CONFIRMED: OFFICIAL ADMINISTRATION POLICY IS TO CONTINUE FORECLOSURES

The Federal Housing Administration Commissioner, David Stevens, has joined David Axelrod in stating that the Administration sees no reason to halt all foreclosures. That's not a surprise in itself–it was pretty clear that Axe's statement reflected official Administration policy.

But I'm particularly interested in how Stevens justified this position in an email sent to the WaPo.

> "We believe freezing foreclosures for all banks in all states, whether we have reason to believe them to be in error or not, is simply not the prudent step to take in this fragile housing market," he said.
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> With approximately one in four homes sold in the second quarter in foreclosure, administration officials worry that a moratorium could have a significant impact on the economic recovery.
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> "While we understand the eagerness to make sure that no American is foreclosed upon in error, we must be careful not to over-reach and apply a remedy that will make the underlying problem of foreclosures worse," he added.

First, note where Stevens places the benefit of the doubt. If the Administration has no reason to believe foreclosures to be in error, then it will assume they are not. That, in spite of the mounting evidence that the paperwork problem for homes sold during the bubble is systemic.

Foreclosures have been halted in places where there is an easy means (judicial foreclosures) to expose the fraud underlying the bubble era housing sales, or for companies (like Bank of America) that were pressured to vouch for the whole system. But there is no reason to believe the loans Wells Fargo acquired from Wachovia are any more sound than what BoA has on its books; on the contrary, they're probably worse. But the Administration position is that we should just carry on with the foreclosures, ignoring the evidence of systemic fraud.

Which is probably, itself, just an effort to avoid admitting to the evidence of systemic fraud.

While the interim paragraph in Stevens' response to the WaPo is not a direct quote, it seems that he is saying the Administration doesn't want to halt all foreclosures because they don't want the housing market to lose a quarter of its sales. That is, they seem to believe that the housing market will freeze up if it doesn't have a ready supply of below market properties to entice buyers who otherwise would be unable or uninterested in buying.

Now, first of all, it's not entirely clear that the housing market hasn't effectively frozen up in any case. Things are so volatile it's not clear that this quarter would resemble the second quarter in any case.

But given everything else, is it really a good idea to encourage reluctant buyers to buy now? (I say that with a house on the market.)

The calculation also seems to have a crazy understanding of what is causing the ongoing foreclosure problem. Partly, foreclosures are being driven by the lack of jobs–something that won't be significantly affected whether foreclosures are halted or not (I assume that, given that new construction has been stagnant for a year, a freeze on foreclosures won't reflect new unemployment in that segment).

Then there's the fact that mortgages are still far overvalued for houses sold during the bubble. A moratorium on foreclosures won't affect that in the least.

The other factor that's driving ongoing foreclosures—that is leading to a festering problem—is the continued decline in housing prices. One of the things driving that is the continued stream of foreclosures coming on the market, driving overall values down. Another is the neglect of banks who take over houses in foreclosures, driving neighborhood property values down. Another is overall lack of confidence in valuations of the market. How is the worry that a house you're buying might not have clean title going to improve confidence in the market, really? And ultimately, the reason the foreclosure problem has continued to fester is the lack of any systemic effort to revalue the market at a level fair to all parties—the failure to modify enough loans to restore some stability in neighborhoods and therefore the market.

Keeping foreclosures with dubious title in the market will change none of these factors. If anything, it'll make it worse.

The Administration seems to believe it just needs to keep churning foreclosures through the system at a steady, though not heavy, rate, and eventually this whole thing will blow over. But this foreclosure fraud issue is a sign that's not going to work. More importantly, it's a convenient time to do what should have been done, find a solution that is equitable for everyone, rather than trying to preserve the fiscal condition of the banks at the expense of the real people.

But thus far, the Administration doesn't seem ready to regard it as such.

Update: Yves Smith hits this, noting that it doesn't matter whether there's a moratorium imposed, the title companies will effectively impose one.

> And we further get another lie, that it’s the foreclosure freezes imposed by banks, and the prospect of more at the state level, that might affect REO sales. That’s another Big Lie; the most pressing impediment, and it’s not getting better any time soon, is title insurers withdrawing from foreclosure sales from banks that have admitted to having affidavit problems. Other title insurers are reported to be writing qualified policies on foreclosure sales.
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> The other disturbing but revealing report of the morning is the new Obama administration straw man: that it’s not backing a national foreclosure freeze. First, as bank expert Chris Whalen points out, this is eventually going to happen, but on a state-by-state basis. not nationally. But second, look at the deplorable logic. Per the Washington Post, boldface ours:
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>> The Obama administration does not support a nationwide moratorium on foreclosures at this time, Federal Housing Administration Commissioner David Stevens said Sunday in an e-mail response to questions.
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>> “We believe freezing foreclosures for all banks in all states, whether we have reason to believe them to be in error or not, is simply not the prudent step to take in this fragile housing market,” he said.
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> The statement couldn’t be more clear. “Markets” as in bank/corporate interests uber alles, no concern with the rule of law.