Congress Quits Without Action, Leaves Foreclosure Tsunami Rising Everywhere

by Paul Gallagher

The U.S. Congress will adjourn this week until January, taking no effective action to stop the biggest home-foreclosure wave in U.S. history.

Since Lyndon LaRouche, on Aug. 30, proposed the Homeowners and Bank Protection Act (HBPA) to freeze foreclosures nationwide, and protect chartered banks, the failure of Congress to act on this crisis, had cost approximately 170,000 American households their homes, as of Dec. 1, and will probably take 250,000 homes by Christmas. The rate of foreclosure repossessions, at almost 2,500/day, now two-and-one-half times the level at the depth of the Great Depression, has been growing by more than 30% a month. The wave of "human misery" described by anti-foreclosure advocates—and its potential for social chaos in the worst-hit cities and suburbs—has been impervious to all the refinancing "jawboning" and jaw-flapping from Treasury Secretary Henry Paulson and Congressional leaders. They bear the blame for inaction as it gets worse, and spreads to all types of homeowners and neighborhoods across the U.S.A.

As in many other matters, Nancy Pelosi's and Harry Reid's Democrats will wind up having enacted only, and exactly, what the lame-duck Little Tyrant President George W. Bush has told them to enact on foreclosures—his derisory "Federal Housing Authority Reform." With the median price of all homes in America having dropped to about $215,000, amid the mortgage meltdown and a foreclosure "tsunami," how many homes are saved by raising the FHA limit for insuring new mortgages to $417,000, and lowering the down payment required? "Mortgage-Backed Securities Bailout" is a better name for it—one of the two such big bailout attempts the White House is fiddling with, while American households burn.

Consequences of Three Months' Blocking HBPA

Here is the rising wave, in overlapping and essentially agreeing figures from foreclosure tracking firms ForeclosureS.com and RealtyTrac. LaRouche called the HBPA "immediate and urgent" in his Aug. 30 message to the nation and to Congress. In September, 41,000 American homeowners had their homes repossessed and sold in foreclosure. In October, the number jumped by 35% to approximately 55,000; and in November, with another jump of more than 30%, the toll of foreclosure auctions reached more than 72,000. While no Member of Congress, over three months, proposed action to freeze foreclosures as the states and Federal government did in the 1930s Depression—and as LaRouche spelled out in the principles of his proposed HBPA—170,000 American households lost their homes.

If this inaction continues, the situation will continue to get worse. By the year's end, more than 600,000 homes will have been lost to foreclosure in 2007, three times the level of 2005. Then, *in just the first quarter of 2008,* three-quarters of a million more adjustable-rate mortgages (ARMs) with a debt "value" of $265 billion, will reset to higher interest rates and 25-50% higher monthly payments. Through 2008, this is nearly 2 million ARMs with a debt "value" of about $700 billion. Whereas the ARMs issued in 2002-04 had initial "teaser" interest rates of 2-4% which then reset to 7-8%, the ARMs of 2005-06, resetting *en masse* now, are a deadlier breed; their "teaser rates" started at a hefty 7-9%, and they are resetting to 11-12% in the midst of zooming inflation and lost middle-class jobs. Many of them are also "interest-only" mortgages where the homeowner's mortgage debt is increasing every month, while the market price of the home is falling more and more rapidly—the national average rate of price drop, measured by the Case-Shiller Housing Price Index, is already more than 5% a year. More than 5.5% or all mortgages—prime and subprime, ARM and fixed-rate—were delinquent on payments as of November, the Mortgage Bankers Association reported Dec. 6.

These are the ingredients for worsening mass foreclosures and social chaos, the consequence of blocking of the principles of the HBPA in the House, by Nancy Pelosi's Democratic leadership, and by Rep. Barney Frank and others who've arrogated Congressional "leadership" on this crisis.

At the same time, the number of "troubled" banks officially on the FDIC's list jumped from 27 banks with $4.1 billion assets in November 2006, to 65 banks with $18.7 billion assets in November 2007. But, for example, on Nov. 29, an official of Missouri's Insurance and Financial Institutions Department told that state's legislature that 24 banks in Missouri alone were "in trouble" in the mortgage/securities meltdown. And of course, the big money-center banks like Citigroup, Bear Stearns, and Merrill Lynch that are not on the FDIC list, but are deep "in trouble," will take down many smaller banks when they go.

Foreclosures 'Ground Zero' Is Now Everywhere

With 580,000 total foreclosure filings and actions in the third quarter, 224,000 in October alone, "Ground Zero" of the foreclosures crisis is now everywhere, from "the nation's wealthiest county," Loudoun County, Va., to depression-wracked Detroit. Highly paid professionals and unemployed industrial workers are being foreclosed alike, on prime, subprime, and ARM mortgages, with nothing but escalation of the social crisis in sight.

Loudoun County, Washington, D.C.'s "speculation suburb," with the nation's highest median household income—nearly $100,000, as of 2006—now has one in every 46 households in foreclosure, according to a report from George Mason University. Median home prices in this one-time "Housing Bubble Ground Zero" have fallen a dramatic 16% from October 2006 to October 2007, says the county realtors association. A Dec. 6 *Washington Post* story detailed cases of professionals—including realtors—losing both the home they live in, and another one they speculated on, due to high-interest ARM mortgages they could not refinance because of the price drop.

The nearby Washington suburb of Prince William County, characterized by "starter homes" in the $200-300,000 range when bought, has an even worse rate: 1 out of 38 homes in foreclosure. The larger neighboring suburban county of Fairfax—fourth-wealthiest in the country, according to the Census Bureau—is processing 40 foreclosures per court day, ordering the great majority to auction, according to a courthouse observer. The mortgage meltdown has abruptly blown a $240 million hole in Fairfax's fiscal 2008 budget, and a $150 million hole in Loudoun's.

In metropolitan Louisville, Ky., an *EIR* interview Dec. 7 with the head of the housing coalition (see Interview, below) revealed that the foreclosure wave there—already high in 2005 and early 2006, as across the upper Midwest states—has doubled in two years (to 3,400, one in every 54 households in greater Louisville), primarily due to too-high mortgage interest rates. It have shifted dramatically to suburban neighborhoods; more than 10% of foreclosures are on prime mortgage loans.

In Detroit, the Sunday, Dec. 2 issue of the *Detroit Free Press* carried a grim 122 newspaper pages of 2007 home foreclosures, which Wayne County had to publish at a cost of $400,000! One-fourth of all Wayne County's 500,000 homeowners are in default on their mortgages, and 18,000 are in foreclosure.

Paulson's Plan Only Serves as 'Roadblock'

The mortgage-foreclosure "plan" announced by both President Bush and Treasury Secretary Paulson on Dec. 6, is actually intended to put a roadblock in the way of any action by Congress to stop foreclosures with a nationwide moratorium. Paulson 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. This loan-by-loan review of millions of mortgages—under the control of mortgage banks and lenders and mortgage securities holders, with help from Federal "mortgage counseling centers," is estimated to lead to perhaps one-tenth of the millions of households facing foreclosure getting new, FHA-insured fixed-rate mortgages (and that assumes that the total price drop in homes across the country will not exceed 7%, a fantasy in the current collapse). This was the purpose of the White House "FHA Reform" bill, which passed the Senate overwhelmingly Dec. 13, just one week after Paulson's Dec. 6 press conference which demanded it (the House had passed it earlier).

In metro areas like Cleveland, Detroit, and New York, and suburban counties like Fairfax, Va., the major "foreclosers" against homes keep turning out to be obscure investment trusts, operated by trustees appointed by banks like Citibank with no operating offices in the region, or banks like Deutschebank with no operating offices in the United States outside of Wall Street. This is "the investment community" to which Paulson's plan to avoid foreclosures is entrusted! In Federal and state courts across Ohio, in November and December, judges ruled that these bank-operated trusts had not even registered any proof that they owned the mortgages they were foreclosing. Some 40% of the 1,733 foreclosures studied by a University of Iowa law professor, did not contain proof that the "plaintiff" owned the mortgage.

The Bush/Paulson "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.

New Plans Falling Short

Congressional Hispanic Caucus leader Rep. Joe Baca (D-Calif.) has modelled new legislation after President Franklin Roosevelt's Home Owners' Loan Corporation, created by the 1934 Homeowners Loan Act (HLA). This was the successful New Deal legislation that stopped mass foreclosures, created the Federal Housing Administration (FHA) and the 30-year fixed-rate mortgage; and *EIR* and LaRouche PAC have circulated two major articles in Congress on the relevance of the HLA to the current foreclosures crisis.

But Baca's legislation "is not a moratorium" on foreclosures, he stresses, thus bowing to the Paulson Treasury and Mortgage Bankers Association pressure. It does not address this real mortgage meltdown, which is, in fact, a collapse of the U.S. and European banking systems. So his proposal for a Federal corporation to buy up defaulted mortgages before they foreclose, and replace them with government or government-backed new, fixed-rate mortgages, could turn into an attempted bailout (using up to $150 billion in new

Federal bonds) of the superinflated mortgage values which are now collapsing. The bill allows these government buyouts to be at some discount ("short sales"), but also allows very high-value buyouts, when mortgage values are, in fact, now collapsing into a bottomless pit.

"Today's collapse is not even a 1934 Depression United States," commented LaRouche, on Baca's bill. "Today's bank blowout is July-August 1923 in Germany. Hyperinflated values are collapsing. The U.S. dollar is nearly non-viable due to central bank money-printing. Don't bail out, don't buy into mortgages—freeze them. There's one solution, and I've proposed it."

Sen. Hillary Clinton (D-N.Y.), since a first statement Dec. 6, has put forward a plan proposing an across-the-board national moratorium "of at least 90 days" on home foreclosures. Clinton is the only Presidential candidate to call for a complete halt to foreclosures—and some local Democratic leaders are echoing her call, along with the hundreds who have backed LaRouche's proposed HBPA. But Clinton's "plan" is still not the kind of action which can bring a hyperinflationary bank panic under control, and save millions of homeowners their homes.

Clinton stresses that the Bush/Paulson plan "is designed to help as few homeowners as possible … and is intentionally designed to leave out the roughly 400,000 families whose mortgages are resetting" in the fourth quarter of 2007. "My plan," she says, "imposes an immediate across-the-board moratorium on foreclosures; an automatic, across-the-board rate freeze," and other measures. But Clinton is still not proposing to put "her plan" into Congressional legislation, but to demand it of the mortgage lenders and the White House—an impossible quest.

LaRouche's HBPA is the only Congressional enactment that will work in this crisis.