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Clunker-like, U.S. housing plan saps future demand

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By Patrick Rucker - Analysis

WASHINGTON (Reuters) - Low interest rates and tax breaks are giving the U.S. housing sector a jolt but, like the "cash-for-clunkers" program spurring car sales, the recent spurt in home sales is taking an advance on tomorrow's demand.

Thanks to Washington, 2009 has become a tempting year to purchase a home.

First-time buyers may receive an $8,000 tax credit and mortgage rates are invitingly low as the Federal Reserve fulfills its promise to buy nearly $1.45 trillion in mortgage-related securities this year.

The real estate industry is lobbying Congress to extend the tax credit beyond its planned November expiration.

But there are concerns the program's benefits may be short-lived, uneven and could undercut future sales.

For observers like Mark Calabria of the libertarian Cato Institute, the sector is wrongly borrowing from tomorrow's market and the tax credit and other stimulus could prevent an orderly recovery.

He sees a risk regional and local housing markets that have not touched bottom will be artificially inflated, while borrowers lured by government stimulus could rush into still-sinking markets.

"This manipulation is going to be disruptive in different ways for different markets," he said.

BORROWING FROM THE FUTURE

Since the tax credit was enacted in February, sales of new homes have climbed for five straight months and sales of previously owned homes have hit two-year highs.

"If you have been saving your pennies and paying your bills, there probably is no better time to buy than right now," said Brian Montgomery, former head of the Federal Housing Administration, which aims to provide affordable home loans.

Some realtors warn the housing sector is eating its seed corn with the help of government incentives and many of today's home buyers will be badly missed in the future.

"It's an offer that has people deciding to make a home purchase sooner rather than later," said Pam Jones, who sells property in Northern Virginia, of the tax credit.

Jones is a 26-year veteran of the suburban Washington real estate market, which soared when easy-to-get, subprime loans were fueling the U.S. market.

Now, three out of every four homes that Jones sells are funded by the FHA and some warn that the government is taking on too much risk as it tries to stabilize the market.

There are also worries consumers are getting hooked on government subsidies and may stop spending without them.

PENT UP DEMAND

As investors have cooled to risky mortgage investments, the FHA has seen its market share increase. It expects to handle three million applications this year, about 50 percent more than in 2008.

Former FHA chief Montgomery, now a financial services advisor with the Collingwood Group, says the 3.5 percent down payment his one-time agency still requires is prudent, although he would support increasing it.

He also defends the government's housing stimulus policies. "Is tomorrow going to be a sunnier day? Nobody knows. Does a recovery come in 2011, 2012, 2013?" he said.

James Lockhart, the outgoing regulator for mortgage finance companies Fannie Mae and Freddie Mac, said officials must be careful not to over stimulate today's market. But he said there is plenty of pent-up demand to go around.

"There are two years worth of people who were waiting on the sideline because of fear of falling house prices who are now ready to buy," he said.

Easy credit fueled a five-year housing boom that crashed in 2006, leading to record foreclosures and damaging the credit of millions of consumers.

"There are people with lots of scars and the theory that housing prices always rise has been destroyed," said Lockhart, who will soon become vice chairman of a distressed investment group at Invesco Ltd.

But the housing sector "is bumping around the bottom" and government efforts are helping stabilize the market, he said.

(Additional reporting by Al Yoon in New York, editing by Andrew Hay)