More Toxic Paper: New Subprime Bonanza in the Housing Market

Another Stealth Bailout for Pudgy Banks

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Whew. That was fast. It didn't take long for Wall Street to figure out how to game Obama's new mortgage modification program, did it? The plan was hyped as help for "struggling homeowners", but it turns out, it's just another stealth bailout for pudgy bank-execs. It's funny, the program hasn't even kicked in yet and, already, bigtime speculators are riffling through their filing cabinets looking any garbage paper they can find to dump on Uncle Sam. Take a look at this on today's Bloomberg report:

"Subprime-mortgage securities are rising at an accelerating pace as the U.S. begins to encourage reductions to homeowners' balances, which may lead to fewer foreclosures and a quicker end to the housing slump….Senior-ranked bonds tied to borrowers with poor credit will mostly benefit after the Treasury Department said for the first time it would seek to cut the size of mortgages, reducing the likelihood that loan modifications will fail, according to JPMorgan Chase & Co., Morgan Stanley and Barclays Plc. (Bloomberg)

What does it mean? It means that Obama's mortgage modification extravaganza has touched-off a gold rush in toxic paper. Subprime securitizations, which had been worth next to nothing, are now the hottest trade on Wall Street. It's a subprime bonanza! The investment sharpies are scarfing up all the crummy MBS they can get their hands on, because they know they can trade it in for Triple A FHA-backed loans when the program get's going. It's another swindle cooked up by Treasury Secretary Timothy Geithner to keep the brokerage clan in the clover. Here's how a Wall Street veteran explained it to me:

"It looks like the investors in securitizations will be swapping underwater real estate for govt-insured paper… I think the scam here is just to provide some cover so the hedge funds and other high net worth individuals can trade their low grade paper for Triple AAA mortgages insured by the FHA at the taxpayer expense."

That's it, in a nutshell. The faux-foreclosure prevention program has nothing to do with helping homeowners. That's just diversionary gibberish to confuse the public. The real objective is to create a government landfill (aka–FHA) where the banks and other financial institutions can dump their toxic MBS-sludge and walk away with gov-backed loans. Get a load of this:

(Bloomberg) — The Federal Reserve's completion this week of its program to buy $1.25 trillion in mortgage bonds probably won't mean significantly higher U.S. home loan rates as investors return to the market, replacing the Fed…

What we are seeing is an effective handoff occurring between the Fed and industry buyers such as banks and pension funds," said Christopher Sebald, chief investment officer for Advantus Capital Management in St. Paul, Minnesota…

Advantus is purchasing mortgage bonds after the Fed's program drained supply in the $5.4 trillion market." (Bloomberg)

Of course, they're "purchasing mortgage bonds", because the government is going to insure them. It's a "no brainer". And don't you love that expression, "a handoff", because that's exactly what it is. The government hasn't stopped pumping liquidity into the system; they've just found another entry-point where they can push it in. Here's how it works: The new program offers incentives to banks and other deep-pocketed investors (in mortgage-backed securities) to slash the principal on underwater mortgages which keeps people from strategic default or foreclosure. Sounds good, right? But here's the catch: When the mortgage is refinanced, it's converted into a FHA-backed loan which provides an explicit gov-guarantee. So, for a slight loss on the face-value of the MBS, the investors (ie–investment banks, hedgies, etc) are able to resuscitate their moribund securitizations (MBS) and reap hefty gains. It's like taking Fido's steaming pile on the front lawn and turning it into the Hope Diamond. Abracadabra!

Geithner has figured out how to put together a bailout that will cost taxpayers hundreds of billions of dollars without any money actually exchanging hands. The value of the putrid mortgage-paper will soar because of the gov-underwriting, and the ginormous losses won't be realized until the mortgages start blowing up sometime in the future. That's when FHA will be put-to-pasture along with fellow-homicide victims, Fannie and Freddie. Pretty clever, eh?

So, the cutthroat speculators and bunko artists who fleeced us all with their dogshit subprimes, have returned for another dip at the public trough. That means taxpayers will get scalped on the same investments a second time. Hey, it's a double-whammy!

This really takes the cake. You gotta hand it to that sniveling scamster Geithner. He had his back to the wall and, presto, he extracts another rabbit from his hat. What a guy. He knew he couldn't go begging to congress for more money, or they'd kick him to the curb. So he worked out a scam that picks up where the Fed's $1.25 trillion quantitative easing bailout leaves off. It's a seamless transition from one massive corporate giveaway to the next. Now the Fed has nearly $2 trillion worth of structured garbage on its balance sheet, (which it will undoubtedly dump on Fannie or Freddie) the banks are loaded with fresh reserves, and another trillion or so is earmarked for the shadow bankers who provide funding to the regulated banking system. AND IT'S ALL 100% FREE. Such a deal.

This bank/credit cabal is robbing us blind in broad daylight and no one seems to give a hoot. Maybe Barack Obama will save us from all ruin?

Fat chance!

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