

**Poverty Scholars Program Strategic Dialogue #1**  
Re-Igniting the Poor People's Campaign:  
Finishing the Unfinished Business of Rev. Dr. Martin Luther King  
**September 18-21, 2008**

**Who Are the Poor? Why Are We Poor? The Current Economic Crisis**

**US Housing Crisis in the Media**

The government seized control of Fannie Mae and Freddie Mac [privately owned and managed 'government-sponsored enterprises' since 1970, which buy mortgages from banks, credit unions, and mortgage companies and then sell them as bundled 'mortgage-backed securities' to investors on the open market, in order to make money available for additional mortgages] yesterday in a dramatic bid to restore faith in the embattled mortgage giants and arrest a vicious cycle that has driven the nation's economy into a steep downturn.

Following weeks of round-the-clock planning, Treasury Secretary Henry M. Paulson Jr. announced the takeover to try to stabilize the deeply troubled housing and financial markets. Fannie Mae and Freddie Mac, with a combined 11,000 employees, have funded more than two-thirds of U.S. home loans in recent months, and doubts over their ability to continue doing so had threatened to immerse the economy into even more turmoil.

With home loans harder to come by, buyers have recently been unable to make purchases, causing the housing market to tank further, leaving banks and other lenders with huge losses. Those losses, in turn, have made loans even harder to get.

There is no guarantee that the takeover will work, and it comes at a potentially massive cost to taxpayers. The government has pledged to inject money in the companies in any quarter in which they would otherwise be insolvent -- up to \$100 billion in total for each company. ...Paulson also announced a separate program in which the government will start buying securities backed by mortgages -- \$5 billion worth...lowering the interest rate that buyers must pay for a mortgage.<sup>1</sup>

Over the last decade, Freddie Mac paid more than \$94.8 million for lobbying services, in part to fend off attempts to tighten oversight, according to the Center for Responsive Politics; Fannie Mae spent about \$79.5 million.<sup>2</sup>

[T]he US consumer might finally be buckling under the strain of tight credit, falling house and stock prices, rising unemployment and high commodity prices.

Consumer spending fell in real terms in July, retail sales were weak, and unemployment shot up to 6.1 per cent. This raises the danger of a more conventional recession that would hit a financial system already battered by losses on housing-related securities.

Moreover, growth in non-US industrialised economies appears to have taken a sharp turn for the worse. The lifeline provided to the US from strong exports looks likely to weaken.

Mr Paulson said yesterday that the housing crisis "poses the biggest risk to our economy." ...But if the wider economic pressures continue to gather in force, the US government might at

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<sup>1</sup> Neil Irwin and Zachary A. Goldfarb. 8 September 2008. "U.S. Seizes Control of Mortgage Giants." Washington Post. A01. \*While shareholders will incur losses, the Bank of China, which in recent months had trimmed its debt holdings by about 29 percent to \$7.5 billion, welcomed the move, which will secure its remaining debt holdings.

<sup>2</sup> Eric Dash. 8 September 2008. "Few Stand to Gain on This Bailout, and Many Lose." The New York Times. Notably, among the shareholders who will face losses are some pension funds and employees of both companies.

some point have to consider much more extensive intervention - potentially to socialise a larger share of the losses and help recapitalise large parts of the private financial sector.<sup>3</sup>

As the real estate bust spilled over into the broader economy, depleting household wealth, the impacts rippled out to retailers, beauty parlors, law offices, and trucking companies, inflicting cutbacks throughout the economy, save for health care, farming and energy. Over the last six months, the economy has shed 485,000 private sector jobs. Many people have seen hours reduced.<sup>4</sup>

Homeowners were encouraged to treat their houses like ATMs [by re-mortgaging]. Low teaser rates led millions of the poor to believe they could own a home. ...For some time finance houses had teamed up with retailers to shower so-called gold and platinum cards on all and sundry, with the hope of ratcheting up consumer debt and subsequently charging an annual 18 or 20 per cent on money for which the banks themselves were paying 3 or 4 per cent. ...By February 2008, after more than a year of wilting prices, the number of US homeowners with negative equity [or homeowners owing more money to a lender than their house is worth in the current market] rose to 8.8 million or one-tenth of the total. Because houses seem such good collateral, the total home mortgage debt was around \$11 trillion. Credit-card debt rose to just short of \$1,000 billion, with automobile debt a little lower at around \$700 billion. ...Martin Wolf [suggests] the bursting of the housing bubble could wipe out between \$4 trillion and \$6 trillion in household wealth. ...**The most direct victims of the crisis have been two to three million US mortgage holders—their tenants—who have lost, or will lose, their homes.** Younger women, African Americans and other minorities were over-represented. The credit crunch deepens a recession which shrinks wages and the job market, and will make student loans more difficult and expensive to obtain.<sup>5</sup>

In the foreclosure crisis of 2007, thousands of American families are losing their homes without ever missing a payment. They are renters in houses whose owners default on their mortgages — a large but little noticed class of casualties. ...There are no exact figures for how many renters have been evicted because of foreclosures, but a survey taken this year by the Mortgage Bankers Association found that one in eight foreclosures was non-owner-occupied.<sup>6</sup>

The chairman of the Republican Party in Macomb County, Michigan, a key swing county in a key swing state, is planning to use a list of foreclosed homes to block people from voting in the upcoming election as part of the state GOP's effort to challenge some voters on Election Day. "We will have a list of foreclosed homes and will make sure people aren't voting from those addresses," party chairman James Carabelli told Michigan Messenger in a telephone interview earlier this week. ...Carabelli is not the only Republican Party official to suggest the targeting of foreclosed voters. In Ohio, Doug Preisse, director of elections in Franklin County (around the city of Columbus) and the chair of the local GOP, told The Columbus Dispatch that he has not ruled out challenging voters before the election due to foreclosure-related address issues.<sup>7</sup>

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<sup>3</sup> Krishna Guha. 8 September 2008. "Move replaces promises with public cash." The Financial Times.

<sup>4</sup> Peter S. Goodman. 19 July 2008. "Uncomfortable Answers to Questions on the Economy." The New York Times.

<sup>5</sup> Robin Blackburn. 2008. The Subprime Crisis. New Left Review 50:71, 97.

<sup>6</sup> John Leland. 18 November 2007. "As Owners Feel Mortgage Pain, So Do Renters." The New York Times.

<sup>7</sup> Eartha Jane Melzer. 10 September 2008. "Lose your house, lose your vote." The Michigan Messenger.

<http://www.michiganmessenger.com/4076/lose-your-house-lose-your-vote>.