Written by **Charles Scaliger** on October 27, 2010

Behind the Mortgage Foreclosure Crisis

The foreclosure crisis continues to threaten the U.S. banking sector with more headaches, admitted Sheila Bair, head of the FDIC, on October 25. According to a Reuters report, the expected wave of litigation stemming from improper or downright fraudulent procedures banks have been using to speed up the foreclosure process could be "very damaging" to the housing market.

Despite persuasive evidence that banks have been processing thousands of foreclosures without ensuring that proper procedures have been followed, and have even fabricated paperwork to cover up mistakes, Bair expressed regret to a joint conference of the Federal Reserve System and the FDIC that such "procedural" matters now bid fair to turn the entire mortgage sector on its ear. "I fear that the litigation generated by this issue could ultimately be very damaging to our housing markets if it ends up unduly prolonging those foreclosures that are necessary and justified," Bair told the gathering of government regulators and Federal Reserve officials with a vested interest in making the entire mess go away. "The regrettable truth is that many of the properties currently in the foreclosure process are either vacant or occupied by borrowers who simply cannot make even a significantly reduced payment and have been in arrears for an extended time."

To be sure, a certain amount of responsibility for the wave of foreclosures must be borne by American consumers who were happy to enjoy the benefits of the real estate bubble by living far beyond their means and are now paying the piper for the vacation homes, the "McMansions," and the other extravagant relics of an era of excess that will not return anytime soon.

But thousands of people now being foreclosed on by big banks desperate to salvage their bottom lines have merely been squeezed by circumstances beyond their control. The foreclosure that started it all, in fact, is a very modest $70,000.00 home in Maine, not a sumptuous overpriced estate in the Hamptons. Many such people are opting to fight back, and no wonder, given decades of government propaganda encouraging people to “get into” houses as soon as they are able, and federal government subsidies of mortgages that have allowed ever-more-generous terms including practically non-existent down payments.

But the biggest culprit, and withal the one that no one inside the Beltway other than Congressman Ron Paul is willing to accuse, is the Federal Reserve, whose monetary policies created the gigantic asset bubble, with all its attendant illusions, in the first place. How much blame should be laid upon ordinary Americans when their own government leaders and their sock-puppet economists repeat for years assurances of a “new economy” and unending growth? Small wonder that, at the height of the real estate bubble, all but the most curmudgeonly among us were gulled into “buying” a house in order to live the American dream as the elites have defined it!

The problem with bubbles is that they encourage not only excessive risk-taking but also dishonesty. Banks, happily overwhelmed with the demand for mortgages, were only too happy to securitize them, diluting the risk and creating a brand new securities market that allowed investors worldwide to get into the American real estate action. But with the new demand both for mortgages and mortgage-backed securities came the need to streamline the onerous legal process of passing the title of mortgage debt (in most states, the note) from one creditor to another. Taking mortgages to stodgy old courthouses to be processed was much too slow for the tastes of go-go mortgage lenders like Bank of America and PNC Financial; hence the proliferation of “robo-signers” that streamlined the process at the same time they made much of it illegal.

The problem is that mortgages are regulated by the states, not (yet) by the Federal Reserve or some other federal entity. And state attorneys general nationwide are now looking into the legality of what has been going on right under states’ noses for much of the last decade.

Bair and the banksters at the Fed want to see this entire sordid mess cleaned up as quickly as possible; the longer it drags on, the more people will get wise to the Ponzi scheme bundled with a spoils racket that is modern banking. Look for the Obama administration to attempt another bailout of the banking sector — once again for “the common good,” naturally. But this time around, the bailout is likely to take the form of legislation granting banks exemption from the consequences of their own misdeeds, while limiting the recourse of borrowers to contest foreclosures. In the end, Washington will pull out all the stops, legal and financial, to ensure continuity of the spoils system that has enriched generations of politicians, lobbyists, and bankers at the expense of everybody else.

Here’s hoping Americans will figure out this crooked game, sooner or later. The foreclosure mess suggests that at least some taxpayers are still inclined to question the premises of a mortgage market that’s been rigged for decades.