China, which was used as part of the impeachment campaign against President Bill Clinton, lying that the Clinton Administration was illegally selling "sensitive" technology to China in exchange for campaign contributions—a campaign LaRouche described at the time as a "scientifically illiterate hoax."

But Cox has also made a name for himself as a defender of speculators. As a lawyer in California in the 1980s, specializing in venture capital, Cox was named in a lawsuit brought by investors for fraud. The plaintiffs accused Cox of misleading regulators and investors about the conditions of a real estate investment. Although he was ultimately dropped from that suit before his firm settled out of court, he admits that he learned from that experience to "sympathize with people who are victimized in these lawsuits."

This sympathy for speculators led Cox in 1995—by then a Congressman—to write the "Private Securities Litigation Reform Act," which restricted the ability of clients to sue their brokers for securities fraud. As part of the "Gingrich Revolution" after the 1994 mid-term election—the "Contract on America"—Cox's bill became the only legislation to become law over a veto by President Clinton. (Cox's callous view of investors who get swindled by speculators did not hold him back from demanding a government bailout when his own Orange County, California, went bankrupt as a result of bad derivatives investments!)

Wall Street greeted the appointment of Cox with delight. Henry Manne, the Dean of the George Mason University Law School, was given the lead op-ed in the June 6 *Wall Street Journal* to hail the hedge funds as those "powerful institutions which have sprung up on their own as a new and competitive technique for getting investors' money into productive [sic] use without the baleful cost of deadweight regulations."

Manne identified the broader target in going after Donaldson and the SEC: the entire Franklin Roosevelt legacy of public investment, regulation, and the defense of the general welfare. Manne denounced Roosevelt's New Deal policies, describing the SEC as one of the "various alphabet agencies that sprang up during the New Deal era. These agencies were designed to—and did, in fact—protect the chosen industries from competition, a sort of legalized cartel arrangement that also misled the public into believing that these agencies were really about consumer or investor protection."

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Real Estate Bubble Brings 'Depression' Foreclosures

by Michele Steinberg

One of the great nightmares of the 1930's Great Depression—sheriff's sales and home foreclosures—has returned to the United States with a vengeance, while George W. Bush touts his "ownership society," and brags that the number of new homeowners is the highest in American history. Indeed, the National Association of Realtors reported that in April 2005, the sales of existing homes reached an all-time record—but, so did the number of foreclosures. According to RealtyTrac(R), which publishes a monthly report on foreclosures, the April number hit a new high, rising 2.6% over March, which had itself increased 17% over February.

On May 30, the *Washington Post* reported that there are fears of "Depression-era" numbers of foreclosures in Pennsylvania, where a report by the Pennsylvania Banking Department ("Losing the American Dream: A Report on Residential Mortgage Foreclosures and Abusive Lending Practices in Pennsylvania") was released in March. That study was prompted by the concern that Pennsylvania was ninth in the nation in the number of foreclosures in 2003, and fourth in the category of "subprime" loans—the high-interest, high-risk loans that go to lower-income borrowers.

But the pattern is broader. On June 2, former U.S. Labor Secretary, Robert B. Reich, wrote in the American Prospect Online, that "Banks are engaged in an orgy of risky mortgage lending. . . . More than half of all new mortgages are either interest-only loans with no down payments or adjustable rate mortgages, whose monthly payments will rise. . . ." It is not a good economic sign, observed Reich, when homeowners are willing to pay a high price just because they think somebody else will pay more.

The usurious looting process known as subprime loans is rising rapidly; there were $20 billion worth of these loans in 1993, but they rose to more than $330 billion in 2003. These loans, extended to lower-income Americans with little or no assets and unsteady credit, have rates that are 50-100% above prime loans.

Pennsylvania is the only state in the union which has a program to save homes, known as the Homeowners Emergency Mortgage Assistance Program (HEMAP). But it is unable to protect its citizens because of Federal banking deregulation, going back to the 1980s. Nonetheless, because of HEMAP, Pennsylvania was able to correlate foreclosures with economic factors: More than 40% of those applying for HEMAP assistance cited health-care costs as the reason they

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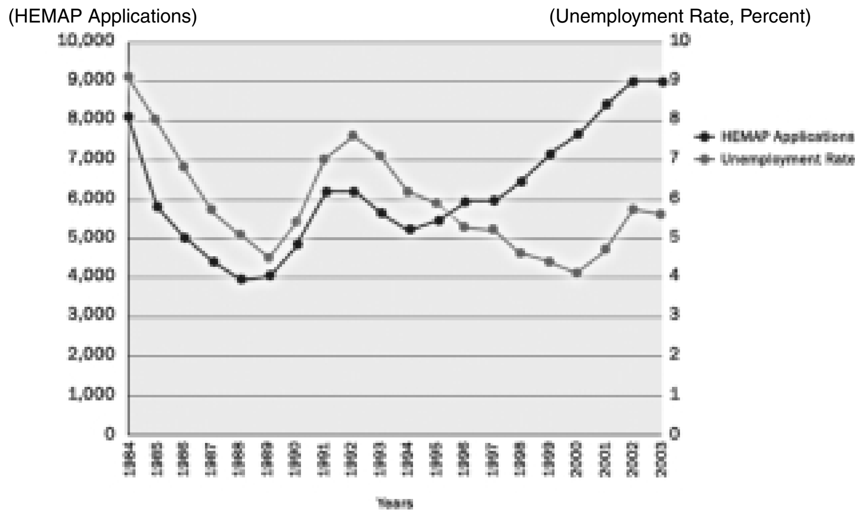
FIGURE 1
Pennsylvania: Foreclosure Distress Rate Went Up with Unemployment, Then Kept Rising



Source: Pennsylvania Report on Residential Mortgage Foreclosures, 2005.

were losing their homes. Unemployment and underemployment were another major reason for the catastrophic threat of foreclosure.

The study also found that even though unemployment rates were being reported as having dropped after 1995, the number of foreclosures did not correspondingly fall (see **Figure 1**). Homeowners had simply gone too far into debt.

Deregulation Loots Home Buyers

"The United States has a 'dual' banking system," of both Federal and State banking laws, says the report. When Federal deregulation occurred in the 1990s, the states no longer could protect borrowers. "All Federally-chartered banks *and their subsidiaries* are exempt from state licensing and consumer protection laws." Until deregulation, Pennsylvania, like other states, could limit interest rates, closing fees, and other mortgage practices. Now, there is no protection the state can give. Federal laws allow nationally chartered banks and their subsidiaries, and even some out-of-state banks, to set their own mortgage terms even if they violate state laws.

The Pennsylvania report was triggered in part by a April 2001 series of articles in the *Pocono Record* newspaper, which began after foreclosures in Monroe County, Pennsylvania, had risen way above the national average. The *Record* exposed shady lending and real estate schemes used to attract lower-income "suckers" to buy homes they couldn't afford, at inflated appraisal values, and then have the homes foreclosed on, only to be sold again. Monroe County is due west of New York City, and the scheme was designed to attract African-American and Hispanic home buyers, with a pitch that played upon their desire to move their children out of high-crime areas. Monroe County builders even produced a sales video that began with a 90-second montage of shootings, muggings, and gangs, counterposed to the lure of the peaceful, semirural Pocono mountains.

According to the *Record* series, "A bank extends a mortgage loan based on a home's appraisal. If the prospective home buyer doesn't have enough income to support the big mortgage, sometimes phantom secondary financing is set up to convince a bank that the customer can carry the load." (Phony appraisals were a key part of the plan.) Some home buyers were given a subsidy of $500 per month for the first year by the building company, which also arranged the mortgage, in order to make the payments affordable. But after a year, the homeowner is left high and dry, after being promised that refinancing would be easy if there were any future problems.

Hugh Robinson, an African-American, is one Monroe County victim. The *Record* reported in 2001: "Robinson had lost his job as a truck mechanic and decided to sell his home. . . . When he called in a local real estate agent, he received the shock of his life: His four-bedroom colonial home was worth $80,000 on the resale market, only 44 percent of the $183,750 he paid for the new home a year before." He told the *Record,* "I'm going to lose everything. . . . How could this happen to me?"

It didn't happen just to him; the Pennsylvania Banking Department report found subprime abuses in 13 other Pennsylvania counties. In Philadelphia, when foreclosures hit a record in early 2004, Sheriff John Green initiated a moratorium on all foreclosure sales for March 2004, the first time such an action had been taken in 20 years. But the moratorium only slowed down the foreclosures; it did not stop them.

Subprime lenders include some of America's biggest banks, such as Chase Manhattan and Citigroup Finances. The Pennsylvania report shows that subprime loans prey especially on poor people, African-Americans, and the elderly. The borrowers are tricked with offers too good to pass up, such as "interest-only" loans, where the payments remain low for a period of time, and then skyrocket; and by procedures like "property flipping," where the original mortgage is refinanced several times, whenever the borrower is about to default or has missed payments. Each time, the shortfall in payments is added into the next mortgage.