Obama's Next Big Housing Market Giveaway to the Bankster Mafia

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For those who missed President Obama's latest giveaway to the Bank Mafia, we'll repeat what he said here. This is an excerpt from his recent State of the Union Speech:

> "Part of our rebuilding effort must also involve our housing sector. Today, our housing market is finally healing from the collapse of 2007. Home prices are rising at the fastest pace in six years, home purchases are up nearly 50 percent, and construction is expanding again.
>
> But even with mortgage rates near a 50-year low, too many families with solid credit who want to buy a home are being rejected. Too many families who have never missed a payment and want to refinance are being told no. That's holding our entire economy back, and we need to fix it. Right now, there's a bill in this Congress that would give every responsible homeowner in America the chance to save $3,000 a year by refinancing at today's rates. Democrats and Republicans have supported it before. What are we waiting for? Take a vote, and send me that bill. Right now, overlapping regulations keep responsible young families from buying their first home. What's holding us back? Let's streamline the process, and help our economy grow."

First of all, whenever you hear a politician talk about "streamlining the process", run for cover. The term is a right-wing formulation that means "remove all the rules which inhibit profitmaking". Naturally, Wall Street's favorite son, President Hopium, is more than comfortable with the expression and uses it to great effect. But what are the rules that Obama wants to eliminate, that's the question?

Obama answers that himself when he says: "Too many families with solid credit who want to buy a home are being rejected."

This is pure baloney. Borrowers with good credit who can meet the standard down payment requirement (usually 10 percent) can secure financing without too much trouble. The problem is that the banks don't want to be limited to creditworthy applicants alone, because there aren't enough creditworthy applicants interested in buying a house. That's why they want Obama to loosen regulations on "government insured" mortgages so they can lend money to anyone they want knowing that Uncle Sam will pay the bill when the loans go belly-up. That is what this is all about; Obama wants congress to slap their seal of approval on a new regime of crappy loans that will eventually be dumped on US taxpayers. Here's the story from Bloomberg:

> "U.S. Realtors and mortgage bankers say they're hoping President Barack Obama's call for streamlining mortgage rules will lend new momentum to efforts to prevent imposing

a strict minimum down payment for home loans.

> … bankers and real estate agents …are angling for changes to a proposed regulation requiring lenders to keep a stake in risky loans say they hope Obama's comments will help their cause.
>
> At issue is the so-called Qualified Residential Mortgage rule, which six banking regulators including the Federal Deposit Insurance Corp. and the Federal Reserve are aiming to complete this year. The regulators drew protests in 2011 when they released a preliminary draft requiring lenders to keep a stake in mortgages with down payments of less than 20 percent and those issued to borrowers spending more than 36 percent of their income on debt…" (Housing Industry Pins Hopes on Obama to Soften Down-Payment Rule, Bloomberg)

Can you believe this hogwash? Regulators are asking the banks to retain a lousy 5% of the value on high-risk mortgages (so they can cover the losses in the event of another meltdown) and the stinking bankers are whining about it! Unbelievable. In other words, they're being asked to put some "skin in the game" so they can pay off defaulting loans when they blow up the financial system again, and they don't want to do it. The banks are fighting so-called "risk retention" tooth and nail, because they don't want to tie up their capital. Imagine if your insurance company ran its business the same way? So, then your house burns down, and the claims agent tells you, "Sorry, Mr Jones, we can't pay your claim because all our money is tied up in structured investment vehicles and dodgy debt instruments." Are you okay with that? But that's what the banks are doing, and they're doing it because they want to be leveraged "N"th-degree to maximize profits. Besides, they know from experience, that when the system goes down again, the USG will ride to the rescue and pay off their debts. So why hold capital?

Keep in mind, that the banks can lend whatever amount they want to whomever they want. No one is stopping them. But if they want the government to guarantee the loan (or if they want government financing), they have to follow certain rules. And the rules have to be clear because the banks have shown that they can't be trusted. Here's more from Bloomberg:

> "Housing industry participants want the regulators writing QRM to drop the down payment requirement and raise borrowers' allowable debt load to 43 percent, essentially setting the same requirements in both the QM and QRM rules." (Bloomberg)

This is so stupid it boggles the mind. "No, Mr Bankster, Uncle Sam will not guarantee your putrid loan if the applicant can't come up with a measly down payment or if his monthly payments exceed the standard 36 percent of income to debt." This is so tiresome. There's no point in putting people into loans that they can't repay. We tried that. It doesn't work.

Now ask yourself this: Why are the banks so adamantly opposed to what-they-call the "stringent down payment requirement"? Down payments have been SOP for decades. A 10 or 20 percent down is an indication that a borrower is responsible enough to set aside some of his income for the future, which reflects positively on his creditworthiness. It's also an indication that the borrower is not going to cut-and-run at the first sign that prices are falling. Stakeholders typically stay with the ship even after it's hit the iceberg, which helps to stabilize the market and prevent prices from falling off a cliff. The banks know this, which is why they typically demand a down payment on loans that are NOT guaranteed by the government. It's only when the government's on the hook for the loss that they don't give a rip.

Bloomberg again: "Groups including the Mortgage Bankers Association have been warning about the impact of rulemaking in an already tight market."

Now there's a surprise. So bankers hate rules and regulations? Really? And they also think its terrible that borrowers need to have decent credit scores to qualify for "government backed" loans? Will wonders never cease. Well they won't have to wait much longer, will they, because Obama has promised to loosen those "onerous" rules so they can get back to business and start fleecing people like the good old days.

Let's not kid ourselves, the banks have figured out what many analysts have known all along; that low rates, mortgage modifications, and massive private investment (speculation) are not going to be enough to reflate prices and generate another housing bubble. No way. It's going to take a total breakdown in lending standards so the banks can, once again, provide hundreds of thousands of dollars to anyone who can sit upright and scratch his John Hancock on a mortgage app. That's what it's going to take to erase the 30% loss in the value on the stockpile of garbage mortgages the banks still hold on their balance sheets.

Here's Obama again:

> "Too many families who have never missed a payment and want to refinance are being told no. That's holding our entire economy back, and we need to fix it. Right now, there's a bill in this Congress that would give every responsible homeowner in America the chance to save $3,000 a year by refinancing at today's rates. Democrats and Republicans have supported it before. What are we waiting for? Take a vote, and send me that bill."

So Obama doesn't just want to loosen regulations for new home buyers (No down payment, high debt-to-income ratio), he also wants to help refinance underwater homeowners who've been making their monthy payments regularly. But why? After all, the administration's aggressive mortgage modification program (HAMP) is already providing low-interest refis for people who are as much as 125% LTV (underwater) What's different about this program?

Ahh, that's where it gets interesting. Here's the scoop from Bloomberg:

> "The U.S. Treasury Department and members of Congress are preparing to move forward with plans to expand government-backed refinancing programs to underwater homeowners whose loans are packaged in private-label securities." ("U.S. Mortgage Refinancing Push Said to Advance in Congress", Bloomberg)

"Private label"? So now the USG is going to guarantee the mortgages the banks concocted in their boilerrooms that didn't even conform to standards that would allow them to be financed by Fannie and Freddie? That's what Obama is pushing for? Yeegads! Here's more from Bloomberg:

> "Senator Jeff Merkley, an Oregon Democrat, is drafting a bill modeled on a proposal he outlined last year to set up a federal trust to purchase or guarantee refinanced mortgages….

> The trust, as described in Merkley's earlier proposal, would provide relief to borrowers with privately owned loans and probably would be set up under the oversight of an existing housing agency. If Congress doesn't pass such a measure, the Treasury is drafting a plan to step in to pay for rate modifications for those homeowners." (Bloomberg)

What? So if Congress doesn't approve the bailout, then the Treasury will implement the plan anyway? Is that it? That doesn't sound very democratic.

Bloomberg again:

> "Under that option, the government would pay the difference between the new and original interest rates to the owners of the loans for five years. Investors in private-label securities have sometimes objected to mortgage modifications because of concerns their income could be reduced." (Bloomberg)

Wait a minute. Shouldn't the investors or the banks take the haircut instead of taxpayers? After all, whose fault is it that 5 million families have lost their homes to foreclosure since 2007 and 11 million homeowners are presently underwater? Not the taxpayer. Let the responsible parties bear the costs. That's the way the system is supposed to work, right?

And Merkley's proposal is just one two bills now awaiting congressional action. The other is the Boxer-Menendez bill which "promises lenders they won't be forced to absorb the loss on refinanced loans that default." (Bloomberg) Great. So, while the Boxer-Menendez bill will not refi loans that are not backed by Fannie Mae and Freddie Mac, (no "private label" loans) it will move (an estimated) one million high-risk mortgages off bank balance sheets and onto the public's ledger. This is how the free market capitalism works in the US today; all the profits go to Wall Street and all the red ink goes to Main Street.

Obama doesn't care if struggling homeowners get a break on their refis or not. It's all a joke. He's just helping his bank buddies cut their losses while they set the stage for their next big heist.

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