which would bankrupt the financial system.

And finally: one-half of the U.S. commercial banking system's assets of $11.73 trillion are invested in U.S. real estate, especially residential real estate.

Thus, in multiple ways, vectors from the subprime mortgage market drive into multiple points in fundamental ways into the world financial system. This goes to the heart of the world financial system. It is time that world leaders give LaRouche the backup for the steps he knows must be taken.

TABLE 4

The Top Ten U.S. Subprime Mortgage Lenders, 2006

Subprime Lenders	Market Share (%)	Loans ($ Billions)
1. Countrywide	8.0%	$38.5
2. New Century	7.0	33.9
3. Option One (H&R Block)	6.5	31.3
4. Fremont	6.2	29.8
5. Washington Mutual	6.0	28.8
6. First Franklin	5.8	28.3
7. RFC	5.4	25.9
8. Lehman Brothers	5.1	24.4
9. WMC (GE)	4.5	21.6
10. Ameriquest	4.4	21.4
Total	**58.8%**	**$283.9**

Timeline:

How the Now-Bursting Bubble Was Created

1982: Fracturing of Banking Regulation. The Garn-St Germain Depository Institutions Act (sponsored by Sen. Jake Garn (R-Utah), and Rep. Fernand St Germain (D-R.I.)) was signed into law on Oct. 15, 1982. The Act deregulated the banking system, and created the deregulated geometry to destroy the stable, traditional housing market. Vice President George H.W. Bush headed a task force which pushed through the legislation. Its key provisions were:

- The usury ceiling on what banks could charge on loans, set in most states at 10%, was repealed. During the early 1980s, the prime rate reached 21.5%;
- The lending limits for unsecured loans by banks to a single borrower were increased, thus increasing the amount of unsecured loans in the banking system;
- Commercial banks were de facto allowed (mostly because the Federal Reserve and other regulatory agencies turned a blind eye) to buy banks out of state, thus taking a step toward creation of super-banks, in violation of the Glass-Steagall Act of 1934;
- Commercial banks were permitted to create a category of loans and investments called "off-balance-sheet liabilities," which transformed into the $600-trillion-plus derivatives market.

1982: Until 1982, a homeowner took out a standard 30-year *fixed-interest-rate* mortgage, accompanied by a 20% downpayment. In that year, under Wall Street guidance, Congress passed the Alternative Mortgage Transaction Parity Act, which authorized for the first time, thrift institutions (savings banks, and savings and loan associations) to issue variable or adjustable-rate mortgages (ARMs), and to make "balloon payment" mortgages. Though commercial banks had had the power to issue ARMs—and usually didn't—now Wall Street pushed them to do so. Thus, during the late 1980s and 1990s, mortgage lenders increasingly issued ARMs, "balloon payments" mortgages, and other "alternative mortgages." This set the basis for the explosion of the dangerous "exotic" mortgages of the present, 21st-Century bubble.

1981-83: The circles of Lazard Frères investment bank took over Fannie Mae, and put a stop to the function for which FDR had established it in 1938. Fannie Mae bought mortgages from mortgage lending institutions, gave the institutions cash for the mortgages, and the mortgage lending institutions used the cash to make new mortgages. By repeating this cycle on a larger and larger scale, several times a year, with tens of thousands of lending institutions, Fannie pumped in walls of money, and, working with Fed chairman Alan Greenspan, amplified the housing bubble starting 1995.

Mid-1980s: Fannie pioneered a basically new instrument, called a Mortgage-Backed Security, which bundled together mortgages (from different lending institutions), and sold them to investors.* The MBS, though they are based upon mortgages, are completely independent instruments, with their own interest rate and their own increasing level of risk. The volume of MBS, issued by Fannie Mae, Freddie Mac, and increasingly by Wall Street banks, has risen from a trickle in the 1980s, to a level of few trillion dollars in the 1990s, to $6.3 trillion today.

*The MBS was created by Lewis Ranieri of Salomon Brothers in 1977, but it required an institution with Fannie Mae's muscle, to make the MBS widely accepted and traded.

1990s: With all of the above features going full bore, the subprime mortgage market was built up. On May 21, 2004, Federal Reserve Board Governor Edward M. Gramlach affirmed that "one of the key financial developments of the 1990s was the emergence and rapid growth of subprime mortgage lending. Because of regulatory changes [deregulation], the desire for increased profit, . . . and liberalization in some government mortgage support programs, lending institutions began extending credit to millions of borrowers. . . ." Subprime loans are loan-shark loans with oppressive fees, high penalties, and usurious interest rates, that target individuals and households with poor credit, usually from low-income households.

The share of subprime loans in total mortgage loans originated in a particular year, soared from 7% in 2001, to 11% in 2004, to 20% in 2006. However, the volume of subprime loans outstanding is even more stark: this jumped from $140 billion in 2000, to approximately $350-400 billion in 2003, to $1.2 trillion in 2006. The latter is 12.0% of all mortgages outstanding.

2000-01: After the "Information Technology" bubble crashed in March 2000, Fed chairman Greenspan decided to push the housing bubble into high gear to replace the IT bubble. Starting in 2001, Greenspan pushed through 13 cuts in the Federal Funds rate (the rate at which banks lend funds overnight); by August 2003, the Federal Funds rate stood at 1%, its lowest level in 40 years. By design, this pulled down the interest rate on mortgages. In this context, in addition to pushing subprime loans, the bankers absolutely destroyed traditional mortgage standards:

- Up until 1982, a home purchaser was required to make a downpayment of 20% of the home's sales price, so that the homeowner would start off with equity in the home. This downpayment was sliced to 15% by the start of the 1990s, approximately 10% by the end of the 1990s, and around 5% in the first decade of 2000. However, bankers found a way around that: "piggyback loans," two loans in which the first one is for the so-called mortgage, and the second is to enable the home buyer to pay the downpayment.
- Since 2000, bankers shifted to risky non-traditional/exotic loans. An example of that type is the "interest-only" loan. The loan is at an adjustable interest rate: for the first two to three years, the homebuyer pays a low "teaser" rate, of say 2-3%. During this initial period, the homebuyer pays no principal, but only interest at this lower rate. Then, after the initial period is over, the mortgage "resets," and the homebuyer must start paying principal, and also pay an adjustable rate of interest which is higher than the teaser rate. This leads to a shock, as the amount of monthly payment required often jumps by 50% or more.

Until 2001, nationally, fewer than 4% of buyers took out non-traditional or exotic loans. During the first half of 2006, 39% of all mortgage loan originations were of these risky exotic types.

- In 2000, only about 15% of subprime loans were undocumented, having no documented evidence of the income level, place of work, etc. By 2006, some 45-50% of subprime loan applications were undocumented. One study found that more than a third of the applicants' income levels were overstated by 50%. Also, a considerable portion of recent *non-subprime* loans were undocumented.

2006-07: The oustanding volume of unstable, risky, exotic loans is estimated by sources to be $1.5 trillion. The volume of subprime loans is estimated to be $1.2 trillion, by the Mortgage Bankers Association. Separating out the overlap, it is estimated that $2 trillion in mortgage loans are in very serious condition, with the potential of this spreading through other layers of the whole $10.2 trillion mortgage sector.

As for the banks, they have multiple layers of exposure. As of the third quarter of 2006, the U.S. banking system had $11.75 trillion in assets. Of that amount, 49%—or $5.7 trillion—was invested in real estate, primarily residential mortgages and MBS, according to the Federal Deposit Insurance Corporation. The mounting mortgage defaults and the collapse of the subprime mortgages and derivatives based on them, has the potential to rupture the banking system.