REVIEW & OUTLOOK | FEBRUARY 10, 2012

$25 Billion Bank Job

The Barker Gang would have loved this housing caper.

Obama Administration officials and various state Attorneys General looked gleeful yesterday announcing a $25 billion settlement with five big tobacco—er, *banks*—and why not? The bankers coughed up shareholder money to settle a pseudo-foreclosure scandal, while the White House moved closer to its political goal of guaranteeing every home mortgage.

Rarely have so many politicians cashed in so blatantly on so little wrong-doing. In 2010, a group of AGs led by Iowa's Tom Miller spotted political gold in reports that some bank employees had approved legal documents without proper review. They quickly spun this into the fairy tale that evil banks were kicking borrowers out of their homes for no good reason. Former Ohio Attorney General Richard Cordray, who parlayed his scare campaign into a job running the new Consumer Financial Protection Bureau, said banks had "a business model based on fraud."

Enlarge Image

Reuters

President Obama explains the details of the settlement on Thursday.

The banks did have sloppy paperwork practices, but they were also dealing with a historic wave of foreclosures created in large part by government-backed Fannie Mae and Freddie Mac. To date there's no evidence that borrowers current on their mortgage payments were improperly ejected from their homes. Federal regulators have already stepped in, conducted lengthy audits, forced banks to change their internal procedures and yesterday levied $394 million in fines against four of them.

But the politicians know an election-year windfall when they see it. Ally Financial, Bank of

America, Citigroup, J.P. Morgan Chase and Wells Fargo promised to devote a mere $1.5 billion of the $25 billion to alleged victims of wrongful foreclosures between January 1, 2008 and December 31, 2011.

The rest of the loot will serve the political agenda of paying off favored home owners—er, voters—with principal reductions, refinancing programs and foreclosure forbearance. The states and feds will also get nice cash payments. Think of this as one more giant political stimulus package—Congressional approval not required.

At least $10 billion will go toward principal reduction for delinquent borrowers or those on the brink of foreclosure with loans issued by private lenders. In other words, Washington is taking money from bank shareholders and investors in mortgage-backed securities, who will see the value of their holdings fall, and giving it to people who aren't paying their bills. Welcome to the "fairness" era.

Iowa's Mr. Miller argued yesterday that principal reduction will salvage loans on the path to delinquency and thus save investors money—the proverbial free lunch. But mandated principal reduction may not save the borrowers if housing prices don't rise. Meanwhile, 42% of all borrowers with loans in foreclosure haven't made a mortgage payment in two years, according to Lender Processing Services. They are being rewarded for not paying their bills.

The settlement also has at least $3 billion to refinance homeowners who pay their bills but owe more than their home is worth—in other words, people who bought more home than they could afford. Another $7 billion will go to "other forms of relief," including loan forbearance for the unemployed, "anti-blight programs," "transitional assistance" and other political transfer payments.

Related Video

Editorial board member Mary Kissel on the state governments' $26 billion settlement with the banks over home foreclosures.

Incredibly, the settlement doesn't prevent states or the feds from pursuing more criminal cases, civil-rights or securitization lawsuits, or more claims against the Mortgage Electronic Registration Systems. So even after this round of political extortion, the banks will be asked to pay again and again. They have little ability to say no because Mr. Cordray and regulators now have life-or-death control over nearly every bank product. Ma and Pa Barker should have gone to law school and run for office.

All of this will entrench the government ever-deeper into the housing market, and this may be the real political goal. In January the Administration announced it would take billions of dollars in leftover TARP funds to entice Fan and Fred's regulator to do principal writedowns. Last week, the White House asked Congress to let the taxpayer-backed Federal Housing Administration—which is already insolvent—underwrite loan refinancing for underwater borrowers with private mortgages.

Mr. Miller added yesterday that he hopes "widespread" principal reductions become "commonplace," and President Obama said "we're going to keep on at it until everyone shares in America's comeback." Translation: The politicized lending that led to the housing crisis has turned into politicized settlements, which will in turn lead to more politicized lending.

However this helps the politicians, it won't revive the housing market. CoreLogic's latest data show some 10.7 million residential properties have underwater mortgages, representing 22.1% of all housing loans, or $699 billion. Even $25 billion in income redistribution can't clear the market any faster of excess homes, or produce more buyers

Pact Followed Months of Bargaining

Email Newsletters and Alerts

The latest news and analysis delivered to your in-box. Check the boxes below to sign up.

- [x] On the Editorial Page
- [x] Best of the Web Today

SIGN UP

Manage Email Preferences

Most Popular on Facebook


$5 Trillion and Change
Jeanne Davison and 1,151 others recommend this.


Gisele's Super-Sized Super Gaffe
520 people recommend this.


John Cochrane: The Real Trouble With the Birth-Control Mandate
547 people recommend this.


Santorum Delivers a Republican Stunner
1,372 people recommend this.

ObamaCare's Great Awakening
1,752 people recommend this.

Facebook social plugin

Most Popular Video


Battle of the Bouncing Bunnies
1:39


Mega-Mansions Keep Rising Despite Bad Economy
4:14


Chrysler Dealers Take Aim at Clint Eastwood Ad
3:43

More in Opinion

- Noonan: Low Turnout and the Big Tune-Out
- Wuerl, Colson and Soloveichik: United We Stand for Religious Freedom
- Fouad Ajami: A Kosovo Model for Syria
- $25 Billion Bank Job
- Obama's Blaine Amendment

Most Popular

Read | Emailed | Video | Commented

who can afford to buy them. Presumably that can wait for the second Obama term.

JOIN THE DISCUSSION
230 Comments, add yours »

MORE IN
Opinion »

Like Send 77 people like this. Be the first of your friends.

Tweet 40 Share +1 3 Email Print Order Reprints

Add a Comment

JOURNAL COMMUNITY

View All Comments (230)

Community rules

All comments will display your real name. Start typing your comments here...

Track replies to my comment Post my comment to Facebook

CLEAR POST

1. Stakes Rise in Apple vs. Google
2. Why French Parents Are Superior
3. Opinion: John Cochrane: The Real Trouble With the Birth-Control Mandate
4. Opinion: Noonan: Low Turnout and the Big Tune-Out
5. Mortgage Deal Lifts Hopes for Housing

Most Read Articles Feed

Latest Headlines

- Insider Probe Aims at House Member
- Insider Bill Passes With New Backers
- Obama Offers Contraceptive Compromise
- Program to Win Over Afghans Fails
- U.S. Trade Deficit Widens
- Mortgage Deal Lifts Hopes for Housing
- Xi to Address 'Trust Deficit'
- Romney to Follow on Super PACs
- New Attack on Alzheimer's
- FDA Sets Path for Biotech Drug Copies

More Headlines

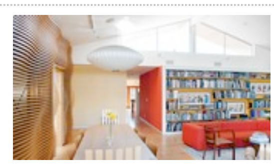
Editors' Picks


Cars That Tweet, Buy


The New Water Cooler Is a


Fashion Week's Calendar


Ho Chi Minh: The


Where Art and