Written by **Bob Adelmann** on September 2, 2011

Legal Fallout From Housing Collapse Continues

The ruling requires Goldman to write down some mortgages that it holds, pay an unstated restitution, and provide "remediation" to homeowners who were hurt in the collapse. The ruling doesn't preclude other enforcement actions from state banking regulators who are continuing their investigations into the matter, either, so additional sanctions may reasonably be expected soon.

The Federal Housing Finance Agency (FHFA), set up in 2008 to oversee the conservatorship of Fannie Mae and Freddie Mac, just announced its filing of lawsuits against Bank of America, JPMorgan Chase, Goldman Sachs, and Deutsche Bank for misrepresenting the quality of mortgages that they packaged and sold at the height of the bubble. The FHFA claims that Fannie and Freddie were misled about the quality of the mortgages they purchased, as a result losing $19 billion and $14 billion of taxpayers' money respectively. The banks "failed to perform the due diligence required under securities law and missed evidence that borrowers' incomes were inflated or falsified," according to the announcement, and it is seeking reimbursement for those losses.

In July the FHFA filed suit against UBS for the same reasons and is asking for $900 million in restitution. Similarly American International Group (AIG), the insurance giant, filed suit against Bank of America claiming that the mortgages they bought from Countrywide Mortgage and Merrill Lynch (now part of Bank of America) were misrepresented and it wants $10 billion in restitution.

Even the Securities and Exchange Commission (SEC), supposedly the upholder and enforcer of standards of honesty and integrity in regulating the securities markets, has found itself having to defend against charges of illegally destroying thousands of documents. Matt Taibbi, writing for *Rolling Stone* magazine, details the testimony given by SEC whistle-blower Darcy Flynn who observed, as a lawyer working for the SEC, the "whitewashing of files of some of the nation's worst financial criminals [including] companies like Goldman Sachs, Deutsche Bank, and AIG." Even if the SEC was innocent of all charges and proves itself to be above all suspicion and reproach, the endless legal "debris" from the housing collapse would still be washing up on its regulatory shores. Writes Taibbi,

> Regulation isn't a panacea. The SEC would have placed federal agents on every corner of lower Manhattan throughout the past decade and it might not have made a dent in the massive wave of corruption and fraud that left the economy in flames three years ago.

All of this is predictable. Author Johan Norberg in his book *Financial Fiasco* concludes, "There is a broad consensus that the way was paved for this financial crisis by record-low interest rates, huge deficits, and large-scale credit-financed consumption." Author Tom Woods, author of *Meltdown* was even more candid:

> As several economists have noted, blaming the crisis on "greed" is like blaming plane crashes on gravity…. The current crisis was caused not by the free market but by the government's intervention in the market.

And it was those deliberate interventions in the market in order to achieve certain political ends that distorted the market, created the conditions for rampant dishonesty and fraud, and left the American economy in the shambles in which it remains three years out. Interventions breed distortions which breed problems which breed more interventions. The prime instruments distorting the market for political purposes were the Federal Reserve and, as the Fed's primary beneficiaries of the Fed's loose money policies, the Government-sponsored Enterprises (GSEs): Fannie Mae and Freddie Mac. Sheldon Richman, writing for *The Freeman* says.

> They [Fannie Mae and Freddie Mac] were created — intentionally — to distort the housing and mortgage markets. That is, government planners were not content to let voluntary exchange and spontaneous market forces configure those industries unmolested. So … they intervened.
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> Make no mistake: The collapse of Fannie and Freddie is government social engineering predictably gone bad.

The legal, economic and financial debris from the implosion of the housing bubble continues to wash ashore, all as predictable as the collapse itself.

Photo: AP Images