

BETTER GIVE UP TRYING TO FIX HOUSING CRISIS BEFORE PRINCIPAL REDUCTIONS HIT

I'm fairly amused by this story, presented by the NYT as "reporting." It claims the Obama Administration has tried "just about every program it could think of to prop up the ailing housing market," and faced with the failure of "just about every program," economists and analysts are contemplating just letting the housing market crash.

As the economy again sputters and potential buyers flee – July housing sales sank 26 percent from July 2009 – there is a growing sense of exhaustion with government intervention. Some economists and analysts are now urging a dose of shock therapy that would greatly shift the benefits to future homeowners: Let the housing market crash.

When prices are lower, these experts argue, buyers will pour in, creating the elusive stability the government has spent billions upon billions trying to achieve.

The story goes on to quote from:

1. Anthony B. Sanders, a professor of real estate finance at George Mason University
2. Howard Glaser, a former Clinton administration housing official with close ties to policy makers in the administration ... **whose clients include the National Association of Realtors**

3. White House Spokeswoman Amy Brundage
4. Housing analyst Ivy Zelman
5. Michael L. Moskowitz, president of Equity Now, a direct mortgage lender that operates in New York and seven other states
6. Sam Khater, a CoreLogic economist
7. David Crowe, the chief economist for the National Association of Home Builders

That is, no one speaking as a homeowner and not even any advocates for homeowners. Which may be why all these experts fail to consider the sheer scope of what an additional 10% drop in home values will do to the economy. Sure, the article raises the specter of massive walk-aways.

The further the market descends, however, the more miserable one group – important both politically and economically – will be: the tens of millions of homeowners who have already seen their home values drop an average of 30 percent.

The poorer these owners feel, the less likely they will indulge in the sort of consumer spending the economy needs to recover. If they see an identical house down the street going for half what they owe, the temptation to default might be irresistible. That could make the market's current malaise seem minor.

Yet it doesn't connect the degree to which the already-stinky housing market contributes to long term unemployment. And it doesn't get that the decline in home values has done far more than just stifle consumer spending, but has bankrupted real people.

Now, to be fair, all this "reporting" article serves to do is give credibility to the

stupidity of “extend and pretend.” I’m all in favor of ending the “pretend” part.

But one assertion in the article is simply false: that the Administration has tried everything. Heck, the article itself even quotes Bill Gross calling for refinancing US-backed loans (here’s a HuffPo article describing Gross’ plan).

And even that ignores the really basic things the Administration hasn’t tried: like cramdown.

Nevertheless, the NYT considers it news that the housing industry would like a reset that will likely doom millions of Americans.