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Housing market in question

By Mark Calabria – 11/11/12

The most glaring absence during the hard-fought campaign between President Barack Obama and Mitt Romney was any offer of substance regarding the housing market. It was, after all, a housing bubble-driven financial crisis that helped propel Obama to victory in 2008 and recent improvements in the housing market that perhaps helped secure his re-election Tuesday night. So housing policy was always there, even if only in the background. What does the next four years likely hold for the housing market?

Well, Obama's victory means that Federal Reserve Chairman Ben Bernanke will keep his job, at least until the end of his term in 2014. That means the Fed's policy to hold interest rates at record lows will continue. While mortgage spreads over Treasuries have been elevated, mortgages overall will likely hover near historic lows over the next year, providing some upward pressure on housing prices.

Regardless of who the election winner is, the primary driver of housing policy will be the housing market. With home prices recovering in many areas and foreclosures on a slow but steady decline— due in part to rising prices and an improving labor market — Obama is likely not to introduce new foreclosure prevention programs in his second term. With Republicans maintaining their control of the House, legislative efforts to force broad-based reductions in underwater mortgage balances are essentially dead. While re-tools of Obama's signature HAMP and HARP programs are likely, those will be modest. In many ways, I believe the White House is eager to put the foreclosure crisis behind them and move on.

With Obama's victory and modest Democrat gains in the Senate, the president will likely renew attempts to put in place key appointments. Among those are replacing Ed DeMarco, the Federal Housing Finance Agency's acting director. Not only will this appointment influence the modifications efforts (or lack thereof) of Fannie Mae and Freddie Mac, but it will also give the administration a larger voice in Congressional debates over the future of the government-backed mortgage giants. Given the significant differences between House Republicans, Senate Democrats and the White House on reform of Fannie and Freddie, both companies will likely still be in their conservatorship limbo at the end of Obama's second term.

The Senate is also likely to act on a permanent housing commissioner to administer the Federal Housing Administration. Such an appointment will become all the more critical, as, in my opinion, FHA will require some amount of taxpayer assistance in the years ahead. If such amounts exceed $10 billion, which I believe they will, then legislative reform of FHA becomes a strong possibility with a focus on reducing taxpayer losses.

Romney repeatedly spoke of tax reform with an emphasis on reducing deductions in order to lower rates. Despite a vocal minority within progressive circles calling for reducing the mortgage interest deduction and using the money for rental assistance, an Obama victory largely guarantees the continued existence of the mortgage interest deduction in its current form. One can almost hear the Realtors breathing a sigh of relief.

With Obama's re-election comes the likely permanence of the Dodd-Frank Act and its newly created Consumer Financial Protection Bureau. Once the battles over CFPB's existence die down, I believe bipartisan attention will shift to the agency's regulation of the mortgage market. Both Dodd-Frank's Qualified Residential Mortgage and Qualified Mortgage definitions have raised concern across the political spectrum. Whether it's a concern that low-income and minority families will be denied credit due to the restrictions of QRM/QM, or that the regulations will hold back the overall mortgage/housing market, a more substantial debate will begin, ultimately resulting in a softening of the provisions of QRM/QM.

Much of what I have discussed lies on the regulatory side of housing policy. To a large extent, the real action will remain there. Whoever was going to win was going to face some stark budget realties. With little chance of wholesale entitlement reform, discretionary spending will be squeezed. Federal assisted housing programs have their peak funding (in real terms) behind them. While the overall housing market will continue to gain momentum over the next four years, that momentum will be slow. The days of real double-digit house price appreciation are years away. Obama will not be riding a housing bubble nor will he be tasked with cleaning up another bust. That will have to wait for future administrations.

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