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# Financial Bubble Alert:: "Backdoor Bailouts" and The Creation of Bogus Money

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Counterfeiting is an effective way to stimulate the economy, but the costs can be quite high. For example, if trillions of dollars in fake cash was injected into the financial system (undetected), we'd probably see the same type of thing that we see when a credit bubble is inflating; asset prices would rise, unemployment would fall, economic activity would increase, and GDP would soar. But when people figured out what was going on, investors would panic, the markets would crash, and the economy would go into a deflationary nosedive.

So here's the point: Deregulation allows the banks to create as much bogus money as they want in the form of credit. When a bank issues a loan to someone who can't repay the debt, it's counterfeiting, which is the same as stealing. This is what the banks did in the lead-up to the Market Meltdown of '08; they issued trillions of dollars of mortgages to people who had no job, no income, no collateral, and a bad credit history. The banks abandoned all the standard criteria for issuing loans, so they could increase the quantity of loans they produced. Why? Because bankers get paid on the front-end of the transaction, which means that when they make a loan, they mark it as a credit on their books so they can draw a hefty salary and a fat bonus at the end of the year. In other words, there are powerful incentives for bankers to do the wrong thing, which is why they act the way they do.

Now that the economy has begun to stabilize, there are signs that the whole process is starting over again and another bubble is already emerging. Check out this clip from an article in The Tennessean titled "Auto lenders approve more subprime borrowers":

"As the auto industry continues to make a slow recovery from tough times of the past two years, lenders are finally loosening credit restrictions and approving car loans for customers with less than prime credit ratings. In the third quarter last year, for instance, the share of new vehicle loans to "credit-challenged" consumers rose 12.7 percent compared with the same period in 2009, said Experian, one of the nation's major credit reporting agencies.

Loans to borrowers with subprime credit scores as low as 550 were among categories that grew the most….Credit restrictions were the biggest reason people stopped buying new cars during the recession, but "that's not a problem anymore," said Marty Horn, sales manager at Nashville's Crown Ford.

"We're not having any trouble finding financing for anyone with a score in the 600s," he said. "We can get most people financed through Ford Credit, and if that's not available, we have other lenders ready to step in."…

"We're seeing loans of up to 140 percent of value from some lenders, and Capital One is by far our best lender for the subprime customer, which is below a 620 score," said Michael Creque, general manager of Alexander Chevrolet-Cadillac in Murfreesboro." ("Auto lenders approve more subprime borrowers", The Tennessean)

Can you believe it? Auto finance companies are lending up to "140 percent of value" of the loan to "credit-challenged" consumers? And this is going on just two years after the biggest meltdown since the Great Depression.

Keep in mind, that the housing/credit bubble cost ordinary working people $12 trillion in lost retirement savings and home equity while the perpetrators on Wall Street have seen their profits skyrocket. Bubblenomics is not "innovation" and it certainly does not increase productivity. It merely transfers wealth from one class to another via credit manipulation.

Consider the recent reports about improvements in the economy. While it's true the data is looking better (retail sales, personal consumption, manufacturing, car sales etc) it's also true that the credit cancer is spreading again. Consumer demand is still weak because unemployment is nearly 10 percent and wages remain flat. So the only reason spending is up, is because credit is expanding. But that means more lending to people who are incapable of repaying their loans which will inevitably lead to another bust. Here's an excerpt from an article titled "Zero-down mortgages endure in rural areas" from bankrate.com which proves my point:

"The zero-down mortgage is still alive in the form of the USDA home loan….People buy houses without down payments or mortgage insurance under the Department of Agriculture's rural development housing program. The catch? The property must be in a designated rural area. The surprise? Some eligible properties are in places that most people would not consider rural….

The borrower pays an upfront guarantee fee of 3.5 percent of the loan amount, which most opt to roll into the loan. Under some first-time buyer programs, borrowers can have their closing costs paid….Unlike most low or no-down-payment loans, Defngin points out, USDA loans do not require mortgage insurance…… USDA does not set a minimum credit score, and lender minimums vary." (bankrate.com)

So a mortgage applicant can purchase a home with no down payment, no mortgage insurance, and no minimum credit score from the USDA? What the heck is the USDA even doing in the real estate business? This is just a sneaky way of creating another asset bubble. It's just more counterfeiting.

Now take a look at this from torquenews.com. Same thing. It shows that the big auto manufacturers are jumping on board the credit bandwagon, too. Here's a clip:

"Major auto makers and dealers will start the day after Christmas by pushing their zero percent down deals and hopes toward more year-end car sales….TorqueNews' screening of five top U.S. and Japanese automakers' year-end offerings shows all of them having some type of zero down deals to attract more car shoppers….

The U.S. luxury automobiles are offered with zero down year-end sales deals. All of the GM's products on its website are offered at with zero percent down-payment. GMC has no monthly payment until spring and $1,500 total allowance if the shopper finances with Ally. The 0% APR apply to qualified buyers on any GMC…." (torquenews.com)

“Zero down”; Weeee! “No monthly payment until spring”, Weeeee! “$1,500 total allowance if the shopper finances” with us; Weeeee! Free money, never pay, borrow your way to prosperity; Weeeeeeeeeeee!

Haven’t we seen this movie before? Is Congress really so lazy and corrupt that they’re willing to let the economy drop back into the shi**er just so some shifty bankster can buy a few more baubles at Tiffanys?

Then there’s this from yesterday’s news: Allstate vs. Bank of America. Allstate wants to get its money back from B of A on toxic mortgage-backed securities. Here’s the drift from the LA Times:

“The case pits insurer Allstate against Bank of America and Countrywide, the giant mortgage lender that Bank of America bought in 2008. The suit claims that Countrywide misrepresented the risks posed by the bundles of mortgages it sold to investors such as Allstate, which sank $700 million into the securities from 2005 to 2007. After the housing bubble burst, the mortgages in those securities started defaulting at a torrid pace, causing the value of the securities to plummet.

….. A Bank of America spokesman suggested that Allstate was “a sophisticated investor….looking for someone to blame.” But Allstate’s examination of a sample of the mortgages in each bundle found that Countrywide’s disclosures consistently understated such important indicators as the percentage of mortgages with low down payments or with no proof of the borrower’s income (so-called liar loans). And by Allstate’s analysis, Countrywide’s disclosures weren’t off by a little bit. For example, in 11 securities that were supposedly free of “underwater” mortgages, up to 14% of the loans turned out to be larger than the value of the house.” (“Housing Shocks”, editorial, Los Angeles Times)

The “sophisticated investor” defense is an excuse that fraudsters use when they’ve just ripped you off. They say, “I thought you were smarter than that. I thought you were a “sophisticated investor.”…which just dumps a little salt in the wound.

The truth is, Countrywide clipped Allstate for $700 million in garbage loans and now claims that it procured the money “fair and square”. Right. But they do have a point. In a system where there are no rules, anything goes. Allstate might lose their suit simply because the laws now mainly protect the interests of the predators rather than the victims. The banks are free to whip-up their junk debt-instruments (comprised of liar’s loans etc) and peddle them to anyone who is gullible enough to invest their money. It’s a con-game.

One last example. Many people have noticed that there was a slight uptick in credit in the Fed’s latest report. That’s good, right? But, as it turns out, the only area where credit really improved was student loans which grew about 80% year-over-year, or roughly $120 billion. So why the sudden and explosive growth in student loans? The answer appeared on an economics blog called benzinga.com via firedoglake. Here’s an excerpt:

“The Federal Family Education Loan program (FFEL) allows private financial institutions to provide students with loans, but the government assumes the risk of default, and pays the financial fees while the student attends college. This amounts to privatized gains combined with socialized loans….

Under the FFEL program, financial institutions like Sallie Mae, Bank of America, National

Education Loan Network, JPMorgan Chase, Wachovia, and Wells Fargo would originate these FFEL loans with students, and then sell them on the secondary credit market. In 2008, the credit market dried up, and the private lenders had nowhere to sell these government guaranteed loans. So, the government stepped in to buy up these loans and protect a program that was already a massively wasteful corporate boondoggle.

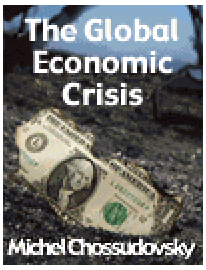
The bailout was authorized with HR 5715 Ensuring Continued Access to Student Loans Act (ECASLA). The bill allowed for the Department of Eduction to produce three different programs, the Loan Purchase Commitment Program, the Loan Participation Purchase Program, and a buyer-of-last-resort Asset-Backed Commercial Paper Conduit.

This purchase program — which amounted to the department of education buying privately-originated student loans that were intended to be securitized but now could not be — was radically expanded in 2009 and 2010, with a purchase amount target of about (you guessed it) $120bn. ("The hidden message of the consumer credit release" )

So, there is no improvement in credit. Not really. It's just more backdoor bailouts that are dolled up to look like things are getting better. But things aren't getting better; we've simply restored the same crisis-prone wholesale credit system ("shadow banking") with trillions of dollars of government subsidies, bailouts, stimulus and guarantees, and now we are speeding towards the next big collision. That's not what I'd call "economic recovery". I'd call it stupidity.

Check out Whitney's economics blog at Grasping at Straws

Mike Whitney's chapter in recent Global Research book:

The Global Economic Crisis


Michel Chossudovsky
Andrew G. Marshall (editors)
This book can be ordered directly from Global Research



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