

Bank foreclosure fraud to be rewarded at taxpayer expense

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Earlier this month, the White House announced that it reached an agreement with five major US banks quashing investigations by the state governments into rampant fraud related to home foreclosures. On paper, the banks agreed to pay a \$5.9 billion in cash to the states and make mortgage modifications totaling \$25 billion.

But last week, Shahien Nasiripour of the *Financial Times* reported that much of the \$25 billion would in fact be subsidized by taxpayers through an earlier mortgage modification program. Conveniently for the banks, the settlement comes less than one month after this program, called the Home Affordable Modification Program (HAMP), tripled its subsidy to banks for lowering the principal on mortgages.

This means that taxpayers will be funding up to 63 percent of the \$25 billion in mortgage modifications promised by the five banks.

Even without the government's subsidies, the write-downs are often in the banks' interests as they prevent costly home repossessions and keep borrowers paying their monthly mortgages.

Thus, far from punishing the banks for their violations of state and federal laws, the settlement is merely another means of handing taxpayer funds to the biggest banks.

Neil Barofsky, the former special inspector general of the Troubled Asset Relief Program, the \$700 billion federal bank bailout program, called the revelation "scandalous" in an interview with the *Financial Times* last week, saying, "It turns the notion that this is about justice and accountability on its head."

"If the banks are doing something under this settlement, and cash flows from taxpayers to the banks, that is fundamentally an upside-down result," he added.

Despite the flagrancy of the revelation, the news went

largely unreported in the US media, with neither the *New York Times* nor *Wall Street Journal* carrying the story.

The settlement shuts down state lawsuits against the five banks: JPMorgan Chase, Wells Fargo, Citigroup, Bank of America (which bought mortgage firm Countrywide), and Ally Financial Inc. (formerly GMAC, the financial arm of General Motors).

As a result of the deal, the banks will be immune from future government prosecution and investigation into fraudulent foreclosure practices such as robo-signing, a widespread practice in which bank employees swore that mortgage documents were sound despite never having seen them.

The banks resorted to these measures because, for hundreds of thousands of homes sold during the housing bubble, they and their collaborators never bothered to obtain documentation. This was partly attributable to the fact that the borrowers did not qualify for the mortgages they were conned into taking out, and partly because banks knew that the mortgages would be sold off to other investors, leaving none of the liability with the original issuer.

Even aside from the government subsidy, a portion of the losses from the write-downs will simply be passed on to pension funds and other investors who had nothing to do with the bankers' fraudulent actions.

"This was a relatively cheap resolution for the banks," Scott Simon, the head of the mortgage division at PIMCO, the world's largest bond trader, told Bloomberg News. "A lot of the principal reductions would have happened on their loans anyway, and they're using other people's money to pay for a ton of this. Pension funds, 401(k)s and mutual funds are going to pick up a lot of the load."

The Home Affordable Modification Program was

created in 2009 as part of the bank bailout, nominally aiming to prevent foreclosures by lowering borrowers' monthly payments.

The White House claimed that the program would keep four million people out of foreclosure. But so far only 750,000 homeowners have received permanent mortgage modifications. Of these, only 36,000 have had their principal lowered, with the vast majority of settlements leaving the amount that borrowers actually owe unchanged.

Barofsky, acting in his official capacity as inspector general for the bank bailout, last year called HAMP a "failure" whose results have been "nothing short of abysmal."

Since 2006, nearly seven million homes have been foreclosed, and another four million homeowners are "seriously delinquent," according to the Mortgage Bankers Association.

The plan to have the government subsidize the bank settlement would kill two birds with one stone. Obama could claim that his mortgage modification program has helped millions of people, and while publicly chastising the banks, let them get away scot-free with fraud and unlawfully evicting hundreds of thousands of homeowners.



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