Barry's Latest Vote-Buying Scheme

On the campaign trail in Fairfax, Virginia on February 1, Obama tried to buy the votes of homeowners by proposing a mortgage refinancing scheme that he claims would save them an average of $3,000 per year. (Obama, of course, failed to mention that if someone is *given* $3,000 it first has to be *taken* from someone else.)

Obama stated, "It is wrong for anybody to suggest that the only option for struggling, responsible homeowners is to sit and wait for the housing market to hit bottom." (In fact, that is *precisely* the proper response to the housing crisis. Had the government not created a housing "boom" there would never have been a housing "bust" in the first place. The wise course of action is to let prices flow to their proper market levels—but that would not win Obama any votes.)

Obama's "plan" is to *force* banks to refinance mortgages at lower rates—regardless of the home's current value or the fact that the homeowner signed a valid contract agreeing to pay the higher rate that was in effect at the time of purchase. Obama cannot magically boost the values of the homes—although the Federal Reserve is trying desperately to do that by inflating the money supply—so he is trying to make it easier for homeowners to remain in houses that are worth less than what they may owe on the mortgage. But the reduced mortgage interest must be offset, either by forcing banks to absorb the loss or by forcing the taxpayers to subsidize the program. The likelihood that Congress will agree to such legislation is minimal. House Speaker John Boehner (R-OH) responded to Obama's proposal: "I don't know why anyone would think that this next idea is going to work."

Obama's scheme not only calls for banks to be forced to reduce interest rates; it also calls for banks to be forced to reduce the outstanding *principal*—in cases where the amount owed exceeds 140 percent of the home's market value. If, for example, a home has declined in value from $200,000 to only $100,000 and the homeowner owes $160,000 on the mortgage, the bank will be forced to write off $20,000 and "pretend" that the homeowner owes only $140,000. Obama does not explain why the bank should be forced to accept a $20,000 loss—or where it will get the money to cover that loss. Banks will, of course, have to offset those losses by increasing revenue elsewhere. Bank fees will be increased and interest rates on new home loans will likely be raised. Thus, someone in the market for a home today would have to pay a higher rate of interest in order to "bail out" someone who bought a home several years earlier.

Buy why should a person buying a house today have to pay a higher interest rate simply because some homeowners are "underwater" on their mortgages? Yes, it is unfortunate that some people owe more on their loans than their homes are worth, but how can they expect others to cover their losses? Should someone who scrimped and saved for years to accumulate a down payment on a house he has yet to buy be punished so that someone who unwisely bought a house with no money down can be rescued or rewarded? Besides, owing more on a home than it is worth does not make one homeless. It simply means that selling it and moving elsewhere cannot be accomplished without taking a loss. But the homeowner does not have to accept the loss—he can simply remain in his house. He will still have a roof over his head. He will still be more fortunate than 90 percent of the people in the rest of the world.

Why does one homeowner deserve special treatment through a bailout from another? There are many senior citizens who years ago bought stock in General Motors and Kodak. They have lost a fortune. Aren't they "underwater" on their stock portfolio? Aren't they suffering in their retirement years because they no longer receive the dividend checks they depended on? Should Obama propose a law that "declares" GM and Kodak stock to be worth $50, rather than $25? Are the Republicans "mean" if they refuse to pass such legislation? (The talking heads on MSNBC would no doubt say yes.)

Obama's mortgage scheme would actually end up having a negative effect on a housing recovery because it would prompt banks to raise the interest rate on new loans. That will discourage home sales, which will, in turn, force desperate sellers to lower their prices even more—*further* lowering housing prices.

Worse yet, if a bank approved a mortgage at a 5.25 percent interest rate and is now forced by Obama to reduce that rate to, for example, 4.00 percent, how can a bank *not* fear the government doing the same again thing in the future? *The Obama scheme therefore introduces a risk factor in all new mortgages.* The bank will be obligated to factor in that risk factor for all new loan approvals, charging a higher rate than it would normally charge in order to offset future losses it will incur if the government again imposes the penalty a few years down the road. Future home buyers would therefore pay a higher rate of interest so that Obama can buy the votes of current homeowners.

What would *you* do if you ran a bank? How would you decide what interest rate to charge a customer? How can you possibly approve a 30-year mortgage when you know that at some point in the future the federal government may step in and say, "Sorry, but you must now slash that interest—or else. Oh, and by the way, that $200,000 the homeowner owes you? Change that to $170,000." How can you possibly run a bank—or *any* business—with such uncertainty hanging over your head? You cannot. Yet that is exactly what Obama is proposing.

Granted, a family's mortgage payment is likely its greatest expense, homeowners would no doubt be happy if that expense were reduced, and one can feel sorry for those people who owe more than their homes are worth. But the government cannot be allowed to arbitrarily decide how much a particular business can charge for its product or service. If Obama can tell a bank, "Don't you dare charge more than X percent interest!" he can also tell the supermarket, "You are not allowed to charge more than 25 cents for a loaf of bread!" Yes, you may think 25-cent bread is a good idea. But if that were the law, you would not be able to buy bread for a quarter. You would not be able to buy *any* bread, because companies that bake bread would lose money on every sale and go out of business. If, in 1925, the government decreed that the price of an automobile would be limited to $500 would you now be able to buy a car for $500? Of course not—because no cars would be built. Similarly, if banks lose money on mortgages there will be no more mortgages.

Government-imposed price controls are doomed to failure, because they either cause businesses to fail or they guarantee skyrocketing price increases when the controls are eventually lifted. Nixon imposed a wage-price freeze during his presidency, but when those controls were removed the result was prices shooting into the stratosphere as businesses tried to regain the revenue they lost when the controls were in place. Gerald Ford and Jimmy "Misery Index" Carter then paid the price for Nixon's mistake.

Obama may be so ignorant of economics—and reality—that he cannot comprehend the negative impact of his mortgage proposal. On the other hand, he perhaps does understand *but simply does not care.* That is, his proposal is *not* meant to get through Congress and be signed into law, it is meant to make Congress look mean-spirited by *not passing it*. (From now to November 6 Obama can exclaim, "Well, I *tried* to help you but that do-nothing Congress stood in my way!") Even if his proposal did pass and get signed into law, Obama would reap the immediate reward (more votes), while most of the negative impacts would—conveniently for him—not be experienced until *after* election day.

Consider yourself warned: it is only February, so Obama still has nine months to propose additional vote-buying schemes that will cost responsible people money while benefiting the irresponsible—and don't expect the mainstream media to point out the flaws in Obama's proposals.

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