

MREIA Legislative Update: September 2008

Beware of Politicians Bearing Gifts

by Dave Corsi, Legislative Awareness Chairperson

Every day there are conflicting views and articles about the “State of Real Estate,” “Experts believe Real Estate has Turned the Corner,” “Real Estate Sales Drop 15%” and on and on. The truth is no one and I mean no one, knows exactly when real estate will turn the corner. It will only become known after the fact.

This leads us to our friends in Washington and Trenton. Rest assured, in this election year, that they all will jump on the “real estate crisis” bandwagon.

With Congress and the NJ Legislature shut down for the summer, no legislation is being introduced, but once they are back at “work,” chances are excellent that we will be inundated with proposed legislation to solve the “housing crisis.”

The truth is the best thing politicians can do is do is pretty much stay out of it. Many times they pass bills designed to “help the people”, resulting in unintended consequences, most of which are not positive. Much of today’s housing crisis can be laid at the door of such well-meaning legislation such as the “Community Reinvestments Act.” These acts which have been proposed and expanded over the last 30 years, put pressure on financial institutions to make loans that they would not have ordinarily made. Ultimately the consumer and taxpayer in the form of higher costs and increased taxes have had to bail out these lenders.

If lenders were forced to deal with the situation without government assistance, it would be handled much quicker. Currently the financial institutions are making a half-hearted attempt at getting rid of their problem loans and REO (bank owned) properties.

The reason for this is that they are hoping that the federal government (with some assistance from the states) will bail them out. After a bank makes a loan, that loan is generally packaged with other loans and sold to investors, Fannie Mae, Freddie Mac, pension plans, Wall Street firms, etc. These investors are promised a certain return on their investment. Because of the record defaults, that return is not being met. So the banks have to make good on these bundled notes or face the consequences. And like many others, they are hoping the government will come to their rescue. And our caring politicians will not disappoint them!

So beware of politicians bearing gifts; ultimately that gift will cost you dearly.