Foreclosure Scandal Exposes Systemic Derivatives Fraud

by John Hoefle

Oct. 9—Filing false documents in courts to obtain illegal foreclosures, breaking into homes and changing the locks while the residents are still legally living there, and even foreclosing on homes which have no mortgages—these are just some of the things the derivatives arms of the giant banks are doing, as they throw people to the wolves in a vain effort to stop their own collapse into oblivion. We are not at all surprised that the derivatives banks are acting this way—in fact, we would be a bit surprised if they didn't, given the criminal nature of the financial markets. It would be nice to be able to say that we are surprised that the Federal regulators are letting them get away with it, but that one won't fly. Under the Obama regime, with the help of Speaker of the House Nancy Pelosi, and "Bailout" Barney Frank and Chris Dodd of the House and Senate banking committees, the banks have gotten pretty much whatever they wanted. If that includes your house, too bad for you.

Fortunately, a number of state officials have more backbone and morality than the sellouts in Washington, and are beginning to take steps to rein in some of these abuses. Their actions have forced at least four banks—JP Morgan Chase, Bank of America, PNC, and Ally Financial (née GMAC), to temporarily suspend foreclosures—in the 23 states which require court approval in the case of home foreclosures (Bank of America has frozen foreclosures in all 50 states). Attorneys general in a number of states have already launched investigations into the actions of the banks, with more expected. The magnitude of the problem, and the number of banks involved, have only begun to surface.

The state actions have prompted weak cover-your-mustache posturing from Obama, Pelosi, and company, in a desperate effort to hide their abject subservience to the British Empire and the Inter-Alpha Group. No one is buying it.

The banks, for their part, are covering up this scandal as fast as they can, and with the help of compliant media such as the *New York Times* and *Washington Post*, are attempting to cast it as a story of "shoddy paperwork by low-level nobodies," whose errors are now "jeopardizing the fragile recovery." In effect, these bankers are brazenly threatening us yet again—even as they destroy the nation trying to bail them out. "Stop us from taking what we want," they're saying, "and we'll make you pay." What unmitigated gall!

Well, we've got a hot news flash for these arrogant bastards: You are already way beyond bankrupt, the economy is already collapsing, and we are through capitulating to your suicidal demands. This time, we're going to shut your derivatives market down, and save ourselves. Enough is enough!

Blame Derivatives

The horror show playing out before our eyes in the foreclosure markets, is the continuing collapse of perhaps the greatest financial swindle in the history of mankind: the derivatives markets. The story revolves around the way that derivatives were used to create a giant pool of fictitious capital, nominally based on home mortgages, and the way that the banks are now attempting to seize the homes to turn their funny money into hard assets.

What is absolutely clear, is that the mortgage system—which was run by and for the big derivatives players—systematically ignored legal requirements for the conveyance of promissory notes and mortgages, as they engaged in this giant scam. Individual mortgages were sold by their originators, and combined into pools, which were, in turn, used as the basis for the issuance of mortgage-backed securities (MBS). These MBS were then sliced and diced into pieces, and sold. Then many of these pieces were combined into new pools, against which new derivatives were created and sold, *ad nauseam*.

EIRNS/Stuart Lewis

The foreclosure scandal making headlines across the country is sounding the death knell of the derivatives markets. This sign in Leesburg, Va., was from the very beginning of the wave of foreclosures, in February 2007.

Rather than record these sales with county courts, as required by state real estate laws, the bankers created a giant database called MERS, to keep track of the sales. This allowed the banks to save billions of dollars in time and money on court filings, and made the whole train-wreck run more smoothly—for a while.

The problems for the bankers began in mid-2007, when the mortgage-derivatives market collapsed. Panic set in after the collapse of two Bear Stearns hedge funds, and with good reason: The pyramid scheme had collapsed. Speculators suddenly retrenched into survivalist mode, thereby killing the flow of funds into the mortgage market, and sending property values plunging.

Now the foreclosures have begun to accelerate, as the derivatives-holders try to seize real homes to cover their fictitious claims. The problem they face is that, having ignored real estate filing laws, they are now finding it difficult to prove they are the legal owners of the mortgages/notes, and thus have the legal standing to foreclose.

As a result, the banks acting on behalf of their derivatives pools have resorted to faking the paperwork, filing false affidavits with the courts, and other unsavory actions. They have become so blatant in their criminality and contempt for the law, and for the welfare of the people, that they have triggered a revolt by the public, and the state regulators and courts.

Prosecution of the individuals and institutions that knowingly violated the law is certainly warranted, but that is not sufficient to deal with the problem. If we fine the banks, they will just pay us back with our own bailout money. So people need to go to jail, and institutions need criminal convictions. We must teach the British Empire that violating U.S. laws has serious consequences. No more slaps on the wrist (especially when accompanied by cash under the table).

We must finally recognize that this financial crisis—from the so-called "subprime crisis" to the "foreclosure crisis" and everything in-between, has been the result of a derivatives market which has turned the global financial system into a giant, and completely bankrupt casino, and that the attempt to bail out this casino by sticking the public with the bill is killing us all. If we are to survive, we must shut down the derivatives markets, declaring all existing derivatives contracts null and void, and prohibiting them in the future. Wall Street will howl, but that's just a sign something right is being done. If they're not howling, we're not doing enough.

Get Back On Track

Putting the nation back on track requires a fundamental change in policy, starting with the reinstatement of Franklin Roosevelt's Glass-Steagall law. We must separate out and protect real banking, of the sort needed to keep a proper economy functioning, from the speculations of the casino. We will honor legitimate debts, but not derivatives claims and other casino chips. We will put the Federal Reserve into receivership, go back to a Hamiltonian credit system, return to a Bretton Woods-style fixed exchange rate, and launch an infrastructure Renaissance in the style of Lyndon LaRouche's NAWAPA/Mars concept.

To succeed, we must break the power of the British Empire and its Rothschild-run Inter-Alpha Group over the world economy, and, in particular, the U.S. economy. We are at war with the empire, and our very survival is on the line. The actions we see in the foreclosure process are just a small part of the financial warfare directed against us. The empire's puppets—from Obama on down, in Washington, and virtually all of Wall Street and the Boston Vault—must go. We must return to the concept of "of, by, and for the People."

We had a chance in 2007 and 2008 with LaRouche's Homeowners and Bank Protection Act, which would have stopped the foreclosures, and ripped legitimate banking functions from the clutches of the speculators. That effort, which had considerable public support, was sabotaged by "Bailout" Barney Frank and others. Had it passed, we would not be in the mess we are today. Those who blocked the HBPA on behalf of the empire, committed treason, if not by the letter of the law, then by the intent of the Constitution. They are not fit for public office—even in sanitation. They're so corrupt they would probably contaminate the sewers.

What was a financial crisis, having been made far worse by the bailout scheme, has turned into a full-fledged breakdown crisis. We must bust up the imperial crime wave via Glass-Steagall. That will clean up the mess, but it still leaves us with a dying economy, which is where NAWAPA (the North Amerian Water and Power Alliance) and LaRouche's "platform" concept come in. Nothing less will work, anything less is a waste of time.

Finally, in closing, we have a suggestion for all the investigators looking into the foreclosure crisis. The devil is not in the details, but in the nature of the now-dead financial system. You are looking at a vast criminal conspiracy intended to destroy the United States, and the nation-state system itself, in favor of the re-establishment of the British Empire on a global scale.

You should also consider the possibility that the deliberate failure to follow legal document-recording standards has to do with more than just saving time and money. We suspect, knowing the nature of the empire, that what they were really doing is selling the same assets to more than one buyer. They will gladly take "paperwork" fines, to hide that. Don't let them get away with it.

So, put away your Sherlock Holmes, and turn off "CSI," and read Edgar Allan Poe's "The Purloined Letter." That is the method you will need to get to the bottom of these crimes. Look with your mind, not your senses.

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LaRouche in 2007: Mortgage Fraud Can Topple System

Oct. 7—The shaking of the entire underpinnings of the U.S. mortgage market, due to massive numbers of fraudulent home foreclosures, compounded by the creation of the mortgage-backed securities (MBS) bubble, was anticipated by Lyndon LaRouche as far back as November of 2007. At that time, Federal Judge Christopher A. Boyko had dismissed 14 home foreclosure cases in Cleveland, Ohio, based on the doubt that the foreclosing bank, Deutsche Bank National Trust Co., actually held title to the houses which it was foreclosing. The judge ruled that there was no proper recording with local government officials, of the property titles, mortgage contracts, and assignment of ownership.

LaRouche commented at the time that this "smells of a major problem." There is legitimate suspicion that loans that have not been recorded in local registries, have been sold as part of a securitized package, over and over again, leading to liabilities that exceed assets by enormous amounts. "These people have been caught with their pants down," LaRouche declared.

LaRouche stressed that, implicitly, the Ohio case involved much more than the judge's interpretation. The question posed is whether banks have been duplicating the use of assets. Any suspicion and doubt about this is enough in itself, to bring the system down.

When you are dealing with a situation like this, LaRouche said, you are dealing with a "breakdown crisis, and not with a management crisis." This cannot be "managed."

Even the smell of such a situation could blow the system out, LaRouche commented at that time. Due to the failure of Congress to enact LaRouche's Homeowners and Bank Protection Act, and to revive Glass-Steagall, that is now precisely what is happening.