve two non-binding resolutions that would hit China where it hurts: its high-flying credit rating. If approved, the measures would demand that China disclose in SEC filings that it defaulted on the long-ago bonds. "China defaulted on a very large debt," Bianco says. "When we default, it goes on our credit ratings. Certainly, we've seen that with the subprime mortgage, WorldCom and Enron disasters."

The bondholders believe they're on solid legal ground. "China has flouted its international legal obligations to honor the sovereign debt incurred by its predecessor government, as well as its obligations as a member of the World Trade Organization to abide by international financial norms," said David H. Laufman, the Washington, D.C., attorney representing the American Bondholders Foundation.

Laufman points out that China, when threatened economically, has paid its bond debts before. In 1987, China settled with the British Government when it blocked China's state-owned enterprises from Britain's capital markets. He says that without pressure from Washington, China will "continue to thumb its nose at American bondholders."

By Stephanie Lambidakis  
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# Americans Appeal To Congress For Help Collecting China's Bond Debt

July 17, 2008

Linda Young - AHN Editor

Washington, D.C. (AHN) - When it comes to territory, China claims Tibet and Taiwan based on historical claims predating the current Communist government assuming power, but when it comes to debts owed to American citizens it's a different story. That has caused some of the thousands of Americans that say the People's Republic of China owes them \$260 billion to seek help from the United States Congress to collect the long-overdue debt.

Between 1900 to 1939, China's then government sold bonds and gold to thousands of Americans eager to help an ally build its economy. But when the Communists took over China's government they refused to honor that bond debt and in 1989 formally repudiated that debt, saying they wouldn't assume responsibility for the actions of the previous government.

A group of Americans owed money on the bonds met with a House Foreign Affairs subcommittee on Thursday to request it approve two non-binding resolutions that would affect China's credit rating.

Representatives from the American Bondholders Foundation met with the House Committee on Foreign Affairs Subcommittee on Terrorism, Nonproliferation and Trade at a hearing titled, "Aiding American businesses and investors abroad: Government Action to Help Beleaguered American Firms and Investors," according to a letter from the subcommittee to the Foundation.

The purpose is to help American businesses and investors with disputes in nations that don't offer much in the way of legal recourse.

The group of investors is asking Congress for resolutions that would demand that China disclose in SEC filings that it defaulted on the long-ago bonds.

"China defaulted on a very large debt," Jonna Bianco, the President of the American Bondholders Foundation, told CBS. "When we default, it goes on our credit ratings. Certainly, we've seen that with the subprime mortgage, WorldCom and Enron disasters."

Pressure from governments in the past has been effective in forcing China's government to settle its debts in the past and the group is reportedly hoping that pressure from the United States government will force China to honor its debt to thousands of American investors who helped China build its economy by supplying it with capital by buying the bonds.

In a statement to the U.S. House of Representatives Committee on International Relations, the American Bondholders Foundation laid out the scope of the problem.

The Foundation said it had identified over 5,000 bondholders across America who had purchased the bonds from China's government and who it says the Chinese government owes a combined total of approximately \$260 billion.

The Foundation said most of the American bondholders that China owes the money to are lower to middle-class tax paying citizens. In some cases, the bonds, purchased between 1900 and 1942, have passed down to a second or third generation of the family as the person who originally bought the bond died without receiving payment from the Chinese government.

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