WHAT DO YOU CALL A "CORNHUSKER KICKBACK" FOR CALIFORNIA?

Remember the "Cornhusker Kickback"? That was the $45 million in expanded Medicaid funding Ben Nelson demanded from the Obama Administration before he'd support Health Insurance Reform. The special treatment for Nebraska gave the reform effort a tawdry feel.

And just as importantly, it did nothing to improve Nelson's popularity in his own state. When he announced he would not run for reelection in December, reporters pointed to the Cornhusker Kickback as one issue that was making his reelection increasingly unlikely.

> Nelson obtained a huge controversial provision in that legislation — derisively called the "Cornhusker Kickback" by GOP opponents — that called for the federal government to pay Nebraska's costs for Medicaid expansion, potentially saving the state tens of millions of dollars annually. The provision was ultimately killed, but Nelson still paid a political price. Nelson adamantly denied that he traded his support for the Democratic health plan in exchange for the special provision, yet his standing back home took a big hit. Nelson proved to be the 60th and deciding vote for the Democratic health-care package.

Yet it seems like Obama's trying something similar in his effort to get CA's Kamala Harris to join in his foreclosure settlement, with $10 billion in aid slated for CA's struggling homeowners.

> Banks and government negotiators have

> cleared a big hurdle in efforts to resolve allegations of widespread mortgage-related misdeeds, agreeing on terms for a settlement that are being circulated to the 50 US states for approval, state officials and a bank representative say.
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> The proposed pact would potentially reduce mortgage balances and monthly payments by more than $25bn for distressed US homeowners, these five people said.
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> The tentative agreement still must be approved by all 50 state attorneys-general, and negotiators have previously missed proposed deadlines. Participants described the proposal terms as set, meaning the states will be asked either to agree to them or decline to participate.
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> The amount of potential aid is contingent on state participation and would decrease significantly if big states do not sign the agreement. New York and California are among several states that have voiced concerns about the terms of the proposed deal with Bank of America, JPMorgan Chase, Wells Fargo, Citigroup and Ally Financial. New York and California are particularly concerned with the part of the deal that would absolve the banks of civil liability for allegedly illegal mortgage-related conduct.
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> California borrowers would be eligible to receive more than $10bn in aid if the state were to agree to the terms, according to several people involved in the talks.

Don't get me wrong. In this case, there's good reason to give CA a disproportionate part of the settlement funds. As Harris noted when she withdrew from the settlement talks last year, between CA's size and the severity of the foreclosure crisis, it needs the most help.

> With 2.2 million California homeowners underwater on their mortgages—and a troubling surge in foreclosures in my state over the last two months—I am writing to communicate my decision that my office will now devote its resources to establishing an independent path forward to resolution.
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> California is hurting. We have the most homes and most home borrowers in default. During the period we have been negotiating, more than 560,000 additional homes in California have fallen into the foreclosure process. When we began this process 11 months ago, five of the ten cities hardest hit nationally by foreclosures were in California. Today, *eight* of those ten hardest-hit cities are here. And, recently, at the same time that we have been negotiating in good faith, foreclosures in California have surged again.

Part of the problem is that the settlement remains far too small. Even assuming CA got to provide that $10 billion to homeowners, the underwater homeowners Harris mentions would each get less than $5,000 of modification. That's not chump change, but it's also not nearly enough to get many of those homeowners above water again, meaning they'd still be at risk of defaulting.

But it also appears CA can't just offer aid to all the struggling homeowners: the banks get to pick and choose which loans to modify (they get extra credit for those they modify this year—effectively, before November's election).

Then there's the problem of how this will affect other states. While negotiating a settlement that gives 40% of the relief to CA might make the inadequate settlement look better to Harris' constituents (that remains to be seen), as other states realize they've just given banks immunity for years of crimes but gotten little relief of their own, the settlement as a whole risks acquiring a bad taint quickly. After CA gets 40% of the settlement, what will be left for FL or NV?

In truth, the settlement still remains far too small to do much good (it remains smaller, remember, than the money Obama left on the table in HAMP). And it gives the same banks that have violated the terms of previous settlements all the cards in how to implement this one.