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Recently, New Century Financial Corp. -- the nation's largest "subprime" mortgage lender -- filed for Chapter 11 bankruptcy. This was an astounding collapse, since the company originated more than $60 billion in loans in 2006. With HSBC's recent write-off of more than $11 billion in subprime loans, even the normally optimistic Alan Greenspan, past chairman of the U.S. Federal Reserve Board, cautioned that the "spillover" from the housing market correction could trigger a national recession in 2008.

The origins of America's economic predicament began with the 2001 recession. To stimulate economic expansion, the U.S. Federal Reserve sharply reduced interest rates to historically low levels, which triggered the explosive growth of the housing and financial services sectors. However, the dramatic increase in homeownership and housing prices occurred amid falling real wages and relatively stagnant equities markets.

The speculative binge in housing fueled the "housing bubble," whereby soaring prices were driven by easy credit, low finance rates, adjustable rate mortgages, subprime loans and a booming secondary market in which banks earned fees from originating and selling "pooled" or asset-backed securities (70 percent of U.S. mortgages) to domestic and international investors, including the Central Bank of China.

As housing values soared, Americans were encouraged to spend their newfound housing wealth on elevated lifestyles (home furnishings, boats, autos) and rising cost of living (housing, health care, college tuition). This resulted in greater household debt capacity through escalating lines of consumer credit that were essentially paid off with home equity loans.

Between 1996 and 2006, nonmortgage consumer debt jumped from $1.24 trillion to $2.39 trillion. Today, the 60 percent of households with "revolving" debt (nearly $800 billion) owes an average of $13,000 on credit cards plus $1.5 trillion in installment loans. Furthermore, U.S. mortgage debt, including refinanced consumer debt, skyrocketed from nearly $3.5 trillion in 1996 to almost $10 trillion today. Meanwhile, the U.S. household savings rate has fallen from over 7 percent in 1993 to negative 1 percent today.

Today, the collapse of the "double bubble," triggered by falling home prices, is precipitating a sharp increase in consumer loan delinquencies that are contributing to the rising tide of home foreclosures (estimated 1.5 million in 2007) and personal bankruptcies.

The documentary *In Debt We Trust*, on which I served as an editorial adviser, examines the factors responsible for this transformation of American society. Why have households assumed such unprecedented debt obligations? What accounts for such an apparent lack of personal responsibility? Why has banking deregulation led to a proliferation of high-cost loans? Why is Congress reluctant to regulate the out-of-control credit card industry with its whopping 30 percent increase in profits and record fee revenue that exceeded $16 billion in 2005? Why are college and increasingly high school students prized credit card clients? Lastly, who promoted bankruptcy reform, and why was it a top priority of President Bush in 2001?

As reported in the film, the bipartisan actions of Congress and the executive branch that have allowed the financial services industry to betray the trust of the U.S. public raise serious questions about the "financialization" of American society.

Hopefully, this documentary and its consumer debt relief campaign (www.stopthesqueeze.org) will stir debate over appropriate regulatory reform of the lending industry before the bubbles burst.

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