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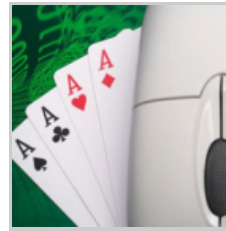
NLRB's Pro-Big Labor Ruling Trifecta is Bad News for the Economy



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Obama Administration: Time to Pay Your Neighbor's Mortgage

by HANS BADER on SEPTEMBER 1, 2011 · 0 COMMENTS
in BAILOUT WATCH, ECONOMY

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The Washington Times yesterday had an editorial, "[Paying Your Neighbor's Mortgage](#)," about the costly new bailout advocated by political appointees in the Obama administration, a bailout [unauthorized](#) by federal law that could cost taxpayers "[tens of billions of dollars a year](#)," while providing preferential treatment for borrowers whose loans are owned by the [government-sponsored](#) mortgage giants Fannie Mae and Freddie Mac:

The Obama administration wants to let millions of homeowners with government-backed mortgages refinance their loans at current low rates, which are about 4 percent. A very large percentage of those loans are underwater, and the homeowners couldn't get lower rates without government intervention. The White House is acting as if forced refinancing is a free lunch. It's not. Reducing the interest rate that Fannie Mae and Freddie Mac get paid on these loans will cost the government-sponsored enterprises tens of billions of dollars a year.

The reality is that Fannie and Freddie are effectively part of the government, and they hold \$730 billion and \$680 billion worth of mortgage securities respectively. The Federal Reserve System has \$900 billion worth of securities insured by Fannie and Freddie. The Treasury held about \$80 billion of those securities in July. What all this means is that taxpayers are investors in mortgage-backed securities whether they want to be or not. Don't believe the Obama administration's populist rhetoric that it wants to reduce the costs of borrowing for homeowners at the expense of big investors in mortgage-backed securities. In this case, what Democrats really are trying to do is redistribute wealth from all taxpayers to underwater homeowners, not from fat cats to the starving homeless.

This is a Hail Mary pass that won't work. There is little evidence that lowering payments reduces the risk of default and foreclosure. If that were indeed the case, private lenders would have an incentive to modify mortgages, which they aren't doing on a massive scale. It's also not clear why irresponsible people who bought larger houses than they could afford should be rewarded with cheaper mortgages than the market is willing to provide. Once again, the thrifty will be asked to bail out the profligate. The moral hazard and perverse

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incentives created by such a system are symbolic of an Obama economy that inhibits smart investment and growth.

As Cato Institute economist Mark Calabria [notes](#), this planned bailout is illegal. Indeed, its illegality was earlier more or less conceded by the official in charge of the office that oversees the mortgage giants, Ed DeMarco, who observed that the Obama administration is “[not authorized to do it](#)” by the relevant financial statutes. (He has since been criticized by liberal academics and others who claim that his concern with the law and legal matters blinded him to the political “big picture” requiring more bailouts, as if the rule of law were a mere technicality to be waived for the sake of political convenience.) If this bailout were legal, DeMarco would have kept his mouth shut. DeMarco has been very much a “team player” in the Obama Administration to the extent that the law permits, such as not objecting when the [Obama administration](#) earlier [lifted](#) the \$400 billion limit on bailouts for Fannie Mae and Freddie Mac, so that they could continue to buy up junky mortgages at taxpayer expense, and [showered their executives with \\$42 million in compensation](#).

The Obama administration is now [forcing banks to make risky loans](#) (in the name of “fair lending”), thus planting the seeds of a future financial crisis. The Obama Justice Department is suing banks that refuse to do so, and forcing them both to award preferential loans based on race, and to cough up money in “settlements,” some of which [goes to left-wing “community” groups](#) that are allied with the Obama administration.

Even [speculators and McMansion owners](#) would benefit under recent bailouts proposed by Obama Administration officials.



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