

LaRouche: Barney Frank Should Stop the Raid on the Federal Home Loan Bank System

October 31, 2007--"Barney Frank should calm down and come back to reality. While he's not paying attention, the store has been stolen, the entire GSE store is being stolen by sub-prime lending predators."

This is physical economist Lyndon LaRouche's response Oct. 31 to the scandal of brazen raiding of the lending authority of the Federal Home Loan Banks, a U.S. government-sponsored enterprise (GSE), to bail out the subprime lending industry.

FHLB loans of \$163 billion to predator lending institutions in August and September--institutions which cannot get such loans on the credit markets--were reported on Oct. 30, and publicized in news from *Bloomberg* wire service. This included a huge, low-cost loan to Countrywide Financial, already being bailed out by 40 banks to the tune of \$24 billion.

The loans pushed outstanding FHLB debt up 21% to a record \$1.15 trillion, potentially resting on U.S. taxpayers.

Nowhere in the constitution of the FHLB--which was created in 1932--is there a provision that it should be used to bail out failing and insolvent lending institutions. This is part of a larger package conducted by the London and Wall Street banks to bail themselves out, by attempting to bail out the faltering \$20 trillion U.S. housing bubble.

During August and September, Countrywide Financial, America's largest mortgage lender, borrowed \$25 billion from the Atlanta District of the FHLB, doubling its outstanding borrowings to \$51 billion. (In the FHLB system, lending is extended from one of the FHLB's 12 district banks). During the same two-month interval, Washington Mutual (WaMu), increased its borrowings by \$31 billion.

Thus, roughly one-third of the \$163 billion of the FHLB's new loans went to the impaired Countrywide and WaMu. But these two institutions are not banks. Countrywide would originate loans, many of them exotic, and then normally within a month of the origination, sell them packaged into mortgage-backed securities (MBS).

Less than a third of Countrywide's funds came from its own deposits, a completely abnormal situation. WaMu's functioning was similar. Countrywide and WaMu were merely mortgage loan originators (which cut themselves in on fees), which obtained their funds from the financial markets through the sale of MBS. When in June-July, Countrywide imploded and its financial paper became radioactive, it could not tap the markets. So, the FHLB, contrary to its real purpose, was wheeled into place to make it loans.

Countrywide and WaMu typify the type of institutions that should not exist. Though each of them has a banking unit, it is merely subordinate. While their depositor base should be protected, these two institutions should be folded up: they do not meet any competent banker's definition of a Federally- or state-chartered bank. But they are increasing their loans from the FHLB, and sucking out funds from the Federal Reserve.

A former U.S. Treasury official told *Executive Intelligence Review* Oct. 31, that it is widely expected that the Federal government would absorb losses of the FHLB, as with the other two prominent GSEs, Fannie Mae and Freddie Mac, though no formal obligation exists.

However, the compelling of the FHLB to make this hyperinflationary bailout, typifies the problem of putting enormous amounts of worthless housing paper on the books of U.S. GSE's, as some in Congress propose. Had Congress adopted LaRouche's Homeowners and Bank Protection Act, a fraction of the trillions of dollars used in such bailouts, could be used to backstop a firewall that protects the American banking system while foreclosures are frozen.

