New American

Written by William P. Hoar on May 21, 2018

Published in the May 21, 2018 issue of the New American magazine. Vol. 34, No. 10

Correction Please

Want to Borrow More Housing Troubles? Been There, Done That.

Item: The New York Times, *in an April 15 editorial entitled "A 'Black Tax' on Housing," maintained: "Minority communities that were ravaged by predatory lenders during the run-up to the recession have now been shut out of the credit market entirely because of tightened lending standards."*

The editors went on to comment: "In a sensible world, the federal government would be suppressing predatory lending while beefing up programs that provide affordable home mortgages and refinancing arrangements. Instead, the Trump administration and Congress are gearing up to gut federal fair lending protections and make it easier to hide emerging patterns of predatory financing."

"In the absence of federal leadership, mayors and governors will be left holding the bag when default and declining ownership levels hollow out more communities. So it is up to them to find and root out abuses in real estate lending and to close the racial gap in homeownership. They can expect no help from the Trump administration."

Item: *"Secretary of Housing and Urban Development Ben Carson was grilled by Massachusetts Senator Elizabeth Warren on Capitol Hill during a Senate Banking, Housing and Urban Affairs Committee hearing," reported The Source magazine for March 23. The Massachusetts Democrat centered her criticism on the enforcement of a mandate that "directs communities receiving HUD block grants to complete a comprehensive Assessment of Fair Housing." Secretary Carson delayed this rule until October 31, 2020. She rejected his assertion that "the effective date was delayed due to the expenses that cities would be subject to paying which Carson claims would be between $100,000 and $800,000."*

She also condemned Carson's remarks in print in 2015 that "referred to this mandate as a 'failed socialist experiment.'"

Said Warren: "You said you would enforce these laws, you haven't and I think that's the scandal that should get you fired."

Correction: There are plenty of problems with public housing. Many of them are exacerbated by poor government policies in the first place, rooted in the faulty premise that the federal government should be providing and subsidizing housing to begin with. The assorted proposed solutions — usually involving larger and more intrusive requirements, rules, and interventions — have tended to turn bad into worse.

Consider "redlining." This was a policy that dated to the New Deal, whereby several federal bureaucracies came up with color-coded maps of metropolitan areas — tools for appraisers to show areas considered safe to insure mortgages. Heavily black neighborhoods were often colored red, representing areas that were deemed fiscally risky.

Subsequently, when banks didn't lend enough money in poorer or minority neighborhoods to please influential do-gooders, there were multiple political responses to press banks to give loans in those areas, including some retained to this day because the outcomes were deemed unsatisfactory. When government incentives lead banks to make risky loans, their chances of failure increase. The banks will either try to spread the risk to other financial institutions — such as what happened in the run-up to the bursting of the housing bubble, or charge more for loans in safe areas, penalizing people who did nothing wrong.

Allowing markets to operate freely is anathema for interventionists.

That was certainly the case under Obama's HUD, as Ben Carson himself noted three years ago. Said Dr. Carson: The Obama administration's then-new rules relied "on a tortured reading of the Fair Housing laws to empower" HUD "to 'affirmatively promote' fair housing, even in the absence of explicit discrimination."

Carson, the current secretary of the Department of Housing and Urban Development, served for almost three decades as the director of pediatric neurosurgery at the Johns Hopkins Children's Center and is the author of several books. He pulled himself up from a rough childhood to being selected (in 2000) a "living legend" of the Library of Congress. He has discussed what he acknowledged were "private and public housing policies such as redlining, restrictive covenants, discriminatory steering by real estate agents and restricted access to private capital." These actions were, in his words, "attempts at social engineering" that "exacerbated the suburban segregation in the 1970s and '80s."

Over the years, numerous efforts were directed at low-income housing, as politicians decided they could do better by fiat than the economic laws ruling supply and demand. Among counterproductive ventures were urban renewal crusades and spates of public housing construction, followed by rehabilitation efforts and instituting rent supplements.

Over one period (1967-1971), according to an academic study, urban renewal was responsible for demolishing 538,000 dwelling units, though building only 201,000. Thus, the "fix" wound up with a net loss of more than 300,000.

Another, more wide-ranging assessment, this by economist Robert Craswell in 1974, concluded that government programs in this country had been responsible for the net destruction of more than one million housing units.

These snags didn't halt the government's "anti-poverty" and "anti-discrimination" endeavors. The Community Reinvestment Act (CRA) was supposed to stop lending discrimination in low-income neighborhoods. Predictably, it didn't work as promised. The *Wall Street Journal* not long ago noted that the CRA

was signed by President Jimmy Carter in 1977 to stop "redlining," a practice where banks wouldn't lend money in poorer or minority neighborhoods. Bank regulators during the Clinton administration added a uniform test as a way to measure compliance more objectively. The hope was that by encouraging banks to do business in lower-income areas, people living there would be able to get affordable loans.

The government decided that it would determine which were the "poor" neighborhoods in need of help by banks and define the appropriate risk for lenders to assume.

A 2008 paper by Michelle Minton of the Competitive Enterprise Institute (CEI) concluded that the CRA in fact *decreased* access to credit for those living in low-income communities. Minton's analysis was detailed, but she showed, *inter alia*, that the CRA increased costs for small lenders and increased the risks of the loans. It also drove off smaller institutions. And as commented by another CEI writer in May 2017, the law has discouraged other lenders from replacing them — because low- and middle-income lending requirements make "closing, or moving branches difficult and more costly for lenders in those neighborhoods, thus adding another layer of risk."

The government's designated "poor" areas (for the purposes of the CRA) included many neighborhoods that were "among the wealthiest in the nation," including Midtown Manhattan, the *Wall Street Journal* reported last year.

"Government-engineered attempts to legislate racial equality," as Ben Carson wrote in 2015, "create consequences that often make matters worse." There are, Carson maintained, "reasonable ways to use housing policy to enhance the opportunities available to lower-income citizens, but based on the history of failed socialist experiments in this country, entrusting the government to get it right can prove downright dangerous."

However, to this point in time, the latest HUD secretary has not made the waves that many conservatives hoped for (though he still draws the ire of the Left, in Congress and out, as well as the professional povertycrats burrowed inside his agency).

Vanessa Brown Calder, an analyst who has specialized in housing, welfare, and urban affairs with the Cato Institute and the Heritage Foundation, was hard-pressed to find major bright spots during Carson's first year at HUD. Last summer, as she noted at NationalReview.com, the secretary "backtracked on his fiercest criticism of HUD policy when he decided to keep the rule he called a 'social-engineering scheme' and 'reinterpret it.' The rule in question (Affirmatively Furthering Fair Housing) makes HUD an overseer of local demographic information, with a special eye toward eliminating demographic segregation." That rule, she wrote in January, seems to be

only loosely based on the 50-year-old legislation (the Fair Housing Act) it purports to interpret, and is probably another example of a federal agency getting creative regarding ways to expand its mission. Congress should pass new legislation if it likes the rule. Either way, Carson's updated plan to "reinterpret" the rule has meant nothing more than delaying a deadline for cities' submitting information.

For his part, Carson said his first year as secretary was focused on HUD changes to help recipients of government aid become more self-sufficient, deregulating wherever possible, and strengthening partnerships with the private sector.

Federal housing assistance is among those welfare areas affected by April's executive order by the president, entitled "Reducing Poverty in America by Promoting Opportunity and Economic Mobility." The order instructed federal agencies to add or strengthen their work requirements for "any program that provides means-tested assistance or other assistance that provides benefits to people, households or families that have low incomes."

President Trump made a compelling case for expanding work requirements for those receiving aid, saying, "Many of the programs designed to help families have instead delayed economic independence, perpetuated poverty, and weakened family bonds."

The usual suspects — knee-jerk anti-Trumpists — insist that it is cruel to ask recipients of taxpayer assistance to work for benefits.

Housing assistance is but a part of the huge "war on poverty." Washington spends federal dollars to run at least 89 means-tested aid programs. Federal, state, and local governments spent $1.1 trillion on such aid in fiscal 2016. To put this into perspective, one recent Heritage Foundation report calculated that between 1965 and 2016, overall means-tested welfare spending by federal and state governments "cost taxpayers roughly $27.8 trillion in constant 2016 dollars. By contrast, the cost to the U.S. government for all military wars from the American Revolution to the present is $8 trillion in FY 2016 dollars."

Keep in mind that the government's housing policies affect more than low-income Americans. We saw that (at least those looking with clear eyes) when the housing bubble burst and led to the financial crisis of 2008 and the great recession.

It was not for a lack of regulations that we had a financial crisis — one of the points made in detail by Peter Wallison of the American Enterprise Institute, among other analysts. Wallison pointed the finger directly at the government's housing policies, including those setting "Affordable Housing Goals." Those goals required the Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) — U.S. government-sponsored enterprises — to meet annual quotas of low- and moderate-income mortgages when they bought mortgages from banks.

In a paper in October 2017, Wallison summarized the sequence, noting that by 2008, just before the financial crisis, "more than a majority of all mortgages in the U.S. financial system were subprime, required low or no down payment, or were otherwise risky. Of those loans, 76 percent were on the books of government agencies, principally Fannie and Freddie." It was the U.S. government "that created the demand for these mortgages." He continued:

[In 2007 and 2008], when home prices had gotten so high that no amount of concessionary lending could get borrowers to take on the loans, the bubble's growth flattened and began to decline….

A deluge of defaulted mortgages hit the financial system, buyers of mortgages and mortgage-backed securities that were not guaranteed by the government disappeared, and financial firms that had bought these mortgages or the mortgage-backed securities were left holding the bag.

Fannie and Freddie became insolvent, were taken over by the government, and were bailed out by the taxpayers for $187 billion. The outcome was a financial crisis in 2008 and a deep recession that ended in June 2009.

That of course was not the explanation given by the Obama administration and its progressive friends then holding sway in Congress. They blamed all on *insufficient* regulation of the private financial sector.

Meanwhile, far too many elected leaders still seek to buy political support by interfering in the issuance of housing loans in the marketplace.

The danger, as Peter Wallison has commented, is "that as long as the public fails to recognize that the government's housing policies — and not lack of regulation — caused the financial crisis, we will continue the same policies that brought on the financial crisis" about a decade ago.

Will we learn from our errant past? Well, experience may be the best teacher, but, sadly, we tend to be poor pupils.

— William P. Hoar

Photo: AP Images