Senate committee passes pro-business housing bill amidst foreclosure crisis

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A key US Senate committee passed bipartisan-supported legislation Tuesday that will provide meager relief to homeowners while allowing banks and mortgage companies to receive government backing for some failing loans.

The bill, passed by the Senate Banking Committee, follows on the heels of a similar measure passed by the House of Representatives earlier this month. It modifies an earlier Senate version that did not include the loan provision, but did contain tens of billions in tax breaks for corporations.

The committee passed the proposed bill by a vote of 19 to 2, with the support of committee chairman Christopher Dodd (Dem.-Connecticut) and ranking minority member Richard Shelby (Rep.-Alabama). President George W. Bush on Monday called the discussions in the Senate "progress," indicating he might sign the bill. Bush had pledged to veto the House version.

The bill has the broad support of the financial industry, which is facing tens of billions of dollars in losses from the housing market decline and the broader credit crisis.

Coming in an election year, the legislation is a gesture at aiding distressed homeowners, but it will do nothing for most of those affected by the collapse of housing prices and the rise in foreclosures. Its principal aim is to stem the losses suffered by banks and other financial institutions as a result of the chaos in the mortgage-backed securities market.

The main provision in both the House and Senate versions is the creation of a fund under the Federal Housing Administration (FHA) that would allow homeowners with good credit who have fallen behind on their payments to negotiate with their lenders a reduction in the outstanding principal. The FHA would then guarantee the loan under a new, fixed-rate, 30-year mortgage. The bill provides for a fund to cover up to $300 billion in loans.

Since the plan is entirely voluntary, it would allow the banks to modify a given loan only when it considered that option more profitable than risking default under the old terms. At the same time, any losses from defaults on the new mortgages would be covered by the government.

Only a small minority of distressed borrowers are expected to benefit from the new fund. The Congressional Budget Office (CBO) has estimated that a maximum of 500,000 homeowners would qualify. In contrast, some 1.5 million families are already in foreclosure, and another 2.8 million are expected to file over the next four years.

There are about 8,000 new foreclosures every day throughout the country. US foreclosure filings in April were 65 percent higher than a year before.

In a sign of its wholly inadequate character, the Banking Committee estimates that the fund would cost about $500 million over three years, while the House estimated that its slightly different version would cost $1.7 billion over five years.

In comparison, the Iraq war costs about $341 million every day. In March, the Federal Reserve put up $29 billion of its own funds to underwrite the takeover of investment bank Bear Stearns by JPMorgan Chase.

Bush threatened to veto the House bill primarily because of the $1.7 billion cost. To avert this threat, the Senate agreed to fund it by diverting money from a new affordable housing trust fund to be set up under mortgage enterprises Fannie Mae and Freddie Mac.

Shelby said after the vote on Tuesday, "I don't believe the president will veto this—I hope not—there's no taxpayer money involved here."

Democratic Congressman Barney Frank of Massachusetts, the chairman of the House Finance Committee, however, has trumpeted precisely that very limited affordable housing provision as one of the most important aspects of the House bill. On Tuesday, Frank declared, "A fight is brewing on the affordable housing

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trust fund," but he indicated that a deal was likely in the end.

The paltry funds involved mean that the housing bill, provided that it eventually passes, will do next to nothing to affect the decline in home prices. *Financial Times* columnist John Dizard remarked in a column published on Tuesday, "As far as I can tell the intent [of the legislation] is to do nothing to commit the federal government to any dramatic increase in spending on support to the housing market."

Another major provision in the Senate bill would tighten regulation over Fannie Mae and Freddie Mac, which are known as government-sponsored enterprises (GSEs) because they have the financial backing of the US Treasury.

Earlier this year, the government loosened some restrictions on Fannie Mae and Freddie Mac to facilitate their growing role in the mortgage market. In the first quarter of this year, the two enterprises handled more than 80 percent of mortgages, more than double their share in 2006. This is because many banks and financial institutions have been scaling back their mortgage businesses in response to the housing crisis.

Over the past several months, the two GSEs have reported billions of dollars in losses. Their assets of $83 billion cover a massive $5 trillion in debts and other obligations.

Shelby told the *Hill* in an interview last week, "If they failed, why, Bear Stearns and all the others, they'd be like little grocery stores compared to the risk that they would have to the system."

While the details have yet to be released, the Senate legislation would create a GSE regulator that would have the power to mandate increases in their capital reserves.

The housing bill takes place within the context of a financial and economic crisis for which the American ruling elite has no solution. Over the past several years, a small layer of the population has made billions through various means of financial speculation, including in the housing market. As the housing market soared, millions of Americans were able to afford homes only through the accumulation of unsustainable levels of debt.

There were several signs early this week that the credit crisis extending throughout the economy is far from over.

Analysts at Oppenheimer investment funds released a report on Tuesday that declared, "We believe the real harrowing days of the credit crisis are still in front of us and will prove more widespread in effect than anything yet seen."

"Our view is that the credit crisis will extend well into 2009 and perhaps beyond, and although the complexion will change, the net effect will be the same: three years of multibillion-dollar revenue reversals," the analysts wrote. "Multitrillion dollars of loans were underwritten with the false assumption that home prices would go up in perpetuity on a national basis."

The credit crunch has seized up derivative credit markets, including the credit default swaps (CDS) market. A CDS is a contract between two parties in which one party provides payments to another in return for insurance against the default of a third party (e.g., a bank or corporation). The unregulated CDS market currently protects an estimated $62 trillion in debt. More than half of all CDSs are tied to asset-backed securities, including those backed by mortgages.

An article on the Bloomberg new service Tuesday quoted billionaire investor George Soros as noting that the CDS market "is a Damocles sword waiting to fall" and could trigger the next global financial crisis.

Banks and other institutions have been scrambling to increase their cash reserves to cover credit defaults. On Tuesday, American International Group, an insurance giant, said it was seeking to raise $20 billion in new capital, 60 percent more than announced earlier. Last week AIG reported first-quarter losses of $7.8 billion, following over $15 billion in write-downs for CDS and mortgage securities.

The Dow Jones Industrial Average fell nearly 200 points on Tuesday on investor concerns about inflation, consumer spending and the credit crisis. The financial markets have been buoyed in recent weeks by the assumption that Washington would move to bail out any serious problem to hit Wall Street.

As this process unwinds, the main aim of the government has been to engineer a more orderly deflation of the market and "deleveraging" of the financial system, allowing banks and corporations to place the burden of the crisis on working people through wage and job cuts.

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