

How to Stop Foreclosures? Debt Relief and a Moratorium

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It is Time For A Moratorium and Debt Relief as Government Aid Fails To Reach Those In Need.

Stung by the election of Scott Brown in Massachusetts and the abandonment of his health care initiative by members of Congress, and fearful of a political backlash President Obama may himself not be “too big to fail.” He has now “pivoted,” to use a favorite phrase from the pundits, and shifted his focus to trying to fix a still deteriorating economy.

He has gone from coddling the banks to turning on them with strong rhetoric that has financial stocks reeling, and progressives cheering. Analysts who have looked at the content of his new rules though say they are vague enough to dive a supertanker through. Another reform in name gesture but not in reality!

The administration is also floating new proposals to reenergize a foreclosure relief program that has brought little relief to beleaguered homeowners. More liberal terms for loan repayments are being introduced especially for those who have trouble paying their mortgages because they have lost jobs.

Today, default/delinquency/foreclosure rates continue to skyrocket and soon there will be more prime mortgages in arrears than subprime ones. More than 25% of all homes are now “under water.” Millions of more families are at risk. Foreclosures continue to rise.. The housing crisis at the center of the financial crisis has not been “fixed.”

What to do? Doing nothing is no longer an option.

This crisis will spill over into the political arena unless the Administration does a lot more than it is doing.

For nearly two years, I have been calling to modify loans, not foreclose on homes. The government said they would do it but their programs don't appear to be working because banks and real estate companies make more money foreclosing than making deals that keep homeowners under their roofs

The consequence: 14 million families—and we are talking millions of children too—forced into the streets or worse conditions.

The New York Times blamed the President's Making Home Affordable program for increasing the agony of homeowners.

“Since President Obama announced the program in February, it has lowered mortgage payments on a trial basis for hundreds of thousands of people but has largely failed to provide permanent relief. Critics increasingly argue that the program, Making Home Affordable, has raised false hopes among people who simply cannot afford their homes.”

Wrote a critic on the Atlantic: “Obama’s Making Home Affordable program is actually increasing the agony of homeowners, who pour money down the rat hole of their mortgage rather than recognizing the loss and starting over. In the meantime, the modification programs disguise the true condition of bank balance sheets (because modified mortgages are not yet non-performing mortgages), and slow down the process of recovery.

The Washington Post found, “The government’s foreclosure relief program is sputtering, according to government data showing that the pace of help being offered to struggling homeowners slowed last month and many borrowers are at risk of losing the aid they have already received.”

The LA Times went further, “Only 31,382 of more than 700,000 mortgage modifications under the federal program had been made permanent by the end of November...The numbers reinforced the bleak picture that Treasury Department officials painted last week when they said the number of permanent reductions was low. They unveiled new measures, including the threat of fines, to push mortgage servicers to improve their performance.”

When airport security doesn’t work, they junk it. It is time to do the same with programs that are not helping homeowners. These half-measures that are being so half-heartedly implemented are a cruel disgrace.

But if we are to solve this problem, we are going to need to press the Administration and the banks to recognize they must go further. To achieve that, we need to get back in the streets to push for what we really need: debt relief, and a moratorium on foreclosures..

Sounds radical? It isn’t There are precedents. The US government and even Republicans have backed debt forgiveness...in Africa.

There, our government and others agreed to debt forgiveness programs because it was clear that colonial powers had illegally shackled the newly independent states with an unsustainable debt burden. Those debts were imposed, suffocating unfair and illegal.

Recently, just before the earthquake, Haiti won a billion dollars in debt forgiveness and then promptly began to borrow money again. Haiti’s problems may mirror our own in another way with Presidential proclamations of “help on the way” undermined by poor or non-existent delivery.

There is a moral and legal case for going beyond existing programs.

In our country, millions of people were talked into taking bogus Subprime loans that lenders knew were deceptive. According to the FBI there was “an epidemic of mortgage fraud.” These loans were then securitized by Wall Street and sold worldwide with misrepresented values. Another fraud.

They were also insured by companies like AIG with shady insurance deals to guard against

the defaults they knew would follow. This was not just business as usual but, in part, a criminal enterprise. There are many foreclosure relief scams too. A lawyer in Orange County California was just charged with engineering 400 foreclosure modification frauds.

Compensating victims of predatory rip-offs is only fair. Human rights should come before property rights.

An Online Legal Dictionary reminds us that the government has powers to act that it is not using.

“As a function of its Police Power, a state may suspend contractual rights when public welfare, health, or safety are threatened. During the World War I housing shortage, some New York landlords raised rents to exorbitant levels and evicted tenants who failed to pay...

Some states went further imposing a debt moratorium. It happened in Minnesota during the depression when there was a sharp rise in foreclosures on farm property, “Fifty years later the Minnesota legislature responded again to public pressure to relieve farm debts by passing another Mortgage Moratorium Act (Minn. Stat. § 583.03 [Supp. 1983]).”

“In its view, the state had a right under its police power to declare an economic emergency,” says the writer Alex Abella, who contributes to the LA Times, “to safeguard the public and promote the general welfare of the people” which necessitated the drafting and implementing of the moratorium.

“Needless to say, financial interests — banks, loan holders — sued, losing both at the state and the federal level. When the case finally arrived at the U.S. Supreme Court, Chief Justice Charles Evans, in the case of Blaisdell versus Home Building & Loan Association upheld the constitutionality of the Moratorium as a “reasonable means to safeguard the economic structures upon which the good of all depend.”

If you believe as I do that there is an economic emergency underway effecting the most vulnerable among us, as foreclosures grow and poverty deepens, isn't it time to start demanding debt relief, not just temporary adjustments such as questionable mortgage modifications? If we can sanction other countries for violating laws, why not crooked banks and lenders?

Some may consider this demand unrealistic, but sometimes demanding the impossible is precisely what makes the possible more possible. Remember the lesson Dr. Martin Luther King taught us: “we never get change without demanding it. We never have and we never will.”

Danny Schechter, Mediachannel News Dissector, discusses these issues in his new book Crime of Our Time and a companion film.

See PlunderThecrimeofourtime.com. Comments to dissector@mediachannel.org

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