Insight

3 Key Factors To Evaluate Treasury's Latest Housing Plan

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Treasury Secretary Lew announced today yet another extension of the Making Home Affordable (MHA) program, this time through 2016, while touting its successes. He further called on Congress to extend the Mortgage Forgiveness Debt Relief Act and pass housing finance reform and announced a Federal Housing Administration program of lowered interest rates for multifamily housing. Now eight years since the housing bubble burst and five years since the Obama administration first rolled out dozens of programs all designed with the aim of helping hurting borrowers stay in their homes, the administration continues to push programs that have had decidedly mixed results. Lew's announcement comes on the heels of Federal Housing Finance Agency's (FHFA) new outreach efforts for the Home Affordable Refinancing Program (HARP).

Instead of solid records of meaningful assistance to homeowners, programs like HARP and Making Home Affordable (MHA) have been largely defined by their endless repetition of trial and error and their inability to meet stated target objectives. Both the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) and the Congressional Oversight Panel (COP) have criticized HAMP, an initiative under the MHA umbrella, for doing more harm than good.

Here are three key factors to consider while evaluating Secretary's Lew's latest announcement:

1. Housing markets across the country have improved since the rollout of HAMP, HARP, and the like, in spite of them, not because of them.

While the housing sector may not be performing as robustly as many had hoped or expected, it is certainly on more solid footing than a couple years ago. The percentage of mortgages in the foreclosure process has fallen to 1.8 percent, the lowest level since 2008. The percentage of delinquent mortgages 60 days or more past payments has fallen to 3.1 percent. Yet improvements can hardly be attributed to the administration's housing programs, which may have even delayed housing recoveries in some places.

For example, more than one out of four borrowers taking advantage of HAMP ended up re-defaulting on their mortgages. Foreclosure mitigation programs, like HAMP, only work insofar as a borrower is able to sustainably afford mortgage payments in the long term. When a significant portion of program participants re-defaults and potentially enters into foreclosure, the surrounding neighborhood is prevented from rebounding more speedily. Evidence of this can be seen in the lengthy judicial foreclosure processes that prevented states like Florida from improving more quickly.

The administration has implemented, re-proposed, and altered dozens of housing programs a dizzying number of times to help borrowers stay in their homes and reduce the number of foreclosures. Yet with re-defaults in a consistently underperforming economy, some communities have struggled to truly recover as rents and house prices nationwide ticked up. Weak employment and wage growth have consistently plagued the recoveries of America's housing markets and stand at the very root of current weaknesses. Even more than a cold winter or rising rates. An agenda with a laser focus on growth is desperately needed.

2. Too little, too late.

The administration has tried a host of housing fixes with limited success. Refinancing programs in particular exist through legislation and have been further encouraged by massive bank settlements. And even those programs have been revamped numerous times. (What version of HARP are we on?) Previous programs have helped far fewer people than intended. Borrowers who are still underwater (even following large house price gains of the last couple years) would more uniformly benefit from stronger job and economic growth than any new housing band-aid.

3. Finish writing the rules before working around them.

Underlying both Lew’s announcement and recent efforts by the FHFA is the continued rhetoric espousing the need to “expand access to credit for borrowers.” Instead of finding ways to circumvent a housing regulatory regime that has yet to be fully implemented, administration officials should more forcefully push to build a safer housing finance for the future that limits taxpayer exposure and has clear rules of the road moving forward system (unlike the new emphasis at FHFA on preserving the current system).