Wall Street, White House blame homeowners in foreclosure crisis

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Wall Street has raised its voice against any government moratorium on foreclosures, even as evidence mounts that banks systematically and illegally falsified documents in order to expedite hundreds of thousands, or even millions, of foreclosures.

Documented examples of abuse include banks hiring contractors and what one Goldman Sachs executive referred to as “Burger King kids” to process thousands of foreclosure documents per week, all the while declaring to courts they were familiar with the cases. Lenders also falsified signatures, notary stamps, and tossed legal documents into the garbage. Every major bank is implicated in the widening scandal.

Yet to the barons of Wall Street these examples of law breaking—what a number of state attorneys general have called a “fraud on the court”—are immaterial, and those who were evicted deserved their fate.

Jamie Dimon, CEO of JP Morgan Chase, whose bank is implicated in the scandal, said this week in a conference call that there have been no accidental evictions. “We’re not evicting people who deserve to stay in their house,” the multimillionaire banker declared.

“If you didn’t pay your mortgage, you shouldn’t be in your house. Period,” Walter Todd of the investment advisory firm Greenwood Capital Associates, told Reuters.

“Everyone’s responsible for following the law. If we all don’t have to pay our mortgage, should we just stop paying taxes, too?” said Anton Schutz, president of Mendon Capital Advisers. Everyone has to follow the law except the banks, that is. Schutz added, “Your mortgage didn’t get to a robo-signer by accident, it’s because you’re not paying.”

As Paul Krugman of the *New York Times* notes, “In effect, they’re saying that if a bank says it owns your house, we should just take its word. To me, this evokes the days when noblemen felt free to take whatever they wanted, knowing that peasants had no standing in the courts. But then, I suspect that some people regard those as the good old days.”

Krugman attempts to distinguish these claims by Wall Street with the position of the Obama administration, whose opposition to a moratorium on foreclosures the *Times* columnist suggests is a policy mistake. In fact, the White House is of one mind with the banks.

In spite of mounting popular anger toward Wall Street—and the upcoming off-year elections—the Obama administration this week categorically ruled out any national moratorium on foreclosures, instead encouraging banks to review their own practices and carry through with foreclosures “as quickly as possible,” according to the *Washington Post*.

According to Fox News reporter Charlie Gasparino, an administration official "bragged" to him that Obama "could have publicly supported the foreclosure moratorium, and unleashed Attorney General Eric Holder to join state attorney generals, investigating the alleged fraud in the foreclosure process—but Obama didn't after hearing from banks that the vast majority of people being foreclosed upon aren't the victims of fraud and have defaulted on their mortgages."

The banks' policy was also spelled out by Obama spokesman Robert Gibbs this week. "If there's an empty house in the neighborhood that somebody has a contract on and their closing date is next week and there is a moratorium, that closing doesn't happen, right?", Gibbs asked. "That sale doesn't happen. That recovery doesn't take place."

Meanwhile, it is now clear that the voluntary moratoriums on foreclosures put in place by Bank of America, JP Morgan Chase, and Ally Financial apply only to sales and evictions, and not to other parts of the foreclosure process, which continue unabated. However, the three banks are reportedly continuing foreclosure sales at a number of locations, including Jacksonville, Florida.

"It's a farce," said April Charney, a Jacksonville-area legal aid attorney and an expert on the foreclosure crisis. "We're all being played."

The mortgage foreclosure scandal continues to deepen and spread, implicating the government as well as the banks.

Federal agencies tasked with monitoring the bank mortgage industry, including the Federal Reserve, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, did nothing to stop the abuses, even though these were clearly not isolated, but systemic problems.

"[T]here's no sign these agencies did anything to stop any of these institutions from treating the country's courts so contemptuously," notes Bloomberg's Jonathan Weil. "Perhaps the regulators were clueless. Or maybe they knew there was a problem and decided to let the banks run wild in the interest of keeping their foreclosure mills humming."

Weil notes that Indy Mac Bank was actually controlled by a federal agency, the Federal Deposit Insurance Corporation (FDIC), while it engaged in the illegal processing of foreclosure documents.

Courts are also implicated. Florida's legislature last year allocated $9.6 million to create special foreclosure courts in which judges play the role of "robo-signer." One of these judges is Victor Tobin of Broward County. The *Washington Post* this week found Tobin "signing off on uncontested foreclosure cases as fast as a clerk could keep them coming, only a few seconds per file. 'Batter up,' he said as he finished one stack and eyed the next."

The rampant falsification of loan documents has now raised doubts over the solvency of the entire mortgage security industry. The "robo-signers" basic task was to supply affidavits to courts in lieu of the actual documents related to ownership. In many cases, this paperwork may not exist or may be lost.

During the housing bubble, when the finance industry relentlessly promoted home refinancing and teaser-rate mortgages, the resulting loans were packaged and sold in complex chains of transactions that spanned the globe, building up enormous personal fortunes in the process.

When this Ponzi scheme inevitably collapsed, the legal paperwork to lay claim to properties was not there. "Now an awful truth is becoming apparent: In many cases, the documentation doesn't exist," Krugman notes. "The trusts were legally required to obtain and hold the mortgage notes that specified the borrowers' obligations. But it's now apparent that such niceties were frequently neglected. And this means that many of the foreclosures now taking place are, in fact, illegal."

According to analysts, it is likely that lenders will face a tidal wave of lawsuits, not only from defrauded homeowners, but also from powerful investors who purchased mortgage-backed securities from them.

On Thursday, the stocks of major US banks suffered sharp losses as result of renewed concerns over their solvency stemming from the mortgage foreclosure crisis. Wells Fargo, Bank of America, and Citigroup finished the day down more than 4 percent. The fall continued on Friday, with BOA and JPMorgan Chase shares falling more than 3 percent.

Spreads on bank credit-default swaps also grew sharply, with BOA's reaching levels not seen since July 2009. The cost of insuring bank debt increased by over 6 percent during the week.

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