EIR Testifies on LaRouche's HBPA Solution to Crisis

by Anita Gallagher

An extraordinary hearing of the Pennsylvania Legislature's House Intergovernmental Affairs Committee on Nov. 29 examined Lyndon LaRouche's Homeowners and Bank Protection Act of 2007 (HBPA), which, as two *EIR* experts testified, is the only solution to the financial meltdown, now occurring, with housing as its trigger. The Pennsylvania legislation, House Resolution 418, calls on the U.S. Congress to enact the HBPA to put a "firewall" between the homeowners and legitimate banks on the one side, and the institutions that created mortgage-backed securities for speculation. (See "Pennsylvania Breakthrough on LaRouche's Firewall Bill," *EIR* Dec. 7, 2007.)

At the conclusion of the three-hour, high-content session, Committee chair Rep. Curtis Thomas (D-Phila.) announced, "We will move this resolution," and individual members of the committee told *EIR* that this was their intention. Rep. Harold James (D-Phila.), HR 418's prime sponsor, has drafted a letter to the Pennsylvania Congressional delegation, urging them to make it Federal law.

In the short period since the hearing, *EIR* founder Lyndon LaRouche has been proven right, that the United States and the entire world faces an accelerating financial disintegration, because of the speculative bubble pumped up for 20 years by Alan Greenspan. On Dec. 3, U.S. Treasury Secretary Henry Paulson called for a partial mortgage interest-rate "freeze" and mortgage refinancing by lenders—a "King Canute" plan, in fact, calling on the tidal wave of foreclosures to voluntarily recede (see box)—most importantly, to stop the U.S. Congress from acting for the General Welfare, as it did in passing Franklin Roosvelt's homeowners' protection legislation in 1933. Democratic Presidential candidate Sen. Hillary Clinton (N.Y.) had already written an open letter to Paulson, which was posted on her campaign website Dec. 1, demanding that he put a freeze on foreclosures, or else, she would introduce legislation to do so herself.

So, reality has settled the question: Millions of U.S. families are, and will be, foreclosed, and governments, at all levels, are now forced to acknowledge and respond to that reality. But, the equally vital second part of the LaRouche-authored legislation—to keep state and Federally chartered banks open—has not been addressed at all.

That firewall must be erected immediately, between useful banks, and parasitical speculative institutions, as the exploding banking crisis is now threatening the real economy. For example, the Florida State Loan Fund, a short-term account in which its municipalities keep funds, blocked all withdrawals on Nov. 29, after $12 million of the Fund's $27 million capital was yanked out. The Fund had invested in SIVs (structured investment vehicles), which had been downgraded. This sent half a dozen counties scurrying for short-term loans to meet teacher payrolls on Nov. 30. The SIVs, invested in mortgage-backed securities (MBS) of the most exotic sort, are behind Citibank's $20 billion-plus writeoff, its 45,000 layoffs, as well as the bank earthquakes of the *Landesbanken* (state-chartered banks) in Germany, Paribas, the largest bank in France, as well as the insolvency in Florida.

At this legislative hearing, Pennsylvania became the first state in America to take up the solution.

Pennsylvania Should Lead the Congress

Nine members of the Intergovernmental Affairs Committee, including six Democrats, attended the hearing. Representative James, the initiator of HR 418, spoke first, calling on "the Commonwealth of Pennsylvania and our Congressional delegation to take national leadership, in the Spirit of 1776."

Then James laid out both sides of the problem to the Committee: "We are witnessing the collapse of a financial bubble of tens of trillions of dollars of mortgages, mortgage-backed

EIR*'s Richard Freeman (left) and Paul Gallagher (center) testified at historic hearings of the Intergovernmental Affairs Committee of the Pennsylvania legislature Nov. 29, on the urgency of enacting Lyndon LaRouche's Homeowners and Bank Protection Act (HBPA). Sitting behind them is Berks County Judge Jeffrey Sprecher, who also testified.*

securities, and financial derivatives.... [The intention of HR 418 is] to stop the bailout of speculators, hedge funds, and inflated financial securities, while at the same time keeping the doors open of the state and Federal chartered banks, especially our local community banks....." The nation needs to "freeze the foreclosure process" because the crisis is "too big to handle on a state by state, or case by case basis."

James also told the Committee, "[T]he Pennsylvania Congressional delegation has an overwhelming mandate for action in this crisis." Besides 40-plus bipartisan sponsors for HR 418, 12 City Councils in the state have passed the resolution, including New Castle, Johnstown, Erie, Ellwood City, Monessen, West Mifflin, Berwick, Canonsburg, Sunbury, and the two largest cities and foreclosure hotspots in the state, Philadelphia and Pittsburgh. The City Council of Newark, New Jersey, the largest city in that state, has also passed the resolution.

Rep. Bill Kortz (D-Allegheny) asked James about HR 418's provision that "monthly payments," the equivalent of rent, would be paid to local banks, and whether James had a certain percentage in mind. The legislation envisages that a state-delegated office will set fair rent values for an interim period, until overvalued home prices come down.

The entire hearing, including this exchange, is reported in a four-page detailed summary in *The Pennsylvania Letter*, a publication of Pennsylvania Legislative Services, which goes to the entire legislature, and to hundreds of lobbyists, business associations, and others, by subscription. The hearing was also broadcast on the state cable television network.

Following the testimony of James, Steve Kaplan, secretary of the Pennsylvania Department of Banking, brought the committee back to lower-level non-solutions, such as telephone help lines and "plain language" summaries of mortgage contracts.

'Trying To Wrap My Mind Around This'

Those attending the hearing were visibily shocked when *EIR* Economics co-editor Paul Gallagher next outlined the stark dimensions of the real crisis: "A bubble unlike anything in the history of the United States and world economy ... $20 trillion in new mortgage debt and mortgage-backed securities issued since 2001." Home prices are now declining rapidly, by perhaps 20%, or even more. This is uncharted territory, Gallagher said, which will put many mortgages "upside down," where homeowners have negative equity, and thus no way out but foreclosure. Congress must act on the HBPA, but, so far, it has done nothing to address the real crisis.

The ranking Republican, Rep. David Steil (Bucks), began pressing Gallagher on what it meant to freeze all mortgages. The answer is that all mortgages are in danger, and all require implicit and automatic protection if and when it is required. Asked by Steil, what percentage of assets at major banks are represented by anticipated subprime loan losses, Gallagher replied that as a percentage of assets, it is a small amount, but as a percentage of their regulatory capital, it's capable of "wiping it out." Rep. Mark Cohen (D-Phila.) asked, what led to the run-up in home prices? Gallagher said it came from investment capital all over the world, and those mortgages were used as leverage to create other securities. Rep. Scott Perry (R-York), said, "I'm trying to wrap my mind around what you are saying." Would freezing the mortgage market help to prop up financial [i.e., speculative—ed.] institutions like Countrywide? There would be no bailout for them, said Gallagher, because they are not chartered banks.

EIR's Richard Freeman next described how President Franklin Roosevelt handled the mortgage crisis in the 1930s Depression. Freeman destroyed the three arguments most often voiced against the HBPA: 1) that it has never been done before; 2) that it violates the law; and 3) that it is a scheme to bail out the banks. Freeman showed that it parallels what FDR sent to Congress, and Congress passed on April 13, 1933; that freezes on foreclosures were upheld at the state level, and

Pennsylvania State Rep. Harold James (D-Phila.), who introduced HR 418, which calls on Congress to enact the HPBA, urged "the Commonwealth of Pennsylvania and our Congressional delegation to take national leadership, in the Spirit of 1776."

even ultimately by the anti-FDR Supreme Court; and that the HBPA stops a bailout of speculators with its firewall.

State Bonds Would Help Only 300 Families!

To drive the discussion of the financial issue, Committee chair Thomas called on Brian Hudson, executive director of the Pennsylvania Housing and Finance Agency, to testify ahead of his scheduled slot. His organization is the state's leading finance organization for affordable homes and rental units. Hudson said the PHFA has two programs to help subprime homeowners in trouble: one to transfer those with exotic mortgages into fixed 30-year loans; and the second, a loan program aimed at those who cannot afford their mortgages. In an exchange with Rep. Steve Samuelson (D-Northampton), Hudson said if his agency sold $100-125 million in taxable bonds, PHFA would, as a conservative estimate, only be able to help 250-300 families a year! This shows why only a Federal, blanket approach will work.

Next, Harrisburg City Councilwoman and LOVESHIP, Inc., (a housing counseling service) founder Linda Thompson testified that the number of those seeking help has quadrupled in the second and third quarters of 2007. She stressed that keeping people in their homes is key to the survival of their communities.

The final witness was Judge Jeffrey Sprecher, of the Berks County Court of Common Pleas. In October, Sprecher had frozen foreclosures of 800 plaintiffs in Berks County, and required them to pay a monthly "rent" payment, which would be released to the mortgage companies as long as no foreclosure action was taken.

Written testimony was submitted by Congressman Paul Kanjorski (D-Pa.), which did not endorse HR 418, and by HBPA opponent Daniel Reisteter, for the Pennsylvania Bankers Association.

Testimony on Pennsylvania HR 418

Paul Gallagher: Threat of An Unstoppable Collapse

Gallagher is the Economics co-editor for EIR.

1. What the United States faces now is not a "housing crisis," but a dollar crash and a banking crisis. . . . HR 418 supports an emergency legislative action which could be called "the first firewall" to protect the people and the real economy, from an unstoppable collapse of vast mountains of mortgage-asset-based debts. . . .

You see that in a sudden eruption after 2001, some $14 trillion in new mortgage debt was issued in a few years in the United States. . . . On top of this, some $7 trillion in mortgage-backed securities were issued in the same few years—a mortgage debt bubble, thus, of over $20 trillion . . . driving a stupendous escalation of the price of homes. . . . Mortgage-backed debts have been used as "assets" to generate much more leveraged debts by hedge funds, private equity funds, money-center banks.

Now, housing economists such as Dr. Robert Shiller have told the Joint Economic Committee that home prices—we cannot say "home values," but home prices—are in the process of declining rapidly by perhaps 20%, perhaps more. This is uncharted territory. One study by First American Core Logic found that with just the first 10% drop in median home price, 25% of mortgages originated in 2005, and 39% of those originated in 2006, go "upside-down," wherein their mortgage debt is greater than the sale price of their home. This process drives both mass foreclosures and massive bank losses.

2. That foreclosures must be stopped by legislative action, is becoming very clear. Nearly half a million homeowners will have lost their homes to foreclosure actions during 2007. The prospect in 2008 is much worse: Nearly 2 million adjustable rate mortgages will reset to higher rates.

You are meeting here, in part, because no Congressional action has been taken to stop foreclosures. The "great hope" of Fannie Mae and Freddie Mac expanding dramatically to buy up and refinance subprime mortgages, has been proven a delusion. . . .

What remains urgent, is for Congress to stop foreclosures by law—by a national mortgage foreclosure holiday during the mortgage/price collapse; a state determination of fair-market rent equivalents to be paid to participating banks by homeowners with problem mortgages; and Federal protection