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The Call

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“Will First-time Homebuyer Credit Bankrupt FHA?”

Melissa Francis: On to the housing sector and whether it can rebound. In his Wall Street Journal op-ed MFS Investment Management Chairman and Harvard Business School Professor Bob Pozen says extending the home buyer tax credit could bankrupt the FHA. Is he right? In today's Call of the Wild we have Joe Murrin Chairman of the Collingwood Group and former President of Ginnie Mae and Peter Flaherty, President of the National Legal and Policy Center. Thanks to both of you for joining us. Joe let me start with you.

Joe Murrin: Sure.

Melissa Francis: The basic premise of the article is that if somebody buys a house that is worth two hundred thousand dollars and they get the home buyer tax credit that effectively that wipes out their down payment and they don't have any skin in the game. So we are back to that same situation where somebody is living in a house they did not put any money up for, any actual cash, we have the same problem we did before. What do you think about that premise?

Joe Murrin: Well, I don't necessarily think that that is true. If you take a look at the FHA requirements the home buyer is required to bring the first three and a half percent to the table which means it is their own money. They could then use the, they could them monetize the eight thousand dollar tax credit to pay closing costs or use as additional down payment. The article went on to say that there could be some manipulation. I guess that is speculation. I guess that it could be true. But at the end of the day only time will prove that to be certain or not. SO, I'd like to think of it as honest Americans coming to the table with the first three and a half percent where they do have some skin in the game.

Melissa Francis: Well, but Peter, I mean the article says you can borrow eight thousand bucks from your parents, from a friend from who ever, and get the refund and pay it back right away. That's how the manipulation – I mean it could work and we have certainly seen a lot of fraud in the system so far...

Peter Flaherty: Well sure, and I disagree with Joe that three point five percent is a lot of skin in the game. It is not a lot at all. Private mortgage companies ask for twenty percent down. Let's be clear what this credit is. It is not a tax deduction. It is a tax credit. You take ten percent of the purchase price of your home, you knock that off your federal taxes dollar for dollar and if your tax liability is less than the credit, the government mails you a check and you don't even have to be a citizen. All this can do is inflate home values further. It takes us further away from the free market and further away from the equilibrium that is necessary to repair this market.

Simon Hobbs: But Peter, the anomaly does not lie with the Federal Housing Administration does it? The anomaly lies in the fact that you have got this eight thousand credit. Do you think ultimately that the FHA is going to go bankrupt simply because of it or just need more money?

Joe Murrin: No, no I mean...

Simon Hobbs: Because of the situation that we find ourselves and this terrible fall thirty percent down on house prices.

Joe Murrin: First of all lets do apples and apples. You know the FHA is there for the moderate low income. It is there, the program is put in place for those who can only afford three and a half percent. I agree with the gentleman that says the conventional markets should require twenty percent. There is no question about that. But at the end of the day, if you are trying to correlate that this program will bankrupt the FHA, I think that there are two things that will bankrupt the FHA – increased unemployment and the down payment assistance program that was put into place twelve fifteen years ago. Those are the two major threats to the FHA today, not the eight thousand dollar tax credit.

Melissa Francis: Ok, how serious are those threats? How serious are those threats?

Joe Murrin: I think they are very serious threats. The down payment assistance program is defaulting at a rate of three to four to one. So I think that it is a very serious threat to the FHA program. And the unemployment, you know all the mortgage assets are at risk when you have unemployment in double digits.

Peter Flaherty: Well that is correct.

Joe Murrin: Until that begins to subside, all the mortgage assets in the market place are at risk, including the FHA.

Peter Flaherty: The problem here is the entire bail out culture. If the FHA is supposed to be for low and moderate income people, why did Congress last year double the max loan for FHA up to seven hundred thirty thousand dollars?

Melissa Francis: Right.

Joe Murrin: I don't disagree with that.

Peter Flaherty: Now Barney Frank wants to increase it another hundred thousand dollars and make it permanent.

Joe Murrin: I don't...

Peter Flaherty: It has become bailout of everybody.

Melissa Francis: OK.

Joe Murrin: I don't disagree with your premise.

Melissa Francis: We have got to go.

Joe Murrin: I don't disagree with what you are saying. I think that is a viable point there.

Peter Flaherty: Well the problem with socialism is that eventually you run out of other people's money.

Melissa Francis: OK, a great discussion. Unfortunately we don't have anymore time. Thanks to both of you for joining us. We appreciate it.

Joe Murrin: Thank you very much.

Peter Flaherty: You bet.