THE CRASH IS COMING

HOW THE CREDIT CRISIS IS TRANSFORMING "THERE WILL BE BLOOD" FROM FICTION TO PROPHECY

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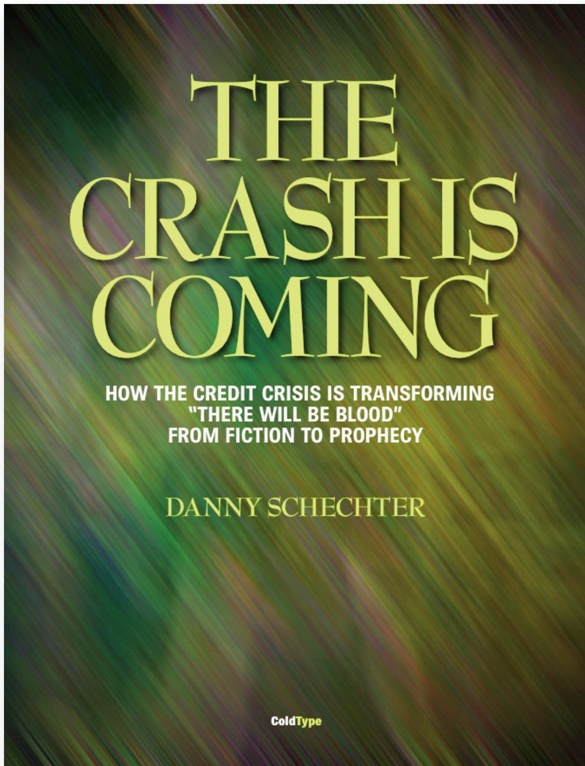
ColdType



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Now that that this year's Oscars are history, imagine Tinsel Town, if you will, an awards ceremony honoring not the best of the best but the worst of the worst, the slimeballs and sleazoids who caused the most damage to our society in the year gone by. Can you envision an Academy Award-like statuette to "honor" the people we should be despising the most?

The political among us will immediately visualize potential awardees among our own devil incarnates. On the liberal left, perhaps it would be that Dick Cheney or even Bill O'Reilly; on the right, that ever-evil Bubbaman, Bill Clinton, or the liberal media's *New York Times* might be pounced on like red meat, at least before the recalls. Others would conjure up offending glitterati, easy targets like Paris Hilton or Lindsey Lohan, and other most photographed famous-for-being-famous non-functionals among us.

We all have our personal top ten lists of the big enchiladas we love to hate. Bashing Bush, as a recreational sport, is fading across the spectrum, as his approval ratings continue to fall and his "power" is seen as a joke.

My guess is that few among us would know who to name among the real decision makers, the truly powerful—financiers, traders, corporate honchos—who have taken our once prospering economy and flushed it down the toilet. For reasons that have everything to do with proclivities of our press, our distracted culture, and the persistence of traditions among the politically active, most of us think that the White House is the epicenter with which to make change. We focus on political change and ignore the economic wheeling and dealing that sets the parameters – and limits – for what politicians can accomplish.

Look around. Check out your credit card bills with their ever-rising fees and interest. Inflation is driving prices up, not only at the pump but at grocery stores and shopping centers. Jobs are harder than ever to find in part because of outsourcing and layoffs, in part because a decline in investments in industries that hire and pay well. Travel abroad and you'll weep at how little your dollars can buy.

While economists worry about "staving off" a recession, some parts of the country are already – wash my mouth out with soap for saying this – in a depression. (Analysts at investment banks say the recession is here!) Please forgive my use of "the 'D word" even if economists are looking back to 1933 to come up with ideas for how to stem the free fall in housing values.

Fear of economic collapse is replacing fear of terrorism. The real homeland insecurity these days is to be found among the two-to five million (yup, the number has been expanded) American families who are in danger of having their homes foreclosed. Add in all their tenants and their neighborhoods – because when one house goes, property values decline next door and the tax base quickly erodes.

California is among the hardest hit states. As I write, 650,000 foreclosed properties are for sale state-wide, according to RealyTrac, the company that is tracking this slow-motion disaster. That is an increase of 177% over the year before. 9,821 California homes went into foreclosure this past January, says another research firm, representing about $8 billion in value. Over 25,000 homes are in pre-foreclosure in Los Angeles alone as of Oscar Sunday. Nationwide, 1.7 Million homes defaulted last year.

Most of these homes were owner–occupied, so we are not just talking about an abstraction but millions of real people, disrupted lives and dreams for families affecting schooling and even voting because most registrations are residential. This problem has been called a "50-State Katrina."

It is no wonder that our growing economic crisis is uppermost in the minds of voters. The *Baltimore Sun* reports:

> "Since January alone, the public's perception about the state of the economy has plummeted – with just 17 percent calling the nation's economy excellent or good – down from 26 percent last month. The percentage rating the economy poor has grown from 28 to 45 percent."

Hillary Clinton and Barack Obama now have their instant 10-point plans and quick fix programs. They have dipped into John Edwards' tool chest for ideas on fighting poverty and listened to policy advisors who have come up with a laundry list of proposals for stop-gap measures from hikes in the minimum wage to middle class tax cuts.

All of these proposals will take time to implement and probably will be forgotten by the time one of them becomes President, if they do. They are not responsive to the scale, seriousness and immediacy of a deepening crisis that is still mostly relegated to the back of the paper and the business channels.

Neither candidate is talking about how a billion dollars a day is flushed down the rat-hole of inflated military expenditures and ongoing wars contributing to a suffocating deficit that future generations will have to pay. Our policies are bankrupt and the budget is broke.

Yes, it's only money, numbers on a page, that many people can't even comprehend because there are so many zeroes. When I worked at ABC News, we had a phrase for this incomprehension: "MEGO" as in My Eyes Glaze Over.

How did this happen so quickly with so little warning or debate?

Track it back and you will find its origins in free market policies that deregulated banking and much of the oversight that managed for years to keep the greed-meisters on Wall Street in check. The failure of the media-lionized Alan Greenspan's Federal Reserve Bank to pay attention to predatory lenders and subprime schemers allowed them to prosper thanks to his rate cuts that made money cheaper — to the wrong people,

Add to their failures, a Congress that has been complict, with Democrats and Republicans alike dependent on donations from three leaders of what's been called the FIRE economy – finance, insurance and real estate. Bush's tax cuts and his bankruptcy "reform" bill strengthening the power of credit card companies were passed with bi-partisan support and hundred of millions in lobbying by self-interested corporations.

Add major media amnesia to this list and you get a trifecta of failure. The *New York Times* admitted that advocates warned them of a rise in predatory lending was destroying poor communities in 2001 but they sat on the story for nearly six years.

"Subprime" was named the word of the year in 2007 but how many of us even knew about this ponzi scheme or how it was driving up profits on Wall Street for five years before that?

Who told us that every major brand name firm and investment house had their fingers in the juicy pie of pedaling mortgage backed securities worldwide without disclosing that many of these mortgages were deliberately offloaded on people whom they knew could not afford to repay them? They were cleverly given "teaser rates" that would soon reset upwards. They then resold the mortgages as "asset-backed paper" with no assets behind them.

Many of our media outlets were themselves taking in millions in ad revenues from deceptive lenders and get rich quick schemes. The media was encouraging Americans to shop till we drop and go more deeply into debt. The Superbowl broadcast ran all the cool but misleading ads by credit card companies and mortgage hustlers. It was, um, "priceless."

In the summer of 2007, the markets melted down when this scam imploded. Since then, interest rate cuts and the "injection" of billions of dollars have not stabilized the volatility. Slowly and deceptively, banks have disclosed their losses, often hiding the full extent of their exposure.

We still don't know the full extent of this colossal rip-off but a recent Bank Of America study did some guestimating. Andrew Abraham reports:

"Bank of America delivered a report highlighting the current losses of the 'Credit Crisis'. According to the report the meltdown in the US sub-prime real estate market has led to a global loss of $7.7 trillion dollars in stock market value since October.

Quoting Bank of America chief market strategist Joseph Quinlan "The crisis, which has spread beyond US shores to banks and other sectors worldwide, is 'one of the most vicious in financial history.'" That number again $7.7 TRILLION. That phrase again: "the most vicious," that is, worse than 1929 and all the financial crises since.

And remember this number does not include the losses individuals are experiencing. Add in to this an estimated $739 billion in real estate at "moderate or high" risk to default and some $915 billion in credit card obligations that some fear could become delinquent and become the next bubble to burst. Multiply all the consequences and pretty soon you are talking real money.

Thus, our economy is not a just victim of "mistakes" or even normal business cycles but rather of a politically sanctioned white collar crime wave and irresponsibility on Wall Street. Sadly too few us are talking about that. An inequality gap and structural crisis compounded by profiteering in high places goes on and is largely ignored.

The FBI is now "investigating" – after the horses are gone from the barn, of course—but the agency which earned its spurs solving bank robberies is not unlikely to go after the banks that are doing the robbing. Prosecutors are not prosecuting wrong doing. No fundamental new regulations and oversight are being proposed. Instead Washington is buzzing with plans for a another bailout.

Who is responsible and who is being made responsible? Why aren't we talking about these massive losses and the growing debt burden behind it? Why is this issue not on the political agenda, save for the efforts of a few advocacy groups on the left, possibly Ralph Nader and Ron Paul on the right?

It was discouraging when our government's leading whistleblower of debt burden got so discouraged that he quit last week. David Walker, the Comptroller of the Currency had warned back in 2005 (as reported in my film *In Debt We Trus*t):

> "Continuing on this unsustainable path will gradually erode If not suddenly damage our economy, our standard of living and ultimately our national security."

And guess what? Just two years later, our economy was "suddenly damaged." The damage is "affecting our standard of living," and very few public officials or political candidates are connecting the dots. Why not?

When will we condemn the false prophets of the free market and their misguided policies? When will we indict those who cashed in on our country's misery?

Notes scholar Lionel Tiger:

> "Those who have been operating the managerial levers of the financial system have failed embarrassingly and massively to comprehend the processes for which they are responsible. They have loaned money avidly and recklessly to people who couldn't pay it back.
>
> "They fudged data to get loans approved and recalculated. Then they sausaged frag-

> ile figments of moneyreality into new 'products' which could be sold around the world to investors eager to enjoy the surprising returns which often accompany theft, managerial incompetence, and fraud. When it comes to responsibility for all this, there appears to be no one here but us spring chickens."

At long last even shamed executives in the financial industry are joining those of us who long ago charged that subprime is really subcrime. Hedge Fund CEO Basil William of Concordia Advisors says we need "a safety net for the innocent and a dragnet for the guilty."

Writing in the Record in Bergen County, N.J. he says that the greedy should pay to help the needy:

> "The costs can be recouped by going after those who profited handsomely and unfairly from the multitude of transactions that touched the industry."

This year Hollywood honored *There Will Be Blood,* a story of economic crimes safely situated in the past. Now we are all about to be bloodied by the fallout from more damaging economic crimes. Many are already feeling the pain, not just from the loss of homes but growing debt trapping students and consumers alike in a country when consumption long ago trumped production as our economic engine.

The financialization of our economy in the form of a credit and loan complex is as insidious as the machinations of the military-industrial complex. Ten Banks dominate the credit card business. There are no longer any laws against usury or deceptive advertising. They have invested millions in marketing studies to know just how to get us to become their customers. Their goal is to get us hooked. In their parlance, they want "revolvers" not "deadbeats" to pay up every month.

Ask anyone: massively marketed credit cards have gone from a luxury to a necessity to a noose. For years, homeowners did constant refinancings and took on equity loans to turn their property into ATM machines to pay off their loans and debts. That equity is running out; the loans are exhausted. No wonder car repossessions are also way up along with card delinquencies. Hence, all the non-stop muscling by collection agencies and law suits. The courts are enforcing unfair edicts by lenders and upholding demands by undemocratically run Housing Associations that rule in many suburban tract communities. Sweetheart deals by lawyers and judges are common. It's a big payday for unscrupulous operators.

For many, the homes which were once "our castles" are now our prisons. No wonder some homeowners are trashing their foreclosed houses before they move. Its not surprising that drug dealers and homeless people are moving in.

Many of those who borrowed themselves into a modern form of serfdom didn't expect how much they would have to pay. They are the new victims of downward mobility. No wonder most marriages break up under this kind of stress. Late night TV is filled with debt consolidation commercials because these companies know how much anxiety and sleeplessness afflict those in debt. This is the pervasive personal nightmare that the media profits from.

Two years ago, I began researching a documentary *In Debt We Trust* (Indebtwetrust.com) to explain the growing debt burden that Americans are buried under. The film warned of the crisis to come and spotlighted subprime lending as one of its causes.

Few distributors were interested. The subject was considered "boring." When it came out last year, it was marginalized; now its being hailed by some as prophetic. Initially a top newspaper dismissed it as "alarmist" while later one cable channel compared it to the movie Carrie suggesting the subject was even scarier. Many schools, organizations and community groups are now screening the DVD to spread awareness of the problem.

Maybe it's time to for the Hollywood studios to ring the alarm bells and alert the public even if news outlets are still downplaying the need to confront the demon of debt.

Actually one of the world leading business newspapers, the *Financial Times* says movies on this subject are not a stretch because of all of the popular blockbusters on apocalyptic calamities. In an editorial titled "Credit Squeeze – The Disaster Movie," the *FT* compared the credit "squeeze" to "the plot of a hundred disaster movies," writing, "the longer this goes on, the greater the risk to the real economy."

Sadly, it is still going on and shows no signs of abating.