They Did It On Purpose: The Housing Bubble & Its Crash were Engineered by the US Government, the Fed & Wall Street

By Richard C. Cook
Global Research, October 23, 2008
23 October 2008

Region: USA
Theme: Global Economy

During the Clinton administration, the government required the financial industry to start expanding the frequency of mortgage loans to consumers who might not have qualified in the past.

When George W. Bush was named president by the Supreme Court in December 2000, the stock market had begun to decline with the bursting of the dot.com bubble.

In 2001 the frequency of White House visits by Alan Greenspan increased.

Greenspan endorsed President Bush's March 2001 tax cuts for the rich. More such cuts took place in May 2003.

Signs of recession had begun to show in early 2001. The stock market crashed after 9/11. The U.S. invaded Afghanistan in October 2001 and Iraq in March 2003.

The Federal Reserve began cutting interest rates, and by 2002 a home-buying frenzy was underway. Fannie Mae and Freddie Mac went along by guaranteeing the increasing number of mortgage loans.

According to a mortgage broker this writer interviewed, word began to come down through the mortgage banks to begin falsifying mortgage applications to show more borrower income than borrowers actually possessed

Banks that wrote mortgages began to offload them when Wall Street packaged them into mortgage-backed securities that were sold around the world as bonds to investors.

Risk-analysts at the leading credit-rating agencies, such as Standard and Poor's, Moody's, and Fitch, gave their highest ratings to mortgage-backed securities whose risks were later acknowledged to be grossly underestimated.

Mortgage companies, with Alan Greenspan's endorsement, began to offer more Adjustable Rate Mortgages (ARMs), loans that would reset at much higher rates in future years.

Mortgage brokers fed the growing bubble by telling people they should buy now because housing prices would keep going up and they could resell at a profit before their ARMs escalated.

Huge amounts of money began to flow into the economy from mortgages and home equity loans and from capital gains on resale of inflating property.

Meanwhile, in the world of investment securities, the Securities and Exchange Commission greatly reduced the amount of their own capital investors were required to bring to the table, resulting in a huge increase in bank leveraging of speculative trading.

George W. Bush was reelected in 2004 at the height of the housing and investment bubbles. By 2005 the housing bubble was accounting for half of all U.S. economic growth and yielding huge tax revenues to all levels of government.

Despite the tax revenues from the bubbles the Bush administration was running huge budget deficits from expenditures on the wars in Afghanistan and Iraq .

ABC News reports that during this time risk analysts at Washington Mutual, one of the nation's largest banks, were told to ignore high risk loans because lending had to be maximized. Those who objected were disciplined or fired.

State attorneys-general moved to investigate mortgage fraud but were blocked from doing so by orders of the Treasury Department's Comptroller of the Currency. There was no federal agency that was charged with regulating mortgage fraud.

In February 2006, Ben Bernanke replaced Alan Greenspan as Federal Reserve Chairman and held interest rates steady. Homeowners began to default as ARMs reset.

The housing bubble began to collapse in 2006-2007, with the economy showing early signs of a recession and the stock market starting to decline by August 2007. Home prices began to plummet in most markets, with millions of homeowners owing more on their homes than their new appraisals.

Homeowners began to default, with over four million homes going to foreclosure from 2006-2008. In many cases, homeowners simply walked away, dropping off the keys to their houses at the bank.

The U.S. economy shed 60,000 jobs in August 2008. In a year, Wall Street had cut 200,000 jobs. State and local governments began to cut budgets and jobs.

The "toxic debt" from the collapse of the housing bubble brought about a full-scale crash of the U.S. financial system by September 2008. The stock market immediately fell, with 40 percent of its value—$8 trillion—now having been lost in a year. $2 trillion of the losses were in retirement savings.

The crash of the U.S. economy began to reverberate around the world with bankers and the IMF warning of an onrushing global recession.

Massive bailouts by the U.S. Treasury Department and the Federal Reserve failed to stem the tide of the crashing markets. By late October 2008 the recession has begun to hit in force.

As the situation worsened, big banks like J.P. Morgan Chase received government capitalization even as they were buying up banks that were failing. J.P. Morgan Chase paid $1.9 billion for Washington Mutual with assets of over $300 billion.

The U.S. government joined with the nations of Europe in planning a series of economic summits to explore global financial solutions. President Bush will host the first summit in Washington , D.C. , on November 15, after the U.S. presidential election.

The U.S. military shifted combat troops from Iraq to the U.S. to contain possible civil unrest.

Most major retail chains began to close stores and lay off employees even as the Christmas season approached.

The Washington Post reported on October 23, 2008: "Employers are moving to aggressively cut jobs and reduce costs in the fact of the nation's economic crisis, preparing for what many fear will be a long and painful recession."

Richard C. Cook is a former U.S. federal government analyst, whose career included service with the U.S. Civil Service Commission, the Food and Drug Administration, the Carter White House, NASA, and the U.S. Treasury Department. His articles on economics, politics, and space policy have appeared in numerous websites and print magazines. His book on monetary reform, entitled We Hold These Truths: The Hope of Monetary Reform, will soon be published by Tendril Press. He is the author of Challenger Revealed: An Insider's Account of How the Reagan Administration Caused the Greatest Tragedy of the Space Age, called by one reviewer, "the most important spaceflight book of the last twenty years." His website is www.richardccook.com. Comments or requests to be added to his mailing list may be sent to EconomicSanity@gmail.com. Also see a series of his speeches on YouTube at http://www.youtube.com/user/GracchusJones.