

COMING SOON TO YOUR HARD-HIT NEIGHBORHOOD: GOVERNMENT- SUBSIDIZED TBTF SLUMLORDS

I'm all in favor of creative ways to solve the foreclosure crisis. But I don't think this is answer.

The government is soliciting ideas for ways to unload lots—big lots—of foreclosed properties currently owned by Fannie, Freddie, or FHA.

The Federal Housing Finance Agency (FHFA), in consultation with the U.S. Department of the Treasury and Department of Housing and Urban Development (HUD), has announced a Request For Information (RFI), seeking input on new options for selling single-family real estate owned (REO) properties held by Fannie Mae and Freddie Mac (the Enterprises), and the Federal Housing Administration (FHA).

The RFI's objective is to help address current and future REO inventory. It will explore alternatives for maximizing value to taxpayers and increasing private investment in the housing market, including approaches that support rental and affordable housing needs.

"While the Enterprises will continue to market individual REO properties for sale, FHFA and the Enterprises seek input on possible pooling of REO properties in situations where such pooling, combined with private management, may reduce Enterprise credit

losses and help stabilize neighborhoods and home values,” said FHFA Acting Director Edward J. DeMarco.

“Partnerships involving Enterprise properties may reduce taxpayer losses and meet the Enterprises’ responsibility to bring stability and liquidity to housing markets. We seek input on these important questions.”

Kevin Drum rightly wonders what the point of this is, given that investors can already buy as many REOs as they want.

The point is volume: basically, the government would share ownership of the houses for such time as it takes the new owner to make them profitable again. And in exchange, the investor would be able to buy a bunch more houses.

The idea is to facilitate investors buying up whole chunks of homes in a particular market.

the agencies look forward to responses from market participants that have the technical and financial capability to engage in large-scale transactions with the Enterprises and/or FHA involving the disposition of REO.

A specific goal is to solicit ideas from market participants that would maximize the economic value that may arise from pooling the single-family REO properties in specified geographic areas. Under the management of a third-party, a joint venture or some other structure may respond to local economic and real estate conditions more effectively than individual sales. For instance, there may be certain metropolitan areas (or some narrower geographic designation) with a substantial number of REO properties and a strong rental market. In such locales economic value in REO disposition may be enhanced (and real estate markets begin to be stabilized) by turning a large number of REO

properties into rental housing.

Call me crazy, but it seems the only reason such a program would be lucrative would be because it allowed one investor to corner significant chunks of the housing or rental market in a given city or neighborhood. Which, it would seem to me, would make for really abusive landlords: people with no competitive need to keep up their properties, with market dominance sufficient to raise rents beyond what the economy really supported, and enough pull at city hall to avoid accountability for doing these things.

Now, Jared Bernstein says we shouldn't worry about using government subsidies to create TBTF slumlords.

I've heard two arguments against the idea.

[snip]

Second, investors buying foreclosed properties in bulk make lousy landlords. It's a valid concern, but there's a policy wrinkle in the FHFA/admin's plan that should help: the proposal—the RFI noted above—should include requirements regarding property management and the Feds should reject proposals that aren't convincing in that regard.

But really, the language purportedly protecting against TBTF slumlords is flaccid. It lists “address[ing] property repair and rehabilitation needs” as one of six objectives (after, it must be said, “reduc[ing] REO portfolios ... in a cost-effective manner” and “reduc[ing] average loan loss severities.” It requires private partners take on “most or all day to day management and operations, including property maintenance and rehabilitation, rental property management, marketing for sale.” And it only requires proposed plans to address, “steps taken to ensure that the properties are well maintained

and managed during the period” as item 7, after already emphasizing, as item 2, “a focus on maximizing returns.” Nowhere does it require these hypothetical landlords to charge reasonable rates for rents.

In other words, while this plan may include lip service to the upkeep of these properties, nowhere does it limit what kind of price gouging these TBTF landlords could engage in (indeed, it places more emphasis on financial return than on societal return).

And of course, as happens with most of these Third Way public-private partnerships (cf. health care reform and the Wall Street bailout), it deals away key enforcement mechanisms precisely by helping corporations avoid market forces and encouraging them to become so big they can’t be held to account.

Ultimately, this seems to be an effort to find a shortcut out of the housing crisis by engaging in more corporate subsidies. Plus, it’ll take several months to put the program together, whereas offering subsidies to everyone right now might be faster with less market-distorting effect.

If the government is going to be subsidizing turning these properties around anyway, why not subsidize the average people that have gotten so screwed over by TBTF corporations in the first place? Why not subsidize the people who create stable communities—actual community members—rather than asking corporations to restore communities? Why struggle again to limit market forces in a such a way that only the big boys benefit?

I know Obama likes to claim, falsely, that government can’t create jobs, and because of that claim he believes all government help must be laundered through corporations. But corporations can’t create communities, which is really what’s called for here.