MORTGAGE MELTDOWN, DOLLAR CRASH

Mobilization Grows for the One Action Congress Can Take

by Paul Gallagher

With the trap door yawning open to a bottomless dollar collapse and global financial crash, the U.S. Congress's Joint Economic Committee (JEC), on Nov. 8, turned in anger, anxiety, and even desperation on Federal Reserve chairman Ben Bernanke. This, when the situation clearly demanded that they, the Congress, take legislative actions to put the hyperinflating Federal Reserve into bankruptcy receivership, and to put "firewalls" around the U.S. economy, households, and the dollar, to defend them from the unstoppable crash of a debt-securities bubble in the tens of trillions of dollars.

"I fear worse than a recession," said JEC chairman Sen. Charles Schumer (D-N.Y.) in his statement opening the hearing, and talked about the " 'four horsemen' of financial crisis": falling home prices, falling dollar, ever-rising oil prices, and falling creditworthiness in financial markets. JEC vice-chairman Rep. Carolyn Maloney (D-N.Y.) called the banks' and big financial corporations' losses "stunning, and frightening. We're seeing billions and billions of dollars in losses.... The dollar is sinking like a stone. What contingency plans does the Fed have, should [the economy] move into a fall? Millions of Americans fear they can't keep their homes, let alone heat them this Winter." Member after member complained to Bernanke that he had been completely wrong in telling them, six months ago, that the mortgage meltdown would be "contained," and not pull down or even damage the financial system; or like Democratic Rep. Elijah Cummings of Maryland, they threw statistics of 500% and 1,000% increases in foreclosures in their states, in the Fed chairman's face. Reps. Loretta Sanchez (D-Calif.) and Ron Paul (R-Tex.) heatedly denounced the Fed's policies, with Paul correctly charging the Fed with hyperinflating assets and commodities and destroying the dollar.

Dread of the financial blowout being registered in falling stock markets and bank-loss announcements was in the air. But, paradoxically, none of the JEC members had the temerity to propose a single policy action; they all wound up asking the discredited Bernanke what he could do, or thought they should do. Bernanke's reluctant suggestions went from the trivial—telling one Senator to "urge homeowners with mortgage problems to call their lenders"—to the outright dangerous, as when he proposed that the Federal government put dollar guarantees behind Fannie Mae's purchasing of tens of billions of dollars in subprime mortgages.

Speaking for a desperate Wall Street, Republican Sen. Sam Brownback of Kansas pleaded with the Fed chairman to take the *worst possible step with the dollar crashing*: "I do hope that the Fed is considering another cut in [interest] rates now.... A rate cut would be something very valuable, as a signal...." And when Bernanke's answer translated as, "No, I can't do that now," the markets began to plunge again. By next day, futures dealers had priced in a "97% chance" that they'd force Bernanke to change his mind and cut, cut some more. "Market participants don't think the Federal Reserve is facing reality," said Wall Street senior economic guru Alan Sinai.

The dollar has crashed, and the disintegration of debt-asset values on banks' and hedge funds' books is not stoppable. On Nov. 9, a research report by Citigroup projected that banks and hedge funds will have to write off $64 billion in collateralized debt obligations (CDOs) alone, in the third and fourth quarters, a loss of 10-15% of the total value of those phony debt-based-on-debt instruments. But the next day, Wachovia Bank acknowledged, in its third-quarter report, that its own holdings of CDOs had lost 62% of their "value," from $1.8 billion down to $676 million during the quarter. Citigroup's $64 billion is nothing, according to a Royal Bank of Scotland research report on Nov. 9, which projected banks, funds, and brokerages would have to write down as much as $500 billion in debt and credit assets.

That estimate, too, is wishful nonsense. The bubble that is collapsing is $10 trillion in mortgage-backed securities and CDOs alone; and is now spreading to commercial real estate, credit card, and auto loan debts. It is re-collapsing the $2 trillion commercial loan paper market, which has begun to shrink dramatically again since the beginning of November.

And as Schumer acknowledged, the deadly "bottom line" of this collapse is the accelerating fall in home prices in the United States—now underway in the British, Spanish, and Scandinavian mortgage bubbles as well—which has set rolling a mass foreclosure locomotive, and is threatening mass social chaos in American urban and suburban neighborhoods.

To this deadly mix—Sinai and Jim Cramer, et al. were demanding of the man once called "Helicopter-Money Ben" Bernanke—just add hyperinflation, Weimar 1923-style.

Nothing Works But a Mortgage 'Freeze'

The home foreclosures crisis is approaching a point of irreversibility, without any preventive action by the Congress. This was graphically shown by the frustrated outbursts of shouting by House Financial Services chairman Barney Frank (D-Mass.) against witnesses at a Nov. 1 hearing to assess "progress" in refinancing distressed mortgages, one by one, to avoid foreclosures. That approach is being overwhelmed by sheer numbers of home losses, and by the falling home prices and rising defaults which kill the chances of refinancing.

Home foreclosures in the United States in October appear to have accelerated by another 10-20% from September, according to early reports, and continue, each month, to double the foreclosure wave of late 2006. Some states, like California, Florida, New York, Maryland, Michigan, and Wisconsin, are being hit much harder, blowing big holes in their tax revenue and budget projections. The average American home's price, year-to-year, will have dropped by an historically unprecedented 7% or more by the end of the year, putting literally millions of homeowners "upside down"—owing more on their mortgage(s) than the price for which their house could be sold, and setting them up for foreclosure.

During the week of Nov. 5, four more local governments joined those calling on Congress to take legislative action to stop those foreclosures, focussing on the Homeowners and Bank Protection Act of 2007 (HBPA) proposed by economist Lyndon LaRouche and the LaRouche Political Action Committee. These were Jackson, Mississippi; Pomona, California; Gary, Indiana; and New Castle, Pennsylvania. Jackson has one out of 80 of its owner-occupied homes in foreclosure; Pomona, one out of 33; the Gary area of northern Indiana is where the current subprime foreclosure wave first hit, at the beginning of 2006; New Castle is supporting the 45 Pennsylvania state legislators who have called on Congress to enact the HBPA, and preparing for a Nov. 29 state legislative hearing aimed to convince its Congressional delegation to act.

One Pennsylvania Congressman, Democrat Paul Kanjorski, noted in a Nov. 5 press conference that the solution of "turning to Fannie Mae and Freddie Mac" brought up by Bernanke—and already proposed by Frank and Schumer—can't work. The regulator of those two giant Federal mortgage companies had sent Kanjorski a report, that not only could Fannie and Freddie not expand to buy up $125 billion in "subprime mortgages at risk of default," but they were actually *shrinking* due to asset losses and credit-market problems just like all the banks and big lending companies. Three days later, Fannie Mae reported a $1.5 billion third-quarter net loss, due to mortgage defaults, dramatically underlining the point.

Kanjorski, who estimated the overall mortgage bubble at $20 trillion and the losses out of it at $150-300 billion, acknowledged that stopping foreclosures was the element not yet addressed by any Congressional proposal: "It's not an easily soluble problem. But we [Congress] have to take it up," he said.

Put System, Not Homeowners, in Bankruptcy

The only other proposal besides the HBPA—that Congress should change the bankruptcy law, to allow bankruptcy judges to alter mortgages to avoid foreclosure—asks Congress to put the power and responsibility of stopping the tsunami of foreclosures with the courts, rather than where it belongs, with the Congress, acting under the General Welfare clause of the Constitution. It depends on the homeowner having to declare Chapter 13 bankruptcy in hopes of avoiding foreclosure. And it depends upon unpredictable actions of bankruptcy judges under pressure of the sickening drop in the market value of the home, and therefore of the homeowners' equity in it. And bankruptcy courts cannot in any way protect the chartered banks that will fail in the financial markets and dollar crash.

This idea departs from the clear legacy of the actions of President Franklin Roosevelt and Congress in 1933 and 1935, who stopped the massive Depression plague of farm and home foreclosures by law, created the Homeowners Loan Act and the Federal Housing Administration—and, in the process, created the modern, 30-year fixed-rate mortgage.

Notably, the Gary, Indiana call on Congress for "a moratorium on foreclosures and enactment of a Homeowners and Bank Protection Act" begins by declaring "a financial crisis involving home mortgages, debt instruments, and the United States banking system, [which] threatens the integrity of Federal and chartered banks such that consumer deposits and life savings are jeopardized." It reminds Congress that, "Historically the Federal government has intervened to protect financial institutions and to provide guarantees of social and economic stability."

For Congressional leaders instead to be asking "Helicopter-Money Ben" what to do in a dollar crash, is insane, and a betrayal of their constituents' trust.