

# HOPE to subsidize real estate market

by Steve Parsons

The deflationary shock wave that collapsed the junk bond market last September is now threatening to shatter the basis of the U.S. speculative bubble: the real estate market. And with its imminent puncture is threatened the incredible mass of government loans, guarantees, and housing programs that have increasingly underwritten the market for the last 25 years.

The cascading volume of defaults and foreclosures, accompanied by rising commercial vacancy rates and prospective homeowners simply unable to afford the inflated property prices, has set off alarm bells in the real estate field. In response, both the administration and Congress are concocting a plethora of "remedies," at best pathetically inadequate, at worse designed to exacerbate the inevitable blowout.

One of these was laid out in Dallas on Nov. 10 by President Bush, at the convention of the National Association of Realtors. He termed it "a comprehensive agenda to help bring basic shelter and affordable housing within reach of millions of Americans," and dubbed it Project HOPE—"Homeownership and Opportunity for People Everywhere." The opportunities are mainly for speculators in the real estate sector and their appendages in federal housing and mortgage programs; HOPE came out just one day after Bush signed a bill to keep the mortgage market bubble from bursting, by raising the ceiling of federally insured mortgages nearly 25%, to \$124,875 from the current level of \$101,250.

## Divestiture

Under the guise of promoting homeownership for the poor and caring for the homeless, the President's proposals are a prototype for enacting Housing and Urban Development Secretary Jack Kemp's longstanding commitment to have the federal government divest itself of public housing, while at the same time firming up depressed inner city real estate prices and providing more bailout money for slumlords.

The proposals center on an initial \$2.1 billion in HOPE grants for "urban homesteading," in which low-income families, as well as tenant and community organizations, purchase dilapidated "public housing, government-held vacant and foreclosed properties, and financially 'distressed' properties" held by federal housing and mortgage agencies. Not

only would this take housing projects and foreclosed properties off the government's books, but it would prevent such properties from going on the open market and blowing out the price levels of real estate and mortgages. The taxpayer foots the bill: New mortgages taken out by the poor and underwritten through HOPE and other programs can be counted as new "assets" by the beleaguered sector, with the government again adding to its potential liabilities.

To facilitate this, one aspect of the Bush plan would permit first-time homebuyers to use their IRA accounts for such purchases with no tax penalty. While most inner city poor have little savings, let alone IRAs, the precedent would be set for the real estate and mortgage business to tap heretofore sacrosanct savings and pensions resources to bolster the market.

The proposals specifically prohibit the low-income poor from applying HOPE funds toward new housing construction; everything is to go for "sweat equity" rehabilitation, real estate fees, and mortgage financing. Bush does, however, provide for real estate investors to get tax credits for new low-income housing projects, replete with promises of cutting red tape—meaning, many fear, cutting building standards.

Tax credits aren't the only subsidies. Bush would also have his real estate friends reap a zero percent capital gains tax benefit, which would apply to all investors in his proposed creation of 50 "Housing Opportunity Zones" which would be set up alongside 50 "Enterprise Zones." These "entzones," pushed for years by Jack Kemp and the Heritage Foundation, would legislate slave-labor work conditions and wage levels for the urban poor, with the new innovation now of shantycamp housing—all at enormous profits for minimal investment.

Meanwhile, Congress is debating taxpayer subsidies for the real estate sector, cloaked in rhetoric about aiding potential homebuyers who can't afford today's prices. Many of these proposals would load more debt and losses onto the Federal Housing Administration, so roundly excoriated for financial laxity and improprieties by the same congressmen. Some of these proposals include:

- Extending authorization of mortgage revenue bonds for three more years. These are tax-exempt bonds that provide low interest rate loans.
- A trust fund out of which portions of individual mortgage payments would be made. The homeowner would have to repay the government when he sells the house. If he can't repay, the government is stuck with the loss.
- Matching funds for special savings accounts of homeowners to help pay mortgages. The money would have to be paid back with interest, on top of the huge mortgage payment.
- Liberalization of FHA regulations to permit even lower down payments for first-time purchasers.
- Like the Bush plan, permitting retirement funds to subsidize mortgages, through IRA withdrawals with no penalties or taxes.