Written by William F. Jasper on June 14, 2012

For Billionaires Only: Uncle Sam's Real Estate Fire Sale

"The largest transfer of wealth from the public to private sector is about to begin. The federal government will be bulk-selling the massive portfolio of foreclosed homes now owned by HUD, Fannie Mae and Freddie Mac to private investors — vulture funds."

So warned Roger Arnold, chief economist for ALM Advisors of Pasadena, California, in a column for *RealMoney* on August 11, 2011, that first lifted the lid on this latest colossal scandal to come out of the 2008-2009 financial crisis.

"These homes," wrote Arnold, "which are now the property of the U.S. government, the U.S. taxpayer, U.S. citizens collectively, are going to be sold to private investor conglomerates at extraordinarily large discounts to real value. You and I will not be allowed to participate. These investors will come from the private-equity and hedge-fund community, Goldman Sachs (GS) and its derivatives, as well as foreign sovereign wealth funds that can bring a billion dollars or more to each transaction."

Warren Buffett, one of the richest men in the world, obviously, would have no trouble qualifying for the privilege of bidding in this fire sale for the super-rich. And the "Oracle of Omaha" appears to be more than casually interested in getting in on the game.

The *Wall Street Journal* reported on March 20, 2012: "Warren Buffett, considered a sage investor and chief executive of Berkshire Hathaway Inc., said in an interview with CNBC-TV last month that he would buy up 'a couple hundred thousand' single-family homes if he could do so easily, given the high yields on rental investments."

A couple hundred thousand homes for Buffett? What about the hundreds of thousands of families who are being foreclosed on? Isn't that what the Fed, Treasury, the Bush White House, and members of Congress told us the $750 billion TARP (Troubled Asset Relief Program) fund was for when they forced it on us in 2008? What about the additional hundreds of thousands of families who would love to be able to purchase these homes and who may be qualified to buy under a genuine privatization program open to all? What about the hundreds of thousands of small investors who are willing to buy, rehabilitate, and rent out these properties? Well, the folks running Fannie, Freddie, and HUD haven't *completely* ruled out the little guys; they are continuing to sell a portion of their mammoth inventory of foreclosed homes the traditional way, one-by-one to individual buyers. But over the past year, they have been moving into bulk sales and have been getting ready to unload their portfolios *en masse* at huge discounts to the big buyers.

Who are some of the other high-rollers lining up for the restricted Fannie/Freddie/HUD fire sale? According to the *Wall Street Journal*, they include Lewis Ranieri, regarded as "the godfather" of mortgage finance for developing mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs), the financial weapons of mass destruction that played a key role in the economic meltdown.

Another, says the *Journal*, is hedge fund titan Paulson & Co., headed by John Paulson.

Forbes magazine, which in 2012 listed Paulson as #61 among the world's billionaires and #17 among the "Forbes 400," says that he "became a billionaire in 2007 by shorting subprime securities, earning a $3.5 billion payout." What *Forbes* doesn't mention in its flattering profile is that Paulson, like Ranieri, was a major architect of the house of cards built on CMOs and other fraudulent debt instruments — euphemistically called "synthetic derivatives" — that Paulson marketed through Goldman Sachs.

And, of course, the power brokers at Goldman Sachs, JPMorganChase, and Citigroup, who have already reaped billions of taxpayer and investor dollars from the financial havoc they helped cause — as well as from the bailouts that followed — are salivating at the thought of even greater lucre to be made in the newly created homes-for-rent market.

"Economists at Goldman Sachs estimate the annual yield on an investment on rental property nationwide averages about 6.3%, but can exceed 8% in cities that were hit hard during the housing bust, including Las Vegas, Detroit and Tampa," notes the *Journal*. "By contrast, mortgage bonds have average yields of just over 3%, and investment-grade corporate bonds are yielding about 3.5%, according the Barclays Capital U.S. Investment-Grade Index."

Incredibly, the malefactors who invented the toxic mortgage securities and raked in massive wealth by marketing those fraudulent products with a "pump-and-dump" strategy that fleeced millions of savers, investors, and homeowners are now planning to use their ill-gotten gains to once again make a killing. And, once again, this is only possible because the Federal Reserve has instituted a corrupt system of cronyism that amounts to legalized theft on a titanic scale.

These privileged mega-investors could "instantaneously become the largest improved real estate owners and landlords in the world," notes Roger Arnold. "The U.S. taxpayer will get pennies on the dollar for these homes and then be allowed to rent them back at market rates."

The Fed's REO Speedwagon

The REO program to pulverize Main Street for the benefit of Wall Street would go nowhere without approval from Chairman Ben Bernanke and his fellow governors at the Federal Reserve. On April 5, 2012, the Fed issued a policy statement loosening regulations so that "banking organizations may choose to make greater use of rental activities in their disposition strategies." This will make it easier for banks — including those that received billions of taxpayer dollars — to hold REOs off the market as rentals for 10 years, or longer. This was a follow-on to the Fed's white paper on housing issued by Bernanke on January 4, 2012, that painted a dire picture of the real estate market and expressed the need to look at new options.

The paper, entitled *The U.S. Housing Market: Current Conditions and Policy Considerations*, declares: "Looking forward, continued weakness in the housing market poses a significant barrier to a more vigorous economic recovery."

The Fed's white paper notes:

> At the same time that housing demand has weakened, the number of homes for sale is elevated relative to historical norms, due in large part to the swollen inventory of homes held by banks, guarantors, and servicers after completion of foreclosure proceedings. These properties are often called real estate owned, or REO, properties.… Perhaps one-fourth of the 2 million vacant homes for sale in the second quarter of 2011 were REO properties. The combination of weak demand and

> elevated supply has put substantial downward pressure on house prices, and the continued flow of new REO properties — perhaps as high as 1 million properties per year in 2012 and 2013 — will continue to weigh on house prices for some time.

Additionally, it points out that "currently, about 12 million homeowners are underwater on their mortgages — more than one out of five homes with a mortgage." Presumably, many of these will also end up in foreclosure.

But Bernanke and his Fed brethren, naturally, have a solution. They claim "a government-facilitated REO-to-rental program has the potential to help the housing market and improve loss recoveries on REO portfolios."

But, to add audacity on top of audacity, the Fedmeisters hint that besides favoring a closed privatization scheme that turns over an REO bonanza to their cronies (who have already benefited immensely from the Fed's crooked largess), they may also be setting the program up for us, the taxpayers, to help finance the deals for the billionaire investors! The Fed white paper informs Congress that "providing investors with debt financing will likely also affect the prices they offer on bulk pools of REO properties."

"Subsidized financing provided by the REO holder may increase the sales price of properties," the Fed advises, appearing to suggest that it would be to the benefit of all concerned if the taxpayers sweetened the saccharin deal even further.

President Obama, who likes to inveigh against Wall Street (while taking record sums of Wall Street cash as campaign contributions), is on board with the plan. "The Obama administration, in conjunction with federal regulators and led by the overseer of Fannie Mae and Freddie Mac, are very close to announcing a pilot program to sell government-owned foreclosures in bulk to investors as rentals, according to administration officials," Diana Olick reported for CNBC on January 9, 2012, in a piece entitled "White House wants to convert foreclosed houses to rentals."

"A pilot sales program will be starting in the very near future, according to administration officials," Olick reported. "They are working on what the market potential is, what pricing would be, how government can partner with private investors, and who has the operational experience to manage so many properties."

RTC Déjà Vu

The federal agency that is handling the disposition of the huge federal REO inventory is the Federal Housing Finance Agency (FHFA), created by the Federal Housing Finance Regulatory Reform Act of 2008 (Public Law 110-289), which was signed on July 30, 2008 by President George W. Bush. The FHFA is "the Resolution Trust all over again — but much bigger," ALM economist Roger Arnold told The New American. "And you can be sure the corruption will be commensurately bigger."

For those who recall the massive Savings & Loan crisis and bailout of the 1980s, there is more than a passing resemblance to the current financial crisis and bailouts. And the FHFA does indeed look disturbingly similar to the Resolution Trust Corporation (RTC), created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (which was signed into law by President George Bush, the elder) to "resolve," i.e., clean up, the S&L mess.

"The RTC was expected to handle nearly 300,000 properties (many of which had been overvalued to begin with) and $400 billion in failed S&L assets (including loans which were taken out never intending to be paid back)," explains Nick Adama, who has written extensively on the mortgage crisis for the ForeclosureFish blog and website. The RTC compounded the looting that the Fed and the FDIC had encouraged, rewarding the criminal class with a second shot at even juicier profits. Adama elucidates:

> While the RTC took over nearly half a trillion dollars in toxic loans, bad mortgages, junk bonds, unfinished condo and development projects, and undeveloped land, the program became another excuse for the same people who had looted the industry to begin with to launder their money back into these same devalued assets.

Criminals who had received huge loans from S&Ls on overvalued properties pocketed the difference, usually with offshore bank accounts that were never confiscated by the government. When the RTC took over the assets of these failed S&Ls, the government wanted to liquidate the assets for whatever it could get.

The looters of the thrifts, then, were able to use the dirty money they had obtained by defaulting on S&L loans to purchase insolvent S&L assets. In fact, the Resolution Trust Corporation did not even ask questions about buyers if cash was offered.

The RTC became, in effect, the federal laundromat for the dirty S&L money, becoming a partner in crime with some of the century's biggest thieves, who had victimized millions of savers and millions more taxpayers. "Clearly, the RTC was offering a way not only to repatriate their offshore money but to parlay it into further gain as they bought government-owned assets at bargain basement prices," concluded authors Stephen Pizzo, Mary Fricker, and Paul Muolo in their 1991 book *Inside Job: The Looting of America's Savings & Loans*.

Since September 2008, Fannie and Freddie have operated under the conservatorship of the FHFA, with, as the Fed white paper points out, "specific mandates to minimize losses for taxpayers and to support a stable and liquid mortgage market."

The FHFA is now *the* big player in the housing market. The FHFA's website informs us: "The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than $5.7 trillion in funding for the U.S. mortgage markets and financial institutions."

The California Association of Realtors is vigorously opposing the FHFA/Fannie Mae REO bulk sales, noting that it is unnecessary, since there are plenty of buyers willing to pay market prices, without giving steep, subsidized discounts to the billionaire insiders.

In a letter to California's congressional delegation dated February 6, 2012, the Realtors' group said: "Los Angeles and the Southern California region have been named as a potential pilot program location. However, these areas are experiencing an inventory shortage, and many homes for sale, especially distressed properties, are receiving multiple bids. Removing REO inventory through a bulk sale and rental program will hurt these communities. In addition, the taxpayer will lose because these REOs will be sold for less money in bulk sale than if sold as individual units."

Other industry sources express similar opinions of the market. "A pretty robust cottage industry has developed and is absorbing this at an incredibly fast pace," Richard Smith, chief executive of Realogy Corp., which owns the Coldwell Banker and Century 21 real-estate brands, told the *Wall Street Journal.* There doesn't seem to be any urgent need for FHFA to unload bulk inventory at a huge discount, and doing so is not likely to benefit taxpayers. Fedgov bulk REO sales "will end up being another huge taxpayer-subsidized gift to the vultures, the big inside players who are politically connected," Roger

Arnold told The New American.

In order to play in this game, the investors must agree to hold the REO properties as rental units for a specified period. This will require building or acquiring a management structure to care for the properties. According to investment insiders contacted by The New American, some of the big investors are already partnering up with the HUD Management and Marketing (M&M) contractors that manage the huge Fedgov REO inventory.

In his original August 2011 *RealMoney* article, Roger Arnold wrote:

> These M&M companies are principally owned by and employ former high-ranking government officials from the various germane agencies — the Treasury, HUD, FHA and others. And they will provide the necessary access to the current government employees who are tasked with bringing this program to fruition. Once the privatization is complete, those government employees will move from their positions, and many will take up new employment at one of the M&Ms or the new vulture funds.

The FHFA's plan for bulk REO sales will open up vast new vistas for federal officials and bureaucrats to strike special sweetheart deals with Wall Street partners, with lucrative payoffs as they transition from "public service" to private-sector management.

Oligarchs and Princelings

Closed "privatization" programs like the REO selloff being pursued by the Fed and FHFA serve to widen the wealth gap by further enriching the already wealthy, while reducing advancement opportunities for the poor and the middle class. They also serve to fuel the fires of resentment toward what is obviously unfair advantage enjoyed by the privileged few.

Unfortunately, all too often the politicians, analysts, and commentators misdiagnose the problem and misdirect popular resentment and outrage toward the wrong target: "capitalism," "deregulation," or "free market economics." However, the culprit here isn't free markets, it's corporatist socialism, which is politicized crony capitalism. With the ongoing series of federal bailouts since the financial crisis of 2007-2008, the U.S. Treasury, the Federal Reserve, and the federal regulatory leviathan have taken control of virtually our entire national economy. As a result, we are more and more coming to resemble the centrally planned, centrally controlled political-economic systems in place in Russia and China. Our ruling classes are also looking more and more like the Politburto plutocrats in Moscow and Beijing.

The big news in *Forbes* magazine's 2011 annual survey of "The World's Billionaires" was the striking increase in billionaires in Russia and China. The magazine reported that Moscow had become the city with the most billionaires, 79, followed by New York, with 58. It also reported that China had nearly doubled its number of mega-rich citizens over the previous year, now claiming 115 slots in the billionaire category. The number of super-wealthy Russians had jumped two-thirds during the same period, to 101 billionaires.

Although these recently minted billionaires are usually called capitalists, they have not earned their sudden wealth through entrepreneurial skill and free enterprise; they have amassed their enormous riches thanks to their Communist Party connections (in China) or "former" Communist Party connections (in Russia), which gave them special privileges in the "privatization" of previously nationalized resources. Russia's super-wealthy oligarchs profiled by *Forbes* — Alisher Usmanov (steel, telecom, investments), Vladimir Lisin (steel and transport), Alexei Mordashov (steel), Vladimir Potanin (metals, media), Vagit Alekperov (oil), Mikhail Fridman (banking, oil, telecom), Mikhail Prokhorov (metals, energy, investments), Roman Abramovich (steel, investments), et al. — are all tied in to Vladimir Putin's KGB-run Kremlin power structure.

Likewise, China's economic emperors and princelings — Li Ka Shing (shipping, ports, real estate, technology), Robin Li (technology), Liang Wengen (manufacturing), Zong Qinghou (beverages), He Xiangjian (manufacturing), Hui Ka Yan (real estate), Liu Yongxing (agribusiness) — have been hugely enriched not through the power of the market, but through the power of the state. The economic systems in Moscow and Beijing are frequently (and absurdly) referred to as capitalist or "market-oriented," but they are "capitalist" only if understood as being state capitalist or gangster capitalist, where rewards are dispensed through political power rather than through consumer choice.

The Federal Reserve System is one of the principal political instruments being used to transform the American system into a replica of the regimes in Russia and China. This is not surprising when one considers that the Fed comes close to fulfilling the requirement for a central bank demanded by Karl Marx and Frederick Engels in the *Manifesto of the Communist Party*. The fifth plank of their 10-plank program called for "centralization of credit in the hands of the state, by means of a national bank with State capital and an exclusive monopoly."

And what has the Fed's "centralization of credit in the hands of the state" accomplished? We catch a glimpse of the devastation in the partial audit of the Fed last year by the Government Accountability Office (GAO). "As a result of this audit, we now know that the Federal Reserve provided more than $16 trillion in total financial assistance to some of the largest financial institutions and corporations in the United States and throughout the world," said Senator Bernie Sanders (I-Vt.) when the first part of the audit came out in July.

The number one recipient of the Fed's bailouts and loans was Citigroup, which received more than $2.5 trillion! Second was Morgan Stanley, which sucked down more than $2.04 trillion. Third was Merrill Lynch, which took in more than $1.9 trillion. Then Bank of America at $1.3+ trillion, Barclays at $868 billion, Bear Stearns with $853 billion, Goldman Sachs at $814 billion, JPMorgan Chase at $391 billion — and on and on. There are many important details about these transactions that we still don't know because the Fed has refused to reveal them, and Congress has thus far failed to demand the kind of genuine audit that Rep. Ron Paul has been pushing for. Keep in mind we're talking about multiple *trillions* that the Fed is creating out of thin air and handing out to its friends — with no checks or accountability. As mind-numbing as the $16 trillion figure is, that may be only a fraction of the abuse, corruption, and thievery that is occurring.

The GAO audit turned up a number of examples of prima facie evidence of conflict of interest in the Fed's activities vis-à-vis Wall Street insiders, among which were:

• JPMorgan Chase CEO Jamie Dimon served on the board of the Federal Reserve Bank of New York at the same time that his bank received over $390 billion in total emergency loans from the Fed;

• General Electric CEO Jeffrey Immelt served as a director on the board of the Federal Reserve Bank of New York while the Fed provided $16 billion in financing for GE under its emergency lending program;

• New York Fed chairman Stephen Friedman sat on the board of directors of Goldman Sachs and owned Goldman stock while the Fed was shoveling hundreds of billions of dollars into the Wall Street behemoth's coffers;

• New York Fed president William Dudley was allowed to keep AIG and General Electric stock at the same time that the Fed was showering AIG and GE with hundreds of billions in bailouts.

In a July 2011 press release denouncing the Fed’s corrupt favoritism, Sen. Bernie Sanders declared: “This is a clear case of socialism for the rich, and rugged, you’re-on-your-own individualism for everyone else.” Sanders, the only member of Congress who openly identifies himself as a socialist, was right; the Fed’s program has always been socialism for the rich. However, Sanders, like most other socialists and “progressives,” gets the solution totally wrong: more socialism, more centralization, more government control.

The Federal Reserve needs to be stripped of its power, not handed more power and control. However, the REO bulk privatization that Bernanke and company are now promoting would increase the Fed’s clout while effecting one of the most radical redistributions of wealth in history. Millions of erstwhile homeowners would be reduced to the status of perpetual renters to the Wall Street cronies whom the Fed has already lavished with untold billions and would have become our new landlord class.

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This being an election year, members of Congress are more sensitive and responsive to constituent pushback and feedback. They need to hear loudly and clearly from voters that the FHFA REO “socialism for the rich” program won’t fly. They need to know that the voters are holding them to account to Audit the Fed and End the Fed.