NEWSBRIEF: LEGISLATIVE AWARENESS

MREIA Legislative Update: August 2008

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The **"Legislative Corner"** will be focusing on legislation, at the state and local level. By the time you read this, Congress will be out of session, having gone home to tell the voters of all the good deeds they have done. So now is a good time to explain what has caused this mess and what remedies Congress is coming up with.

The "sub-prime crisis" is the product of; poor decisions on the macro-economic scale, banks, mortgage companies and speculators "gone wild", with no one taking a long term view of what they were creating.

The sub prime mess has its roots in 1977 when Congress passed The Community Reinvestment Act (CRA). CRA is a federal law that mandates or intimidates lenders into offering credit throughout their entire market and discourages them from restricting their credit services to high-income markets, (a practice known as redlining) and high credit score applicants. The Community Reinvestment Act encouraged banks and thrifts to make so-called "no doc" and "liar" loans to customers who had no realistic ability to pay them back. The Community Reinvestment Act's provisions were strengthened during the Clinton and Bush Administration's, setting the stage for today's real estate meltdown.

After the meltdown of the stock market in 2001, the Federal Reserve, in an attempt to keep the economy from crashing, kept lowering the prime rate so the other main economic engine, real estate, would stay strong.

And stay strong it did. With money in easy supply, demand took off, inflating property prices to unsustainable highs. Even with fixed interest rates at historical lows, these price increases were making homes unaffordable.

So lenders came up with what they called "exotic products", which is another way of saying loan programs that included; negative amortization loans, 3-5 year adjustable rate mortgages, 3% down payments, "charitable down pmt gift programs, etc.

Coupling it to the guidelines in the CRA, secondary mortgage buyers led by Fannie Mae and Freddie Mac agreed to purchase these highly suspect loans. To the surprise of no one with any common sense, these loans began defaulting at much higher rates than the "experts predicted", creating turmoil in the financial markets. As mortgage companies began having problems raising capital, after all, who wants to throw good money after bad?

And as usual the answer is, the government. Considering that it was our politicians who legislated us into this mess, they believe they can legislate us out of it. The recent "Housing Rescue" package will do the following;

a) Bail out big banks, Fannie Mae, Freddie Mac, speculators, etc.
b) Allow incumbent politicians to make it through the November elections showing that they "took action"

Bailing out the banks, Fannie Mae, etc. will ensure that once this "crisis" passes into a distant memory, "mommy government" will demand they do more to "help the people". Beware whenever government is demanding some entity help the people; the people are about to get screwed.

Keep this in mind in our home state as well. Similar practices occur in Trenton. On one hand they demand more affordable housing, while increasing fees, raising property taxes, and making more and more land off limits for development via "open spaces" legislation. Of course, all this results in is more expensive housing, which proves the people in Trenton are also clueless.

Couple this with recent court rulings stating that the foreclosure process has not been executed properly, thereby throwing many foreclosure proceedings into uncharted territory (upcoming article on this) and the sub prime mess and the soft real estate market will be with us for awhile.