Written by Jack Kenny on April 11, 2013

FHA in Line for Taxpayer Bailout

A likely bailout of another federal housing agency has drawn fire from congressional Republicans over an item in President Obama's budget that would provide $943 million for the Federal Housing Administration "to cover losses from loans the agency insured as the housing market was collapsing in 2007," Politico.com reported Thursday.

"If the FHA were a private financial institution, likely somebody would be fired, somebody would be fined or the institution would find itself in receivership," House Financial Services Committee Chairman Jeb Hensarling (R-Texas) said in a statement isued on Wednesday, the same day Obama univeiled his $3.77 trillion budget. "Instead, the FHA is merrily on its way to becoming the recipient of the next great taxpayer bailout. It's outrageous."

The infusion from the federal treasury would cover an anticipated deficit for the agency, though it could be averted by other means. The FHA has until September to cover the spending gap through new lawsuit settlements with large banks or greater revenue from new loans than are anticipated in the president's budget, Politico reported. "It is not certain that we will need to take this draw," FHA Commissioner Carol Galante told reporters in a conference call Wednesday.

The projected deficit is higher than the $688 million shortfall projected by the Obama administration last year, when an FHA bailout was averted, owing to the settlement of a lawsuit over the "robo-signing" foreclosure scandal, the payment by Bank of America in a settlement over faulty Countrywide loans, and higher premiums charged for insurance on mortgage loans. An independent study in November of last year, however, showed FHA facing a $16.3 billion shortfall. Most of FHA's losses have been incurred by guaranteeing "reverse mortgages" — wherein seniors borrow against the value of their houses and agree to have their houses sold upon their deaths to pay off the loans.

The agency's fiscal woes, adding to the Fannie Mae and Freddie Mac contributions to the collapse the housing market in 2007-2008, has Republicans on Capitol Hill questioning once again the federal role in housing.

"There's no such thing as a free lunch when it comes to a government program," Rep. Scott Garrett (R-N.J.) said during a hearing Wednesday on FHA's finances. "Much like FHA, free lunches do end up costing much more than you expect."

A taxpayer bailout of the FHA might face opposition from the general public, as well, coming only a few years after the massive bailouts of corporations deemed "too big to fail" in the financial meltdown of 2008. The Obama administration is also urging banks to make more home loans available to people with weak credit ratings. Administration officials are urging banks to lend to a wider range of borrowers by taking advantage of taxpayer-backed programs, including those offered by the FHA, and are looking to make it easier for people who owe more than their property is worth to refinance at today's low interest rates, the *Washington Post* reported.

Housing officials are also urging the Justice Department to provide assurances to banks that they will not face legal or financial recriminations if they make loans to riskier borrowers who meet government standards but later default. While the administration claims too many potential homeowners, especially first-time buyers, are being left out of the modest recovery in the housing markets, critics say the policy amounts to more of what created the housing crisis in the first place.

"If that were to come to pass, that would open the floodgates to highly excessive risk and would send us right back on the same path we were just trying to recover from," said Ed Pinto, a resident fellow at the American Enterprise Institute and former top executive at Fannie Mae.

Apparently, the federal government never left that path, as Nicole Gelinas pointed out in an op ed article in the *Los Angeles Times* in 2011. "Take the 2009 home buyer tax credit, which dangled an $8,000 credit to first-time home buyers," Gelinas wrote. "The bust had just exposed the consequences of reckless borrowing, so what did Washington do? It encouraged more people to take on debt to buy homes that were still overvalued, and encouraged the banks to fund that indebtedness."

Gelinas also cast a critical eye on the policy of the Federal Reserve Board. "By keeping interest rates at close to zero percent since 2008, the Fed has allowed banks to borrow nearly for free. All that cheap money has kept banks from having to cut their losses by either seizing and selling off properties that are underwater or reducing loan amounts so that people can stay in their homes. Instead, they have strung out their bad loans. But that can't go on forever."

Federal involvement in the nation's housing markets adds up to $450 billion a year in direct expenditures, loans and loan guarantees, grants, and tax credits, according to a report issued early this year by Smart Growth America, a coalition of advocacy groups focused on issues related to the environment and urban living.

"Taken as a whole, these expenditures and investments impact where real estate is developed and what kind of product is built," said the report, called "Federal Involvement in Real Estate: A Call for Examination."

> Even a cursory analysis reveals this impact is uneven. For example, small multifamily buildings are less likely to receive financing, despite the fact that most renters in the United States live in these smaller buildings. Viewed as whole, federal funds are not targeted to those most in need, are not targeted to strengthen existing communities and are not targeted to places where people have economic opportunities.

While Smart Growth America seeks to redirect federal efforts in housing, John O. Norquist, a former mayor of Milwaukee, has argued that federal involvement has been the cause rather than the cure of the decline in affordable housing. "The sorry consequences of federal involvement in housing can be seen in the decline of low-cost housing," wrote Norquist, author of the 1998 book *The Wealth of Cities: Revitalizing the Centers of American Life*. Norquist, a Democrat, traced the decline back through decades of federal housing polices.

> Up to the 1950s, American cities offered people without much money a variety of choices in shelter Not all of the housing was pretty or spacious. But the options were numerous, and included walk-

> ups, apartments over stores, triplexes, duplexes, single-family houses, apartments over garages, flats in back, boardinghouses, tenements, low-rent hotels, and row houses.

While serving as Milwaukee's mayor for 16 years (1988-2004), Norquist witnessed what he described as a failure of federal programs to improve life in America's cities. "After a succession of fiascos associated with attempts to eradicate slums, build housing for the poor, and pursue other seemingly noble goals, it should be obvious that government efforts often make urban conditions worse rather than better," he wrote. "Not every government effort is destined to fail. In Milwaukee, where I serve as mayor, we have achieved success with some housing endeavors. But the efforts that have brought genuine benefits have usually been local initiated and have tried simply to help the private market work better, rather than assuming that a bureaucracy can competently build or operate places that people call home."

Neither a lack of nor the absence of constitutional authority, however, has prevented Washington from expanding its involvement in the nation's housing markets. Perhaps a national bankruptcy will be necessary to reduce the federal government to its level of competence.