The Daily Dish

The Once and Future Housing Bubble

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Remember the good-old housing bubble days: flipping houses, interest-only mortgages, teaser rates, low- and no-documentation loans, and the like? Great stuff. Of course, the bubble burst and helped ignite a global financial crisis that produced the Great Recession. In the process, it wiped out the wealth of a generation of low-income and minority homeowners.

Eakinomics' reverie was sparked by this gem in Bloomberg:

> *The Government Accountability Office [GAO] says the Congressional Budget and Impoundment Control Act of 1974 [ICA] does not allow congressionally appropriated funds to be withheld through their expiration; the Supreme Court allowed a similar FY 2025 pocket rescission to proceed while litigation continued but did not issue a final ruling on the legality of pocket rescissions.*

As a quick reality check: This is a subsidy to the demand for owner-occupied housing. The solution to high prices is everywhere and always greater supply, so this is structured to disappoint. But generating new supply is really hard, as witnessed by the bipartisan ROAD to Housing Act, so the temptation to address housing "affordability" will likely lead Democrats down the road of demand subsidies.

But don't worry, the new proposal's authors claim it will work like gangbusters. They suggest it will move 2.2 million renters into houses. For perspective, the FHA insures roughly 8.4 million mortgages at present, so that's a lot of new mortgages. Moreover, they make a bold promise:

> *"Not only can it help move 2.2 million renters into homeownership, it can also be done*

> *without any cost to the US government," said Brainard, who has also served as vice chair of the Federal Reserve and as under secretary of the Treasury for international affairs under former President Barack Obama.*

That's right, it is free! There's no chance that when it gets to implementation the guarantee offered to these risky new borrowers will be underpriced and lead to the need for taxpayer funds. We know this because the author's credentials are impeccable. Remember when Nobel Prize winner Joseph Stiglitz and his co-author, former Office of Management and Budget Director Peter Orszag, analyzed Fannie Mae and Freddie Mac and concluded: "the risk to the government from a potential default on GSE debt is effectively zero." That worked out fine.

It feels like 2003 all over again, so enjoy…for a while. Unfortunately, 2008 is lurking right around the corner. The good news is that Fannie Mae and Freddie Mac are still in conservatorship, so we don't have to repeat that step.