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# Has Nothing Been Learned From Crash?

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Cash For Clunkers (cars) is over. Cash For Clunkers (houses) continues. Legislators recently extended the scandalous $8,000 homebuyer tax credit. An additional $11 billion will be wasted.

Ground zero of last year's financial crash was the politically driven collapse in the housing market. Several years ago Rep. Barney Frank, now chairman of the House Financial Services Committee, declared: "I want to roll the dice a little bit more in this situation toward subsidized housing."

Uncle Sam rolled the dice a lot, and we all are paying the bill. So far the homebuyer tax credit has cost $10 billion. By one estimate that ran $75,000 per new house sold.

The credit is barely a rounding error compared with losses by Fannie Mae and Freddie Mac. These two government-sponsored enterprises (GSEs) promoted both subprime lending and mortgage securitization, which turned bad mortgages into bad securities.

Today Fannie and Freddie underwrite $5.4 trillion worth of private home mortgages. Yet in early November Fannie Mae announced a third-quarter loss of $19 billion, making $102 billion in losses over the last two years. Fannie requested an additional $15 billion in taxpayer aid.

Freddie Mac lost "only" $6.3 billion in the third quarter, but overall has been an even bigger financial black hole, dropping $121 billion over the past 14 months. On Christmas Eve the administration announced that it would provide an unlimited credit line for the two companies.

The FHA insured more than $360 billion worth of mortgages over the past year, twice the amount in 2008 and four times as much as the year before. Today the agency is requiring just a 3.5% down payment.

The FHA's share of new loans went from 2.7% in 2006 to 23% earlier this year, and the agency moved into high-priced cities. One young San Francisco borrower told the New York Times, "It was kind of crazy we could get this big a loan."

FHA capital reserves have fallen to 0.53%, well under the congressionally mandated 2%. Defaults on FHA-backed loans are 8.3%, up from 6.1% a year ago. A fifth of agency-guaranteed loans are considered to be "seriously delinquent." Under pressure, the FHA has proposed raising capital standards and credit scores. Still, FHA Commissioner David Stevens warns against the temptation to "overcorrect."

The Government National Mortgage Association, or Ginnie Mae, also is expanding its issuance of guaranteed mortgage-backed securities. The organization is backing 27 mortgage companies "with a history of reckless lending, fines or other sanctions by state and federal regulators or civil lawsuits," according to the Washington Post.

In June Ginnie Mae issued a monthly record of $43 billion worth of guaranteed securities. Financial exposure is expected to rise from $577 billion last year to $1 trillion by the end of next year.

The Community Reinvestment Act was used by Acorn and similar groups to extort money from banks seeking merger approval. More important, CRA pressed banks to make loans to unqualified borrowers.

CRA commitments exceed $6 trillion compared with just $9 billion from 1977 to 1991. Edward Pinto reports in City Journal that CRA loans "constitute toxic lending — that is, lending that leads to unsustainable loans, resulting in an unacceptable level of foreclosures."

Yet Congress is considering expanding CRA to credit unions, insurance companies and mortgage lenders. The administration declared that "rigorous application of the Community Reinvestment Act should be a core function of" its proposed Consumer Financial Protection Agency.

Some policymakers simply don't worry about big loan losses. "I don't think it's a bad thing that the bad loans occurred," said Rep. Frank. "It was an effort to keep prices from falling too fast."

The Federal Reserve has purchased $836 billion in debt issued or guaranteed by the GSEs on the way to a planned total of $1.25 trillion. Today Uncle Sam funds or guarantees 86% of new home loans, nearly a threefold increase in just four years.

Meanwhile, Massachusetts' Frank has joined with Rep. Maxine Waters, D-Calif., to advocate giving billions of TARP money to the jobless for mortgage relief and local governments to buy foreclosed properties. Legislators also are complaining about banks not providing adequate mortgage relief; Rep. Al Green, D-Texas, warns that Congress may feel forced "to take drastic action."

These programs are directed at residential housing. The commercial real estate market may next collapse, and Fannie and Freddie again are at risk, having jumped into apartment lending just as the commercial real-estate market peaked. Mike Kelly, president of Calder Asset Management, observed: "Fannie basically put more gas on the fire."

Policymakers set the U.S. on course for an economic crash when they pumped up the housing market. Incredibly, Congress appears bound to repeat its mistakes.

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