Rebuilding FDR's Dedicated Lending System for Housing

by L. Wolfe

Introduction: The Current Housing Crisis

The United States now finds itself in the midst of the worst crisis in the housing sector since the Great Depression. Sales of all kinds of housing, both new and existing, are falling at rates far greater than they had risen by, at the height of the recent "housing bubble." With sales falling, developers and speculators have been caught holding properties that they can't sell and in some cases may never sell; the mortgages and loans on those properties are now in jeopardy.

Meanwhile, especially in the formerly industrial areas of the country already hit by waves of unemployment triggered by the collapse of the auto sector and the decline in industrial output, families with breadwinners out of work find themselves unable to meet their mortgage payments; such families are being crushed under mountains of debt, from which they had hoped the rising price of their homes would bail them out. In many cases, these families have been victimized by unscrupulous lending practices of mortgage brokers and bankers, who saddled them with high-priced subprime mortgages, often with adjustable rates, the which have shot through the roof.

The financiers and others, who have debt-farmed mortgages, securitizing them and selling them in the global financial casino, have tried to use the very people that they victimized with their mortgage gimmicks to convince Congress that these swindles and the mortgage bubble in general should be bailed out with taxpayer money, ostensibly to save the swindled from foreclosure and homelessness, but also to "save" the banking system. (See box.)

As Democrat Lyndon LaRouche has explained,[1] that banking system and the mortgages, in their present form, cannot be saved, nor should there be any effort to do so. The problem is not really about the ability of the mortgagees to pay, or even the foreclosures, per se. As a byproduct of speculative policies that have collapsed and destroyed the global financial system, and destroyed our basic infrastructure and physical economy, the system that allocated and distributed credit for the good of the nation, to the housing sector—a system designed and created by Franklin Roosevelt—has been perverted and broken apart. No solution to the housing crisis is possible without resurrecting that workable system of dedicated lending for housing, which served the General Welfare, and not the special interests of handfuls of powerful bankers and financiers.

When faced with a similar crisis, FDR knew better than to fall for propaganda or schemes that wouldn't work. As we reported in a previous article,[2] when faced with a real crisis of millions of foreclosures, FDR steadfastly refused to bail out either mortgagees or the mortgage lenders, realizing that this would in no way serve the General Welfare.

What was required was a reorganization of the banking system, not by the bankers, but by the Federal government, and then the regulation of that system to encourage the proper allocation of public credit; and, when the banks either could not or would not allocate credit, especially for new housing and home ownership, FDR created a system of government-regulated, dedicated housing lenders—the Savings and Loans—to do the job. FDR's system worked quite well, until the same financier-led forces destroying our banking system decided that they would loot and destroy that system of dedicated lending, ultimately creating the deregulated mess that exists today.

What is required to deal with the current "foreclosure crisis," and the banking crisis more generally, is to "put the toothpaste back in the tube," as LaRouche has demanded: to go back to FDR's regulated banking system and the system of locally based dedicated lenders to handle mortgages.[3] We again summarize briefly what crisis FDR faced, and then indicate how we can put the "toothpaste back in the tube," if we are willing to ignore the screams of a few bankers along the way.

The Nature of the Crisis FDR Faced

As FDR took office in March 1933, half of all mortgages were threatened by foreclosure, and nearly one-third were in

1. See the transcript of Lyndon LaRouche's June 21 international webcast, "LaRouche Takes on BAE: The World's Biggest Loose End," *EIR*, June 29, 2007.

2. L. Wolfe, "Lessons From FDR's Handling of the Housing Crisis," *EIR*, March 30, 2007.

3. *Ibid.*

Whose 'Foreclosure Crisis'?

"Reliable" real estate industry sources, such as RealtyTrac, report that there will be well over 1 million foreclosures by year's end.

But why should we place our faith in reports that come from the misnamed real estate "industry" and mortgage brokers and bankers who created this crisis in the first place? Rather than focus on the numbers from highly suspect sources, it were better to ask some questions: "Exactly who is it that is being foreclosed on?" "Who would benefit from a bailout of troubled mortgages?"

EIR's sources in the mortgage sector tell us that the majority of the homes being foreclosed on, by far, are not *owner-occupied properties*, but homes owned by speculators or developers, who find themselves holding properties against which they have over-borrowed and are now unable to flip for a profit. These speculators are on the rampage—to save their own hides.

In some cases, such as in upscale communities in California and Florida, speculators bought over-priced vacation or "second" homes in markets that are now "ice cold." In places such as Loudoun County, Va., in the formerly "white hot" suburbs of Washington, D.C.—an area that was considered a gold-plated, "can't miss" market for speculators—investors now find themselves up against a glut of other high-priced real estate garbage, with new additions to the glut coming on line daily. Ironically, many of these formerly non-credit-risk developers and speculators were stupid enough to go for exotic loans, including subprime jumbos, looking for big returns, under the delusion that the homes would still sell for a profit. Now, they are trapped with high-dollar mortgages coming due on properties that can't be sold.

The developers and the speculators are now bailing out, willing to take hits on their credit. In so doing, they dump these toxic properties on the banks, which, in most cases, hold on to them, rather than sell them at auction. As one banker explained, the banks do this out of fear that mass fire sales would trigger a total price collapse.

This is the reality of the crisis. The numbers from the various real estate sources on foreclosures are primarily lying propaganda, concealing what is happening while feeding calls for a government bailout to take those toxic mortgages off the books of the banks—a bailout process of speculation itself, financed with taxpayer money.

—L. Wolfe

the foreclosure process.[4] The problem, as FDR saw it, was not merely the distress of the mortgagees, but that the entire system by which housing was financed had broken down.

The 1920s was a period of real growth in the physical economy of the United States, driven largely by the expansion of the auto sector and related industrial growth. This in turn produced demand for housing, especially for the families of the growing industrial workforce, building up communities in the industrial heartland, as well as the close-in suburbs.[5]

Until 1927, this housing growth and homeowner mortgages were primarily financed by community-based Savings and Loans (or Building and Loans, as they were called in many places), whose asset base was dependent on savings deposits of those same people who applied for the loans. As they were structured and chartered, the S&Ls were, in reality, banking cooperatives, in which these depositors (and mortgagees) were the effective owners; their success (or failure) depended very much on the decisions made by the local bank officers and the banks' community boards.

The S&Ls, whose charters forbade them from selling or trading in mortgages, were what are called *dedicated lenders*, whose credit allocation is based primarily on loans to the local community, especially for housing.

The "Roaring '20s" were also a period of speculative frenzy, where even the smallest investor fell prey to "get rich quick" schemes and speculative investments, made with borrowed money that was often dependent on future growth of their asset values, the which, in most cases, meant the appreciation of their homes.[6] Then, as has taken place in the recent decade, with the influx of huge sums of money from large banks and other Wall Street-linked "investors," a housing asset bubble was pumped up.

The bubble pumping really took off in 1927, when the Coolidge Administration lifted the ban on state- and Federally chartered commercial banks issuing mortgages. These banks began issuing mortgages and loans at a feverish pace, pushing up the price of housing. Since these predators had no real roots in local communities, and were only interested in their profits,

4. Thomas Marvell, *The Federal Home Loan Bank Board* (New York: Praeger, 1969).

5. For an excellent discussion of the culture and contradictions of the 1920s, see Frederick Lewis Allen, *Only Yesterday* (New York: Harper & Brothers, York, 1931).

6. *Ibid*

EIRNS/Stuart Lewis

Residential foreclosures are on the rise, including in upscale Loudoun County, Va. (shown here). The only real solution to the crisis is a reorganized banking system.

they could afford to "cherry pick" among borrowers, taking the best prospects away from the S&Ls, which were left with the riskier loans.

When the Coolidge-Hoover financial bubble burst in 1929, the housing sector quickly imploded. Most mortgages were issued with five- or ten-year maturities, at interest rates of 8% or higher. With people thrown out of work, they could no longer make the payments; when mortgages came due, they couldn't qualify for refinancing. The speculators and developers suddenly found themselves with properties whose values were plummeting in the deflation, and which couldn't be sold at prices that would clear their mortgages.

The commercial banks, which had gobbled up more than half the mortgage market, pulled out. That left the S&Ls to absorb the major losses. For a while, especially in more rural areas, they tried to postpone foreclosing on mortgages, realizing that this would destroy their deposit base. Over time, as conditions under President Hoover got much worse, these community bankers, faced with lack of operating capital, first were forced to "eat their own" and foreclose on their depositors, and then, when they still were unable to obtain needed capital, started shutting their doors. In 1929, there were more than 16,000 S&Ls serving communities around the nation; by 1932, more than 1,700 closed, with 5,000 ready to do shut their doors in the first months of 1933. By the start of that year, mortgage lending, the engine of homeownership and the housing market, had virtually ceased, with the number of new loan originations *throughout the nation at less than 1,000*.[7]

What FDR Did

FDR realized that no nation could survive for long in this situation. However, this problem could not be solved by simple actions that failed to deal with the fundamental problem—that the national system by which credit was allocated for housing construction and mortgages had broken down. Nor could a *credit crisis* be solved by a legally dubious Federal moratorium on foreclosures, as many populists had proposed. Roosevelt never backed such a measure.[8]

Instead, the new President and his advisors developed a multi-faceted approach, anchored in the premise that any housing problem is *essentially a problem of banking and credit*. There was only one way to deal with a banking problem that was national in scope: The Federal government had to take control of the banking system and reorganize it so that it could once again allocate credit. Therefore, the first steps in solving the foreclosure crisis took place the night that FDR became President, when, in declaring a national economic emergency, he invoked his Constitutional powers to take emergency control of the banking system and declare a Federal "Bank Holiday."[9] As Roosevelt was to explain to the nation in a radio address, this was not intended to shut the banks, so much as to make sure that they could reopen with people having faith that their money was safe and that the banks would continue to do business.

Government examiners went into the banks and looked at their books, under orders to work things out wherever possible to keep the banks functioning, to write down bad loans and debts, and to see what cash would be necessary to let the banks operate; the Federal Reserve was instructed to facilitate this. In so doing, the examiners effectively halted all

7. Marvell, *op cit*.

8. Wolfe, *op cit*. FDR correctly saw the idea of foreclosure moratoria as avoiding the real problem—the need for the Federal government to reorganize the banking system so as to make sure that credit was allocated for mortgages and housing construction. He was also worried about the tendency among many populists who advocated the moratoria to view all bankers as the enemy, without any distinction. Roosevelt realized that while financiers and Wall Street bankers were a problem, no credit distribution system would work without "community bankers," most of whom had been forced into implementing foreclosures.

9. Although the Executive clearly had the power to implement, on its own, a bank holiday, FDR quickly had his actions ratified by a more than willing Congress, so as to place the full weight of the government behind his banking reorganization.

foreclosures, reworking mortgages at values appropriate to current market conditions, at longer terms, and at lower interest rates.

In June 1933, FDR put into effect the next prong of his attack on the problem. He took an existing Federal agency that had been created by Hoover and his financier controller Andrew Mellon to bail out the banks, the Federal Home Loan Bank Board (FHLBB), and redefined its mission as to steer new credit into the housing sector and help homeowners secure new mortgages and refinance existing ones.

Through the Home Owners Loan Act, FDR created a new agency, to operate under the FHLBB, the Home Owners Loan Corporation (HOLC), and authorized it to use $2 billion in public credit to purchase delinquent loans from the S&Ls, most of which were still under Federal supervision. If that were all the HOLC did, then it really wouldn't be more than the agency administering a bailout for the banks; but, again on orders of the President and his advisors, the agency was told now to offer direct aid to homeowners, many of whom the bankers would have cut off from credit. The new agency offered 20- and 30-year mortgages, at rates lower than the homeowners' previous mortgages, with highly flexible initial payment terms; if necessary, the HOLC loaned homeowners cash to help deal with family crises, also over the long term and at favorable interest rates. Every loan was handled by the HOLC on an individual basis, with its agents often making personal visits and helping clients to reorganize their lives, including helping them find work, often in a government-sponsored program.[10]

Within one year, the HOLC, which was allocated $200 million from Congress, along with a $2 billion bond issuance limit, had issued loans to 20% of all mortgage holders; by 1936 it had issued more than 1 million mortgages valued at more than $1 billion. Despite the cries from Wall Street about the HOLC's "unsound" lending practices, its loans had a minimal failure rate, one better than or equal to the loans issued by commercial banks to their "prime" customers.[11]

But the HOLC, as well as the government's actions during the Bank Holiday, had only stabilized a dire situation; they could not be substituted for a credit delivery system for the housing sector. For this, FDR turned to the re-creation of a system of dedicated lenders, with the S&Ls as the cornerstone for that system. This required government regulation and guidance to protect this system from the predatory practices of Wall Street, while making its lending practices viable for S&L operators. For such a system to work, it must be community-based, in which wide discretion is given to bankers and loan officers who know both their customers and the communities they live in; in the end, successful banking rests on the judgment of such individuals and their understanding that their depositors' interests are best served by lending that leads to a productive local economy over the long term, rather than for short-term cash profits, for either banks or individuals.[12]

With this in mind, FDR and his advisors gave insurance to the S&Ls for their deposits, provided protection against Wall Street and commercial banks' takeover of local lending and the mortgage market, as well as regulating interest rates that could be offered depositors, giving an advantage to "savings" banks over commercial banks. In addition, rather than placing commercial banks and S&Ls in the same "pot," and having the Fed serve as their rediscounter and clearing their paper, FDR and his Federal Reserve chief, Marriner Eccles, kept the S&Ls outside the Federal Reserve System, using branches of a Federal Home Loan Bank, administered by the FHLBB and Treasury, to perform the rediscounting and clearing functions.

Eccles, in particular, as a former community banker, realized that it were impossible to merely issue mortgages against deposits, especially if they were for a long term, without severely limiting the capital that was available for new lending.[13] Such a closed system would die the equivalent of a "heat death," and the community it served would suffer a credit slowdown or even shutoff. Both FDR and Eccles sought to prevent turning mortgages into instruments of "debt farming," refusing to allow banks to resell them.

The HOLC, in its purchase of loans from the S&Ls, served as a "closed loop" discounter, which in turn was prevented from speculating in those mortgages. But as an emergency body, the HOLC had a limited lifespan and capital; something more permanent was clearly needed. FDR and Eccles had hoped and even urged the private banking sector to establish its own agency to re-lend to the S&Ls by purchas-

10. Kristen Crossney and David Bartlett, "The Legacy of the Home Owners Loan Corporation," in *Housing Policy Debate 16*, Fannie Mae Foundation, 2005.

11. *Ibid.*

12. FDR shared this understanding of the role of banks in the community and economy with America's first Treasury Secretary, Alexander Hamilton. While FDR lacked the depth of understanding of Hamilton's seminal works that are foundation of the American System of political economy, he, like Hamilton, identified that such a system must at all times serve the General Welfare, and that this principle, and not a drive towards monetary profit, must guide all policy, banking and credit policies included.

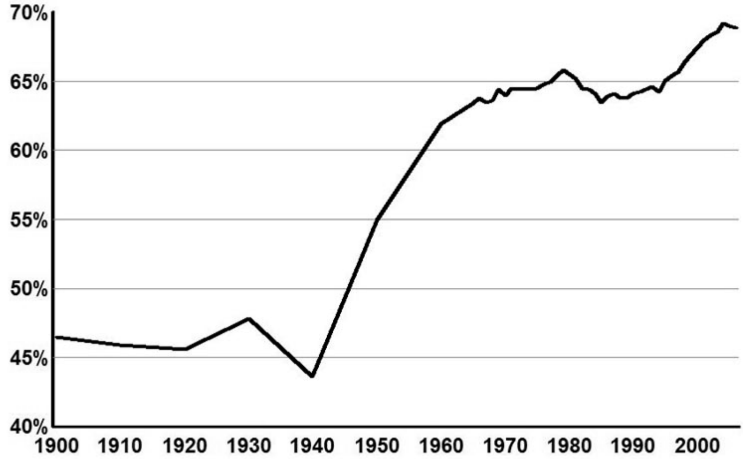
13. Eccles was chosen by FDR to head the Fed precisely because he *was not* a Wall Street banker. He had been an industrialist and had run a network of community-based banks in the West. Eccles had seen the indifference of the large commerical banks, and Wall Street generally, to the plight of the average American, as such bankers pursued policies that led to their great monetary profit while destroying farms, industry, and community alike. As Fed chairman, he saw himself as serving the interests of those people forgotten and discarded by Wall Street, and restoring the power of government to guide credit and other monetary policies in the interest of the General Welfare. Community-based banking was essential to this mission. Eccles saw in FDR a like-thinking leader who was willing to fight to protect banking from the worst impulses of those who had become too powerful for their own good. See Marriner S. Eccles, *Beckoning Frontiers* (New York: Alfred A. Knopf, 1951).

ing and holding their mortgages. Wall Street and the commercial banks would never accept, however, any restriction on their right to speculate with mortgage paper. By 1938, with the capital needs of the S&Ls growing, FDR could wait no longer, and along with Eccles, he created Federal National Mortgage Administration, or as it is more commonly known, Fannie Mae. It is important to note that Fannie Mae was supposed to be the end point for the mortgages that it purchased, collecting on them as due; it was not supposed to market them to other banks, except under specific, limited circumstances, and it was never supposed to be allowed to bundle its mortgages for resale, or even worse, to market the bundled mortgages as securities or to purchase mortgage-backed securities, as it does today.[14]

With the creation of Fannie Mae, FDR's "closed loop," dedicated credit stream for the housing sector was complete. As **Figure 1** indicates, this dedicated lender credit system poured billions of dollars into the housing market, producing a spectacular 30-year growth in home ownership, while keeping prices relatively stable, and the market insulated from the worst ravages of speculation.

FIGURE 1

U.S. Home Ownership Rate, 1900-2006



Source: U.S. Census Bureau

Knocking Out the Pillars

Thus, there were three pillars to FDR's system of dedicated lending for housing:

1. Protection of the S&Ls from the predatory lenders of the commercial banks and similar debt-farming institutions, through government regulation; this included giving the S&Ls an advantage in attracting deposits through preferential interest rates.[15]

2. Keeping the lending system "closed" by refusing to allow the resale of mortgages to anyone but Fannie Mae; this prevented the debt-farming of mortgages in the so-called "open market."

3. Keeping the system locally based, with decision-making in the hands of members of the same community as the mortgage applicants; at the same time, government mortgage and deposit insurance programs "backstopped" these local decisions, by making sure that limited errors in judgment would not destroy institutions.

In destroying the system, the Wall Street crowd and their stooges in Congress, knocked out each of these pillars.[16]

First came the moves to break open the dedicated lender "closed loop." It started with the Johnson Administration in the mid-1960s, when the Comptroller General required that the scores of billions of dollars in mortgages held by Fannie Mae be counted as an expense and liability of the government, rather than as an asset, as had been done since FDR's time. This paved the way for Wall Street to have Fannie Mae spun off from the government, and deregulated, allowed to lend to anyone rather than just the S&Ls; this placed Fannie Mae in competition with the institutions it had been created to serve.

Next came the Milton Friedman-led Nixon Administration's creation of a new mortgage relending institution, also without real regulation, the Federal Home Loan Mortgage Corporation or "Freddie Mac." Friedman's new wrinkle was that "Freddie" would be allowed to resell the loans it purchased on the open markets. By the 1990s, any commercial bank or mortgage lender was allowed to issue its own mortgage-backed securities, and sell them to any buyer.[17]

The death blow for the S&Ls as dedicated lenders came at the end of the Carter Administration, with the passage in 1980 of the Depository Institutions Deregulation and Monetary Control Act, which laid out a timeline for the total deregulation of the banking system. In specific, the act eliminated controls on interest rate charges, while trying to induce the S&Ls to become "regular" banks, allowing them to take checking accounts. During the Clinton Administra-

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14. "Government Sponsorship of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation" (Washington, D.C.: U.S. Treasury, 1996).

15. "Regulation Q" forbade the commercial banks from offering interest or premiums on demand deposits. This provided the S&Ls with a clear advantage in attracting such accounts. It remains on the books, but through increasingly bizarre interpetations, it is now virtually meaningless and certainly unenforced.

16. For more detail on this assault, see Wolfe, *op cit*.

17. While the ability to sell mortgages already existed, it was former Fed chairman Alan Greenspan who unleashed the frenzy that continues to this day in the sale of "mortgage-backed securities" and similar paper, by allowing their rediscounting through the Fed. See Richard Freeman, "U.S. Mortgage Crisis Can Trigger Collapse of Global Casino," *EIR*, March 23, 2007.

tion, the last vestiges of FDR's regulatory control system were removed, including all restraints on interstate banking.

By then, the dedicated lending system had become "road kill," with its scraps looted by Wall Street predators and commercial banks.[18]

Putting It Back in the Tube

As a byproduct of their vendetta against FDR's banking regulation, the Wall Street crowd and their stooges and dupes in the government and Congress had destroyed a credit distribution system that had served the interests of the nation well, for 50 years. As the orgy of speculation and financial lunacy that replaced this system careens towards a breakdown, the same people who have brought on this crisis now scream through such press sewers as the *Wall Street Journal*, that we can't go back to what worked, that we must remain on our deregulated course straight to financial hell.

There is no way to solve this current crisis, and preserve our national institutions and restore our economy, without going back to FDR's system of nationally regulated banking and credit distribution, including the re-creation of a government-regulated "closed loop" system of dedicated lending for housing. For those who have trouble seeing how to "put the toothpaste back in the tube," we provide in brief outline, step by step, a pathway back to financial sanity in the housing sector.

1. There should be a declaration of national economic emergency, preferably by our Executive, but failing that, by the Congress, which authorizes the Federal government to take control of the Federal Reserve System and all other credit distributing institutions.[19]

2. All mortgage-backed securities and related collateralized debt obligations (CDOs) shall be wiped off the books of banks and other lending institutions, including Fannie Mae and Freddie Mac; no payments shall be made on these, and their issuance shall henceforth be strictly prohibited.

3. As part of this overall banking reorganization, it shall be determined which mortgages are in distress, examining as well, which dwellings are owner-occupied and which are not. All foreclosure proceedings shall immediately cease.

4. Bank examiners, drawing upon people in local communities, including those that will inspect properties, shall write down mortgages to what are real and deflated mortgage values, adjusting interest rates downward as well, while adjusting all mortgages to long-term (30 years or more); all adjustable rate mortgages will be so converted.

5. Congress shall authorize a regulated Fannie Mae to act as did the Home Owners Loan Corporation, authorizing its government-backed recapitalization at sufficient levels to purchase from banks and other institutions these rewritten mortgages for all owner-occupied housing (the bank examiners may offer rewritten mortgages to non-owner-occupied properties at a higher interest rate).

6. Properties that have been foreclosed on will be re-offered to their former owners with mortgages at reduced amounts and rates for those formerly occupied, and at higher amounts and rates for those that were not owner-occupied; Fannie Mae will supervise the resale of any remaining foreclosed properties.

6. Fannie Mae will be authorized to provide bridge loans at nominal interest rates for homeowners who are occupying their properties, but who are in financial distress; the loans will be at low interest rates, with the intent of keeping families together; later, S&Ls will be instructed to do the same.

7. As part of the banking reorganization, the FHLBB shall establish a Federal Home Loan Bank in communities across the nation; in some cases, the FHLB may be an existing bank or S&L; in other cases, it will be a newly created bank; in all cases, the bank will be locally run, with a community loan board. Such banks will be Federally chartered, with suffiicent initial lending capital provided by the Fed and the Treasury; their deposits will be insured by the Federal Saving and Loan Insurance Corporation (FSLIC); the banks will be restricted to taking in deposits and issuing mortgages and loans at nominal interest charges to the local community for the purpose of housing; all such lending will be long-term (for 30 years or more), at fixed rates, to be set by the FHLBB.

8. Fannie Mae will redistribute loans and mortgages it might hold in local communities to these community-based banks, which loans shall be considered as assets of the local bank. Fannie Mae will, from time to time, purchase loans and mortgages from such local institutions to replenish its capital stock; the banks and Fannie Mae will be otherwise prohibited from reselling such loans and mortgages. Freddie Mac will do the same in redistributing its mortgage to the local banks.

9. Predatory mortgage brokers and lenders, such as Countrywide, Ditech, and Quicken, will cease issuing mortgages and will be barred from selling their existing mortgages; they will be allowed to continue to collect on mortgages that have been written down, or make arrangements to have Fannie Mae take them off their hands, at a discounted price; such mortgages will then be reallocated, where appropriate, to Federal Home Loan Banks.

10. Commercial banks, such as Citigroup and its mortgage-lending arms, will be similarly banned from issuing new mortgages or from taking interest-bearing deposits, with "Regulation Q" fully enforced; their mortgages may be dealt with as with those of mortgage brokers, as indicated above.

None of these measures can work without a Federally di-

18. The Resolution Trust Corporation (RTC), the agency created by the Reagan Administration and Congress to "save" the S&L industry, used taxpayer monies to make most of those banks ready for the "slaughter," facilitating their sale to commercial banks.

19. LaRouche, *op cit*.

Resolutions To Deal With Housing Crisis

The LaRouche Youth Movement (LYM) has presented resolutions on how to deal with the housing crisis, to Democratic Party bodies in several states during the past few months. The first one was put forward by Ardena Clark, 43rd Assembly District, and a member of the Franklin Roosevelt Legacy Democratic Club. It was adopted by the Los Angeles County Democratic Central Committee on July 9, 2007. It must next be taken up by the state Democratic Party Executive Board. The second resolution was adopted by the Massachusetts State Democratic Convention on May 19, 2007.

Los Angeles

Whereas, keeping people in their homes and preventing predatory lending practices are values long supported by the Democratic Party, and are present in the rights established in the General Welfare clause in the Preamble of our Constitution;

Whereas, the projected number of foreclosures in 2007 is up to 2 million homes (John Burns Real Estate Consulting, May 22, 2007), many due to unethical lending practices; and

Whereas, the collapse of hedge funds, e.g., Bear Stearns, heavily invested in subprime mortgages threatens to set off a chain reaction collapse of the mortgage-backed securities (MBS) and collateralized debt obligations (CDO) markets, jeopardizing many national programs such as student loans and pensions, causing ultimately, the blowout of the global monetary and financial system.

Therefore be it resolved, that the California Congressional delegation lead the way in creating governmental institutions whose purpose is to direct credit to keep people in their homes in a manner similar to Roosevelt's Home Owner's Loan Corporation.

Be it further resolved, that the California Congressional delegation introduce legislation that would prevent and/or mitigate against a global financial crisis.

Massachusetts

Whereas, there are projections of up to 2 million families in danger of losing their homes in the near term because of foreclosure, with thousands of these in Massachusetts, due to false over-inflation of housing prices, and predatory loan practices which saddled families with unpayable mortgages;

Whereas, because of changes in law in the 1970s and 1980s, mortgage loans were allowed to become a financial instrument (mortgage-backed securities—MBSs) to be sold and traded on the markets, and the current popping of the speculative bubble of MBSs is rapidly bankrupting hedge funds and companies such as New Century Financial and GMAC;

Whereas, because of these bankruptcies, pensions and municipal health-care funds, which have been invested into these financial corporations are threatened with being wiped out, as well as the assets of major U.S. banks which have up to 50% of their assets tied up in these MBSs, putting the entire banking system at risk;

Whereas, the Preamble of the Constitution demands that the government put the General Welfare of the population before the rights of financial entities to collect debt;

Therefore, be it resolved, that the Democratic Party of the Commonwealth of Massachusetts calls on our delegation to the federal Congress to act as Franklin D. Roosevelt did in dealing with the housing crisis in the 1930s. We call on our Congressional delegation to introduce emergency measures which would immediately freeze the current debt and mortgage obligations, as well as the chain of financial instruments built upon them, until such obligations can be sorted out and reorganized in the context of a larger bankruptcy reorganization of the U.S. banking system, while placing a moratorium on foreclosures to keep the homeowners in their houses and prevent mass homelessness of thousands of American families in the near term.

rected program, as proposed by LaRouche, to rebuild the nation's infrastructure and revive our collapsed physical economy, financed through low-interest government-directed credit.[20] Housing is a component of that program, if it is built, not for speculation, but to meet the real needs of families; despite the glut of speculatively built housing, in such places as upscale Loudoun County, Va., there is a physical deficit in housing for middle class and poor Americans, who remain trapped in decaying cities and suburban slums.[21] A community-based dedicated lending system can help solve that problem as well.

There can be little doubt that a such a program will be unpopular with Wall Street. But, as LaRouche has demanded, it is about time that we put the interests of the nation and its people ahead of the interests of wealthy financiers, both on this side of the Atlantic and in London, who have placed us on our current path toward economic doom.

20. *Ibid*.

21. Freeman, *op cit*.