



Written by [Michael Tennant](#) on June 9, 2024

Biden's Housing Policies May Be Setting the Stage for Another Crash

In the first several years of the 21st century, federal policies encouraging banks to grant mortgages to borrowers who couldn't repay them, government purchases of mortgage-backed securities, and other housing-market interventions led to skyrocketing housing prices and record consumer debt, precipitating the 2008 crash.

Yet the Biden administration, having learned nothing from this fiasco, has enacted similar policies that are virtually certain to result in similar outcomes, reports the [Daily Caller](#).

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), the same government-sponsored corporations that played a major role in the 2008 crash, are behind much of the current mischief in the housing market. Under [May 2023 guidance](#) from their regulator, the Federal Home Financing Administration (FHFA), these entities have been using low-risk borrowers to subsidize high-risk ones.

"The new Fannie and Freddie mortgage pricing directive raised rates on low-risk borrowers and reduced them on high-risk borrowers," Jason Sorens, senior research fellow at the American Institute of Economic Research, told the Daily Caller. "This is not really a free market to begin with, but the risk here is creating something like the subprime crisis, where high-risk borrowers are encouraged to take on debt they can't repay. Again, this has the potential to hit the bottom line for Fannie and Freddie."

Further FHFA directives have made matters even worse. In November, the agency [announced](#) that it would be increasing the mortgage limit for single-family homes in most areas to \$766,500, a \$40,350 jump over the previous year. In high-cost areas, however, borrowers could get almost \$1.5 million from government-backed lenders. On top of that, the FHFA has [proposed](#) allowing Freddie Mac to purchase second mortgages.

The administration also [promulgated](#) a rule last year to prevent "racial and ethnic bias" in home valuations, which will undoubtedly cause banks to make unwise loans to minorities to keep regulators off their backs — precisely the same scenario that preceded the 2008 crash.

These policies, combined with high inflation and a lackluster job market, have produced both record housing prices and record private debt, with consumers owing \$17.7 trillion as of the first quarter of 2024. "Around \$190 billion of the increase in the first quarter," notes the Daily Caller, "was in mortgage



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debt.”

“The reality is that you have to look at Fannie, Freddie and FHA [the Federal Housing Administration] as one big entity, its [sic] government mortgage: it’s all run by the government, and as a single entity, it’s tilting towards higher-risk loans and higher debt ratios,” Edward Pinto, senior fellow and co-director of the American Enterprise Institute’s Housing Center, told the website. “So you may be able to handle that debt ratio for a period of time. It’s when economic stress increases that you find out; as Warren Buffett said, ‘It’s only when the tide goes out that you learn who’s been swimming naked.’”

The Federal Reserve, for one, could get caught skinny-dipping in very deep water if the market crashes. It now owns [more than \\$2.3 trillion](#) worth of mortgage-backed securities bought from government lenders.

Pinto told the Daily Caller that a small increase in the unemployment rate — from its current four percent to, say, six percent — could trigger a 2008-sized crash.

The government clearly sees the warning signs of such a calamity. Why else would the FHA [issue a rule](#) allowing borrowers in default to add 10 years to the life of their loan and spread out payments accordingly?

The government “is basically trying to eliminate risk,” Pinto said. “You can’t have the housing finance system without foreclosure,” but “these forbearance programs ... are, in effect, eliminating any ability to foreclose.”

With no possibility of foreclosure, why should borrowers pay anything at all? Why not simply wait for the president to declare mortgage forgiveness, as he has repeatedly tried to do with student loans?

The administration is also wooing renters by [suggesting](#) a nationwide rent-control scheme, [a plan first floated](#) by the White House in January 2023.

“The most dangerous FHFA proposal is a rule that would enshrine a ‘tenants’ bill of rights’ capping rents as a share of household income, providing free legal representation to tenants, and more, on any property financed by a Fannie or Freddie-backed mortgage,” Sorens told the Daily Caller. “This rule has not been finalized yet. If it were to go into effect, it would impose nationwide rent control on a large percentage of the multifamily market, which research has overwhelmingly shown will shrink the supply of rental housing and drive up rents for most tenants.”

“It will also have the perverse consequence of driving business away from Fannie and Freddie and driving down the value of existing properties with government-insured mortgages,” he added. “As a result, the government mortgage guarantors could lose a lot of money. One major New York mortgage lender (NYCB) has already suffered credit downgrades and an investor bailout as a result of the tightening of rent control there.”

None of this, of course, matters to President Joe Biden and those in his employ. To them, the problems with the housing market stem from “corporate greed” and can only be solved by wise government interventions. That said interventions are setting us up for a repeat of 2008 — or worse — never crosses their minds. The only thing that really counts, after all, is ensuring that enough grateful voters cast their ballots for Biden in November.



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