



Romney's Housing Plan: Still Elusive

Five Years into the Foreclosure Crisis, Republican Presidential Candidate Hasn't Produced Any Proposals

David Abromowitz September 2012

It has now been five years since financial markets seized up and the housing market collapsed into a prolonged foreclosure crisis affecting millions of American households.¹

As a CAP issue brief entitled “It’s Time to Talk About Housing” recently underscored, the housing crisis cries out for higher priority in the presidential race, as the homeownership and rental markets remain in difficult shape, drag down the economy, and impact millions of households on a daily basis.

The authors noted:

*As of March 2012, banks and other financial institutions had completed approximately 3.5 million foreclosures since the financial crisis began in September 2008, with another 1.4 million loans still in the foreclosure process. That month Wall Street analysts predicted as many as 7.4 million to 9.3 million at-risk borrowers were yet to face foreclosure or liquidation.*²

Naturally we would expect that a presidential candidate basing his campaign on business acumen would have a detailed set of proposals to fix the housing market. After all, one of his chief economic advisors has recognized that in order to turn around the bad economy, “the biggest bang for the buck lies in housing, the epicenter of the financial crisis.”³

But Mitt Romney’s housing policy is elusive: We may see his tax returns before we know where he stands on the housing issues facing so many middle-class Americans. If you go to the Romney campaign website, you will not find any statements on housing policy spelled out. And you certainly did not hear a plan in either Gov. Romney’s or Rep. Ryan’s acceptance speeches at the Republican nominating convention, with barely a mention that there even is a housing challenge.

Instead, below is a sampling of positions on housing that Gov. Romney appears to hold based on remarks he or his surrogates have made during the campaign. With his choice of Rep. Paul Ryan (R-WI) as his running mate, we also assume that the Romney cam-

paign believes in the positions set out in the detailed “Path To Prosperity” blueprint for the Ryan budget that Budget Committee Chairman Ryan released.⁴

Let foreclosures continue

If you believe that the market is always right, then you would believe that “the market” should be left alone to eventually deal with foreclosures. Certainly that is where Gov. Romney started last October when he told⁵ the *Las Vegas Review Journal’s* editorial board that the foreclosure crisis just had to “run its course and hit the bottom.”⁶

By the time he got to Florida in January, however, he had backed away from the pure free market approach: “The idea that somehow [the housing market] is going to cure itself all by itself is probably not real. There’s probably going to have to be a much more concerted effort to work with the lending institutions and help them take action which is in their best interest and in the best interest of the homeowners.”⁷

But then in Nevada not much later, he had this exchange with FoxTV about homeowners facing foreclosure:

FOX5 asked, “If you’re president, can they expect the federal government to help them save their home, or are they on their own?”

“My view is that the best thing that the federal government can do to help is to get this economy growing again, to have good jobs with raising incomes,” Gov. Romney responded. “If people are looking for someone to promise that they’ll write them a check, that the government will give them money, they should vote for President Obama.”⁸

The remark is confusing because it suggests Gov. Romney does not see the critical link between the economic disruptions of foreclosures, the weak housing market, and the slow economic recovery that many economists—including conservative policy advisors to past Republican presidents—have repeatedly noted.

Martin Feldstein, who chaired President Ronald Reagan’s Council of Economic Advisers, is one leading example. He has stated, “The fall in house prices is not just a decline in wealth but a decline that depresses consumer spending, making the economy weaker and the loss of jobs much greater. We all have a stake in preventing that.”⁹

Moreover, what would Gov. Romney actually do as a “concerted effort” to help homeowners, especially if he means that no government funds are involved? Answers are completely missing from any detailed plans from his campaign.

And since he or his surrogates have criticized every Obama administration effort—help for underwater borrowers who have made their payments, help for homeowners who want to refinance but can't, giving homeowners the same rights in bankruptcy to restructure mortgages that landlords have, and many more—it is hard to expect anything more from Gov. Romney than the type of purely voluntary urging of lenders to “do more” that characterized the Bush administration’s hands-off approach at the beginning of the foreclosure crisis.

No help for homeowner refinancing

One of the more curious omissions from a Romney housing plan is an embrace of a large-scale refinancing proposal put forward by a key Romney economic advisor, Glen Hubbard.

Hubbard, a former Bush administration economic advisor and now dean of the Columbia Business School, has since 2008 been advocating letting the average American household refinance its mortgage at low interest rates as a way to help consumers deleverage and enjoy the economic boost from lowered monthly payments.

Hubbard has estimated that allowing borrowers to refinance at 4 percent rates would save the average homeowner about \$400 per month and could pump as much as \$70 billion in purchasing power into the pocketbooks of consumers.¹⁰ He even said that the Obama administration’s revised HARP plan in October 2011, which was designed to accelerate refinancing, “looks like a good plan.”¹¹

With numbers so compelling, wouldn’t Gov. Romney see Hubbard’s proposal as both attractive and politically safe given the proponent’s credentials? Apparently not. At one point he told the *Las Vega Review-Journal* editorial board that refinancing plans are “worth further consideration, but I’m not signing on until I find out who’s going to pay and who’s going to get bailed out and that’s not something which we know all the answers to yet.”¹²

As recently as August 6, *The Wall Street Journal* asked his campaign, “[Does] Mr. Romney support either the Boxer-Menendez bill or the Merkley bill—or any of the other refinancing initiatives put forward by Mr. Hubbard?” They received this non-response: “A campaign official told Developments that Mr. Romney believes the best approach for the housing market is to engineer a robust economic recovery.”¹³

Underwater homeowners should tread water on their own

Responsible principal reduction is a debt reduction approach that many have advocated to help the roughly 11 million families who are making their loan payments but owe more than their house is worth due to the general plunge in house prices.¹⁴ It involves

lowering the amount the borrower actually owes on the loan. Rep. John Campbell (R-CA) has co-sponsored a bill in the House with Rep. Gary Peters (D-MI) calling for principal reduction,¹⁵ and economists like Martin Feldstein have endorsed it as well.¹⁶

As with refinancing, however, Gov. Romney has sent mixed signals on principal reduction. In January 2012, in Florida, Gov. Romney suggested to a business roundtable that he thinks banks should have to write down mortgage principal for borrowers who are underwater: “We’re just so overleveraged, so much debt in our society, and some of the institutions that hold it aren’t willing to write it off and say they made a mistake, they loaned too much, we’re overextended and write those down and start over.”¹⁷

After the primaries in June, however, Gov. Romney’s policy director (Lanhee Chen) suggested this was no longer something the Romney campaign was considering supporting.¹⁸

Recently, Ed Demarco—head of the Federal Housing Finance Administration, the Fannie Mae/Freddie Mac conservator—has again refused to allow those mortgage giants to even talk to borrowers about principal reduction. Since Fannie Mae and Freddie Mac own or guarantee roughly half of all mortgages in the United States, decisions by their conservator—the government regulator put in place in 2008 to control Fannie and Freddie while the U.S. government effectively owns these mortgage companies—heavily impact the fate of perhaps 3 million American families with “underwater” mortgage loans.¹⁹

This has turned into a highly partisan controversy,²⁰ so it appears unlikely that Gov. Romney will show any interest in reviving principal reduction as a way to help “overleveraged” homeowners or get lenders to “say they made a mistake, they loaned too much,” something that in the private equity business world he comes from would be a commonplace.²¹

Eliminate HUD?

In a possibly unguarded moment at a private fundraiser in April, Gov. Romney talked about eliminating the Department of Housing and Urban Development, or HUD, the lead federal agency addressing the country’s affordable rental and homeownership needs. “I’m going to take a lot of departments in Washington, and agencies, and combine them. Some eliminate,” Gov. Romney reportedly said.²² “Things like Housing and Urban Development, which my dad was head of, that might not be around later.”

Putting aside the irony of casually tossing out eliminating the one federal agency devoted to affordable housing while in the backyard of a Palm Beach, Florida mansion, the remark offers some insight into Gov. Romney’s priorities on the government role in access to affordable housing.

Gov. Romney has offered no specifics of what he would do with current HUD programs and the populations they serve. HUD rental assistance programs, for example, provide approximately 4.5 million households, most of them working class or seniors on fixed incomes, with a way to pay the rent in markets where their incomes fall short of what is needed to afford decent housing.²³

The Ryan budget, on the other hand, is characteristically more specific on targeting drastic reductions of much of the support for affordable rental housing. The exact depth of cuts to specific housing programs are not specified, but responsible budget analysts calculate that 22 percent cuts in budgets like HUD's will result from his budget proposal.²⁴

Translating this into impacts in March, HUD Secretary Shaun Donovan estimated that under the proposed cuts of the fiscal year 2013 Ryan budget, approximately 1 million households could lose access to affordable housing (estimating that 585,000 would come from the Housing Choice Voucher Program, 425,000 from the Project-Based Section 8 program, and 110,000 – 180,000 from homeless-assistance programs). Donovan also argued that cuts to the HOME program—which provides state and local governments funding for affordable housing development—would mean tens of thousands of new affordable housing units would not be built.²⁵

Turn the mortgage market back over to Wall Street

The Romney campaign is in line with the persistent Republican theme calling for getting the government out of housing finance.²⁶ According to the *National Review*, after noting that Gov. Romney had criticized the Fannie Mae/Freddie Mac models, “Romney spokesperson Andrea Saul got a little more specific: ‘Gov. Romney believes we need a fundamentally different housing-finance model than the one that led to the taxpayer bailouts of Fannie and Freddie. We need a model based on private capital, and one that doesn’t leave the taxpayer on the hook.’”²⁷

The Romney campaign has not yet spelled out what this alternative model is. In the Republican primary debate on January 26, 2012, when Wolf Blitzer asked the candidates specifically about how to phase Fannie and Freddie out of the housing market on the premise that their current level of support is unsustainable, Gov. Romney’s answers turned more to an attack on Newt Gingrich’s investments than a plan for a new mortgage-finance system.²⁸

As in other aspects of these issues, vice presidential running mate designee Paul Ryan has been clearer, and more clearly ideological, about eliminating the government-sponsored enterprises: “In housing, Congress must put an end to the practice of corporate welfare and taxpayer bailouts, especially by winding down government guarantees and ending taxpayer subsidies for Fannie and Freddie.”²⁹

In calling for the “eventual elimination” of Fannie and Freddie, Rep. Ryan’s “Path to Prosperity” blueprint also states: “The housing finance system of the future will allow private market secondary lenders to fairly, freely and transparently compete, with the knowledge that they will ultimately bear appropriate risk for the loans they guarantee.”

Finally, Rep. Ryan’s policies take aim at the Federal Housing Administration as well, even though the FHA has come to be a critical source of home-purchase financing in the past few years as private capital pulled back from mortgage-loan investing and credit standards have tightened for the average home buyer.³⁰

Neither Gov. Romney nor Rep. Ryan appears to directly address the consequences of “getting the government out of housing.” As *The Fiscal Times* recently reported, “Winding down Fannie and Freddie would place housing—about 20 percent of the economy—in jeopardy, according to housing trade associations and progressive think tanks that favor reducing but not eradicating the government’s role.”³¹

Moreover, polls suggest that the prospect of homeownership, and the attraction of the 30-year fixed rate mortgage that was pioneered by the Federal Housing Administration and continues to be enabled by the government backstop to loan securitizations, remain highly popular.³²

Gov. Romney and Rep. Ryan both advocate for the repeal of the Dodd-Frank financial reform legislation. While their argument for this is not particular to the housing market, they have not said what would prevent a return to unregulated mortgage securitizations and loan-origination practices that contributed heavily to the housing and global financial crises—perhaps because they favor a fully privatized and lightly regulated mortgage market.

But repeal of Dodd-Frank would eliminate consumer protections and reforms such as the Consumer Financial Protection Bureau, or CFPB. The CFPB is empowered to take a range of actions to help borrowers understand their mortgages, to limit deceptive lending and loan-origination practices, and to take enforcement actions against lenders violating such rules.³³ Gov. Romney called the CFPB “the most powerful and unaccountable bureaucracy in the history of our nation.”³⁴

Similarly, as commentators have noted, Dodd-Frank includes many specific provisions attempting to prevent a repeat of Wall Street packaging up mortgage loans, selling them into the market, and keeping huge fees while shifting all the risk on to third parties. According to a recent Center for American Progress report: “On the securitization side, Dodd-Frank requires issuers of mortgage-backed securities to retain 5 percent of the credit risk for each security issued, giving those securitizers ‘skin in the game.’”³⁵

Cut deductions for homeowners

The Romney tax plan itself is short on details, leaving analysts to try to fill in the blanks as to how Gov. Romney would give a 20 percent across-the-board rate cut to everyone but be “revenue neutral” in the amount of taxes collected.³⁶ The most authoritative review so far by the Tax Policy Center concluded that a sharp reduction in the home mortgage interest deduction—a popular but controversial tax write-off used by millions of households—would almost certainly be required.^{37,38}

In addition, Gov. Romney has signaled that he would eliminate deductions for real property taxes.³⁹ Just how deeply he would propose to cut these deductions—or how deeply his other promises would require elimination of mortgage interest and property tax deductions—is open to debate until more details emerge.

Conclusion

Campaigns make their own choices about how much detail to specify on any one issue. And no one expects a challenger to have as detailed a record on an issue like housing as an incumbent president, whose administration has for four years put forward a series of proposals and programs addressing housing issues.⁴⁰

But based on this review, the Romney campaign appears inclined to keep the candidate from being pinned down on specifics, even if it means sometimes making self-contradictory comments at different places and times. With Rep. Ryan now on the ticket along with his much more detailed budget plan and the housing crisis not going away, it remains to be seen if a detailed housing proposal can continue to be largely absent from the Romney campaign’s economic agenda.

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