

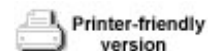


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## Fixing Overheated Housing Market with Half-Baked Bailout Plan

**Networks promote government bailout, downplay 80-percent home price gains and overlook consequences of dismissing mortgages' risk.**

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Certainly you've heard of the housing crisis. Network news keeps repeating the phrases "housing crisis," "foreclosure crisis" and "subprime crisis" – for months on end.

Just this week, the media have been promoting the Bush administration's bailout plan, downplaying criticism of bailouts and often not making it clear that ordinary Americans – taxpayers and future borrowers – will end up footing the bill.

"The Bush administration and major banks and lenders are nearing a rescue deal that could freeze interest rates for many subprime borrowers," said CBS business correspondent Anthony Mason on "The Early Show" December 1.

Following Mason's report, BusinessWeek personal business editor Lauren Young made the deal sound "Sesame Street"-sweet: "Well, we've seen government people come together in times of crisis before." In reality, the deal will not be so sweet for taxpayers.

According to Reuters, Treasury Secretary Henry Paulson is seeking to "freeze 'teaser' interest rates" for homeowners who can make payments now, but not after their adjustable mortgages adjust. Other plans to provide "relief" to some subprime borrowers exist, including Democratic Sen. Hillary Clinton's (N.Y.) plan, which would include a five-year rate freeze and a [90-day moratorium on foreclosures](#), according to USA Today.

CNN's "American Morning" suggested the "government" would be contacting struggling borrowers by phone or mail about their mortgages – a large effort that would be funded by taxpayers.

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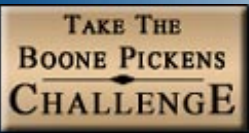
### Snapshot

Unempl	4.7%
Jobs	+ 94,000 Nov., 07
Job Growth	51 Months Straight
Inflation	+0.3% Oct., 07
GDP	3.9% Q3 '07



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Seth Jayson of The Motley Fool has cautioned about the message any sort of bailout sends to the parties involved.

“When the government takes on the risk that lenders should hold, it lowers the cost of lending,” he wrote. “And that, as recent history has shown, [makes people do all sorts of silly things](#) – such as, say, sign up for terrible teaser-rate ARMs.”

And any government intervention would have the daunting task of deciding [who gets a free pass](#), as Al Yoon of Reuters pointed out.

“As floated, the plan would exclude those deemed to have the financial ability to meet higher payments,” Yoon wrote of Paulson’s ideas on December 4. “Separating those is a laborious process that will be costly for lenders and open to ‘gaming’ by homeowners seeking the relief that could save them thousands of dollars each year, analysts said.”

Still, the networks have offered support for such plans by using favorable terms like “help,” “a rescue deal,” “taking action” or “relief.”

ABC’s Besty Stark included criticism of the bailout from economist Brian Wesbury, but introduced him with the caveat: “[W]hile financial markets may be reassured by the government’s willingness to step in, others are bound to criticize it for rewarding bad choices.”

In the same segment, Stark repeated Treasury Secretary Henry Paulson’s claim that the plan is “not a bailout,” and called it a “rescue” on November 30 “World News with Charles Gibson.”

Despite those positive descriptions, there is plenty of criticism of the Paulson’s plan to “assist” borrowers.

On December 4, The Motley Fool called Paulson’s plan [“probably the dumbest and most venal of the cavalcade of bailout plans](#). It’s venal because it would shift the cost of homebuyer and Wall Street greed onto innocent bystanders – us, the people who fund those bonds. It’s dumb because it presumes that municipalities are smart enough to allocate capital intelligently in the mortgage markets.”

Back in May, investment manager Steve Berger explained: “A bailout postpones hard choices into the future and props up faulty credit. Individuals facing default or delinquency have less reason to curb spending habits or make other sacrifices,” Berger wrote on the Ludwig Von

Mises Institute Web site.

Berger also explained the perverse incentive of a bailout, “especially in light of growing evidence that a non-insignificant number of subprime defaults involve so-called ‘liar’s loans,’ i. e., loans to borrowers who falsified information about their financial condition and income.”

Surprisingly, CNN’s “American Morning” did link the bailout to taxation on December 4. Co-anchor John Roberts asked regarding Paulson’s plan, “Who picks up the tab for this? Taxpayers on the hook for it?”

“Well, that’s an interesting question too because Paulson said, ‘Hey, we’re not bailing these folks out,’ but at the end of the day the government’s budget this year actually has money in it for counselors [presumably calling struggling homeowners] to help these folks out,” replied Gerri Willis, CNN’s personal finance editor and host of “Open House.” “State and local governments are supposed to pick up part of the tab. The biggest tab would go to lenders though.”

Jayson of The Motley Fool explained who else would end up paying for the Paulson plan. The plan would result in even “crunchier” credit – something the media have already been complaining about – and punish future borrowers because the lenders losing money on a rate freeze would have to recoup that somehow.

“[Y]ou can bet they’re going to pass along the costs. They’re going to do it by firing employees ... They’re going to do it by moving offices to offshore tax havens, outsourcing, closing branches, lowering deposit rates, hiking fees, and whatever else it takes,” wrote Jayson.

### **The Price Isn’t Right**

In addition to supporting bailouts, network reporters have complained of rising foreclosures victimizing families and have hyped falling home prices.

So you might be surprised to learn that the national average home price is actually up – way up from five years ago.

Since January 2000, the national average home price has risen by 80.45 percent according to the S&P/Case-Shiller index of home prices. But television news viewers were unlikely to hear that figure because most reporters were focused on the 4.5-percent price decline since the third quarter of 2006.

“Well, by now you know the housing market is crashing,” complained Terry Moran on ABC’s “Nightline” November 29.

ABC “World News with Charles Gibson” was equally pessimistic about lower home prices on November 27. Business reporter Betsy Stark warned, “[A]s grim as these housing numbers are, economists continue to expect worse.”

CBS also mentioned the report on November 27, with anchor Katie Couric stating “the housing slump has prices continuing to fall.”

But not one of those three reports, or the NBC report the same night, provided viewers with the context of how much prices had risen to begin with. A dose of perspective came from CNN’s senior business correspondent Ali Velshi, who didn’t state the percentage increase, but did say “[that those home prices went up so much over the last five years.](#)”

According to some experts, declining home prices also make the mortgage rate freeze suggested by Paulson and others the wrong solution.

As Reuters reported on December 4: “[Paul] Miller and other Wall Street analysts say that easing resets – as troublesome as they are – will not solve the root of the problem. Too many homeowners, from prime to subprime, were allowed loans for the full price of a home during the housing boom, leaving them vulnerable as the housing bubble deflates.

Half of all modifications end up as redefaults, suggesting that the process only delays the inevitable, Miller said.”

### **Are Homes Worthless?**

When it came to reporting the Case-Shiller study on November 27, “Nightly News” provided the worst report of the evening by misleading its viewers.

“All 20 cities that make up this [Case-Shiller] index were down year over year,” claimed Reporter Carl Quintanilla.

But that wasn’t exactly true. It turns out that five of those cities – Charlotte, Atlanta, Dallas, Portland and Seattle – all saw price increases for the year [3<sup>rd</sup> quarter 2006 – 3<sup>rd</sup> quarter 2007].

CNN’s Velshi mentioned the price gains that were ignored by NBC: “The biggest gains are in Charlotte, N.C., and Seattle. Gains of almost 5 percent,” said Velshi on “American Morning” November 28.

But “Nightly News” was focused entirely on the negative that night. Brian Williams introduced the November 28 segment by saying, “This is just an average so there are higher losses.”

“NBC Nightly News” went negative throughout November, calling a three-night series “The Housing Bust.” The term “bust” implies something losing all its value, but that is not the case with home prices even where prices have dropped significantly.

Miami, for example, saw average home prices decline by 10 percent since the third quarter of 2006, but even homes in that hard-hit city are not worthless. In fact, prices are still up 149.61 percent since January 2000.

Andy LaPerriere, managing director of [International Strategy & Investment’s](#) policy research team, explained the huge price increases in a Wall Street Journal commentary on December 4:

“Home prices were driven to unsustainable levels during the housing boom because imprudent loans created artificial demand for housing. It is inevitable that home prices will fall as that artificial demand is withdrawn.”

### **Markets Move Up ... and Down**

As housing prices went up, homeowners and speculators both kept hoping for prices to continue to climb, but they ignored a fundamental principle of any market: prices move up and down.

Despite climbing prices some people in the media helped fuel the “seller’s market.”

ABC’s Betsy Stark explained on July 25, 2002, that low mortgage rates “made homeownership an affordable proposition for many first-time buyers.” “It’s also been a good investment,” declared Stark a few moments later in the “World News” segment.

Alexis Glick of CNBC told NBC “Today” viewers on July 1, 2004, that home prices would likely continue to increase.

“[M]y guess is in the short-term home prices will continue to rise because if you’ve been on the sidelines, you want to step in the game now because the reality is this is the first of probably many more interest rate hikes,” said Glick. But at least Glick urged viewers to examine their budgets and make sure they could afford payments that would adjust.

NBC’s “Today” barely hinted that prices were going too high on May 11, 2002. “[Y]ou’ve got buyers who are happy to pay top dollar to get into those bidding wars, sellers are demanding ridiculously high prices and getting the prices because the rates are low. And we’ll continue to get high prices so long as the rates stay low,” Vera Gibbons of Smart Money magazine told the

NBC viewers.

Many people paid too much for homes and took on too much debt, according to some experts.

“The subprime borrowers paid too much for their homes, and all of a sudden, they'll see their house value drop by 10 to 15 percent,” Ken Rosen, an economist at the University of California-Berkeley, told Bloomberg News. “About 1.5 million U.S. homes out of a total of 80 million will be put into foreclosure,” according to Rosen. While 1.5 million is a huge number, it is less than two percent of 80 million homes.

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