Insight

Housing, Growth, and Politics

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The president can't bring himself to put politics aside, aid the housing-market recovery, and generate stronger economic growth. Odd for an administration supposedly laser-focused on jobs.

Today's evidence comes from two important news items. Early reports are that after a full-court press by the administration, government officials are securing a $25 billion deal with five major banks — Ally Financial, Bank of America Corp., Citigroup, J.P. Morgan Chase, and Wells Fargo — to settle claims of abuse in the foreclosure process. The $25 billion consists of $5 billion in penalties and $20 billion in aid to homeowners who are underwater in their mortgages, but current on their payments. The five banks involved are responsible for roughly one-half of outstanding home loans.

Viewed in isolation, the pact represents an important step forward. The industry has the opportunity to put whatever abuses occurred in the rearview mirror, obtains a bit of legal certainty — at the price of the largest check since the tobacco settlement — and has improved incentives to move ahead in mortgage finance.

The economy would ultimately benefit tremendously as the long-delayed workout of excess supplies can finally move forward. Once that adjustment has cleared, housing can resume its traditional role as a key cyclical industry in driving a more rapid pace of economic growth and improved payroll employment.

So far, so good.

Unfortunately, one can expect that the administration will not see it this way moving forward. Instead, it will portray the deal as a mere "downpayment," emphasize that only 1 million homeowners will benefit, and argue that more help for underwater homeowners is needed.

That is inconsistent with putting things in the rearview mirror and getting on with a much-needed housing-market adjustment. And legal certainty is at risk as well, as at the same time the Securities and Exchange Commission has announced that it will sue many of the same banks over the sale of bonds linked to subprime mortgages during the crisis in 2007–08.

Two steps forward, one step back.

The macroeconomy is recovering, despite the hostile policy environment. It would benefit enormously from a stronger housing sector, an objective within reach if the administration could resist the political temptation to rouse its base with finger-pointing and lawsuits. Alas.