

# A banking plan to halt U.S. housing

by Leif Johnson

With all the damage that has already been done to the housing market, it is hard to imagine why the President appointed a commission against housing. It is not called that, of course; it is *on* housing. But the commission's preliminary report of Jan. 12 makes no bones about its purpose: to drain the last drops from the dessicated remains of what once was America's largest industry.

Consider the commission's major recommendation under "Laws and Regulations Affecting Housing Finance." It demands that the federal government enforce a due-on-sale clause in mortgages with penalties against savings institutions in those states that refuse to enforce such clauses. A due-on-sale clause means that a homebuyer cannot assume the existing mortgage of the seller, but must finance the entire mortgage *de novo*. Financing costs to the purchasers will skyrocket at current interest rates.

In New York State, for example, 86 percent of all mortgages held by S&Ls bear an interest rate of less than 10 percent. A due-on-sale clause would boost financing costs of residential homes by an average of 25 percent. That would just about wipe out housing sales.

Add to this the adamant opposition to second mortgages expressed by the Federal Reserve Board's new second-in-command, Preston Martin. Homeowners' equity would be crunched, and wrap-around mortgages—new mortgages which are combined with assumed mortgages to make up the non-cash part of the purchase price—would become impossible. Martin is a member of the President's Commission.

Then look at the commission's proposal for increasing the asset and liability powers of traditional housing finance institutions. The S&Ls and mutual savings banks should be allowed to 1) "Accept demand deposits from all types of customers." That could mean housing. 2) "Invest in secured and unsecured consumer loans." This does not sound like housing at all. 3) "Invest in secured and unsecured commercial and agricultural loans as well as commercial paper and other corporate debt instruments." Well, this is definitely not housing. 4) "Invest in municipal securities, including both revenue bonds and

general obligations." Very little housing again. 5) "Invest in residential and non-residential real-estate loans, whether first or junior liens, without loan-to-value restrictions or mortgage insurance requirements." This allows S&Ls to move out of residential mortgaging.

The last recommendations are that S&Ls be allowed to "invest in service corporation affiliates and invest in equipment leasing."

All this amounts to a quick way out of the housing market for the S&Ls, which currently hold 76 percent of their \$650 billion assets in residential mortgages, and more than half the nation's residential mortgages.

The commission does ask for broad powers of the commercial banks, pension funds, and other institutions to invest in real estate, whether residential or not, and demands that the beleaguered U.S. Treasury finance real-estate paper with tax giveaways—a standard request of commissions.

The commission's final demands are to allow immediate federal chartering of S&Ls to avoid all local restrictions on the S&Ls' freedom to convert to stock-issuing banks, and abolition of both the McFadden Act, which prohibits interstate branch banking, and the Douglas Amendment which prohibits interstate bank holding companies. Unfettered interstate mergers and acquisitions of S&Ls would result.

Thus the commission has really written a blueprint for the final deregulation of U.S. banking and finance, and the transfer of all financial regulatory powers to the Federal Reserve. It could have been written by Fed Chairman Paul Adolph Volcker. It was in fact written by his allies.

Of the 17 staff members, three come from the Harvard-MIT Urban Studies Center, which produced *Metropolis 1985*, the plan for de-industrializing New York City, one of the nation's largest manufacturing centers. Five come from the University of Chicago, the monetarist spawning ground of Milton Friedman, and Yale. Five are from the Maxwell School at Syracuse University, which wrote the scenario for the recent Northeast water crisis hoax, and Stanford, the Western seat of monetarism, and one from the Brookings Institution, the established Eastern ghoulish tank.

Of the 25 Commission members, 10 represent the Universities of Chicago, Yale, Stanford/Hoover Institution and MIT-Harvard.

The chairman, William F. McKenna, served as chief counsel to the Joint Anti-Racketeering Subcommittee of the House Government Operations Committee in 1953, and the following year set up the Organized Crime Unit in the Department of Justice—a unit regarded as the key government cover and dirty operations unit for organized crime. A.G. Becker-Warburg Paribas Becker, Inc., a leading bank of the European oligarchy, has lent its Vice-Chairman, Dr. Maurice Mann, to the Commission.