What Should Have Been Done

by Paul Gallagher

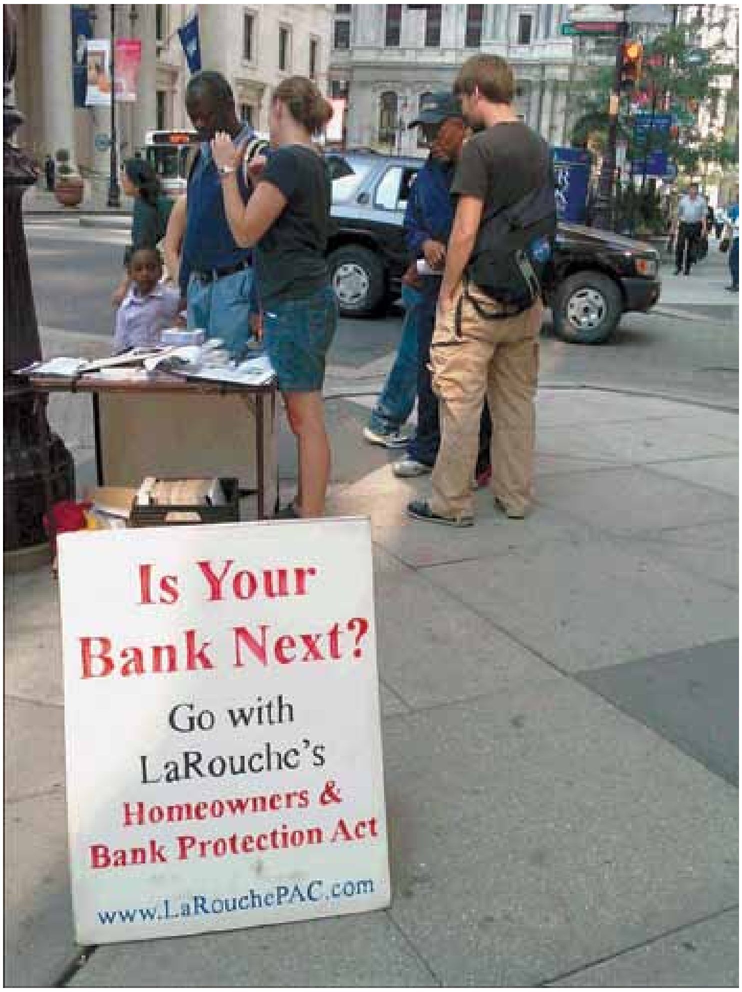
Oct. 8—No act of Wall Street economic sabotage has had more dire effects since the 2007-08 crash, than the blocking of economist and statesman Lyndon LaRouche's "Homeowners and Bank Protection Act of 2007" (HBPA: see below). The loss of what may easily become 10 million homes, $6 trillion in family wealth, $5,000/year in average real income of American families, and 12 million jobs could have been prevented, if LaRouche's proposal had not been blocked in the Congress by Wall Street acting through Rep. Barney Frank (D-Mass.).

LaRouche used the occasion of a webcast on July 25, 2007 to announce, with complete and imminent accuracy, that the trans-Atlantic nations' banking and financial system was blowing up. A month later, as the first bank and hedge fund failures were hitting the United States, Germany, and Ireland, and a sudden food price hyperinflation was underway, LaRouche, on Aug. 31, 2007, made a brief but historic statement on the needed emergency response: his proposed HBPA.

The HBPA, LaRouche said, "means that no householder, under Federal protection, will be evicted from their home, and that no bank, or chartered bank, whether a Federal bank or a state-chartered bank, will be closed down. That does mean also, that there is no possibility of tolerating putting valuable resources to bail out any other irregular financial institution. *The hedge funds must go.* The sooner they're gone, the sooner they're bankrupted, they're eliminated, the better off we're all going to be.

"Because we're going to have to rebuild this economy, including the physical economy. We're going to get back our industries. We're going to get back our agriculture. We're going to get back our infrastructure. We're going to get back dignity, and we're going to take our position of respected leadership among a community of nations in the world. And that's what we have to do.

"No funny stuff, no tricks, no games. Back to basics. *Think like FDR.* Act immediately in the month of Sep-



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Had LaRouche's HBPA been adopted, millions of Americans who lost their homes would have been protected, and the U.S. economy would have begun to climb out of the cavern into which it plunged in 2007-08. Here, LaRouche organizers in Philadelphia, September 2008.

tember. Get the Congress to pass this kind of legislation, which creates a firewall of protection of every essential chartered bank, chartered on the state or Federal level. No matter what their problems are financially, we're going to keep their doors open. And we're going to give them Federal protection.

"We're going to give Federal protection to all householders, who are threatened with eviction. They're not going to be evicted. The states will help the Federal government do that. That is, the states will be the administrative arm, which locates the people who need the protection, and makes sure they're protected. But the states will act, through the Governor's office, on the basis of the support of Federal law. That's the way to do the job."

A National Emergency

The HBPA combined a national foreclosures freeze with the kind of swift national purging and reorganization of commercial banks carried out by President Franklin Roosevelt in the opening days of his Presidency (the "Bank Holiday"). Its replacement of inflated and unpayable mortgage payments with rent-equivalents, was also tried and tested by states and was successful during the Great Depression. The HPBA provided that all foreclosures and all securitization and sale of mortgages be frozen on the basis of economic emergency while the plunge in housing values continued; that homeowners with distressed mortgages pay fair-market equivalent rent to the banks, overseen by the states, as they had in the 1930s foreclosure moratoria; and that the banks be reorganized by the writing-off of their toxic mortgage securities, financial derivatives, etc., under Federal protection.

Every measure proposed to deal with the so-called "mortgage crisis" since LaRouche's August 2007 action has been an imitation of one or another *part* of his proposed legislative solution. But as LaRouche insisted then, the *whole* package of actions had to be taken at once:

"Our immediate concern must be to save the United States from being destroyed, and that is really a possibility, by what is now oncoming. *This is the greatest financial collapse*, of a form similar to what happened in Germany in 1923, that we have known in living history of our time. In my time, as well as yours. However, we can handle this problem. It requires mobilization of the Congress, to take an action which will create the equivalent of a firewall against the destruction of essential economy, and of the lives of our people. That can be done. It must be done by the Congress, within the month of September."

When LaRouche issued that statement, Fed chairman Ben Bernanke and Treasury Secretary Hank Paulson, along with most economists, were still insisting that the "sub-prime mortgage problem," as they foolishly called it, was "contained." Bear Stearns' collapse was still six months away; Fannie Mae's nationalization ten months away; Lehman's and AIG's bankruptcies a year in the future.

LaRouche's proposal immediately gathered broad support—from the city councils of over 200 American cities large and small; from the legislatures of nine states; and from scores of labor and constituency organizations, all of which demanded its passage. When it was blocked on Wall Street orders to Congressional leaders, all chance of effectiveness of the "partial solutions" proposed later (and still being proposed today!) vanished.

"The guy who was used by the forces behind Bernanke to sabotage the Homeowners and Bank Protection Act," LaRouche said recently, "was Barney Frank."

• In September and November 2007, LPAC representatives had lengthy meetings with senior aides to Frank—supposedly the "economic expert" of the Congress—to brief them on the financial collapse underway and the HBPA solution. Frank's aides flatly insisted that there was "nothing systemic going on," that a mere subprime mortgage crisis was underway, and that no foreclosure moratorium, mortgage securities write-down, or bank reorganization such as LaRouche proposed was needed.

• In October 2007, a LaRouche Youth Movement leader in Boston, where LaRouche Democrat Rachel Brown is now challenging Frank for his Congressional seat, talked to Barney at a town meeting about the HBPA, and was told, "Your boss [LaRouche] is wrong. It's not a systemic crisis."

• In December 2007, the chairman of one of the key subcommittees of Frank's Financial Services Committee, Rep. Paul Kanjorski (D-Pa.), came out against LaRouche's HBPA, and said he had been talking about it to Barney and to George Soros, who had warned him that it would decimate the entire $60 trillion credit default derivatives market.

• In January 2008, by which time hundreds of state legislatures and city councils across the country had voted to demand HBPA from the Congress, Frank gave a political talk at Goucher College in Maryland. When an LPAC representative raised the HBPA, Barney said it was "completely unconstitutional," and that he would "be acting to make sure that it is not put forward in the Congress." Barney said that the "right to foreclose" had Constitutional protection! Also at that time, Sen. Charles Schumer (D-N.Y.), asked about HBPA in an event in Washington, D.C., repeated the claim that "the Constitution doesn't allow a halting of all foreclosures."

• In late July 2008, having just gotten through the House the Dodd-Frank massive mortgage bailout known as the nationalization of Fannie Mae and Freddie Mac, Frank told his committee, "Another [way] would have been an effort to legislatively say 'no' to foreclosures. Some advocate that [only LaRouchePAC and its backers in localities around the country had proposed it], but I think it has Constitutional problems. I think it also has problems in how you discriminate which foreclosures should go forward and which shouldn't."

Some 8.5 million home foreclosures have "gone forward" since then, with Barney's protection—including a nationally high level of foreclosures in his own Massachusetts Congressional District.

• During the course of Fall 2008, Frank drafted and got passed "mortgage modification" legislation in the House, his direct counter to the HPBA legislation he had kept out of the Congress. Early in the process, the *Washington Post* of July 29 exposed that the draft design for Barney's bill had been done at Credit Suisse bank. This legislation, whose name and conditions kept changing, but was eventually, officially, called the Help for Homeowners Act of 2008, was a complete—intentional?—failure. By the Spring of 2009 it had modified a grand total of 41 mortgages nationwide while 600,000 households had quickly lost their homes; Frank himself then admitted it was a failure and instead backed President Obama's Home Affordable Mortgage Program (HAMP). That program has been declared a failure at stopping foreclosures by every committee or agency that has studied its effects.

Once "Bailout Barney" had done that work, Wall Street and the "big six" banks knew they had the power to command unlimited bailouts, to stop every "mortgage reform," and to block every criminal or serious civil penalty against them—often using the Wall Street and British pawn President Barack Obama directly.

The Consequences

The most obvious result of this blocking of LaRouche's 2007 breakthrough, is that the foreclosure wave which had arisen in 2007, has become an unending tsunami, creating social chaos and (open or disguised) homelessness in neighborhoods across the United States.

Some 8.5 million homeowners have had foreclosures filed against them since "Bailout Barney" finally killed the HBPA in early 2008. About 5 million households have actually lost their homes to repossession since 2006, and a million more to "short sales" and other forms of "self-foreclosure." The grim tide of re-

Some 8.5 million home foreclosures have gone through since 2008, with millions more in the pipeline, thanks, in large part, to Rep. Barney Frank, who blocked LaRouche's HBPA in Congress.

possessions continues at 800,000-1 million a year. The foreclosure plague is still growing. There are another 2.15 million homes in foreclosure now. But the Mortgage Bankers Association reports that—due to economic collapse and mass unemployment—there are 11 million homes "underwater" (with mortgage debt greater than the home's stated value) and 6.35 million homeowners delinquent on their mortgages, representing about 15% of all mortgaged homes in the country.

But it also indicates how reluctant the banks have become to pursue repossessions of homes they will be unable to sell. A full 2 million "overdue" foreclosure filings are being pushed off to next year or beyond, perpetuating the mass foreclosure inventory.

Thus, the toll of the foreclosure crisis that began in 2006, may easily reach 10 million lost homes. Homeownership in the United States has dropped from 69% of households to 65% in four years, the first time it has fallen since FDR's Homeowners Loan Corp. created urban and suburban homeownership in the 1930s.

The cost of renting, meanwhile, has risen rapidly. Fair-market rent equivalent (as published by the Department of Housing and Urban Development) in 2007, when LaRouche proposed the HBPA, was just 60% of the average monthly mortgage payment for the same size home in the same location. In August 2011, the two were approximately the same amount.

LaRouche and those advising him on the HBPA in mid-2007 were the first to see that collapsing home values would create an unstoppable tsunami of home foreclosures unless this was stopped by national emergency legislation. Once that tsunami boiled up in late 2007, a vicious cycle set in: Mass foreclosure repossessions and sales drove down home values faster and faster, which drove the higher and higher wave of foreclosures. By now, $6 trillion of what American families thought was "their household wealth" is gone, along with 6 million of their homes, and the grim process continues.

Ironically, mortgage banks themselves have been hit hard by the blocking of LaRouche's emergency law, which they took part in (the American Bankers Association publicly opposed the HBPA). Mortgage lenders have had to hold off repossessing homes because they can't sell them except at a great loss, and because their widespread mortgage frauds were exposed in the Fall of 2010. So the time elapsing from mortgage delinquency—when the household stops making monthly payments—to foreclosure proceedings, is nearing two years *as a national average*. Many desperate families, struck by loss of employment and wages, have made ends meet by abandoning their biggest monthly bill—the mortgage payment.

LaRouche's HBPA specified that these banks receive rent-equivalent payments from millions of householders, under state administration of those fair rent values, as a means of replenishing bank capital. Instead, in today's economic and social breakdown, for several million homes the banks are receiving no income at all, and many haven't for years.

Now two studies show that the mass foreclosure wave is causing many deaths and, like homelessness in general, lowering life expectancy. "Foreclosures

Are Killing Us," headlined a *New York Times* report of the University of Pennsylvania/Johns Hopkins and National Bureau of Economic Research (NBER) studies.

One-third of the surveyed homeowners undergoing foreclosure had symptoms of "major depression." For every 100 foreclosures in high-foreclosure neighborhoods—and these emphatically include major sections of Barney Frank's eastern Massachusetts Congressional District—there was a 12% jump in emergency room visits and hospitalizations. For *each* 100 foreclosures, there is a 7.2% increase in hypertension-related hospitalizations, and an 8.1% increase in diabetes-related hospitalizations among adults aged 20-49.

The NBER researchers also surveyed foreclosure "counselors" and anti-foreclosure activists, and found that 37% of them have found themselves working with homeowners contemplating suicide.

And those who suffer foreclosure and then become homeless, either immediately or after intermediate "arrangements," have a life expectancy 10 years lower than the national average, as previous studies have shown.

Against all these staggering home foreclosure totals and effects, the HAMP program, announced with fanfare by Obama on Feb. 17, 2009, has resulted in "ongoing" (i.e., not already failed) mortgage modifications in 670,000 cases—not the 4 million homeowners Obama promised it would help. HAMP's miserable failure has been repeatedly excoriated by Neil Barofsky, the Inspector General of the TARP bank bailout which paid for HAMP. The failure, in fact, was deliberate; it kept large number of underwater, over-mortgaged homeowners paying their mortgages for an extra 6-8 months before they gave up, defaulted, and were foreclosed. A deal crafted by Wall Street, for Wall Street.

"Obviously, the foreclosure mitigation programs do not work very well," said Frank on July 1, 2011—the main Congressional author of those foreclosure mitigation programs.

The Banks

In the wake of LaRouche's national address of Sept. 1, 2007 on the HPBA emergency proposal, financial market collapses and bailouts began, which would have been stopped immediately had Congress acted. Americans and Europeans suddenly heard the ominous names of "structured debt securities" such as asset-backed securities and "special vehicles" such as collateralized debt obligations.

But these were all *financial derivatives contracts*, ultimately financed by banks, which had exploded from a few trillions, to *more than $1 quadrillion in nominal "value,"* 30 times global GDP, since the gutting and repeal of the Glass-Steagall Act in the 1990s. Large volumes of these securitized debt derivatives were based on real estate debt—mortgages—whose values they had wildly inflated. But there were many other varieties of this speculation which had been used to drive the average large bank's "leverage ratio" (debt assets to capital) from a historic range of 12-16:1, up to the range of 35:1 by 2007.

Look at the HBPA: It is precisely those hyper-leveraged debt securities—then in the process of being exposed as worth very little on the books of financial firms—which LaRouche's emergency proposed action would have written down, or written off, in a rapid, Federally protected "bankruptcy reorganization" of the commercial banks. This would have to have been followed by issuance of recovery credits into productive economic projects through the reorganized banking system, in the United States and in cooperation with other major nations.

Instead, as parts of these derivatives markets froze up in late 2007 and early 2008, and as Congressional action was blocked on LaRouche's proposal, the bailouts began. The Federal Reserve repeatedly opened more and more "special lending facilities" and poured hundreds of billions of dollars into these dying securities markets through the banks—European as well as U.S.-based banks. When municipal bond markets went haywire in early 2008 due to the freeze-up of interest-rate derivatives that banks had sold to states and cities, more Fed lending facilities were opened, even as municipalities suddenly found the interest they were paying on their bonds doubled, tripled, or worse.

When some Congressmen considered moving in early 2008 against Frank's blockade of the HBPA, one of them reported being called by Wall Street bankers and by George Soros, who threatened that enacting anything like LaRouche's proposal would result in the entire $60 trillion credit default swaps market suddenly collapsing. Some insurance companies active in this market—so-called "monolines"—were bailed out by banks, which in turn were borrowing huge sums from the Fed.

In the United States, home foreclosures surged. So many mortgage companies went bankrupt that they were counted on a popular "implodometer," and the growth of employment ground to a halt. In Britain and Europe, mortgage-based banks failed with bailouts and nationalizations.

In June 2008, LaRouche reissued and circulated the "Homeowners and Bank Protection Act of 2008," now with a preamble that explicitly stated that Congress had sabotaged action on the 2007 proposal, bringing on bailouts and an economic collapse. More and more cities and legislatures, including that of New York State, called on Congress to pass it.

But instead, Congress, under extreme pressure from the Bush White House and Treasury, nationalized the giant mortgage companies Fannie Mae and Freddie Mac in July, and committed $300 billion in bailout funds to them—to keep buying worthless mortgage debt securities from the banks at full face value with taxpayer funds. (Obama Treasury Secretary Tim Geithner later decided that this bailout was "unlimited.") The Fannie-Freddie bailout was rammed through the House by—Barney Frank; LaRouche issued a national pamphlet denouncing it as "tantamount to treason."

In September 2007, George Soros's $60 trillion credit default swaps market ironically went into disorderly collapse with those of Lehman Brothers and AIG, because of the *failure to have enacted LaRouche's HPBA* against which Soros had threatened. The $800 billion TARP bank bailout was painfully bludgeoned through Congress against overwhelming and manifest public opposition, and the FDIC was pulled into a parallel bailout of money-market funds.

Hank Paulson told some members of Congress that failure to pass TARP could bring on martial law, according to Rep. Paul Kanjorski's report on C-SPAN afterwards. Some ultimately voted for it because they were also promised that $75 billion of TARP would be used to stop the home foreclosure wave, as they knew LaRouche's HBPA would have done without bailouts. This became Obama's intentionally failed HAMP program.

The Federal Reserve made emergency bailout loans of more than $2 trillion to banks, and began its purchase of, eventually, $1.35 trillion in mortgage-backed securities, trying to keep the falling nominal value of some $5-6 trillion in MBS (mortgage backed securities) held by the largest banks as high as possible. "There's never been loss recognition" by the banks because of the bailouts, a former senior government economic official acknowledged recently. That is what LaRouche's emergency bank reorganization would have forced, four years ago.

Both the surge in foreclosures and the 8 million layoff wave which followed from October 2008 onwards were faster and deeper than any such collapses in U.S. history. And the bank debt crisis continues unabated three years later, on the verge of a complete banking collapse radiating from the deepening euro debt crisis now.

LaRouche noted during Summer 2009 that the political mass-strike eruption "from the town meetings," whose root cause was the rejection of his HPBA in the Congress, could go in a patriotic but revolutionary direction, or a "French Revolutionary" direction. As Vice President Biden acknowledged Oct. 6, in a Fox News interview, "The tea party arose, why? TARP" (and, he might have added, HAMP). And now, the 25 million-plus mass unemployment which resulted, and continues to grow, is giving rise to a new mass-strike eruption in the "Occupy Wall Street" demonstrations.