

Quick Poll!

August 20, 2007

[Grapes of Wrath Return](#) ([Brent Budowsky](#))

@ 12:21 pm

Here is the problem with the Federal Reserve bailout of banks, rather than providing support to homeowners, citizens or the economy as a whole:

Check out the *New York Times* Aug. 20 story about how those who had their homes foreclosed on by banks often get huge tax bills from the IRS, while the banks buy the home back, at times for \$1.

Understand that contrary to much of the snide, condescending coverage in some of the media, many who are foreclosed upon had good-paying jobs that were cut back, laid off, or outsourced, and others had good-paying jobs but suffered major health problems, with ripoff costs imposed by an unjust healthcare system.

In the real world, here is how it can work:

A person takes out a \$100,000 mortgage and has a \$65,000 salaried job. That person gets his or her hours cut back, or wealthy executives downsize the company while they keep their large salaries and stock options, or their job is lost by outsourcing to a country that pays slave wages with no benefits. Or the person suffers a health problem and incurs huge costs, which benefit wealthy healthcare companies, while consumers fight wealthy insurance companies and of course well-paid doctors.

Assume that person had made five payments before the crisis that was beyond their control. When they are foreclosed on by the bank, they have lost all of their payments, gone forever, lost their home, forever, and then could be hit with a \$30,000 IRS bill for the honor. The Fed's lowering of the discount rate last week did little to nothing for these people.

The bank then gets the foreclosed house, and can often buy the home back for virtually nothing if there are no bidders, and in the medium to long term will be able to sell the house for a slight loss, or a minor profit, or a huge profit if it has the capacity to wait. The Fed's lowering of the discount rate helps these companies.

I predict that very few banks will use last week's discount rate to help average folks. They will either use it to finance mortgages of very high-income homebuyers purchasing top-of-the-line homes at a discount in the current market, or they will use it to buy time, until they finally sell the foreclosed home at a profit.

In effect John and Jane Doe get screwed at each step along the way, from outsourced jobs, eliminated jobs, cost-cut jobs, costs from the ripoff medical system, and foreclosure — where they lose whatever payments they made as well as their homes, and then get a huge tax hit.

Meanwhile, the prime beneficiaries of the Fed action are those who did the foreclosing and the banks, hedge funds and private equity funds who maneuver these assets back and forth between themselves, with fleets of lawyers and accountants helping them minimize costs and maximize ultimate profits with bridge money from the Federal Reserve (ultimately, American people's money).

The Fed should have lowered the federal funds rate. Then the prime rate should be lowered, which would help all Americans and strengthen the national economy, stabilizing consumer finance and the housing market in the medium and long term.

It is true that credit has been overextended in some cases and in some cases foreclosure was inevitable. However, what the media fails to report is the very large number of cases in which hard-working, law-abiding, honorable Americans were screwed in their jobs, screwed in their healthcare, then screwed by those who foreclosed rather than giving them more time, then screwed by the IRS, then screwed by the Fed that takes the money of the American people to help those who did wrong, without helping those who deserve more time.

It is time for a freeze on foreclosures for this group, and time to establish guarantees that these banks, hedge funds and private equity funds agree to equitable treatment for average Americans as a condition for getting benefits from government policies.

Many of these hedge funds and private equity funds are untaxed. How about taxing them a little, instead of taxing foreclosed-upon Americans? How about ending the new "Grapes of Wrath"?

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