

Ten Million American Families Sliding Towards Foreclosure

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Of the 55-million families with mortgages, 10.4-million of them “are sliding toward failure and foreclosure”—a tragedy that will depress the U.S. housing market for years to come, a result of too many houses for sale and too few buyers.

That’s the blunt conclusion of distinguished economics journalist William Greider, to be published in an article in the November 14th issue of The Nation magazine.

America’s “Economic recovery will have to wait until that surplus (excess houses) is gone, because the housing sector has always led the way out of recession,” Greider says. “The more housing supply exceeds demand, the more prices fall. The more prices fall, the more families get sucked into the deep mudd. The vicious cycle is known in the industry as the death spiral. So far, there’s no end in sight.”

Greider says the solution is to forgive the debtors: “Write down the principal they owe on their mortgage to match the current market value of their home, so they will no longer be underwater. Refinance the loan with a reduced interest rate, so the monthly payment is at a level that the struggling homeowner can handle.”

Forgiving the debtors is the right thing to do, Greider continues, “because the bankers have already been forgiven. The largest banks were in effect relieved of any guilt for their crimes of systemic fraud or for causing the financial breakdown—when the government bailed them out, no questions asked.”

Far from a show of gratitude, Greider notes the response of the banks has been ugly. “Right now, these trillion-dollar institutions are methodically harvesting the last possible pound of flesh from millions of homeowners before kicking these failing debtors out of their homes—the story known as the ‘foreclosure crisis.’”

The largest and most powerful banks are standing in the way of the solution and the Obama administration “is standing with them,” Greider adds, “because bankers and other creditors would have to take a big hit if they were forced to write down the debt owed by borrowers. The banks would have to report reduced capital and their revenue would decline if homeowners were allowed to make smaller monthly payments.”

President Obama, he says, “seems to be playing a sly double game—protecting banks from sharing the pain while proclaiming sympathy for embattled homeowners.” Greider adds, “The government, in effect, has been sheltering banks from facing the hard truth about their condition.” Banks may be valuing mortgages or mortgage bonds at 85 cents on the dollar

when their true market value is closer to 30 cents. "That strengthens the case for a general and orderly write-down now: if many of these loans aren't ever going to be rapid, then the assets now claimed by the banks are imaginary."

Greider quotes Stephen Roach, a Morgan Stanley economist and lecturer at the Yale University School of Management, who says, "Some form of debt forgiveness would be a clear positive. Debt forgiveness is a big deal when so many Americans are underwater and unable to keep up with their payments... With debt reduction, people would feel less reluctant to spend money on new things. If you can do that, then companies will feel more confident about future demand, less reluctant about hiring more workers."

Roach believes the government can instruct Fannie Mae and Freddie Mac, which hold some \$1.5 trillion in housing loans or mortgage-backed securities, to take a write-down on their outstanding loans. "Then the government can put pressure on the banks to do the same thing. The banks will resist, but they have to go along if the government is forceful enough," Roach says.

However, housing-finance expert Laurie Goodman, said the government is making it harder for homeowners to get new mortgages despite the sagging housing market. "Almost every single proposed government action has been aimed at further tightening credit availability," she told the Senate Banking Committee last September.

With 25 million workers unemployed or underemployed, the President enjoys great popular support for pushing through a massive jobs bill, raising the minimum wage and shoveling money into the pockets of hard-pressed homeowners to help them pay their mortgages. Instead, as Greider says, Obama has been siding with the banks. Worse, he keeps squandering tax dollars on foreign wars opposed by the most Americans. There's not much left over to stimulate the economy when the Pentagon has sucked up \$800 billion in direct costs to wage war in Iraq with indirect costs, estimated by economist Joseph Stiglitz and Linda Bilmes, at a staggering \$4 trillion.

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