



Insight

# Eakinomics: Housing Reform

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The president focused his latest economic speech in Phoenix on housing, providing lots of grist for the analytic mill. On the whole, the speech did not break new policy ground as most of his proposals were floated earlier. However, the timing of his remarks — on the heels of housing finance reform legislation in the House (the PATH Act) and with the Corker-Warner bill being launched in the Senate — suggests that the president did not want to be left out of the debate. There is, however, a fundamental contradiction at the heart of his vision. He wants a housing finance system that has the government backing to provide cheap mortgages and dedicated off-budget funding for low-income constituencies. But he does not want subsidies that encourage bad housing decisions and leave the taxpayer on the hook for losses. In short, he wants the upside of the traditional system without the downside. That will be tough to arrange.

Turning to the specifics:

The good. “That begins with winding down the companies known as Fannie Mae and Freddie Mac.” Three cheers. Fannie Mae and Freddie Mac were flawed business models. They are now simply government agencies in disguise and should have no future in U.S. housing finance.

The bad. (From the fact sheet.) “Help responsible families save \$3,000 a year by refinancing while mortgage rates are still low.” The president has had 16 mortgage modification/refinance programs. Number 17 won't do a thing, either. Also, “Rebuild communities hit hardest by foreclosure” and “Create and preserve affordable rental housing”. If the government wants to help low-income Americans with shelter, it should pass appropriations bills that do so. Returning to a system of off-budget cross-subsidies and low-income slush funds is a core policy error.

The ugly. “... the Senate has already passed a bipartisan immigration bill .....considering what this bill can do for homeowners, that’s just one more reason Republicans in the House should stop dragging their feet and get this done.” It's true that immigration reform will benefit housing markets, but how does a gratuitous partisan shot at the House aid the process. Given the political realities of immigration reform, the president looked amateurish and petty.

The laughable. (From the fact sheet) “There are still millions of families with strong enough credit profiles to qualify for a mortgage but who are nonetheless being denied loans. ... For many of these borrowers, they are denied a loan because lenders are unclear of the rules of the road for lending and are protecting themselves by only lending to those with the most pristine credit.” The president complaining about the fallout of his very own Dodd-Frank law and the implementation by his very own agencies? Must have been a warmup joke before his appearance with Jay Leno.

The missing. Economic growth and letting markets work. In the end, the best thing for housing in the U.S. has been to let the market clear excess properties and for economic recovery to provide the wherewithal to turn the demographic demand for housing into actual purchases. It is evidently lost on the Administration that [Phoenix has recovered](#) relatively quickly because Arizona law moves properties quickly through foreclosure and the Phoenix area has a diversified economic base that has created jobs. And it is ironic that the Justice Department chose the same day to sue Bank of America over mortgage-backed securities, once again setting back the process of clearing the market of detritus from the crash.