# Obama Weighing Homeowner Bailout Proposal

The Reuters dispatch quoted an unnamed Treasury spokesman saying: “We are constantly reviewing new ways to help struggling homeowners and stabilize the housing market. This is just one idea among many that has been considered, but no decisions are imminent on the matter.”

According to the plan described by Reuters, the federal government would pay banks to sell properties under foreclosure to rental or non-profit agencies so that the former homeowners could stay in their old home. The rents would be set by bankruptcy judges, under one proposal.

But if homeowners behind on their payments would lose ownership of their homes and become renters, why would the federal government bother to spend billions of dollars to turn homeowners into renters? After all, former homeowners would become renters after bankruptcy anyway.

The answer is that the federal government is trying desperately to re-inflate the housing bubble, and millions of more existing foreclosure homes on the market would undercut their efforts. The Treasury Department just announced some $486 million in additional housing subsidies under the “stimulus” spending bill, stressing in a press release that:

> The labor and housing crises in this country are deeply inter-connected. Since their peak level at the beginning of 2006, housing starts have fallen almost 80 percent. Houses currently under construction are at a 13-year low, down more than 60 percent from the peak in the first quarter of 2006. This collapse has led to severe job losses in the residential building and specialty trades sector related to housing, with employment down by nearly one-third — a loss of over one million jobs.

That press release noted the “stimulus” bill had already supplied more than $1 billion in federal funds for “affordable” housing subsidies, nearly all in the form of grants to state housing agencies.

If the federal government can keep overleveraged homeowners in their former homes, the thinking goes, then federal officials can cut the supply of houses on the market and possibly spur more homebuilding. Of course, if the most recent housing boom/bust taught Americans any lesson about the economy, it was that there are too many houses in the market already. The last boom/bust was created by loose credit policies of the Federal Reserve Bank, which suppressed interest rates to historic lows over nearly a decade. The artificially lower interest rates skewed mortgage amortization tables, convincing many homeowners to buy much more expensive homes than they could otherwise afford and creating an insane property market where housing prices rose as much as 20-30 percent per year in some metropolitan areas.

Any sort of artificial, non-market-based stimulus of home ownership can only create another boom-and-bust scenario and worsen the economic condition. And it smacks of injustice to make homeowners who are on time with their mortgage payments to have to pay more in taxes to subsidize irresponsible homeowners who bought larger homes than they could afford.