# Home Ownership Rates Continue to Fall; New Plans to Reflate Bubble


When the Census Bureau announced on Tuesday that the rate of home ownership in the United States continued its nearly nine-year decline, pundits were quick to lay the blame on higher lending requirements, bankers reluctant to make loans, increasing interest rates, and a weak economy with slow job growth. In addition, young people are living at home longer, owing to student-loan debt and poor job prospects. As a result, according to the Census Bureau, rental rates are climbing as families needing a place to live have few other options.

Having fallen from its peak of 69 percent, reached in 2004, current home ownership has dropped to 65 percent, back to where it was in 1995. Robert Schiller, economics professor at Yale, thinks the rate will continue to fall further.

Home prices are increasing not because of demand by new buyers but because of investors who see the opportunities in buying distressed properties and turning them into rentals. In some places in the country, one out of every two home purchases is paid for in cash.

But something else is afoot: Fewer citizens are buying into the notion that home ownership makes economic sense and is equivalent to a savings plan that can be turned into income in later years. As Emily Badger noted at *The Atlantic Cities*, "We have traditionally considered home ownership to be a sign of the health of the economy. But some of these people who would have been homeowners 10 years ago … have concluded that they would rather rent [today]."

Some have no doubt been so badly mauled financially in the recession that they have few options. Others have long memories and remember the pain and suffering they endured as a result of deliberate government policies instituted to make home ownership possible to millions of unqualified buyers.

One of those with long memories is Henry Cisneros, a key player in developing the "National Homeownership Strategy" while he was secretary of housing and urban development under Bill Clinton. Unanimously confirmed by the Senate, Cisneros took over at HUD in January 1993, and by 1997, had boosted the U.S. home ownership rate from 63.7 percent to 65.7 percent. Even after leaving office, his strategies continued blowing up the real estate bubble so that by the time Clinton left office in 2001, home ownership was at 67.5 percent, on its way to peaking during the summer and fall of 2004.

In a remarkably candid and forthright article about Cisneros' role in creating the real estate bubble, the *New York Times* told the story of a passionate government bureaucrat with big dreams of providing home ownership to people who couldn't afford it under current rules. So he changed the rules and invited bankers, realtors, and homebuilders to participate in the party guaranteed by taxpayers. In 2008, as he contemplated the damage he had wrought while head of HUD, Cisneros claimed that his intentions were honorable, at least in the beginning, but that his plans to provide low-interest loans and much weaker underwriting requirements through Fannie Mae and Freddie Mac were hijacked by "unscrupulous participants — bankers, brokers, secondary market people. The country is paying for that, and families are hurt because we … did not draw the line." He expressed regret that his efforts had not only lured people into homes they couldn't afford, but that his policies ultimately ejected them from those homes as a result. He said, "I've been waiting for someone to put all the blame on my doorstep."

His strategy was to lower underwriting standards by allowing Fannie Mae and Freddie Mac to require less documentation and approve higher debt-to-income levels than normal. He reduced down-payment requirements from 20 percent to 10 percent, and then to 5 percent, then down to 3 percent and ultimately to 0 percent. His strategy allowed unqualified buyers to cover their closing costs with another loan, putting them into a home with truly nothing out of their own pockets. Lenders were happy with the new rules as the U.S. taxpayer stood behind the loans bought by Fannie Mae and Freddie Mac.

Cisneros created a monster.

Once the ball got rolling, it was impossible to stop or even slow down. Said Cisneros:

> You think you have a finely tuned instrument that you can use to say: Stop! We're at 69 percent home ownership. We should go no further. There are people who should remain renters.
>
> But you really are given a sledgehammer and an ax. They are blunt tools.
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> I'm not sure you can regulate when we're talking about an entire nation of 300 million people and this behavior becomes viral.

Cisneros drank his own Kool-Aid. He joined with a major home builder to develop a housing project in San Antonio, Texas, which made him wealthy but which turned sour during the collapse.

Those lessons are about to be learned again as there are new efforts to reflate the ownership bubble. Under the Dodd-Frank Act, there's something called the Qualified Mortgage Rule (QMR), which requires lenders to keep part of the loans they make in their own portfolios — they must have "skin in the game" to reduce the chances of another bubble. But more than 50 organizations tied to the real estate industry are advocating a softening of that rule, putting more government money into the market, with less risk to the lenders. One of those supporting such softening is Sarah Rosen Wartell, president of the Urban Institute, who sounds an awful lot like an unenlightened version of Cisneros:

> I'm not suggesting indiscriminate access to home ownership, but there are many borrowers who are capable of demonstrating the capacity to pay….
>
> [They include] those who had a job loss or foreclosure, in many cases through no fault of their own [and a result are] being shut out of a rising market.

Gary Thomas, the president of the National Association of Home Builders, expressed his delight at the softening of the rules:

> If what we're heard about the [weakening of] the proposed QRM rule is true, then we are very pleased that the agencies are moving towards a broad definition that will benefit the American people by ensuring access to safe, affordable options for buying a home.

And then of course there's the inevitable college professor who hasn't learned from history, or from Cisneros. Christopher Mayer, professor of real estate at Columbia Business School, exulted:

> Having a path that people can become a homeowner is an important path. And it's really important

for middle to lower-income folks who have a hard time saving.

At present efforts to reflate the real estate bubble through relaxing underwriting requirements and low interest loans don't appear to be working very well. But Washington is on a mission, and past experience and lessons and pain and hardship don't matter.

*A graduate of Cornell University and a former investment advisor, Bob is a regular contributor to* The New American *magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*