

CREA: Center for Reflection,  
Education and Action, Inc.  
P.O. Box 2507  
Hartford, CT 06146-2507  
Tel: 860.527.0455  
FAX: 860.210.1072  
E-mail: crea-inc@crea-inc.org  
www.crea-inc.org

CREA is an independent, non-profit  
501-c-3 organization.



*Believing that the earth is  
home to all,  
CREA facilitates analysis of  
human, social, and economic  
policies from the perspective of  
their effects on  
human lives,  
beginning with the lives of those  
who are poor.*

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# STARTING POINTS

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Hartford, CT 06112

## SECURITY: WHAT CREATES AND SUSTAINS IT?

In this issue CREA invites readers to examine the issues surrounding the increased sense of insecurity that is almost palpable in US society. The horror of 9/11, the establishment of the Department of Homeland Security, the passage of the Patriot Act, national and local preparedness efforts, the political manipulation of our fear...all these have made "terrorist" and "terrorism" words that are a part of ordinary conversation. Concern for our lives and that of our families hovers just beneath the surface of our to-day activities.

This is not the whole story of security, however. We also need economic and environmental security. Providing for our families' physical everyday needs is of paramount importance. We work hard to provide a home, to put nourishing food on the table, to provide clothing, medical care, clean water and fresh air. When these needs surpass our ability to meet them, our security is threatened on a very real level. The on-going lack of any of them can result in illness and death, just as truly as bombs and terrorism can.

It is by our jobs, by our participation in our civic communities, and by our taxes that we collaborate as a human society to meet these human needs. Knowing that our work as individuals and as communities can provide for these needs is the basis of our security. This kind of security is the goal of all people.

The availability of work that provides sufficient purchasing power to meet human needs is central to this security. The extraordinary changes brought about by rapid economic globalization has introduced in the US fears about "job security" as we have witnessed the outsourcing of jobs to low-wage countries, the downward spiral of wages of ordinary working people in the US and the flight of capital investment to other countries, especially the Middle East.

We are fortunate to live in a democracy, where we have the power as citizens to bring about change. The question CUI BONO? — "Who benefits?" — helps us cut through manipulation and political rhetoric. It forces an answer to that question by the responder.



We in the US are bombarded by the media and internet with many kinds of manipulative distractions: the inordinate coverage of celebrities' lives, the increasingly explicit violent and sexually provocative images in the media, and the selective information or misinformation provided by the same media. We must consciously resist and object to such manipulation. We must demand serious, mature consideration of the issues of work that provides sustainable living wages, taxes that are used properly for the common good, and attention to the human rights of all citizens. This pre-election period is an excellent time to raise the questions and demand real answers.

*To address the growing challenge of  
human security,  
a new development paradigm is  
needed that puts people  
at the centre of development,  
regards economic growth  
as a means and not an end,  
protects the life opportunities  
of future generations as well as  
the present generation,  
and respects the natural systems on  
which all life depends.*

*Human Development Report 1994,  
United Nations Development Programme.*



## WHO BENEFITS?

Whether we are examining US housing insecurity, Fair Trade in Guatemala, or hunger in sub-Saharan Africa, this question helps us to see the connections between the issue and its underlying systemic complexities.

### Those Who Benefit

It is obvious from this page's companion article that banks and brokers initially have benefited from the mortgage crisis. Brokers profited from closing deals. Banks profited not only from the interest on the loans, but also from the sale of bundled pieces of the mortgages, which in turn were sold by the purchasers, who profited from the resale.

Those purchasers are at times banks or wealthy individuals, whose money managers also profited, or hedge funds, whose money comes from the investors in the hedge fund, such as pension or retirement funds placed there by fund managers. The profit-taking goes through the fund managers to the investors. Insofar as any of us may have retirement funds invested in hedge funds, it is worth our while to trace the money trail.

The trail goes into another direction also, into federal and state government systems. Federal and state legislation determine the amount of regulation and regulatory oversight placed upon mortgage lenders. Profit-makers in this system include the following.

- \* Lobbyists and campaign contributors who can influence the regulation and oversight, increasing their own profits.
- \* Groups who pay the lobbyists or make the contributions. They profit when elected officials are influenced to pass legislation or to reduce regulatory procedures that results in less oversight of their actions.
- \* Employees of rating companies who rated the structured investment securities and misled investors. They have walked off with the profits from their huge salaries.

### Those Who Lose

Who are the losers? The buyers using sub-prime mortgage rates whose rates ballooned and who are losing their homes. Persons seeking credit who face a tighter credit market. Lenders are taking huge losses, credit has tightened, and in a recession everyone except energy companies, loses.

## HOUSING INSECURITY IN AMERICA

Part of the appeal of owning a home is the security of knowing where you will live from one month to the next, free from the whims of landlords who could at any moment raise the rent or convert a building into other uses. People who buy a home speak of settling down, of feeling rooted in a particular community, of feeling stable.

### Change in Lending Practices

Until recently, banks that lend the money to homeowners had a vested interest in promoting that security. Lenders took precautions to ensure that borrowers were able to pay back their mortgages. In the last few years, though, the emphasis has changed. While banks once held mortgages on their books for years – meaning they would be penalized if borrowers could not repay – now those loans are carved into little pieces, sold and resold. Lending standards relaxed dramatically as responsibility diffused.

Now that many loans made in recent years are proving to be unaffordable, the damage is becoming widespread. The number of foreclosures is at the highest level since the Mortgage Bankers Association began keeping records in 1979. The increase in vacant homes is contributing to rising crime in many neighborhoods. Giant banks are taking write-downs of billions of dollars, reflecting new, lower estimates of what their mortgage holdings are now worth.

Mortgage brokers, who handle many loans for people with low or moderate incomes, have no financial interest in whether an applicant can afford the mortgage over the long term. Brokers benefit simply by closing a deal; in fact, they have no obligation to ensure that buyers are getting the best deal. Today, brokers have no responsibility if the loan goes bad, though state legislatures are taking steps to require that brokers judge whether an applicant actually can afford a loan. Yet mortgage lenders have been working together to fight proposed responsible-lending laws.

### Efforts to Stem the Tide of Foreclosures

To stem the tide of foreclosures, the financial incentives for borrowers and lenders need to be realigned. The bankruptcies of high-profile mortgage lenders, rising foreclosures and encouragement from community groups could give legislators greater incentive to press for new laws that better regulate brokers and limit damaging mortgage terms, such as mortgages that contain penalties for paying down the principal early. Such prepayment penalties often make it impossible for a homeowner to refinance into a better loan.

Communities could promote affordable housing so that people can afford to live near where they work, and have more options available without accepting a dubious mortgage. In planning and regulation, the emphasis can shift from short-term profits for a few companies to long-term security for communities.

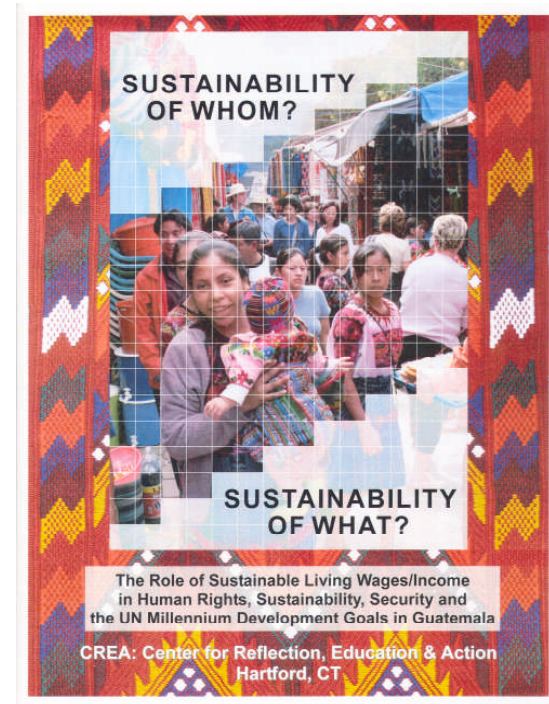
Most communities have free counseling programs for new homebuyers, but businesses that benefit from increasing numbers of home sales have little incentive to advertise these resources, because people might start turning down bad loan offers.

**For more information:** Visit the following web-sites.

The Center for Responsible Lending is a nonprofit group based in Durham, N.C., which aims to protect homeownership by fighting abusive lending practices.  
[www.responsiblelending.org](http://www.responsiblelending.org)

ShoreBank, a community-development bank with offices in Chicago, Cleveland

## GUATEMALA REPORT COMPLETED, READY FOR DISTRIBUTION



### Global Reporting Initiative (GRI)

Sister Ruth was reelected to the GRI international Stakeholder Council. She continues to bring her expertise and her commitment to the betterment of poor communities to the council.