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Should the Government Aid Struggling Homeowners?

There is no doubt about it. Millions of American homeowners are in trouble. With the bursting of the recent housing bubble, those who got into the housing market with limited resources now find themselves stretched as home equity lines have been maxed out, home values have stagnated or declined, and adjustable rate mortgages have begun resetting at incredible rates. Foreclosure rates, especially among subprime or poor credit borrowers, have increased substantially this year, causing the bankruptcy and closing of many subprime mortgage lending companies.

Subsequently, investors that bought subprime securities on the secondary market have pulled out in droves, scared away by the increased risk of their returns. As investors have reevaluated their choices, they have shied away from other ‘risky’ investments as well, like jumbo loans or mortgage valued more than $417,000, and home equity loans. With fewer investors to buy up the loans, there is less money available for lenders to loan out to borrowers. The result has been a credit crunch for all but the safest and most traditional of loan products.

As this lack of funding in the mortgage sector has increased, it has spread to the financial markets on a small scale decreasing the liquidity of some banks and other lenders. Plenty of economists, including former Federal Reserve chairman Alan Greenspan, have suggested the possibility of a housing-led recession. Many in and out of government have called for legislation to help resolve the mortgage and housing slump in order to avoid such a recession. Yet some ask the question, ‘Should the government step in and bail out companies and individuals in the private sector?’

Yes, Definitely
The arguments for government intervention include the idea that one sector should not be allowed to bring down the whole economy. The government should therefore provide aid or increased funding capability to its sponsored mortgage entities Freddie Mac and Fannie Mae. Proponents also argue that there are not enough rules and regulations on the mortgage industry, resulting in predatory and abusive lending practices. Some representatives and senators have even introduced bills that would create a uniform process for adjusting and reworking mortgages to help homeowners facing foreclosures.

No Way, Jose
Others, however, object to government intervention, fearing that taxpayers will have to bear the brunt of measures taken to aid struggling homeowners. In fact, one new bill approved by the Senate would require $100 million in taxpayer dollars to provide housing counseling to homebuyers facing foreclosure. Another worry of many is that letting the government step in to ‘bail out’ borrowers and lenders from their problems will remove their sense of personal responsibility and the need to own up to their own mistakes. The result would be an increase in reckless borrowing and lending behavior as people come to expect that the government will cover them if their loans fail.

According to Jacob Vigdor, economics and public policy associate professor at Duke University, "Using government power to absolve borrowers or lenders of their responsibility, even without the direct use of taxpayer dollars, is likely to be costly to many, hurtful to the innocent and helpful to those whose avarice and overreaching contributed so much to the creation of this situation."