

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