THE DAILY CALLER

Menendez-Boxer refinance plan will entrench government housing

By Adam Berkland
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If you think mega-banks like JP Morgan and Bank of America are “too big to fail,” you may be surprised to hear that the U.S. government is actually by far the most dominant player in our nation’s consumer credit markets. The American Enterprise Institute’s Ed Pinto explains that Uncle Sam currently backs 86% of all consumer lending in this country — your taxpayer money on the line for trillions of dollars lent to individuals and families.

This dominance is most notable in home mortgage lending, where taxpayers now stand behind 88% of all new mortgages in America. This is no accident. For decades policymakers have pushed to increase American homeownership — with good intentions, of course. Unfortunately the results have been disastrous. Government housing policies have completely contorted our housing finance markets, helped inflate a housing bubble that collapsed with devastating effects in 2008, and have almost entirely crowded out private investment in housing.

The primary reason that private capital can’t compete in the housing market is that government-backed mortgage giants like Fannie Mae, Freddie Mac, and the FHA can lend for much cheaper because they’ve been given several tax and regulatory breaks and have an explicit taxpayer guarantee to prop them up. The most obvious example is the whopping $187 billion in bailout funds for Fannie and Freddie (and counting …). So long as the “government mortgage complex” is conferred these special advantages, private lenders won’t be able to keep up.

But there’s another important reason why we’ve seen a scarcity of private capital in housing: When the government repeatedly usurps the rule of law and intervenes in private contract disputes, this creates a great deal of uncertainty and makes investing in this sector highly unappealing. Or, as Mark Calabria of the Cato Institute puts it: “Markets, and society, depend upon trust and the expectation that promises will be honored. That trust is eroded when government rewrites contracts, regardless of who is supposed to benefit.”

The latest violation in trust comes from the Responsible Homeowner Refinancing Act, S. 3085, co-authored by Democratic Senators Robert Menendez and Barbara Boxer. The plan is the latest in a long line of proposals to help homeowners refinance their mortgages to take advantage of today’s historically low interest rates. Proponents claim the reforms would help up to 3 million homeowners save an average of about $3,000 per year on their mortgage payments — all with no costs to the taxpayer or further losses at struggling Fannie and Freddie.

We've all heard that "if it sounds too good to be true, it probably is." That rule applies here as well. While homeowners are helped under the plan, those on the other side of the mortgage contract — investors — are clearly hurt. When homeowners' mortgage payments are cut, that means that those who provided the loan in the first place won't receive as much interest income as they expected under the mortgage contract.

To be sure, borrowers and investors mutually agree to refinance mortgages quite often. But in this case government is changing the agreed-upon rules of the game in order to redistribute income from investors to homeowners. This hurts big "fat cat" investors, but it also hurts the millions of pensioners across the country whose retirement savings are dependent upon strongly performing mortgage-backed investments.