

# Panel Warns of Nightmare Scenarios for Housing Crisis

<http://www.aolnews.com/nation/article/panel-warns-of-nightmare-scenarios-for-foreclosure-crisis/19720571>



[Joseph Schuman](#) Senior Correspondent

**Note from Pastor Kevin Lea follows this article.**

(Nov. 16) -- The "robo-signing" scandal at the heart of the current foreclosure crisis may be just the tip of a legal iceberg that threatens to destabilize the American financial system just as the government is least equipped to support it.

That's the judgment of the Congressional Oversight Panel, the watchdog agency created to keep an eye on the Troubled Asset Relief Program, or TARP. And it's the first official warning from anyone in the government that banks' problematic servicing of foreclosures could obscure and possibly evolve into troubles on a global scale.

"At this point the ultimate implications remain unclear. It is possible, however, that 'robo-signing' may have concealed much deeper problems in the mortgage market that could potentially threaten financial stability and undermine the government's efforts to mitigate the foreclosure crisis," the panel said in a 127-page report issued today. "In essence, banks may be unable to prove that they own the mortgage loans they claim to own."



Chris O'Meara, AP

An auction sign sits in front of a foreclosed home Wednesday in Valrico, Fla. The number of U.S. homes repossessed by lenders last month fell by the sharpest margin this year, as several major lenders temporarily halted most or all of their foreclosures amid allegations thousands of foreclosures were handled improperly.

It urged the Treasury and bank regulators to "take immediate steps to understand and prepare for the potential risks," and called on mortgage lenders and banks to avoid foreclosing on

homeowners unless they are sure about validity of the contracts involved.

Troubled homeownership and a massive backlog of foreclosures around the country remain among the biggest factors holding back the economic recovery. And they're a painful legacy of the mortgage meltdown that cascaded into financial catastrophe, slamming investors and institutions around the

world that had tied their fortunes to securities based on U.S. home mortgages.

But this fall the foreclosure process emerged as a source of problems itself with allegations that Bank of America, GMAC Mortgage and other companies servicing some \$6.4 trillion in American mortgages might have short-circuited legal steps required before foreclosing on homes.

Amid the tussle of lawsuits over individual foreclosures, several employees or contractors for the banks testified that they signed thousands of foreclosure documents without knowing any of the facts they were declaring to be true. In some cases, they also backdated documents.

The Justice Department and authorities in all 50 states are investigating possible improprieties by the banks, while the financial industry maintains it was just a handful of employees who failed to follow proper procedures and that the underlying facts in each foreclosure were correct. Once they get their paperwork in order, they argue, mass foreclosures can proceed.

The American Securitization Forum, a trade group for the industry that packages mortgages into tradeable bonds, produced a study this week finding the legal worries to be overblown.

As long as the contract between borrower and lender -- the mortgage note -- is transferred in any deal, questions about the mortgage itself shouldn't be a problem, the ASF said.

"The longstanding and consistently applied rule in the United States is that the mortgage follows the note," said Tom Deutsch, the ASF's executive director. "When a mortgage note is transferred in connection with a securitization, ownership of the mortgage automatically follows and is transferred to the mortgage note transferee."

### **Doubts About 33 Million Mortgages**

The panel called the industry's arguments the best-case scenario but warned that the worst-case scenario, one articulated by academics and homeowner advocates, "is considerably grimmer."

"The risk stems from the possibility that the rapid growth of mortgage securitization outpaced the ability of the legal and financial system to track mortgage loan ownership," the Congressional Oversight Panel said.

As the mortgage model changed from one in which prospective homeowners borrowed from and paid back a single bank to one where a mortgage loan can be resold dozens of times and folded into a bond packaging many mortgages, tracking ownership became more complicated.

The traditional ink-and-paper recording process was rendered obsolete by the speed of the modern mortgage market. And the panel said doubts about the electronic process that replaced it could potentially call into question the validity of 33 million mortgage loans.

The securitization process in particular is complicated, and "if at any point the required legal steps are not followed to the letter, then the ownership of the mortgage loan could fall into question," the panel said. "If documentation problems prove to be pervasive and, more importantly, throw into doubt the ownership of not only foreclosed properties but also pooled mortgages, the consequences could be severe. Clear and uncontested property rights are the foundation of the housing market."

Among the danger areas:

- Borrowers might not be able to determine whom they should pay.

- Judges could block foreclosure efforts even where borrowers haven't paid.
- Several banks might try to foreclose on the same property.
- Foreclosed borrowers might try to reclaim homes now nominally owned by someone else.
- "Would-be buyers and sellers could find themselves in limbo, unable to know with any certainty whether they can safely buy or sell a home," according to the panel.

And the risks to the whole housing market and broader economy are significant, it concluded.

### A 'Precarious' Time for U.S. Finance

"If such problems were to arise on a large scale, the housing market could experience even greater disruptions than have already occurred, resulting in significant harm to major financial institutions," the panel said. "For example, if a Wall Street bank were to discover that, due to shoddily executed paperwork, it still owns millions of defaulted mortgages that it thought it sold off years ago, it could face billions of dollars in unexpected losses."

Moreover, these risks are coming to light at a time when the American financial system is in what the panel notes is "a precarious place."

The Treasury's authority to help the system weather new crises with TARP expired last month, while the government's new powers to handle crises, created by the Wall Street reform package passed by Congress over the summer, are yet to be fully established.

*Note from Pastor Kevin Lea:*

*In the early 1960's the God haters in America were successful in removing the Ten Commandments and Bible reading from schools. Then they replaced the wisdom of God with the foolishness of man (the Darwinian fairy tale). Thus a generation grew up being taught that survival of the fittest was the law of the land and those who believed the lie are now adults acting out according to what they were taught.*

*Now covetousness in the housing market has brought us to this trillions-of-dollars problem and many are screaming about Wall Street corruption destroying the economic health of the nation and world. The screamers are those who lost out in the "survival" battle. The winners aren't screaming, they are sailing the seven seas in their million dollar yachts while they continue to plot the further enslavement of the bottom feeders.*

*Even though the death of America as we have known it is now certain, it is not too late for individuals to repent of rejecting God, His laws, and His Savior (Jesus). If and when they do, they will remember that God warned us with commandments like: You shall not covet, You shall not steal and You shall not bear false witness (lie about what you are signing). Had Americans lived by these laws, this crisis would have never happened. I am thankful that the creator of this universe has prepared a place for those who love Him, His laws and Jesus as their savior. That place is called heaven and it will be a place where the foolishness of man will never again rule or destroy.*

*Romans 1:22-23 Professing to be wise, **they became fools**, and changed the glory of the incorruptible God into an image made like corruptible man — and birds and four-footed animals and creeping things. (NKJV)*