San Francisco Chronicle | SUNDAY, SEPTEMBER 14, 2008 | sfgate.com/opinion string appreciation with the different appraisal system Some lawmakers may he hank, know just how to deel with ing deleting these effective provisions id instead adding a meaningless reappraisers have more educat be we could imperprint them? s long as it is irrelevant, but somais

HOW THE HOUSING RESCUE BILL IS HELPING BANKS. NOT TAXPAYERS

BY SEAN OLENDER

This is the complicated story of how Congress' recent \$300 billion housing bill is a theft of taxpayer money.

To understand how it works, you must first put yourself in the shoes of Bank of America, Countrywide Financial, or any of the many U.S. banks facing big losses on delinquent mortgages. If you are a bank, you probably make loans to people to buy homes. You give the borrower money, and the borrower gives you a signed promise to repay - a mortgage - which is secured by the house.

Over the past five years, you got to sell a lot of your mortgages to Wall Street banks that then sold them to international investors. Wall Street paid you well for those mortgages. Because you didn't think you'd get stuck with them on your books, you started loaning anything to anyone.

▶ Continued on Page G2

VOICES OF THE WEST 5 • DEBRA SAUNDERS 6 • JOEL BRINKLEY 8 • GALLERY 9 • CHRON QUIZ 8 • EDITORIAL 10 • LETTERS 11

WHAT WOMEN THINK

www.blogher.com

The naming of Alaska Gov. Sarah Palin as the GOP vice presidential nominee has unleashed a flood of commentary - much of it from women. It's as if suddenly the political world woke up to the fact that female views draw on a different world experience than those of men, and now those views have political clout. BlogHer, an online community begun in 2005, is a collection of blogs by women on more than 20 topics, including female advancement in the political sphere.

BlogHer offers women a forum for their ideas, a place to learn about blogging, and a guide to blogs.

UPSHOT: The site offers female bloggers a friendly place to share, discuss ideas and create opportunities on blogs to convert them to actions: a do-ocracy, as the site explains.

subject matter: Female blogging and social media. It addresses: Why blog? What are your blogging goals? Is it for personal development or professional development, or to move yourself to a new career? How can personal change lead to global change?

TONE: Friendly, if maybe a tad promotional.

INTERACTIVITY: The site sponsors an annual conference to link up female bloggers in person and is hosting a two-week tour to six cities between now and the end of October.

WHO DOES IT: Lisa Stone, Elisa Camahort Page and Jory Des Jardins. Stone was the first Internet journalist awarded a Nieman Fellowship by Harvard University. Page is a former high-tech marketing executive. Des Jardins is a media strategist who helped with blog syndication.

REVIEWED BY: Lois Kazakoff, deputy editorial page editor. E-mail her at lkazakoff@sfchronicle.com.

THE GREAT SWINDLE IN U.S. HOUSING BILL

From Page G1

But as the housing market's parabolic ascent stalled, you got stuck with a lot of mortgages you hadn't yet sold to Wall Street banks. And some Wall Street banks and investors may have forced you to buy back other mortgages, sticking you with hundreds of billions in bad debt. You also know that some of the mortgages that were sold to investors are packed with lies about the appraised value, the borrower's income and other information that may allow investors to force you to buy them back after foreclosure.

You've wisely been dragging your feet on sending out delinquency and foreclosure notices. Foreclosures are recorded on your books, and you're expecting a government bailout, so you are waiting sometimes more than a year to initiate foreclosure proceedings. You don't even know if some of these folks are living in their homes anymore.

You have a lot of friends in Congress. You paid them a lot of money to be your friends. But you know that if they start talking about passing a law that will give you a lot of taxpayer money to make up for your losses, voters might get angry and scare the representatives, who then may refuse to vote for your bill because they're worried about getting voted out of office.

What to do?

You can try to write a bill that is a bailout, but is disguised to appear to not be a bailout, something I call reverse legislating. You can make it look like you are taking a significant loss on the mortgage and that you are helping people keep their homes, but in reality job one is to unload toxic waste on the taxpayer.

After thinking a while, you get an idea: Write the bill so that you reduce the principal of the mortgage to 90 percent of the current appraised value (this gives the homeowner 10 percent equity, the taxpayer a 10 percent cushion against losses and relieves the homeowner from having to scrape together even

\$10 for a down payment on the new loan). This all makes it look like you are taking a big "haircut" by writing down the loan principal.

Better yet, include a provision that requires borrowers to share half the future appreciation with the government, creating the ridiculous image that there will be appreciation above the appraised value in the next 10 years. But you know that's impossible. You know that because you're the one who picks the appraiser.

You learned during the boom that appraisers are chosen by mortgage brokers, real estate agents, and sometimes banks. Appraisers who don't "hit the number" by appraising the house for the amount needed to close the deal don't get called back and have to get a job doing something else.

A red herring

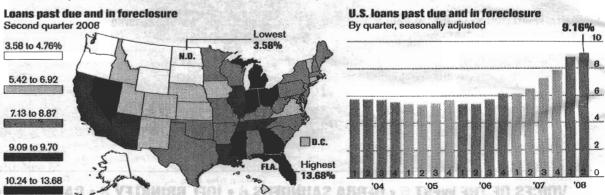
Some idiot might suggest the creation of a radically different appraisal system. Some lawmakers may suggest that FHA or HUD select the appraiser, that the bill institute civil money penalties, or criminal penalties for improperly influencing appraisals. But you, the bank, know just how to deal with that — with a red herring, of course.

How about deleting these effective provisions from the bill and instead adding a meaningless requirement that appraisers have more education hours? Or maybe we could fingerprint them? It doesn't matter as long as it is irrelevant, but sounds relevant to a voter.

You write into the bill, of course, that only loans you choose can be refinanced in the federal assistance program. Desperate borrowers who can't afford their current mortgage payment and would benefit from this bill aren't entitled to the federal refinancing assistance without you choosing them. You coach your lawmakers to use the word "voluntary" a lot because people generally think that things that are voluntary are good. But the point is that nobody gets refinancing help unless you say Continued on next page

Late home loans are on the rise

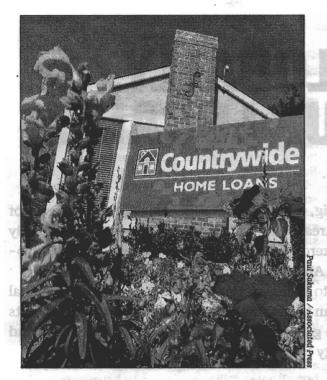
Loans either past due or in foreclosure in the U.S. rose to 9.16 percent in the second quarter.



Source: Mortgage Bankers Association

Associated Press





Continued from previous page

it's OK.

Choosing the worst Course of the velocity

Which homeowners are you going to allow into this refinancing program? The worst you can find. Not ones merely having trouble repaying. You're going to start with ones who stopped making payments six months ago who will walk away regardless, or better yet who have already walked away and you just haven't foreclosed on yet. You're going to track them down and you may even have to pay them to sign the documents.

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ster its locavelt cred

If it gets too dirty, you can outsource it to any of thousands of mortgage brokers who've probably been living in their cars for the past year. You can pay big commissions and fees to create a powerful demand to close those deals without you having to get your hands dirty in the details. People who abandoned their homes or who still live there, but haven't made a payment in months, or a year, will sign anything you like if you give them \$5,000, or pay the mortgage brokers enough so they can afford to buy the borrower's cooperation. The borrowers, after all, are on the hook for nothing whether they sign or not. The borrower would be wise to sign in exchange for some cash.

So that's how you do it: You, the bank, get rid of your most dubious mortgages by, in effect, transferring them to the federal program — and letting the taxpayers foot the bill.

On June 20, the National Review broke the story that Bank of America had essentially written the FHA bank bailout bill and posted Bank of America's "confidential" proposal on its Web site. The FHA bill is identical in almost all respects. That alone should tell taxpayers all they need to know.

I optimistically predict that within 12 months, half of these refinanced loans will result in default.

"If we had these higher-cost loan limits four years ago, buyers would not have had to go to the subprime market and would have been able to get an FHA loan," said William E. Brown, president of the

California Association of Realtors.

But in reality, real estate agents and mortgage brokers steered lots of people into subprime loans with time-delayed, exploding interest rates, because they got paid kickbacks from the lender. The banks paid them extra money – sometimes \$20,000 or \$30,000 – to take a borrower with a good credit score and put the person into a bad loan with a teaser intro rate that exploded into a 12 percent monster later and included a prepayment penalty.

Why would the banks do this? Because it makes more money for them. Fully 60 percent of subprime borrowers qualified for a lower rate and better loan terms than they were given. Their mortgage brokers and real estate agents never told them they qualified for better. If they did, the borrowers would have gotten better.

Bloated inventory

Recent reports indicate that existing home sales have increased more than expected. Buried deeper was the fact that existing home inventory ballooned to 11.2 months. The record inventory of 11.5 months was reached in 1982. Optimistic economists suggest that an additional 10 percent drop in home prices is coming, while the doomsday crowd claims housing will suffer an additional 20 to 30 percent fall. Nobody knows, because a housing bust this big has never happened before. But inventory doesn't get this large unless sellers are way too high on price. Coming price declines will also sap taxpayer money on these bad loans.

And \$300 billion isn't enough. In the same bill, Congress gave the Treasury Department authority to hand limitless taxpayer money to Fannie and Freddie, which can use it to buy mortgage bonds from irritable banks. After finding Fannie and Freddie in bad shape, Treasury Secretary Henry Paulson will allow them to expand their portfolios by \$200 billion, like a credit card shopping spree six months before you plan to go bankrupt.

Once again, Congress has delivered the goods to its banker bosses. No lawmaker voted on specific terms for a Fannie and Freddie bailout, because precise terms are the things that get legislators voted out of office. Instead, Congress gave an arguably unconstitutional spending power to the Treasury Department, which is buying worthless mortgage bonds with our tax money. This is how to deliver \$500 billion to the banks without leaving finger-prints. It is the art of postmodern democratic oligarchy.

A crazy rationale

Most surreal is the ceaselessly repeated rationale for all this bailing: If we don't give these banks your tax money, they won't be able to lend it to you. And without credit, you're all screwed. Let me get that straight. If we don't give banks our tax money, we will be in dire straits because they won't be able to lend us that money.

Before anyone writes about my wild conspiracy theories suggesting it's laughable and ridiculous that banks would try to offload worthless loans onto a third party by working with mortgage brokers and appraisers to get fraudulent appraisals and false borrower income information, isn't that rather clearly and exactly how we got into this situation?

Sean Olender is Bay Area attorney and writer. Contact us at insight@sfchronicle.com.



HORSE RACE COVERAGE

Editor - My complaint about The Chronicle election coverage has nothing to do with accusations of favoritism toward one or another candidate. It is instead that the coverage is almost exclusively about the "horse race" aspects of the campaign: marketing and branding strategies, who's ahead this week, polls, voting trends, tabloid-type gossip, what various "experts" think about competing television ads of the candidates. I cite as examples recent campaign "reporting" by Carla Marinucci and Carolyn Lockhead.

There is virtually no focus on substance or issues little critical examination of voting records, corporate and lobbyist connections, advisers and real issues, or programs and candidates of third parties. This type of inquiry is found only occasionally in opinion pieces, not in reporting.

HARVEY ROBB San Francisco

A NEW LOW

Editor — While it is difficult to overestimate the left-leaning bias and hypocrisy of your newspaper, your editorial cartoonist Tom Meyer has struck a new low with his demeaning portrayal on Sept. 3 of Sarah Palin as a mom struggling to learn basic geography while surrounded by playing children.

As a father whose working wife has done a great job raising our daughter, I find Mr. Meyer ignorant and sexist to suggest that working women with children are somehow intellectually challenged. Perhaps Mr. Meyer could substitute the face of a working mother employed at The Chronicle in his cartoon and post it prominently in your paper's break room. I know of several good attorneys who can help defend The Chronicle against the inevitable sexual harassment lawsuit.

RON BISSINGER Pleasanton