

Information Clearing House

NEWS YOU WON'T FIND ON CNN



Velkomin to the United States of Foreclosure

By Mike Whitney

03/17/07 "ICH" -- -- The stock market is about to crash. The only question is whether it will quickly drop down the elevator shaft or follow the jerky flight-path of a man pushed down a stairwell. Either way, the outcome will be the same; stocks will nose-dive, the dollar will plummet, and the bruised US economy will be splattered on the canvas like George Foreman in Rumble in the Jungle.

Troubles in the sub-prime market have just begun to materialize and already 38 main sub prime lenders have gone kaput. Foreclosures have reached a 37 year high, and an estimated 2 million homeowners will be put out on the street in the next few years.

And that's just for starters.

The contagion has spread beyond the sub prime sector to other ARMs (Adjustable Rate Mortgages) where late payments and defaults are cropping up faster than their sub-prime counterparts. According to Goldman Sachs chief economist Jan Hatzius, "Prime ARM delinquencies are above their worst levels of the 2001 recession.... By contrast, sub-prime fixed-rate delinquencies are well below their recession levels." (Barrons)

Sub prime loans and other "Prime ARMs" (alta-A loans) make up roughly 35% of current mortgages. That means that millions of homeowners are struggling to meet their "upwardly-adjusted" payments. If Congress does not come up with a bailout strategy, then we will face a "downturn worse than that resulting from the NASDAQ collapse". (Barrons)

Sub prime loans are loans that are made to people with poor credit. The lender requires a higher rate of interest to cover his risk. For the last 5 years, the sub prime market has skyrocketed due to the loosening of lending practices. The traditional criterion for determining whether a loan applicant is credit-worthy has been abandoned. Now, it is not uncommon to have mortgage lenders provide 100% financing to shaky borrowers who are unable to provide documentation of their real

earnings (“no doc” loans) and cannot even scrimp together 4 or \$5 thousand for a down payment.(“piggyback” loans)

Why on earth would the banks and mortgage lenders take such a risk?

In a word; greed.

The mortgage industry is driven by fees. Lenders (and agents) are able to fatten their bottom line through loan origination fees and then they tack on additional fees for shipping the loans off to Wall Street where they are bundled into Mortgage Backed Security (MBS). Collateralized debt has become a Wall Street favorite and these otherwise shaky loans have become staples in the hedge funds industry. In fact, last year Wall Street purchased nearly 60% of all mortgages--ignoring the risks associated with sub prime “debt instruments”. Also, through the magic of derivatives, many of these Mortgage Backed Securities have been leveraged to the extreme; sometimes at a ratio of 35 to 1.

In other words, a home loan of \$300,000--that may have been secured by a young man with bad credit who makes \$12.50 per hour picking up mill-ends and bits of insulation on a construction job site--has been leveraged into a \$10,500,000 securities investment. This may explain why Treasury Secretary Hank Paulson is trying to sooth jittery investors with words of encouragement while he dispatches the Plunge Protection Team (PPT) to shore up the trembling stock market behind the scenes. Every effort is being made to keep this monstrous equity bubble from pirouetting to earth.

Currently, derivatives and mortgage-backed bonds total more than all US Treasuries, Notes and US Bonds combined!?! The stock market is one gigantic pyramid of debt and it’s ready to blow.

Kitco.com’s Doug Casey puts it like this:

“The rocket-shot rise of hedge funds and the advances in financial modeling techniques have spawned something of a competition among the so-called best and brightest to find ever-more-complex ways of skimming pennies from very large piles of money. The collective result is that our financial system has been wired up to \$370 trillion dollars of privately negotiated investment contracts. They’re usually written to shift risk from one bank, pension fund, insurance company or brokerage firm to another. And many are linked together in long chains, with each contract providing collateral for the next.

It’s all very clever, but layering the enormous size– \$370 trillion dollars, far more than the net worth of all the financial institutions in the world – on top of all that complexity is downright scary. In simpler times, a home loan going bad would

affect only the particular lender. Enough defaults would put the lender out of business. And that would be the end of it. But today a wave of defaults can send a shock through the portfolios of financial institutions around the globe, including hedge funds, banks and pension funds far removed from the troubled borrowers.

Imagine an electrical circuit with thousands of connections. No one designed it. No one tested it. No one has a diagram for it. It just grew. Now, because of its size and power and pervasiveness, everything depends upon it. So what happens when one of those thousands of connections burns out? No one really knows.” (Kitco.com commentaries)

That’s right; no one really knows what will happen, but there is growing concern about what MIGHT happen. And, what might happen is disaster!

(Derivatives numbers are staggering. The Bank for International Settlements estimates that the notional amount of derivatives traded on regulated exchanges topped a quadrillion dollars last year) Ann Berg “War Drags the Dollar Down” antiwar.com

Casey gives an apt summary of our present predicament. There is currently \$370 trillion in derivatives, hedge funds and over-leveraged marginal investments. There is no coherent relationship between this mass of cyber-wealth and actual deposits or investments. It is merely a fractional banking scam on steroids; computer-generated capital with no basis in reality. As the sub prime market comes under greater strain; hedge funds will teeter, derivatives will tremble, liquidity will dry up and the whole debt-plagued system will crash in a heap. The frantic efforts of the PPT with their flimsy bits of scaffolding will amount to nothing. Wall Street is quick-stepping towards the gallows and there’s little hope of a reprieve.

As we watch the sub-prime market unwind; we should keep in mind that this massive expansion of credit took place on Alan Greenspan’s watch and with his implicit approval. The former Fed-chief was a big fan of sub-prime mortgages and he wasn’t hesitant to extol their merits. In April 2005, Greenspan said:

“Innovation has brought about a multitude of new products, such as sub-prime loans and niche credit programs for immigrants... With these advances in technology, lenders have taken advantage of credit scoring models and other techniques for efficiently extending credit to a broader spectrum of consumers... Where once more marginal applicants would simply have been denied credit, lenders are now able to quite efficiently judge the risk posed by individual applicants and to price that risk appropriately. These improvements have led to rapid growth in sub-prime mortgage lending... fostering constructive innovation that is both responsive to market demand and beneficial to consumers.” (Thanks Jim Willie Goldenjackass.com)

“Innovation”? Is that what Maestro Greenspan calls this fiendish, economy-busting Ponzi-swindle?

Greenspan is like a jungle-monkey swinging from one massive equity bubble to the next. The housing bubble turned out to be his “piece de resistance”, a bottomless black hole sucking up the nations’ wealth into its dark vortex. His “low interest” doctrine may have kept the moribund economy on life support after the dot.com bust, but it has ruined the country’s prospects for the future. We’ll be digging out of this mess for decades.

Greenspan nodded approvingly as trillions of dollars were funneled into shaky sub primes, but he chose to cheerlead rather than slow-down the process. He scorned the idea of government regulation preferring his own type of Darwinian “natural selection” or, rather, survival of the shrewdest. Now the pundits and the talking heads are trying to shift the blame to struggling low-income wage-slaves who thought they could live the American dream by buying a home on credit. They were seduced by the promise of cheap money and then led by the nose to the slaughter. The whole charade was orchestrated by Greenspan and his buddies in the banking cabal. They alone are responsible.

Here’s another tidbit which sheds light on Greenspan’s culpability in the sub prime fiasco:

"The Federal Reserve and the Office of the Comptroller of the Currency took little action in public to police the \$2.8-trillion boom in the U.S. mortgage market -- whose bust now risks worsening the housing recession. The Fed, which is responsible for the stability of the banking system, didn't publicly rebuke any firm for failing to follow up warnings on home-lending practices between 2004 and 2006. The OCC, which supervises 1,793 national banks, took only three public mortgage-related consumer-protection enforcement actions over the same period.

Consumer advocates and former government officials say the regulators, by acting behind the scenes rather than openly advertising the shortcomings of some firms, failed to discipline an industry that loaned too much money to borrowers who couldn't repay it. Now, more lenders are being forced to shut and foreclosures are rising, threatening to scuttle any chance of an early recovery in housing. (Chuck Butler; “The Daily Pfennig”)

The Federal Reserve knows where every dime winds up in the economy. They even provide a detailed account of the relevant data. Ignorance is not an excuse. The Fed looked on while trillions of dollars flowed to “unqualified” applicants who had no chance of repaying their loans. The lax standards and easy money kept Wall Street and the mortgage industry happy, but the “predatory lending” hurt millions of hard

working Americans who are now in danger of losing their homes.

The End of the Liquidity Party?

All of the major investment firms are heavily invested in the \$6.5 trillion mortgage securities market. The sudden decline in the sub prime market is shutting down the funding sources for low income people while increasing home inventories. It is also boosting unemployment, putting pressure on the banks, and thrusting the country towards recession.

As the housing market continues to languish, home equity loans (which amounted to \$600 billion in 2006) will shrivel reducing consumer spending and GDP accordingly. That means that the Federal Reserve will be forced to lower interest rates and remove the last crumbling cinder block propping up the greenback.

When Bernanke lowers interest rates, foreign investment in US Treasuries and dollar-based securities will drop off, the dollar will fall and we will undergo a painful cycle of hyperinflation. These are the inescapable consequences of Greenspan's policies.

Equity bubbles are an expression of class interest. They are a way of shifting wealth from working class people--whose hourly wages or fixed-incomes can't keep pace with a hyperinflationary monetary policy—to the wealthy and powerful, who benefit from overheated markets and rampant speculation. The investor class and their plutocratic peers are the only ones who profit from interest rate manipulation and increases in the money supply. For everyone else, inflation is just a hidden tax. Greenspan used the money supply and interest rates as weapon against working class people. It became his preferred method of “social engineering”; creating greater division between rich and poor while ensuring the upward redistribution of wealth consistent with his plans for a new world order. (NWO)

Greenspan is the plutocrat's champion; America's all-time serial bubble maker.

The rest of the world is eying America's housing slump with growing apprehension. The downturn in the sub prime market is just the first crack in the façade. Other disruptions are bound to follow. Another jolt from the Yen “carry trade” or a sudden blip in the Chinese stock market could send Wall Street sprawling and put the economy on a fiscal-respirator. A substantial dip in securities could trigger a liquidity crisis which would traumatize our credit-dependent society. If consumer spending slows down, the economy will grind to a halt and living standards will sharply decline. The sub primes are just the first domino.

These are some of the things that Fed chief Bernanke will have to consider before

resetting interest rates: Does he keep rates where they are and turn away foreign investment or lower rates and try to salvage the faltering housing market? Either choice will result in a certain amount of pain.

A cloud of uncertainty has descended on the over-leveraged United States of Foreclosure. The storm is just ahead. The stewards of the system--Paulson, Bush, Bernanke--could care less about the public welfare. All their energy is devoted to building a lifeboat for themselves and their fat-cat buddies. Once, they've robbed the last farthing from the public till they'll be gone, and we'll still be marching along the path to national calamity.

High-flying US fund manager Jim Rogers summed up the impending crisis like this:

“You can't believe how bad it's going to get. It's going to be a disaster for many people who don't have a clue about what happens when a real estate bubble pops. Real estate prices will go down 40-50% in bubble areas. There will be massive defaults. And it'll be worse this time because we haven't had this kind of speculative buying in U.S. history.”

Then he added ominously, “When markets turn from bubble to reality, a lot of people get burned.”

[Click here to comment on this and other articles](#)

In accordance with Title 17 U.S.C. Section 107, this material is distributed without profit to those who have expressed a prior interest in receiving the included information for research and educational purposes. Information Clearing House has no affiliation whatsoever with the originator of this article nor is Information ClearingHouse endorsed or sponsored by the originator.)

 E-MAIL TO A FRIEND

Get Our Daily Newsletter

Sign up for our 
Daily Email
Newsletter

Privacy by  **SafeSubscribe**SM

Hi
Please help support
Information Clearing
House. Click here now



amazon honor system
[Learn more.](#)

[HOME](#)

[COPYRIGHT NOTICE](#)