Paul Gallagher: Threat of An Unstoppable Collapse

Gallagher is the Economics co-editor for EIR.

1. What the United States faces now is not a "housing crisis," but a dollar crash and a banking crisis.... HR 418 supports an emergency legislative action which could be called "the first firewall" to protect the people and the real economy, from an unstoppable collapse of vast mountains of mortgage-asset-based debts....

You see that in a sudden eruption after 2001, some $14 trillion in new mortgage debt was issued in a few years in the United States.... On top of this, some $7 trillion in mortgage-backed securities were issued in the same few years—a mortgage debt bubble, thus, of over $20 trillion ... driving a stupendous escalation of the price of homes.... Mortgage-backed debts have been used as "assets" to generate much more leveraged debts by hedge funds, private equity funds, money-center banks.

Now, housing economists such as Dr. Robert Shiller have told the Joint Economic Committee that home prices—we cannot say "home values," but home prices—are in the process of declining rapidly by perhaps 20%, perhaps more. This is uncharted territory. One study by First American Core Logic found that with just the first 10% drop in median home price, 25% of mortgages originated in 2005, and 39% of those originated in 2006, go "upside-down," wherein their mortgage debt is greater than the sale price of their home. This process drives both mass foreclosures and massive bank losses.

2. That foreclosures must be stopped by legislative action, is becoming very clear. Nearly half a million homeowners will have lost their homes to foreclosure actions during 2007. The prospect in 2008 is much worse: Nearly 2 million adjustable rate mortgages will reset to higher rates.

You are meeting here, in part, because no Congressional action has been taken to stop foreclosures. The "great hope" of Fannie Mae and Freddie Mac expanding dramatically to buy up and refinance subprime mortgages, has been proven a delusion....

What remains urgent, is for Congress to stop foreclosures by law—by a national mortgage foreclosure holiday during the mortgage/price collapse; a state determination of fair-market rent equivalents to be paid to participating banks by homeowners with problem mortgages; and Federal protection

State Rep. Curtis Thomas (D-Phila.), chairman of the Intergovernmental Affairs Committee, told the hearing, "We will move this resolution."

of chartered banks.

3. Banks are taking and will take great losses no matter whether Congress acts or not. On Nov. 25, the European Central Bank, which has made a full $1 trillion in weekly liquidity injections into the British and European banks since early August, announced it would step up that pace of cash injections. On Nov. 26, the Federal Reserve announced that it would do the same, to try to bring down interbank lending rates and liquify securities markets. The mortgage meltdown and bank crisis have triggered a U.S. dollar crash.

4. We should stop the massive bailing out of non-banks, non-depository institutions typified by Countrywide Financial Corp. or by the hedge funds and investment banks securitizing mortgages…

Richard Freeman: Historical Precedents for the HBPA

Freeman is a senior economics writer for EIR.

In recent weeks, in direct proportion as HR 418 has gained support and endorsers, questions have been raised and criticism has been hurled at the resolution. . . . [T]he critics claim that a plan, such as the Homeowners and Bank Protection Act, has never been adopted before in history; second, they claim that it violates the law. . . .

What Roosevelt and like spirits did during the 1930s was to adopt solutions guided by the overarching principle of the General Welfare clause of the U.S. Constitution. . . .

On April 13, 1933, President Roosevelt declared, "[T]he broad interests of the Nation require that special safeguards should be thrown around home ownership as a guarantee of social and economic stability, and that to protect homeowners from inequitable enforced liquidation in a time of general distress is *a proper concern of government*" (emphasis added). . . .

Contrary to the claim that the HBPA's stress on a mortgage moratorium is unique in history, in fact, 25 of the then 48 states existing in the Union, introduced or adopted some form of law meant to institute a partial or full moratorium on mortgage payments, and that would keep people in their homes. . . . The most famous full or partial moratorium, or moratory law, as they are called—occurred in Minnesota. In 1933, the Minnesota legislature passed the Minnesota Mortgage Moratorium Act … [which stated] that people who had a mortgage, known as mortgagors, who were unable to make their mortgage payments, could seek at a state court, an alteration of their payment schedule to lower the level of their payments, usually to a rental equivalent. During this time, they stayed in their homes. The law provided for a significant two-year period in which they could work on their payment schedule. . . .

The law was originally intended for farmers. However, when a couple, Mr. and Mrs. John Blaisdell … successfully applied and got protection under the Minnesota Moratorium Act, the company which held the Blaisdells' mortgage … sued them. . . . The State Supreme Court of Minnesota upheld the Moratorium Act as constitutional. . . . [T]he U.S. Supreme Court, which had a definite anti-Roosevelt slant, in 1934, by a five to four vote, did likewise. . . . [T]he majority … stated: "*The reservation by the state of the authority to pass reasonable laws FOR THE WELFARE OF ITS CITIZENS is an implied condition of every contract*. While an emergency may not be a source of power, it may furnish the occasion for the use of power already possessed [by the state]" (emphasis added).

Moratoria legislation abounded across America. In six states—Arizona, Iowa, Oklahoma, Illinois, Michigan, and Rhode Island—legislation that instituted a two-year continuance—effectively a postponement—of all pending foreclosure cases, was either introduced or passed in 1933. In Massachusetts, legislation was introduced to stay all home foreclosures until the chief executive of the state declared that "the emergency creating the necessity for this legislation no longer exists."

Linda Thompson: The HBPA Will Protect Homeowners

Thompson is a member of the Harrisburg City Council and founder of LOVESHIP, Inc.

I am here today to speak to you and urge your support of House Resolution 418, a piece of legislation that may indeed be key to the economic survival of many low- and moderate-income individuals and families.

At my non-profit organization, LOVESHIP, Inc., one of the services I provide is financial counseling to individuals and families in the first stages of mortgage foreclosure.... These are often hard-working, solid citizens who have been "sweet-talked" into mortgages they cannot afford, by unscrupulous lenders; they are on the brink of financial collapse and bankruptcy....

The HBPA that I am asking you to support offers two main protections to homeowners. The first homeowner protection would call for freezing existing home mortgages for a period of time, and restructuring and adjusting them to fair prices.... Adjusting the interest rate to a fair and reasonable number would reduce monthly expenses for these victims and allow families to remain in their homes.

The second homeowner protection is a moratorium on home foreclosures for a transititional period, during which time homeowners would make the equivalent of rental pay-

Paulson/Bush 'Roadblock' Action on Foreclosures

It might be called "King Canute's plan" to slow the waves of home foreclosures. But the mortgage-foreclosure "plan" announced by both President George Bush and Treasury Secretary Henry Paulson on Dec. 6, is actually intended to put a roadblock in the way of any action by Congress to stop the huge national wave of home foreclosures. Lyndon LaRouche—with his proposed Homeowners and Bank Protection Act (HBPA), which is by now well-known to most Members of Congress and hundreds of state legislators around the country—and others have demanded a national moratorium on foreclosures; only LaRouche's proposal also protects chartered banks from being brought down by the mortgage bubble collapse. Paulson's "plan" intends to rule out action by Congress along either line of LaRouche's HBPA.

Paulson called the plan "a private sector effort." He said frankly on Dec. 6, "The investment community [is] on board and [is] a clear beneficiary of this approach"—referring to the American Securitization Forum, the investment banks and hedge funds which pushed for trillions in high-interest, high-cost mortgages they could "securitize" and build mountains of debt "leverage" upon. The Securities and Exchange Commission, and New York Attorney General Andrew Cuomo, are investigating the way that some of these investment banks, from 2006 on, *dumped* and *shorted* their own mortgage-backed securities (MBS)—knowing they were collapsing in value—even as they sold tens of billions of the same MBS to funds, other banks, and investors worldwide.

At a Dec. 3 housing conference in Washington, Paulson had detailed that the "plan" divides homeowners with mortgage problems into four categories, and proposes to help only some of those, in two of the categories, to avoid foreclosure. Those who can prove they qualified for prime fixed-rate loans but were pushed into higher-interest subprimes; and those with low credit scores who can prove that they can't afford the subprime adjustable mortgage reset rate, but can continue to afford the introductory rate, and are not delinquent, and have only one mortgage loan in danger, and live in the home; can get an interest-rate freeze long enough, supposedly, to negotiate a new prime mortgage—which will cost them money up front. One whole category, Paulson says, "will go back to being renters."

The "plan" allows "not one Federal dollar" to protect and keep chartered banks open, and dumps all the debt costs of helping homeowners, onto the states.

And it completely ignores the national home price collapse underway as the mortgage bubble melts down. This price drop, by making hundreds of billions of homeowners' "equity" vanish, is crucial in driving the national foreclosure locomotive.

Former Federal Reserve Board governor Lyle Gramley, at the Dec. 3 conference with Paulson, said the Treasury plan won't work because it would require a slow and costly "loan-by-loan" analysis to see who qualifies for the rate freeze. Moody's Economy.com economist Mark Zandi said it would not work because a 15-20% home price decline is hitting, a 5-7% price decline has already hit, and refinancing doesn't work in that condition. The CEO of Washington Mutual was pessimistic about it because prime mortgage defaults are rising sharply and prices are falling.

Sen. Hillary Clinton (D-N.Y.), at a Wall Street forum Dec. 5, challenged Paulson by proposing a foreclosure moratorium of "at least 90 days," and a five-year freeze on mortgage interest rates for homeowners who are delinquent on their mortgages, as well as those who are current—no "categories." An immediate "no moratorium" response came from the Mortgage Bankers Association, whose spokesman accompanied Paulson at his press conference Dec. 6. This showed that Clinton, appropriating just a bit of what LaRouche has proposed, had "crossed the forbidden line" into reality and seriousness, in dealing with the foreclosure crisis and financial crash. Others, including Presidential candidate John Edwards and various members of Congress today, were making various criticisms and caveats to Paulson's announcement, but treating this incompetent "King Canute plan" as the only game in town.

– Paul Gallagher

ments to designated banks, which payments the banks will use to stabilize the mortgage lending market.

On behalf of homeowners who are burdened by their housing costs, a rising foreclosure rate, and increasing pressures on those with little home equity or adjustable rate mortgages which are impossible to pay, I strongly urge you to support HR 418.... With your support of this Resolution, more Pennsylvania citizens will maintain the security of homeownership, and not lose this American dream they fought hard to achieve.

Judge Jeffrey K. Sprecher: Neighborhoods Are Destroyed

Sprecher is a judge in the Berks County Court of Common Pleas.

As you know, the number of residential mortgages going into foreclosure hit a record in the first quarter of this year.... Lenders and investors do not make money on foreclosures. Losses range from 20 cents to 60 cents on the dollar. Lenders typically lose $50,000 or more on one foreclosure... [L]osses are not just suffered by the homeowners....

And it is not just the homeowners and the lenders who lose. Homes in foreclosure that become vacant provide sites for crime, or other neighborhood problems. One foreclosure can impose up to $34,000 in direct costs on local government agencies, including inspections, court actions, police and fire department efforts, potential demolition, unpaid water and sewage, and trash removal. One foreclosure can also result in greatly reduced property value and home equity for nearby homes in the neighborhood.

Last month, a class action suit was filed in my court on behalf of more than 800 plaintiffs residing in central and southeastern Pennsylvania. [Summary: A mortgage broker failed to forward the homeowners' payments to their mortgage companies; they thought they had paid, only to learn they owe $150,000 or more, and are being foreclosed without full and *additional* payment!—ed.]

Our aforementioned class action suit 1) declared a moratorium on all home foreclosures; 2) required homeowners to make good faith payments monthly in escrow; 3) would allow for the timely release of the funds to the mortgage companies provided no foreclosure action be taken; 4) provided as a goal the resolution of each case in an equitable manner for all parties concerned.

Now that the case is no longer before me [it was removed to Federal Court four weeks ago—ed.], I can report the feedback I received.... Dozens of homeowners ... were ecstatic. The general public, and even bankers, supported the plan of action.... Based on my experience and knowledge, I support 100% HR 418 and any proposed legislation consistent with it.