Stimulus Plan is a Scam to Benefit the Rich

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Higher loan limits will lead to Fannie Mae, Freddie Mac bailout

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Congress is about to sell us the biggest fraud in American history.

It's been highly touted as an economic stimulus bill that will help millions of Americans – and has the backing of both President Bush and House Speaker Nancy Pelosi. In the coming year, individuals would receive rebates of up to $600 and families up to $1,200. There are other goodies, too, including tax write-offs for small businesses and an expansion of the child tax credit.

But, as the old adage goes, nothing comes for free. As part of the bill, Congress is set to rush through an increase in the mortgage loan limits for Fannie Mae and Freddie Mac (and Federal Housing Administration insurance, too) – from $417,000 to $729,750 – the first step toward a massive financial disaster in which taxpayers will end up paying through the nose.

Here's how we got to this point. Domestic and international investors hold hundreds of billions of dollars in bad debt, because U.S. investment houses sold them junk securities based on often fraudulent mortgages. Many of these mortgages were sold to unqualified buyers under terms that made widespread foreclosures a certainty once the housing market began to fall.

Investment banks and bond rating agencies sat down and tried to figure out how to describe Americans with insufficient incomes and little for a down payment as great credit risks on loans too big for their incomes. The new rules focused on credit scores, because it was a good excuse to avoid looking at income and down payment, factors that would have restricted this moneymaking fiasco.

Now, thanks to Congress, junk bond investors will be able to pawn off their bad debt to Fannie and Freddie, instead of suing the big investment houses for ripping them off. This shift will certainly doom Fannie Mae and Freddie Mac, so don't be surprised if we, the taxpayers, have to bail out poor Fannie and Freddie – to the tune of more than $1 trillion.

Why more than $1 trillion? If Goldman Sachs is correct in its recent projections that home prices in California are going to drop 35 to 40 percent, the state's losses alone would top $2 trillion, because California has a disproportionate number of jumbo loans. The irony here is that the collapse in housing prices could make Fannie insolvent even without raising the loan limit. Increasing Fannie's limit is like going on a spending spree with your credit cards because you know you are going to file for bankruptcy in a few months. Only here the taxpayer is left holding the bag. Our children will pay interest on this debt in perpetuity. It is our debt. It is inescapable.

In the coming months, Fannie and Freddie will buy up mortgages based on old, fraudulent appraisals and on loans with bogus inflated incomes. Unfortunately, many of these loans will still default.

But that's just the start. Brace yourself for another wave of faxes, phone calls and junk mail urging you to refinance at only 1 percent. With zero new regulation, the same bad actors that caused this crisis can once again inflate property appraisals and begin a new cycle of fraud.

There are firms that rent assets to people to help them fraudulently qualify for a mortgage – like loaning them money to keep in their bank account for a couple months so they can fool the lender with documented savings that evaporate the day after the mortgage is signed. Another popular ruse: The borrower pays an employer to pay him a lot of money in a fake job for a month or two so he can show a fat paycheck in his loan docs. Some real estate agents and mortgage brokers actually refer buyers to these services.

Contrary to popular myth, Fannie holds a lot of subprime debt, option ARM debt and other dodgy securities. Fannie and Freddie owned or guaranteed almost 45 percent of all mortgages in America last year. BusinessWeek noted in 2007 that Fannie and Freddie have "moved more prominently into low-documentation loans, which require little or no proof of the borrower's income." Expansion of Fannie and Freddie's reckless lending is exactly what Congress wants because it's plausibly deniable. Teary-eyed lawmakers can take to the airwaves a year from now and declare: "We had no idea Fannie could go under, but we can't cut and run now. We have to bail out Fannie and Freddie for the good of America! It's going to be a tough slog, but you're getting used to those, no?"

Those same lawmakers won't mention the fact that they get paid far more by real estate lobbyists than they do from our Treasury.

I've spoken with borrowers who stopped making mortgage payments seven or more months ago. None has received a default notice. Defaults may be much higher than banks are letting on. The data lags are growing suspiciously long. Nobody knows what's going on. Seven months without making a single payment! Will Fannie guarantee those loans because they aren't in formal default yet? Nobody wants to know, because if they know, they might be called to testify next year. That's why lawmakers want to raise the limits now and ask questions later.

This shortsighted plan poses a terrible risk to every American taxpayer, especially retirees, because Social Security money will be needed to bail out Fannie and Freddie. And even if you live in high-priced San Francisco, Los Angeles or New York – and stand to benefit from the increased loan limit – this is a horrible fraud on you, too, because raising the limit to $730,000 risks a systemic crisis that will cost far more than any temporary rebate check.

In support of the economic stimulus bill, Bush will have to face "working American families" and explain that some of their tax money is going to be spent guaranteeing $730,000 mortgages on $1 million homes. It's like some sort of upside-down communism where the poor pay the rich welfare. Why should taxes from families earning $48,000 a year be used to support expensive mortgages in New York, Los Angeles and San Francisco? Welfare for the hungry and homeless is evil, but welfare for million-dollar homeowners facing a tough refi …

well, that's called "helping the economy."

I can imagine the president's radio address playing in the heartland: "We have some families with million-dollar homes on the coasts who are really hurting and so we need you, the working families of America, to stand together with them and help them avoid the kind of home price depreciation that might leave them without a new Lexus for years."

I guess Congress' hope is that median-income families will be too busy using their rebates to buy much-needed groceries to notice that the rich folk are getting way with a new scam.

Several months ago, economist Nouriel Roubini of New York University's Stern School of Business suggested that the housing market has been effectively nationalized. At first it seemed crazy, but now it's fairly obvious. In August alone, Fannie and Freddie increased their loan portfolios by $62 billion, and the Federal Home Loan Bank by $110 billion. That total of $172 billion would come to just over $2 trillion annually – not much less than the entire federal budget.

Everyone seeking a loan, securitizing a mortgage, and buying or selling a mortgage security will now be dealing, in one way or another, with the U.S. government. This type of intervention is very expensive and will eat everything in its path, including Social Security.

If we're going to have a government-financed intervention, it should be to make sure that Social Security benefits go to those who paid for them, that the poor are fed and housed, or that the army of uninsured receive health benefits. If, as they say, we don't have enough money for those important things, then I think we don't have enough money to bail out banks and bond investors.

Don't let me down, my fellow Americans. Let's vote out anyone who dares to vote for this scam.

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