Obama’s mortgage plan aims to bolster the banks

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On Wednesday, President Barack Obama revealed portions of a plan that aims to stem the collapse of the US housing market. The Homeowner Affordability and Stability Plan (HASP) is designed to provide a modicum of relief to homeowners while protecting the interests of the major financial institutions, mortgage lenders and mortgage securities investors who bear primary responsibility for the collapse of the housing market.

The plan will not lower the crippling debt homeowners owe the banks. It offers nothing to the hundreds of thousands of US households already foreclosed upon, and will not affect the vast majority of the approximately 12 million households already “underwater”—those who owe more on their loan than their house’s market value.

The collapse of the US housing market triggered the implosion of the credit bubble built up over previous decades. In 2007, the failure of the American subprime mortgage sector undermined the vastly inflated assets of the US banking system and that of much of Europe, sparking the crisis that spread from the financial industry to the broader US and global economy. Now the world economic crisis is rebounding back upon the American housing sector, accelerating foreclosures and driving down home prices. At least 1 million homes have been foreclosed on since 2006, and predictions on foreclosures for the next four years range between 5.9 million and 8 million.

The housing crisis has already impoverished significant sections of the population. Much of the wealth of working class and middle-class families is based on home ownership. In recent years, workers’ access to consumer credit, college tuition, and even major health procedures has been based on their ability to borrow against what were, until 2006, rising home values. US households have lost as much as $13 trillion in wealth from the housing and stock market crashes.

Details of HASP will be made public on March 4, but according to an outline released by the White House, it will depend on the voluntary participation of lenders, whom Obama hopes to induce into participation through generous incentives. The federal government will give banks thousands of dollars in subsidies in return for interest rate reductions on certain loans, with the aim of bringing monthly payments down to an affordable level. Mortgage lenders will also be paid annual service fees of $1,000 for each altered loan, among other enticements.

A second part of the program pertains to loans financed by Fannie Mae and Freddie Mac, the federally sponsored mortgage giants which together finance the majority of US home loans. This would permit interest rate refinancing for families whose outstanding debt has neared, or slightly exceeded, their home’s value—but not for families whose home value has fallen significantly below the principal they owe on their loan.

The immediate cost of the program will be $275 billion. For the $75 billion to be made available to private lenders, the Troubled Asset Relief Program (TARP) will provide $50 billion and Fannie and Freddie the other $25 billion. The Treasury Department will purchase $200 billion in preferred stock from Fannie and Freddie, up from a previously arranged commitment of $100 billion made in September after the two lenders went into federal receivership. The overall size of Fannie’s and Freddie’s loan portfolios will be allowed to expand by $50 billion to $900 billion each, liabilities for which the federal government will presumably be responsible.

Obama introduced the program in Mesa, Arizona, a state particularly hard-hit by the housing crisis. In a speech replete with references to the “the American dream” and the “middle class,” Obama said the aim was to help families “who have played by the rules and acted responsibly.”

Obama offered an assessment of the origins of the housing crisis that found homeowners equally culpable as banks and mortgage companies. According to Obama, “It was brought about by big banks that traded in risky mortgages in return for profits that were literally too good to be true; by lenders who knowingly took advantage of homebuyers; by homebuyers who knowingly borrowed too much from lenders; by speculators who gambled on rising prices; and by leaders in our nation’s capital who failed to act amidst a deepening crisis.”

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But while Obama claimed that “banks and lenders must be held accountable for ending the practices that got us into this crisis in the first place,” his program does nothing of the sort. On the contrary, it offers rich new streams of revenue to compensate banks for their failed loans.

Obama signaled once again that the American people would ultimately be made to pay the cost of the housing and credit collapse. “Individuals must take responsibility for their own actions,” he declared. “And all of us must learn to live within our means again.”

While his administration hands out hundreds of billions to the banks, Obama is preparing unprecedented austerity measures for the working class. His reference to “living within our means” implies that for millions of workers, the possibility of owning a home will vanish.

The central obstacle to resolving the housing crisis, like the broader economic crisis, is not the fantasy of workers living beyond their means. Nor is it a technical “market” impediment resolvable by government programs. Standing in the way of a solution to the crisis is a failed socioeconomic system and a financial aristocracy that will brook no infringements on its wealth and prerogatives.

Every previous effort to address the housing crisis, no matter how modest, has been undermined by the resistance of the financial elite. For example, last year’s government-sponsored “Hope for Homeowners” program resulted in the modification, according to some calculations, of a grand total of 25 mortgages.

A number of commentators have expressed concerns over the limited character of HASP. That the plan will do little to help the majority of the 12 million American households who are underwater—a number that could increase to 16 million within a year—may well reduce it to “a rose-colored bit of incrementalism,” according to a *New York Times* analysis. If even a small proportion of this number chooses to “walk away” rather than continue to lose money to declining home prices, this would “force the administration to come up with a new, much larger housing bailout down the road,” the newspaper commented.

There is nothing in the plan to compel participation of banks, mortgage servicers or mortgage securities investors, other than a pledge by the administration to push for congressional action to allow bankruptcy judges latitude to change payment terms for embattled homeowners. Wall Street is bitterly opposed to such legislation.

In an analysis published February 12, *BusinessWeek* noted, “One reason foreclosures are so rampant is that banks and their advocates in Washington have delayed, diluted, and obstructed attempts to address the problem.” According to *BusinessWeek*, financial industry lobbyists “say they will fight to restrict the types of loans the bankruptcy proposal covers and new powers granted to judges… The industry strategy all along has been to buy time and thwart regulation, financial-services lobbyists tell *BusinessWeek*.”

Trends in refinancing also reveal the intransigence of the financial industry. The *Wall Street Journal* pointed out that recent efforts to refinance loans have, in more than half of all cases, resulted in higher or unchanged monthly payments. This is so because those most often needing refinancing have already fallen behind on payments. The banks add “past-due amounts—which can include principal, interest, taxes and insurance—driving monthly payments higher.”

As with all of the measures proposed in response to the economic crisis, including Obama’s stimulus plan and bank bailout scheme, the premise of his housing program is that nothing be done that touches on the basic interests of the financial elite. It makes no serious analysis of the roots of the housing crisis or the social interests that underlie the collapse, and consists of improvised half-measures.

Even so, the plan he announced on Wednesday is already eliciting protests from hedge funds and other big investors who reject any measures that could further devalue their mortgage-linked assets.

Most of the plan’s details have yet to be revealed, but there are suggestions that participating households will be made to eventually bear the cost of any interest rate modifications. According to the *Wall Street Journal*, the “plan may require that homeowners eventually pay back the difference between the original payment and the reduced rate. While borrowers would get a lower monthly payment, they would still technically owe a big additional payment at the end of their loan’s term.”

Speaking in Florida last week, Obama indicated that this would be the case. “The borrower is going to have to probably—if they get some assistance—agree to give up some equity once housing prices recover so that both sides are giving a little bit,” he said.

Underscoring the chasm between the design and scope of Obama’s plan and the dimensions of the housing crisis, the Commerce Department released a report hours before his Arizona speech pointing to a more rapid collapse in the housing market than had been previously anticipated. New home construction fell to its lowest level ever in January—declining 16.8 percent from December to an annualized rate of 466,000 homes. Building permits also hit a record low. *MarketWatch* described the data as “far below the weakest levels of construction in the post-World War II era.”

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