

Background on the Mortgage-Financial Crisis from the ELCA Washington Office

The ELCA's social statement on economic life tells us that "there are difficult and complex trade-offs and ambiguities in the dynamic processes of economic life."¹ The current financial crisis and the subsequent discussions about how best to address the crisis are cases in point. A number of major financial institutions have essentially collapsed, and economic uncertainty and insecurity are on the minds of Americans, from individuals facing foreclosure to families struggling to meet basic needs to seniors concerned about the future of their retirement savings. Over the last few months, we have seen the government step in to stabilize several of those teetering companies, and for months to come we will see proposals seeking to ensure broader financial stability.

One proximate cause of this situation is a human-made housing bubble, whose bursting has significantly reduced home values and caused a wave of bad debt and home foreclosures, of which there were about 100,000 in August² and estimates of as many as 3 million for 2007 and 2008 combined.³ Just as these bad debts have metastasized throughout the financial system, causing great instability and mistrust, the responsibility for the crisis is also widespread. Certain borrowers, lenders, regulators, speculators, and politicians of all parties – either by omission or commission – played roles in the creation of the artificial bubble and its subsequent burst. This housing crisis is part of a much larger story, the culmination of years of short-sighted political and financial decisions. *As individuals and as a nation, we must take responsibility for having turned a blind eye to the greed and corruption that we have allowed to prevail in our lives and our financial markets.*

Lutheran theology calls for good government, meaning in part that "government is intended to serve God's purposes by limiting or countering narrow economic interests and promoting the common good."⁴ This includes the possibility of sensible, targeted, and well-reasoned intervention into the market to bring stability, restore confidence and credibility, and avert greater crisis. Our theology also calls for individuals to live responsibly and within their means and for corporations to consider the social implications of company practices and to practice good stewardship of creation (Genesis 1:26), pursue justice (Amos 5:24), care for people in need (Matthew 25:40), and seek things that make for peace (Luke 19:41-42).

There is not consensus – among economists, politicians, or the public – as to how to most effectively address this current financial situation. However, with our social statement language in mind, we believe that any proposed solution to the current financial crisis should, as much as possible, hold accountable those parties responsible for the crisis and not impose additional burdens on the marginalized and poorest. On behalf of the ELCA social statements, the Washington Office and Office for Corporate Social Responsibility call for the following:

- measures of accountability, transparency, and oversight in any plan;

¹ <http://www.elca.org/What-We-Believe/Social-Issues/Social-Statements/Economic-Life.aspx>

² "Foreclosures.com Reports More Than 100,000 Homeowners Lost Homes in August; One Million Foreclosures Expected in 2008," *Forbes*, (September 8, 2008).

³ Vikas Bajaj, "Housing Lenders Fear Bigger Wave of Loan Defaults," *New York Times* (August 4, 2008).

⁴ <http://www.elca.org/What-We-Believe/Social-Issues/Social-Statements/Economic-Life.aspx>

- in the event taxpayer funds are required, adequate protections for taxpayers and public funds, including safeguards that ensure public equity and hence the possibility of return;
- relief and support directed at the root of this crisis – home foreclosures – including the possibility of mortgage re-financing for those facing foreclosure and protection for renters who face eviction from properties foreclosed upon;
- investments in the real economy, especially support for the low-income people most vulnerable in times of economic distress; and
- boundaries on executive compensation and shareholder bailouts funded with taxpayer money.

Going forward, the ELCA Advocacy staff will call for appropriate regulatory reform of the financial services and housing sectors so that the government can monitor practices more effectively and efficiently.

The ELCA's social statement on economic life includes the following charge: "Governing leaders are to be held accountable to God's purposes: 'May [they] judge your people with righteousness, and your poor with justice. . . . May [they] defend the cause of the poor of the people' (Psalm 72:2)."⁵ Any proposed solution to the current financial crisis must conform to this biblical standard.

CONTACT

With questions, contact Robert Francis at (202) 626-7936 or robert.francis@elca.org.

⁵ <http://www.elca.org/What-We-Believe/Social-Issues/Social-Statements/Economic-Life.aspx>