Congress Converges on Bailouts To Block HBPA

by Paul Gallagher

Even as it is confronted with the increasingly hyperinflationary failure of the attempted bailouts of the banks and financial markets by the Federal Reserve, the Democratic leadership of the Congress is lunging toward a tax-dollar bailout of its own, on top of its already inflationary appetizer, the "bipartisan stimulus." The Wall Street news service CNBC frankly described House Financial Services chairman Barney Frank's (D-Mass.) March 13 version of this "mortgage legislation" as "a mortgage bailout plan hatched between Wall Street and Congress," and attributed the design of it to Credit Suisse, Citibank, and Bank of America, owner of the notorious Countrywide mortgage lender.

By transparently attempting to commit Federal dollars to rescue the "value" of trillions in now-nearly worthless securities of the collapsed mortgage bubble—mortgage-backed securities, collateralized debt obligations, and financial derivatives—these Congressional Democrats would join Fed Chairman Ben Bernanke in bringing on a hyperinflation that will destroy the U.S. economy and the households they claim concern for. At the same time, not one of these leading Congressional Democrats—with the single exception of Democratic Presidential candidate Sen. Hillary Clinton—will support a nationwide freeze of home foreclosures, necessary to stop social chaos and urban/suburban collapse in many areas. Clinton's 120-day general foreclosure halt has been fought by Wall Street since she called for it in early December, and all of her Democratic colleagues—not to mention Congressional Republicans—have taken Wall Street's side.

All of the recent months' proposals for so-called "mortgage crisis legislation" have now converged on bailout schemes from Wall Street's Representative Frank, House Speaker Nancy Pelosi's (D-Calif.) other lieutenants, and Senate Banking Committee chairman Christopher Dodd (D-Conn.), which schemes are becoming increasingly identical—Dodd immediately endorsed and adopted Frank's March 13 outline, for example. Speaker Pelosi is acting as the virtual puppet of the treasonous synarchist banker Felix Rohatyn, who dominates her "economics" soirées, and whose every idea becomes her legislative priority. Dodd was Rohatyn's chosen Presidential candidate and legislative backer; Frank, Pelosi's designated pointman and censor of all financial legislation, is openly claimed by Wall Street banks.

These, along with Frank's subcommittee chairman Paul Kanjorski (D-Pa.) and others, have worked to head off any potential introduction of Lyndon LaRouche's Homeowners and Bank Protection Act (HBPA) in Congress, despite its being supported by act of more than 80 cities nationwide, introduced into half the state legislatures in the country, and recently passed by both Houses in Rhode Island. LaRouche's HBPA would put the crisis-wracked chartered banks of the United States under Federal bankruptcy protection, which would also compel them to write off the trillions in toxic securities immediately, making these banks capable of conveying Federal credit flows into rebuilding the collapsing real economy through infrastructure works, capital exports, etc. At the same time, HBPA would freeze all mortgages against foreclosure, an action taken by many states during the Great Depression and urgently overdue now.

By blocking the HBPA, and, at the same time, moving to create mortgage-buying bailout funds which, when you read between the lines, are in the hundreds of billions of Federal dollars, the Congressional leadership is setting a match to a hyperinflationary blowout like that of hapless Weimar Germany in 1923—nor will they succeed in saving the banks from the shutdown wave now beginning.

When Home Prices Plunge by 50%

Even as CNBC was hailing his March 13 scheme as a bank bailout, Frank continued to claim that it wasn't, as he has with each of the year-long series of completely unworkable proposals that have come from his Financial Services Committee, such as increasing the capital of Fannie Mae and Freddie Mac by $150 billion for the same purpose. Frank, Dodd, and company insist that they want to legislate taxpayer funds to buy up mortgage loans at "sharply discounted" prices, making those irresponsible mortgage lenders "take a haircut" on the original book value of the loan.

But two things have become clear from several competent surveys of the causes of the millions of home foreclosure proceedings underway, beginning with the one by the states' attorneys general in February. First, the ineffectiveness of Treasury Secretary Henry Paulson's "HOPE NOW" plan, and the state-level "mortgage refinancing" and counseling plans; the foreclosure tsunami has overwhelmed them, with each month's foreclosure actions 50-60% above the already exploding levels of 2007, and actual home seizures rising even faster to 80-90,000 per month. Another 1.5 million homes are in the foreclosure mill right now, and 5 million homeowners beyond those are delinquent on mortgage payments, reports the Mortgage Bankers Association. And second, the primary and dominant cause of mass home foreclosures is, not subprime loans or ARM (adjustable rate mortgage) interest rates adjusting upwards, but the plunging price of homes, which has probably now passed the 10% mark in national average year-to-year decline. The huge decade-long consumer debt bubble known as "real estate assets" has collapsed, and homes are now become debt traps for many millions of households hit with rapidly rising prices and losing jobs at the same time. This situation is causing even many thousands of homeowners who have already gotten "mortgage refinancing" to a supposedly affordable level, to default again and enter foreclosure.

Nothing Congress does will, or could, stop that price plunge.

As early as November 2007, housing economists such as Robert Shiller of Yale were telling Frank's committee that prices were likely to drop at least 20%. As of February 2008, the worst-hit states such as California, Florida, and Nevada had already approximated that big a drop. Now, sober economists foresee a 30% or 40% drop, which would leave one-third to one-half the 86 million mortgaged households in America owing more on their house than it could be sold for. "American System" economist Lyndon LaRouche has, since first introducing the HBPA last August, forecast that the collapsing debt bubble would pull home prices down further than even the current "worst case" guesses of other economists; this is why LaRouche's HBPA establishes an open-ended period of mortgage freeze and foreclosure ban, until the price collapse has run its course.

This price collapse means that what Dodd, Frank, and the Rohatyn-Pelosi gang call "a haircut for mortgage lenders" is, in fact, a dangerously inflationary and potentially massive bailout for those lenders and the holders of mortgage-backed securities, one in which Federal agencies would be "buying the losses" of the banks in the price plunge. Frank's legislative proposal, for example, would set up the Federal Housing Administration (FHA) to guarantee up to $300 billion in new, refinanced mortgages—which means buying the existing, defaulted mortages, at what he says is "the current market price," or 10% below, at most, what the existing mortgage debt was based on. Dodd, in a Senate bill, also proposes to have a new Federal agency buy $150 billion of these mortgages in the same manner.

The bank or lender, promises Frank, would have "no further credit exposure to the borrower" or to the borrower's household's troubles as his home plummets in "value" by another 30%, 40%, or more. The bank could take the FHA-insured sale proceeds of 85-90% and pay off mortgage security holders, etc. But the FHA *would* be exposed to those losses; and the Government National Mortgage Agency or Ginnie Mae, which Frank says would stand behind the FHA and repurchase those new mortgages, would be "buying those losses" with what could easily be many hundreds of billions in Federal dollars taxed, borrowed, or newly printed.

What Frank and Dodd are pleased to call a 10% mortgage "haircut" for lenders, banks, and mortgage securities holders, is, in fact, a 30% bailout, or much more, of what are actually worthless pieces of bundled, securitized consumer debt. The price of "buying those losses" is measured in orders of magnitude of the rate of inflation and the collapse of the U.S. dollar.

LaRouche has repeatedly denounced this kind of Congressional proposal as "buying into the bubble as it's collapsing."

This is what the City of London mouthpiece, the *Financial Times*, called for—as United States policy, of course—as "nationalization of the losses" in the securities markets, in its March 12 editorial. The policy was pushed hard in testimony in front of Frank's committee on March 3 by Mark Zandi, chief economist for the ratings agency Moody's, who urged that Congress must establish a "taxpayer-based fund of at least $150 billion to buy mortgage-backed securities," and claimed that nothing else but Federal buying could "revive" the moribund securities markets. On March 12, the other U.S.-based ratings agency, "Standard and Whores," ran cover for what Frank, Dodd, Rohatyn, and Wall Street were doing, by issuing a report which claimed, outrageously, that the writing off of securities losses by Wall Street banks was now "essentially finished"! A few days later, Bear Stearns investment bank was seen disappearing into a swamp of new losses, and being thrown a one-month bailout lifeline by the Federal Reserve.

'Too Little, Too Late'

Frank, Dodd, Rep. Joe Baca, (D-Calif.) and others have had the effrontery to call these bailouts "Franklin D. Roosevelt's policy," and claim to be reviving FDR's Home Owners Loan Corp. (HOLC) of 1933. It was LaRouche's *EIR* which first introduced the HOLC into the policy debate over the mortgage bubble collapse, a year ago. We made clear that the HOLC was successful in reversing the mass foreclosures of the Great Depression, *only* because FDR had first, in the March 1933 "Bank Holiday," put the nation's banks through effective bankruptcy reorganization—as LaRouche's HBPA will do—and because, by 1933, home and farm prices had already been through their years-long collapse, so new government-backed mortgages could be issued.

Just a day after Representative Frank unveiled his bailout scheme, Citigroup CEO Robert Rubin called it "too little, too late," at a Washington meeting of the Hamilton Project, which he was moderating. There is, in fact, no chance of saving those U.S. chartered banks which must be preserved for the economy to function and recover, by means of this kind of inflationary bailout. Their real losses in the collapse of the global debt "asset" bubble are much too huge.

Congress's real job, is to save these banks from themselves, by putting them—and the Federal Reserve system—through a Federal bankruptcy process, which alone will allow them to stay open, and to conduit Federal low-interest credits for programs to rebuild the economy from a depression collapse.