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WSJ: The Fed's Eminent Mistake - A Plan to Seize Private Mortgages, Courtesy of the Private Beneficiaries.

The Federal Reserve has spent trillions of dollars trying to revive U.S. housing prices, and at long last a recovery is underway. So it's more than a little surprising that amid this progress the New York Fed would suddenly lend its intellectual imprimatur to a dubious proposal for government to use eminent domain to seize underwater mortgages.

Yet there it was Monday on the New York Fed website: "Paying Paul and Robbing No One: An Eminent Domain Solution for Underwater Mortgage Debt," a research paper by Cornell law professor Robert Hockett. The title is certainly arresting since it promises an economics free lunch.

Mr. Hockett notes with alarm in the paper that home prices "still linger close to 30 percent below peak levels," and he avers that government must act to keep pushing prices back up. His solution?

He wants politicians to identify mortgages worth more than the homes, seize them via the power of eminent domain out of private trusts, refinance them with government help, repackage them into new securities, and sell those securities to new investors. He muses that the money to buy the mortgages could come from the feds (read: taxpayers) or "private investors" or both.

This might please underwater borrowers who would immediately pay less for their loan, and the politicians would take credit for the windfall. But the not-so-free lunch would be financed by the original mortgage investors, who would suffer losses without recourse. There's also the little issue of higher interest rates for future borrowers as lenders price in this new political uncertainty into mortgage contracts.

Eminent domain is supposed to be used for public purposes, with adequate compensation to the private parties whose assets are seized. But in this case government would seize private assets—with uncertain compensation—for someone else's private gain.

We couldn't help but notice that Mr. Hockett's idea closely resembles the eminent-domain pitch made by Mortgage Resolution Partners, a private investment firm out of San Francisco. MRP could be a big winner in such a scheme as the repackager of the seized mortgages into new securities in return for a fee. The firm has pitched the idea to the likes of Chicago and San Bernardino County, without success.

And wouldn't you know, Mr. Hockett turns out to have been on the payroll of none other than Mortgage Resolution Partners. After we made a query, MRP Chairman Steven Gluckstern explained in an email Tuesday that MRP paid Mr. Hockett "a nominal, one-time honorarium" to help the company "with some legal analysis based on his previous published work in related areas."

One problem: The Fed didn't disclose Mr. Hockett's ties to MRP when it posted his research paper. We called the New York Fed on Monday asking about Mr. Hockett and MRP, and only several hours later did the bank get around to disclosing the connection on its website.

New York Fed spokeswoman Andrea Priest emailed us that Mr. Hockett had been an “unpaid visiting scholar” at the bank from 2011 to 2012, adding that the bank has also published work critical of his ideas. She declined to explain on the record who brought Mr. Hockett to the Fed or the reason for the initial failure to disclose his ties to MRP.

For his part, Mr. Hockett explained the oversight to us Tuesday by noting that “I guess because I told everybody about that this past summer, that I had been paid in early 2012.” He added that “I’ve been unassociated with MRP particularly in a pecuniary way ever since then, and of course that’s all over the press and television and radio interviews last summer. I suppose it just doesn’t occur to me anymore.”

Perhaps the Fed was out of this media loop, and in any case our point isn’t to play conflict-of-interest gotcha. The real problem is that the Fed would lend its credibility to a scheme for governments to seize private mortgages for someone else’s private gain. The central bank used to be known for sensible regulators, not as the venue for every crackpot notion to favor some investors over others.

The Fed has already bent too far to boost housing more than other parts of the economy with its trillion-dollar purchases of mortgage securities. This is credit allocation, but at least those purchases are plausibly related to the central bank’s monetary policy mandate.

The Fed goes well beyond that mandate when it starts advertising proposals to urge politicians to seize private mortgage assets. Mr. Hockett’s research paper follows New York Fed President William Dudley’s 2012 decision to join the lobbying of Fannie Mae regulator Edward DeMarco to allow principal writedowns on Fannie loans. Mr. Dudley was echoing pleas by the Obama Treasury—a highly inappropriate foray into politicized housing regulation by a supposedly independent central banker.

Housing prices are recovering—in some places at a rate that suggests speculation more than economic fundamentals. Mr. Dudley and his fellow Fed Governors ought to be focusing now on how to exit from their extraordinary interventions without further distorting the market or undermining the larger economy. They’ve already meddled far too much in the housing market.