Off the Wall Street

By Reg P. Wydeven
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After I graduated from high school, several buddies and I were hired to work at the paper mill in town. We were thrilled, for while it was a very tough job, the pay was great. We called getting hired there the "Midtec Scholarship," because working one summer at the mill generally earned enough to pay for a year of school.

We didn't get in right away, but management assured us we would start getting hours once full-time employees starting taking vacation. Needless to say, June quickly became July and we still hadn't worked a day. At that time, summer jobs were hard to come by, especially that late. We applied at ManPower, and I worked a few hours for a moving company and then a few weeks at a doctor's office doing filing. While I didn't work much, that may have been the only summer I had something resembling a suntan.

Today the job market is even worse, especially for full-time employment, unfortunately. The loss of jobs and the lack of new jobs is a direct result of the economic downturn, which many people attribute to the mortgage crisis of 2008. Well, three years later, the U.S. government is finally doing something about it.

The Federal Housing Finance Agency, which oversees the Freddie Mac and Fannie Mae programs, is about to file a lawsuit against more than a dozen of the country's biggest banks, including Goldman Sachs, JPMorgan Chase, Bank of America and Deutsche Bank. The suit purportedly accuses the banks of misrepresenting the value and quality of mortgage-backed securities and seeks billions of dollars in compensation.

The suit alleges that by selling off loans secured by mortgages to investors on the secondary market, the banks ceased to have a financial stake in the loans once sold. Without the loans being in-house, the banks failed to perform proper due diligence in determining whether the borrowers actually had the means to make the loan payments, especially after short-term adjustable rate mortgages came due. Additionally, the banks failed to ensure the value of the homes being secured by the mortgages were actually worth what the appraisals reflected.

So when the housing market crashed, investors in mortgage-backed securities lost billions of dollars. Freddie Mac and Fannie Mae were major investors in these mortgage-backed securities. As a result, they lost $30 billion but were bailed out by the federal government, or in other words, us taxpayers.

The lawsuit is a civil, not criminal one. Therefore, even if the banks lose, no one will be going to jail. In addition, even if the government wins, it will not result in money in the taxpayers' pockets, the creation of new jobs, nor the end of foreclosures.

The lawsuit will be just the latest effort by the government to hold Wall Street accountable. Last week, the Federal Reserve sanctioned Goldman Sachs over questionable practices in one of its former mortgage units. Freddie Mac and Fannie Mae reached a $3 billion settlement with Bank of America to resolve a faulty mortgage loan dispute involving Countrywide Financial.

In July, the FHFA sued UBS for $900 million for "violations for federal securities laws in the sale of residential private-label mortgage-backed securities." In April, federal regulators charged the nation's 16 largest banks, including Bank of America, JPMorgan, Wells Fargo and Citigroup, with "unsafe and unsound practices" on foreclosures and ordered a major overhaul of their mortgage operations.

Finally, all 50 state attorneys general are attempting to reach a settlement with Bank of America, Citigroup and JPMorgan Chase over failed mortgage securities.

One thing's for sure: as a result of the lawsuit, I'm confident a lot of Wall Street bankers will soon have some free time to work on *their* suntans.