

DAILY NEWS



Buck Obama's bad bank deal

While most attention is focused on a drawn-out debt crisis in Washington and spasmodic demonstrations in several cities, the most important economic and political battle of the period is being played out largely under the radar.

This struggle pits the White House and a set of attorneys general who want a quick and limited settlement with the major banks over their conduct during the foreclosure crisis against another set of attorneys general, led by Eric Schneiderman of New York and Beau Biden of Delaware, who are pushing for more in-depth investigations and a much larger financial commitment to address the damage done to American homeowners.

A frantic binge of home-peddling and home-buying – fueled by banks that eagerly provided loans to people who often placed no money down, had low or no steady income and no hope of keeping pace with payments that soared once their adjustable rate mortgages kicked in – led to an inevitable crash in 2008. Millions of Americans have already lost their homes. And millions more are in danger of losing them today.

No major bank has been held accountable for its actions. If the White House and its handpicked attorneys general get their way, there will be a settlement any day

BE OUR GUEST
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now, and it will be a real turkey. Though the agreement is technically only about a small, related issue called “robo-signing” – a technical process by which banks foreclosed on thousands of homes, which turns out to be totally invalid – it would protect banks from legal liability on a wide range of other practices.

So what happens here actually gets to the heart of how the crash happened and who is responsible.

The feds are pushing for a deal that would result in the banks putting up \$20 billion – about \$3.5 to \$5 billion in cash and the rest in “credits,” whatever that means. It will only affect 5% of the nation’s distressed mortgages. And it won’t come close to addressing the two major lessons of a crisis still crippling our country.

The first lesson is what happens when institutions amass so much power that they become unaccountable. Schneiderman and Biden have spent seven months conducting a serious investigation into the actions of the major banks and simply want a few more months to finish their work properly. They are uniquely positioned for this role, since almost every single mortgage is-

sued in America is held in a trust incorporated in either New York or Delaware.

One reason the banks want a quick settlement is to avoid the scrutiny that Schneiderman and Biden will bring to bear on them. Federal fraud prosecutions of financial institutions are at a 20-year low under this administration – lower than under Bush I, Clinton or Bush II, according to records obtained by the Transactional Records Access Clearinghouse. The actual number of prosecutions in 2011 will end up being less than half the level of a decade ago. The banks don’t want state attorneys general filling the vacuum created by federal officials.

The second lesson is that the only way out of this crisis is to wipe out a significant portion of the negative equity – estimated at \$750 billion – by reducing the principal on many mortgages. There is no way that the principal of every mortgage can, or should be, reduced. Some are mortgages on McMansions, or on second or third or fourth homes or on speculative purchases by home-buying hustlers.

But we believe that the amount of money needed to lift the majority of honest home buyers who were abused by irresponsible banks is at least \$250 billion. Before

people gasp, they should recall that the tobacco settlement of more than a decade ago, also initiated by courageous attorneys general, was for \$206 billion.

This \$250 billion in principal reduction should be seen as a stimulus program for middle America. It will enable millions of families to remain in their homes. It will make a trip to Lowe’s or Home Depot for home improvement projects possible again. It will enable those who want to sell their homes to do so, thus reenergizing the

Let Biden and Schneiderman pursue the culprits

moribund real estate market. And in the long run, it will even be good for the banks because it will put a significant price tag on monopolistic and abusive practices and make bankers think twice before they indulge in them again.

The White House wants a quick settlement so that it can put this crisis behind it and focus on what will surely prove to be a difficult national presidential campaign. The banks want a quick settlement because they can hear the footsteps of the attorneys general catching up with them.

We need to slow down, take a deep breath and let Schneiderman and Biden do their patient, vital work.

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