Fed Warned: Housing Collapse Is Much Worse Than Bernanke Says

by Paul Gallagher

The LaRouche Youth Movement (LYM) Democrats who carried an "FDR" resolution on the housing crisis, through the Massachusetts Democratic Convention on May 19 (see article in *National*), won a debate which convinced the delegates there, that solving the "foreclosures crisis" requires a massive writedown of mortgage-based assets by banks and hedge funds; a banking reorganization.

The truth behind the April reports on the American housing sector, released on May 23 and 24, is driving the LYM's point home. And a growing handful of other economics teams are looking at these recent months' reports and sounding a public warning: The U.S. housing-bubble collapse is much worse, and hitting the financial system much harder, than Federal Reserve Chairman Ben Bernanke insists on claiming.

The April reports showed that U.S. mortgage-asset "values" may have fallen, around the country, by $300-400 billion in a year, a rate of asset-value disappearance which is still increasing. Some 24% (about $3 trillion) of the U.S. banking system's assets are based on the bubble in the residential mortgage sector, built up at an historically explosive rate since 2000. And the estimates, ranging up to $75-100 billion, so far made by financial institutions, of the actual losses hitting the mortgage-backed securities markets, are much too small.

In addition, in late May, for the first time, warnings appeared from Wall Street, that the subprime mortgage-security crisis is spreading into the "leveraged corporate takeover" bubble, threatening to cut off the huge flow of funds going into these buyouts.

The Cost of Falling Prices

The May 23-24 reports on U.S. housing sales for April showed an accelerating loss of "market values" in the U.S. housing bubble, which may have shrunk by $300-400 billion in mortgage assets over the past year, undermining huge volumes of mortgage-backed securities and bank assets based on mortgages, and driving a growing wave of foreclosures nationwide.

The National Association of Realtors (NAR) on May 24 reported an "unexpected" drop in April existing-home sales, of 2.6% below the March level, and down to the lowest level since early 2003, combined with an approximately 1% fall in median home price of these home re-sales. On May 23, the Commerce Department had reported an 11% plunge from a year ago in the median price of new homes sold.

Taking the relative weights of new vs. existing home sales in the U.S. housing market, these price drops mean that the median price of all homes being sold has dropped 3% in a year, from about $228,000 to $221,000; and the total value of homes being sold has undoubtedly dropped by more than that median. This has not occurred since the Great Depression in the early 1930s.

If this drop in prices in homes being sold, is reflected in a drop in "values" of all owned homes in the nation, American homes have lost about $600-700 billion in value in a year, and (leaving aside fully paid-off homes) $300-400 billion in "values" of home mortgage assets have disappeared.

Nearly half—49%—of the total assets in the U.S. banking system are based on these mortgage values: one-quarter on residential mortgages, and one-quarter on commercial mortgages. On the latter, a team of economists from two Texas universities, which had forecast a residential mortgage crisis in early 2005, warned on May 23 that it will hit the commercial mortgage segment imminently; its head, Prof. Nancy Wallace of the Haas School real estate group in Houston, called the entire $475 billion commercial MBS

EIRNS/Stuart Lewis

A whole "block for sale" in Loudoun County, Virginia. The loss in home values as the sales/foreclosure crisis continues, is the key to the threat to the financial system as a whole.

market "a house of cards."

And the drop in values is clearly still accelerating: Homebuilders are now imitating the "Big Three" automakers, giving bigger and bigger discounts to make sales, and writing off inventory; existing-homes inventory for sale is at 8.4 months worth, and rising, with foreclosed-home sales driving prices down.

The PIMCO bond-investment firm has already estimated that $75 billion in losses are hitting this year on the mortgage-backed securities market; but clearly, the losses in the financial system will be much larger, in the hundreds of billions. They will have to be written off in a bank reorganization.

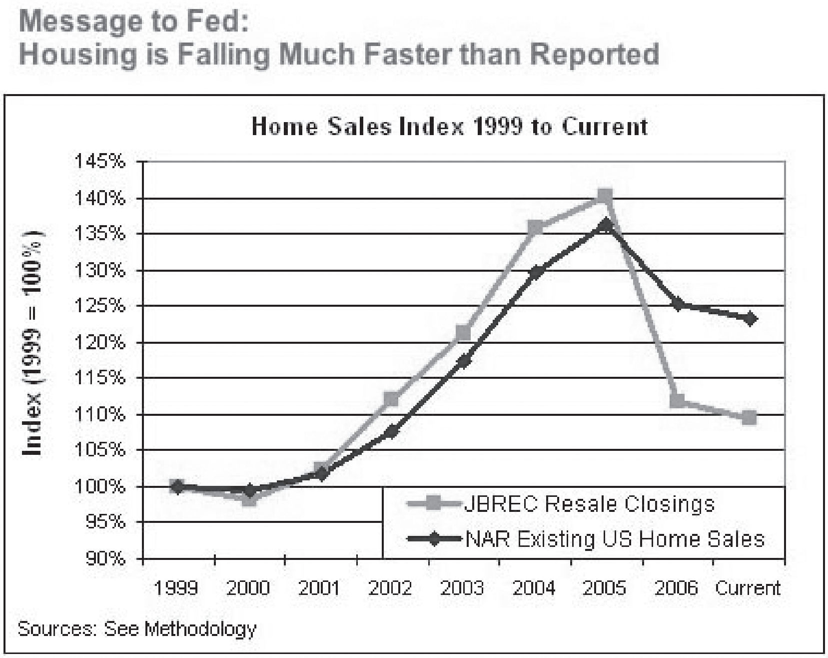
As for the Commerce Department's report of a 16% one-month jump in the *number* of new homes sold—even the National Association of Homebuilders (NAH) publicly debunked it. "There's some skepticism of the reliability of the numbers," said NAH chief economist David Seiders. "Other indicators at hand don't suggest this kind of snapback. I wouldn't be surprised by downward revision of April figures and some downward numbers in May."

'The Fed's Own Economists . . .'

A real estate investment and analysis firm, John Burns Real Estate Consulting, said on May 21 that it is "going public with our concerns" that the national sales information for both new and existing homes, is misleading and covering up a deep plunge of the housing sector. "We believe that the Fed should know that the housing market correction has been quite steep, and is also not showing signs of bottoming out," concludes JBREC.

The firm reports that having purchased and compiled actual home-sale *closing* data for 55% of the country, it finds existing-home sales down, not 8-9% as the National Association of Realtors (NAR) reports, but: 22% in May 2006-April 2007, compared to May 2005-April 2006; and much more than that on a simple year-to-year comparison of February, March, and April. It found that existing-home sales have fallen every bit as much as the new-home sales of the biggest homebuilders D.R. Horton and Lennar, which are down 37% and 27%, respectively. It found that home brokerage transactions by Realogy Corp., the nation's biggest realty company, which owns Century 21, Coldwell Banker, and ERA, fell 18% from 2005 to 2006; and that mortgage applications for home purchase have fallen 18%, even though many buyers now have to fill out several applications in order to get a mortgage.

Taking the states with the worst housing sales/foreclosures crises, JBREC found Florida home sales down 34%, not 28% as NAR reported; Arizona sales down 38%, not 28%; and California's down 37%, not 24% as NAR reports. This strong underreporting of the collapse by NAR, the firm



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John Burns Real Estate Consulting went public May 22 with this warning of the worsening real estate crisis, including a chart showing that careful data collection showed a much worse collapse of existing home sales since mid-2005, than "official" figures of the National Association of Realtors. The sales level now, is back to that of early 2001.

says, only dates from the beginning of 2006—and the chart shows that that is when the divergence suddenly expanded between its data and the NAR reports—it doesn't claim any intentional misrepresentation by NAR.

As for new-home sales, JBREC reports the Census Bureau is continuing to take reported sales without subtracting later cancellations, giving sales figures which are much rosier than the grim reality, and are reported publicly by the Commerce Department and the Federal Reserve.

And they are not alone: A report on subprime mortgage securities and associated "credit derivatives," by economists at the Cleveland Federal Reserve, was reported by seeking alpha.com on May 23 under the headline, "Subprime Derivatives Say Bernanke Will Be Wrong." "Perhaps Chairman Bernanke doesn't expect it," the author notes, "but reports in the field, credit derivatives indexes, and Fed Bank's own research economists are warning of deepening U.S. mortgages woes."

Private Equity Takeovers Next?

Often ignored in the current hunt for "whom to blame" for the national tsunami of foreclosures, the housing price bubble itself, generated by trillions in speculative funds' capital flooding into housing securities, *is* the cause of the crisis. Having reached the limit of possible household indebtedness—and far beyond it, generating a five-fold increase in subprime mortgage debt securities in four years—the bubble has started shrinking, and the "reverse leverage" of its collapse is unstoppable.

Now, tracking firms report nearly 600,000 foreclosures in the first third of 2007, suggesting two million homes may enter foreclosure *this year*. A Wall Street firm reported May 18 that while total foreclosures, at all stages, are up 60%-70% over last year so far, foreclosure notices—the front end of the process, when a mortgage is typically 90 days delinquent—are 127% higher. It said that foreclosed homes being resold by banks or lenders, are hitting the housing market with an average price drop of 30% nationally.

Now, according to a late May report by Merrill Lynch which reportedly represents worries by two other Wall Street investment banks as well, the big tightening of credit conditions in the market for subprime mortgage-backed securities, is also hitting the junk bonds in the leveraged corporate buy-out bubble. The report warned that while the cost of leveraged buy-outs is rising higher and higher above the stock values of the target firms, the interest-rate spreads for default-insurance derivatives on private-equity takeovers, have gotten significantly wider. That is, the markets fear the approach of the default wave from the mortgage markets.

This is reported in the *Financial Times* for May 25. It signals the "financial disintegration" spreading from the U.S. housing bubble collapse, of which Lyndon LaRouche has been warning.

Gore Makes Killing on AIDS; Nations Say No

by Gretchen Small

Multinationals are better positioned than governments to deal with crises such as HIV/AIDS, water scarcity, poverty, and ecological depletion, Generation Investment Management hedge fund co-chair David Blood proclaimed in a May 2007 interview given to *McKinsey Quarterly*, by Blood and his co-chair at Generation, the super-sized population-reduction freak, Al Gore.

Blood and Gore's Generation fund propaganda claims that its investments are driven by concern for ecological "sustainability," but as Blood coolly said: "In the end, this is about driving profitability and competitive position." Blood's partner Gore could not agree more: We don't accept choosing between investing, "according to our values or according to the ways most likely to get us the best return on investment. Our objective," he said, is "to focus on the best return for our clients, full stop."

If the human race is to survive, national governments must bring the power of such vultures to a "full stop."

The urgency of crushing the power of that despicable financier mentality, is most starkly clear in the battle to secure affordable antiretroviral drugs for the millions of human beings who are infected with the killer HIV virus, an effort which Blood's Gore, personally, has done everything to defeat. Antiretrovirals (ARVs) do not cure AIDS, but they are the single-most effective treatment thus far available, and have proven to be of dramatic benefit in extending lives, and slowing the spread of an epidemic which has already killed over 35 million people, and infected nearly 40 million more, so far.

Access to Medicines: A Universal Right

Developing nations, led by India, Brazil, South Africa, and Thailand, fought for over a decade to secure ARVs at a reasonable price. (See *EIR*'s March 23, 2001 cover story.) They have won some individual fights and lost more, but the *principle* of life before profits remains outlawed under globalization.

On May 4, Thailand's Minister of Health, Dr. Mongkol Na Songkhla, announced that his government would uphold its right and intention to import or produce generic drugs for AIDS and certain heart conditions, whether the multinational holders of patents on those drugs approved or not. In November 2006 and February 2007, the Thai government issued compulsory licenses for the production of two antiretroviral drugs and a heart drug, and it has said that it intends to do the same on other antiretrovirals, should their producers not agree to drastically lower their prices.

"Economic interests cannot be compared with saving human lives and protecting the public health," Dr. Mongkol declared.

The same day, Brazilian President Lula da Silva signed a decree authorizing Brazil's first-ever compulsory license, for importation of generic versions of the ARV efavirenz at less than one-third the cost of what its patent-holder, Merck, charges Brazil. Paying triple the price for a drug used by nearly 40% of Brazilians with AIDS, would have bankrupted Brazil's free AIDS medicine distribution program. The government cited the Brazilian constitutional mandate that health is "a right of all and a duty of the state, guaranteed by social and economic policies which seek to reduce the risk of disease."

"Not only for ourselves, but for every human being on the planet who is infected, we had to take this decision," President Lula explained. If we must chose between business and health, "we are going to take care of our health."

Compulsory licensing is an internationally recognized right, under which nations may issue licenses to companies other than the patent-holder for production of a medicine needed to confront an emergency or defend overriding public interest. The pharmaceutical companies scream that compulsory licenses are an attack on their "intellectual property rights" (IPR) (presumably, by demonstrating that their medicines can be produced at a fraction of the prices they charge), even though governments continue to pay them royalties on their patents under this mechanism.

Clinton vs. Gore: The Case of South Africa

Former President Bill Clinton, however, threw his full support behind the decision of Thailand and Brazil to put life before profits. With Thai Minister Dr. Mongkol standing at his side in New York City on May 9, Clinton explained that he supported those decisions, because "no company will live or die because of high-price premiums for AIDS drugs in middle-income countries, but patients may." At the same time, he announced new agreements between the Clinton Foundation HIV/AIDS Initiative (CHAI) and Indian generic drug manufacturers Cipla and Matrix to buy and distribute generic drugs in 66 developing nations.

Indian pharmaceutical companies, the primary suppliers of cheap generics to developing nations and health-care NGOs, are also under fire from the pharmaceutical cartel, because without them, most countries would have nowhere to turn except the cartel. Both Brazil and Thailand, for example, are buying the generics for which they just issued compulsory licenses, from India.

Clinton's May 9 intervention into this fight brought out into the open the long-standing break between himself and the racist Al Gore over the question of African genocide.

Sub-Saharan Africa remains the epicenter of the AIDS epidemic, home to an incredible 24.7 million of the 39.5 million people estimated to be infected worldwide, according to the latest AIDS epidemic update by the World Health Organization (WHO) and Joint United Nations Programme on HIV/AIDS (UNAIDS), issued in December 2006. That's two-thirds (63%) of all the adults and children with HIV in the world. Of the estimated 2.9 million people who died of AIDS in 2006, almost three-quarters (72%) of them lived in sub-Saharan Africa, where 2.1 million people have been lost to humanity because of this disease.

Anyone with any sense of humanity cannot but weep, when reading of the ravages caused by this disease in sub-Saharan Africa. One-third of the people of Swaziland are now infected, the highest prevalence rate in the world. At current levels of HIV prevalence, and in the absence of treatment, a young person in Zambia faces a 50% lifetime risk of dying of AIDS. With AIDS as a predominant factor, a baby girl born in Zimbabwe today has an average lifespan of only 34 years, the lowest in the world; a baby boy, 37 years.

In South Africa, where 5.5 million of its 47.4 million people are infected, the epidemic is steadily increasing. Driven by AIDS, total death rates from all causes in South Africa increased by 79% from 1997 to 2004.

This did not, and does not have to be so, but Gore bears his share of responsibility for this mass murder. As Vice President, Gore served from 1994-99 as head of a Commission on South Africa. When South Africa passed a law in 1997 which allowed the government to import and produce much cheaper generic drugs, including ARVs, the pharmaceutical cartel deployed everything in its power to stop it, including Al Gore. In August 1998, Gore personally threatened then-Vice President Thabo Mbeki that the United States would apply sanctions against the government, should it actually implement the law.

President Clinton did not permit such sanctions, but the pharmaceutical cartels' relentless war against South Africa, sunk that nation's plans to establish its own AIDS drugs manufacturing capability with the help of Brazil and India. Clinton sought to intervene again, signing an Executive Order entitled "Access to HIV/AIDS Pharmaceuticals and Medical Technologies," on May 22, 2000. The EO stated that the United States would take no steps, "through negotiation or otherwise," against sub-Saharan African nations, and the Republic of South Africa in particular, to revoke or revise "any intellectual property law or policy of a beneficiary sub-Saharan African country, as determined by the President, that regulates HIV/AIDS pharmaceuticals or medical technologies if the law or policy of the country . . . promotes access to HIV/AIDS pharmaceuticals or medical technologies for affected populations in that country."

That EO is still in the Federal Registrar, but the White

WHO Backs Life Over Gore

The World Health Organization (WHO) conference in Geneva on May 25 turned into a ten-hour "heated debate" (as reported in the *The Nation* of Bangkok) over compulsory licensing, with the vote going for life over the profits of the globalized pharmaceutical industry. Thailand and Brazil took the lead in getting a resolution passed by the 193 nations attending, which supports the right to such licensing, as permitted under the WTO rules, and which Thailand and Brazil have used to produce or purchase cheap generic drugs for treating HIV/AIDS patients. The United States led the opposition to the resolution, threatening sanctions against Thailand if it refused to rescind the compulsory licenses. Al Gore has offered his full support to the Bush Administration threats.

House press office has yet to confirm to *EIR* whether the order is still in effect, or whether it was rescinded by Gore's co-thinkers in the Bush-Cheney Administration.

Bush and Gore on the Same Team

Whether it has been explicitly rescinded, or just ignored, the Bush regime certainly does not accept the policy-intent of that EO. The U.S. Trade Representative cited Thailand's compulsory licensing as a problem earlier in the year, and then, at the beginning of May, placed Thailand on its Priority Watch List, an action which carries the threat of trade sanctions or reprisals. Dr. Mongkol came to Washington to attempt to reverse the threats, but he reported after meeting with U.S. Commerce Secretary Carlos Gutierrez on May 22, that Gutierrez "is on the side of the pharmaceutical companies."

That same day, Billy Tauzin, president of the Pharmaceutical Research and Manufacturers of America (PhRMA, the cartel lobby) lambasted Thailand in a teleconference with the media, blaming it for setting an example which other countries may follow, as Brazil did. For this maniac, it is "the spreading epidemic of compulsory licensing" which must be stopped, rather than a disease which threatens the human race.

EIR's Mike Billington asked Tauzen about the contrast between Clinton's support for the Thai and Brazilian action, and Gore's support for PhRMA. Tauzin was quick to attack Clinton, reporting that he has demanded a meeting with him to protest his intervention. Gore, however, has been a consistent advocate of "intellectual property rights" for a long, long time, Tauzen said, and PhRMA welcomes his help.

What Tauzen did not say, is, that back in 1998, trade threats made against Thailand—as in the South African case, personally directed by Vice President Gore on behalf of the pharmaceutical cartel—succeeded in forcing Thailand to back down on efforts, already under way, for domestic production of new generic ARVs.

Gaining Millions of 'Life Years'

Even with the sabotage, antiretroviral drugs have snatched millions of "life years" back from the disease of AIDS. The December 2006 WHO/UNAIDS report reports that an estimated 2 million life years have been added worldwide since 2002 in low- and middle-income countries, by the expanding provision of antiretroviral drug treatment to people with HIV and AIDS,

Nearly 800,000 of these life-years were gained in sub-Saharan Africa, with the "vast majority" of those years gained in "the past two years of antiretroviral treatment scale-up." Yet, according to the report, despite a ten-fold increase in the number of people in sub-Saharan Africa receiving antiretrovirals, since December 2003, less than one quarter (23%) of the estimated 4.6 million people in that region who need treatment, have received it.

In Ibero-America, where treatment programs began earlier, and cover more of the population, an estimated 834,000 life-years have been gained since 2002. And the epidemic there remains generally stable, as opposed to Africa, East and Central Asia, and Eastern Europe. (In the latter regions, the number of people living with HIV in 2006 was over one-fifth (21%) higher than in 2004, with new infections in Eastern Europe and Central Asia in 2006 increasing by almost 70% over the number of new HIV infections in 2004.)

The Brazilian anti-AIDS program, one of the most comprehensive ARV programs in the world, is credited by WHO/UNAIDS as being a major factor in keeping the HIV epidemic stable (at around 0.5% since 2000) in the region.

In 1996, Brazil initiated a program to provide antiretrovirals free to *all* Brazilians with HIV/AIDS who require them. The government set up a clinic outreach program to identify those who needed them, including homeless, drug addicts, and impoverished, and, as much as possible, relied on the public sector's own excellent drug-manufacturing capability to supply the ARVs. The genocide and pharmaceutical lobbies told Brazil it could not afford to treat its people. A disgusted Brazilian Health Minister Paulo Teixera, at the time, reported that Brazil was told that rich countries "would care for their infected. The poor countries, in the name of economic rationality, must consider their infected a lost cause."

Brazil proved them wrong, setting an example which other countries have tried to follow. AIDS mortality rates decreased by 50% between 1996 and 2002; AIDS-related hospitalizations fell by 80% during the same period. Mother-to-child transmission dropped from 16% in 1997, to less than 4% in 2002. By 2001, the extent of the epidemic was less than half of what it had been projected to be before the program started, and has remained stable.