

## *The fight over Bernanke REO rental plan shows political divide*

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Chairman Ben Bernanke's plan to fix housing is feeding an ongoing national debate about the appropriate role of the **Federal Reserve** in America's housing recovery.

The dispute arose when Bernanke sent Congress a letter, urging action in the housing sector. In addition, the Fed chief proposed a massive REO rental program to clear the national backlog of distressed housing.

The controversy caused by Bernanke's moves highlights a deep divide in how policymakers view housing.

"Policymakers just can't decide what to do with housing," **Capital Economics** said. "While the Fed thinks that government funds should be used to support housing, Congress appears to believe that housing should be used to support the government's finances. It is not clear which side will win this tug of war, but it seems unlikely that policymakers will agree to any action big enough to generate a significant housing recovery."

The Bernanke report is unprecedented considering his promise to maintain the Fed's independent, non-political role when entering office, Mark Calabria with **The Cato Institute** said.

"A lot of the Fed's policies have been to say we don't have enough demand for housing, so let's subsidize housing," Calabria explained. Calabria says Republicans, on the other hand, are more likely to believe subsidizing housing is what pushed the country into a crisis in the first place, prompting them to resent Fed involvement.

Christopher Whalen with Institutional Risk Analytics pushed back at a Wall Street Journal article that criticized Bernanke for pushing the housing issue on Congress.

"The Wall Street Journal is badly wrong when they criticize the Fed for speaking up on housing," Whalen wrote. "The real crime is that Dudley, Chairman Ben Bernanke and other Fed officials did not listen to Sheila Bair three years ago, when she and other officials at FDIC were calling for more aggressive policy approaches to dealing with foreclosures. Instead the large banks and their partners in crime in Washington, Fannie Mae and Freddie Mac, have formed a political and financial cartel to prevent American home owners from refinancing their mortgages, effectively thwarting Fed policy efforts to reflate the economy."

Calabria says the issue is divisive, making it all the more difficult to determine the next step. Calabria advocates for a natural market correction without federal rescues.

But he says, the opinions on both sides are strong. Many Americans see a strong Fed-push to help borrowers and housing as a plan to take from one set of taxpayers and give to another. On the other side, underwater homeowners may look to the bank bailouts and say it's only fair to help homeowners as well, Calabria said.

Either way, Calabria says it's not unusual for Bernanke to put housing in his cross hairs.

"Housing is a very big component of the monetary transmission mechanism," he said. "The impact of Federal Reserve policy is always felt first in the housing market."

With that in mind, Calabria says the fed has an interest in stepping in if the market "is clogged."