

August 20, 2010

<http://detnews.com/article/20100820/OPINION01/8200329>

Editorial: Federal government should begin withdrawal from mortgage business

THE DETROIT NEWS

The country's housing finance system is in dire need of revamping -- this is a consensus. But the question is how to fix it. The best answer is to phase out most forms of federal mortgage support and get taxpayers out of the mortgage-backing business.

At a conference to discuss possibilities earlier this week, U.S. Treasury Secretary Timothy Geithner advocated a system that would still include the government. Instead of backing Freddie Mac and Fannie Mae, the largest federal mortgage support institutions, the government would explicitly subsidize mortgage loans made by private companies.

That would be a mistake. Taxpayers have already spent more than \$150 billion to make up for losses that Fannie Mae and Freddie Mac acquired by investing in lower-quality, subprime mortgage loans. As Mark Calabria, director of financial regulation studies at the Cato Institute, noted in a recent article, the main flaw in the current system is that "the gains from risk-taking are divorced from losses ... lenders, homeowners and the real estate industry reap the rewards, while the taxpayer is left holding the bag."

Calabria also pointed out the mortgage finance system has morphed into another form of welfare. If the government aims to redistribute wealth, he contends it needs to do so transparently.

Those in support of government-backed mortgages argue that the guarantees are vital in order for investors to finance mortgages. Geithner said such support would ensure Americans can borrow at reasonable interest rates despite the downturn. He also argued the recession could worsen if unsubsidized private companies reduce lending. But other countries manage well without significant government involvement. The Economist magazine cited a paper by Michael Lea of San Diego State University which looked at how numerous other countries, including Germany, Britain and Canada, boast fairly healthy home-ownership rates with much less government backing of mortgage finance.

Elliot Spoon, a professor at Michigan State University's College of Law and an expert on housing legislation, says despite how central Fannie and Freddie have been to the housing finance system, change is essential. He recommends winding down the mortgage giants and allowing the private market to take over. "No longer would taxpayers be on the hook for the private mortgage market," he says.

A properly managed phase-out is important, however, since government entities such as Fannie and Freddie and the Federal Housing Administration back about 90 percent of new mortgages. The housing market is still depressed.

The government needs to begin extricating itself from the mortgage industry.

© Copyright 2010 The Detroit News. All rights reserved.