

From the Dec. 16, 2007 [Milwaukee Journal Sentinel](#)

Another View: The feds shouldn't save people from their own follies

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This article first appeared in [The Wall Street Journal](#)

It's not quite right to describe the White House's new plan as a bailout of subprime mortgage borrowers. It's actually a bailout for a tiny fraction of those with adjustable-rate mortgages, not subprime loans.

Nearly half of all subprime mortgage rates are fixed-rate loans, and only 32% of ARMs are subprime. With all the misplaced political anxiety about rates being reset, you might think all of those victims who signed up for these mortgages had no idea their rates could be adjusted.

The Bush administration claims its plan will help "up to" 1.2 million people. Most of that promised help consists of nothing more than another phone number to call for counseling about refinancing - a redundant service unlikely to prove wildly popular. Refinancing has been soaring anyway, thanks to 30-year mortgage rates dipping below 6%.

If risky subprime borrowers were supposed to be the main beneficiaries of refinancing assistance, it would have been the height of irresponsibility for President Bush to suggest greater involvement of the Federal Housing Administration, Fannie Mae and Freddie Mac. Shifting default risk to U.S. taxpayers could be very costly.

In reality, the only financial aid in this plan goes to those who qualify for the five-year freeze on mortgage rates - a curiously selective little group, estimated to number between 145,000 and 360,000.

When it comes to resetting mortgage payments below the level borrowers agreed to, why give a special deal to Sam but not Suzie? On the day the plan was unveiled, the Mortgage Bankers Association reported that 0.78% of mortgages went into foreclosure in the third quarter, and 5.59% were far behind in their payments.

Neither group qualifies for any help under the Bush plan. Neither does anyone with imperfect timing - those who took out a mortgage before 2005 or after this July. Among the few lucky enough to slip through that narrow window, the primary criterion for a rate freeze is a weak credit rating, below 660.

And what happens after five years? Presidential contender Sen. Hillary Clinton (D-N.Y.) already is talking about stretching it to seven years, and that bidding war has just begun.

On the face of it, these criteria for political favoritism seem only marginally more sensible than limiting special loan terms to, say, short people or redheads.

Is it a bailout? The stock market sure thought so. Stock prices of mortgage companies and homebuilders soared on the news. After all, the plan was designed by and for those same companies - key members of the Hope Now Alliance.

Treasury Secretary Henry Paulson describes the arbitrary rewriting of financial contracts as a win-win situation for everyone. If that were true, the government wouldn't have to get involved.

Bush says he only wants to bail out borrowers, not lenders. Yet the whole point of this scheme is to cajole or bribe more borrowers into making more mortgage payments - to lenders.

Some in the media describe all this heavy-handed political intervention as the Bush administration's "free-market approach" to the threat of non-performing mortgages. On the contrary, honoring contracts and property rights is absolutely essential to the proper functioning of a free society and free economy. A mortgage is a binding contract between consenting adults.

Another president, Richard Nixon, gained ephemeral popularity by freezing wages and prices in 1971, but the end result was disastrous for the economy.

The Bush administration may hope now for some political benefit from freezing interest rates for a select subgroup of high-risk borrowers. But whenever politicians attempt to protect borrowers and lenders from their folly, they just encourage more folly.