The new battle over rent-control policy

As part of the British-style urban policy that the Heritage Foundation is proposing to the Reagan administration, U.S. rents and mortgages are to be forced up drastically. The offshore foreign investors whose funds will flow into free banking zones will demand rapidly rising interest rates on the mortgages they buy. Landlords will insist that to pay such mortgages, they must raise rents.

"To get to the point where we can meet the rising demand for investment in U.S. real estate by foreign funds, we must raise U.S. real-estate prices across the board," says Twentieth Century Fund director M. J. Rossant. In particular, foreign investors are interested in buying, and New York and other urban landlords are interested in selling, the average city-dweller's home—the very urban multifamily apartment buildings that now tend to be rent controlled, and which would otherwise yield very high profits.

As part of this plan, the U.S. mortgage market is about to be *indexed.* The traditional long-term 20- to 30-year U.S. mortgage at fixed interest rates, which allowed the construction of U.S. urban apartments and private homes alike and made American citizens the best housed in the world, will no longer be sold. In its place will be floating-rate mortgages, whose interest payments will change monthly or biannually, drifting from 10 to 20 percent or more, changing each year and indexed, in effect, to Federal Reserve interest rates.

While Heritage claims this will attract mortgage investors seeking the higher interest-rate returns, and lead to new construction, the fact is that indexed mortgages will make home and apartment building "simply unaffordable," says Roy G. Green, vice-president of the U.S. League of Savings Associations. "I don't think the consumer can afford 15 to 18 percent interest rates for any length of time," he told *EIR*.

The indexation of mortgages will in fact have the same effect as the indexation of consumer goods in Third World nations like Brazil. Under indexation, consumers cannot buy; less is produced; and living standards are lowered. With floating mortages, there will simply be less U.S. housing.

Initially indexing will apply only to *new* mortages, most of which are issued for private homes, since few urban apartment buildings are constructed today. The Heritage planners expect this to lead to a general market pressure for old and second mortgages on urban dwellings to be renegotiated at floating rates. Then the cry for ending rent control will go up, because floating mortgages cannot be financed otherwise.

"The first step to decontrol of housing rents is the deregulation of the mortgages markets," William Warfield, staff aide to Rep. William Stanton (R-Ohio) and member of the Heritage Foundation Housing Task Force, told *EIR*. The Heritage Task Force, which will not release its other members' names, is working with Stanton, ranking Republican on the House Banking Housing Subcommittee, and Sen. H. John Heinz (R-Pa.), incoming head of the Senate Banking Housing Subcommittee, on legislation they will urge upon Ronald Reagan.

"We plan to look at the entire federal structure of artificial constraints on mortgages prices," he said, "and write legislation to remove all impediments to raising mortgage prices with the free market."

The key indexation tool is the Variable Rate Mortgage (VRM), whose interest rates can be freely reset by the bank or lender several times a year. Related are the Adjustable Rate Mortgage (ARM), whose rate is adjusted according to a previously specified index scale, such as consumer prices; the Renegotiable Rate Mortgage (RRM), whose rates are negotiable every three to five years; and the Graduated Payments Mortgage (GPM), which starts with low monthly payments that rise dramatically later in the mortgage.

"First we have to deregulate *new* mortgages," Warfield said. "Today Federal Housing Authority-insured mortgages, in the hundreds of billions of dollars, which are about 20 percent of the new home and apartment mortgage market, are fixed by law to a 13 percent interest ceiling. The FHA ceilings must be lifted by law, so they can do Variable Rate Mortgages, and other alternative mortgages.

"Right now about 50 percent of all new mortgages are already being done as VRMs. That has to rise to 100 percent after changing FHA, that means changing *state* laws which now restrict VRMs. That's the importance of the new New York State banking bill, which allows savings and other banks to do 100 percent VRM and other floating mortgages."

This could soon force indexation of virtually all existing U.S. mortgages. As new mortgage rates rise from the current 13 percent average to 20 to 25 percent, and above with indexation, investors and banks will refuse to make second mortgages, which are needed to refinance almost every existing home and apartment mortgage, at less than index rates. Rates in the secondary market, where financial institutions sell existing mortgages back and forth like bonds, will rise accordingly. And rent control will be financially impractical.