

Sacramento plan for underwater home owners flawed

by Randy Bright <http://www.tulsabeacon.com/?p=6338>

On September 30, 1999, an article appeared in the New York Times authored by Steven A. Holmes entitled, Fannie Mae Eases Credit to Aid Mortgage Lending.

He wrote, “Fannie Mae, the nation’s biggest underwriter of home mortgages, has been under increasing pressure from the Clinton Administration to expand mortgage loans among low and moderate income people and felt pressure from stock holders to maintain its phenomenal growth in profits.”

“In addition, banks, thrifts institutions and mortgage companies have been pressing Fannie Mae to help them make more loans to so-called sub-prime borrowers...In moving, even tentatively, into this new area of lending, Fannie Mae is taking on significant more risk, which may not pose any difficulties during flush economic times. But the government-subsidized corporation may run into trouble in an economic downturn, prompting a government rescue similar to that of the savings and loan industry in the 1980s.”

Well...we all know how well that worked out. Even when this foolish practice began, the government knew that it would not end well, knowing that the economy ebbs and flows in up and down cycles. It was just a matter of time for a downturn triggered a crisis.

Six years later, the U.S. Supreme Court ruled in Kelo vs. New London that governments could, using eminent domain, take property from one private owner and give it to another if it would benefit the community economically. This, of course, was never the intended purpose for eminent domain, and even the ultra-liberal Justice Sandra Day O’Conner said in effect that it would open the floodgates to abuse property rights.

For several decades, cities have enacted zoning codes that imposed urban growth boundaries and encouraged dense development. This practice led to artificially high property values, leading people to take out loans on properties, mostly homes, that were valued far above their real value. Eventually, the housing bubble burst, and now approximately one in five homeowners are now underwater with their mortgages.

One of the hardest hit areas in the country is California, a state that has enacted stringent regulations that have driven up the sales prices of homes to many times that of the national average. With the downturn of the economy, it is no surprise that property values in many Californian cities have plummeted to the point that it has affected cities ability to keep their own bills paid.

Sacramento is one of those cities. According to an article in the Huffington Post, nearly 70 percent of homeowners in the Sacramento neighborhood of North Natomas are underwater. The

author wrote, “Nearly half are considered ‘seriously underwater,’ meaning the homeowners owe the bank at least 125 percent of the value of their property.”

The failing economy has led to less business and employment, which has reduced incomes (which were already too low to qualify for loans), which has pitched local economies into a tailspin from which they are unlikely to recover.

But fear not. The vice mayor of Sacramento has been given a suggestion to solve city woes – take the homes using eminent domain.

The article said, “... Sacramento would condemn some underwater mortgages, buying them at far less than face value using resources advanced by the venture fund (Mortgage Resolution Partners).

Homeowners would see equity restored, allowing them to refinance into new mortgages at lower rates of interest, thus yielding lower payments.”

Have we come to the point that this even seems like a good idea? Unfortunately, yes, people in this country have lost their constitutional bearings – or perhaps never had any to begin with – so much so that they don’t recognize bad ideas when they see them. So when government demands that lenders make risky loans to people who they know will likely default, when U.S. Supreme Court Justices redefine the meaning of eminent domain, and now it appears that cities will be using it to rescue their citizens, they think that it’s a good idea.

In reality, the more we redefine the Constitution and the more we transgress the law of supply and demand, the more it will impede our economic recovery. There can be no good thing emerge from this kind of liberal thought. If Sacramento follows through with this plan, relief will only be temporary, and the outcome will be worse than their situation already is.

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