

# Housing Policy: Vision Needed



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**Housing Policy: Who Pays, Who Plays, Who Wins?**

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# Vision Needed

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- Focus in Conference is current policy
  
- I shift focus to vision for future:
  - Must clear the fog
  - Better understand motives and constraints
  - Set clear and worthwhile goals
  - Build toward the institutions of the future
  
- Open question: are we too late?

# Clearing the Fog

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- ❑ Vision requires knowing facts on ground
- ❑ Policy based on inadequate data that is hard/impossible for researchers to access
  - Internal research by under-resourced teams
  - Joe Tracy and I lead team from FRBNY and NYU
- ❑ This matters:
  - FHA case study suggests real need for analytic upgrade: data architecture prevents assessment of sustainability of ownership
  - Modification policy curious at best: the present value tool for mortgage modifications!

# Understanding Motives and Constraints

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- Case in point: Little understanding of causes of default
  - A well fit model would pinpoint how LTV matters; how income matters; how value and income prospects matter; how job mobility matters; how policy interventions matter; what determines stigma of default
  - Poor academic priorities as much at fault as policy makers for lack of such models (that was the way in for Joe and I)
  - Even with a good model, many factors are unique about current period: local situations highly diverse, fears that strategic default stigma may decrease, and a critical interaction with evolving policy
- Must explicitly build local experience into policy

# Setting Clear Goals

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- What are the goals of policy?
  - Non-sustainable loans will damage borrowers and communities: what is the right balance between affordability and sustainability?
  - Preventing default can reduce mobility and the quality of the housing stock: when is that a good idea?
  - What is the future of affordable housing finance if losses on Fannie, Freddie, and FHA guarantees are really large?
  - What is the balance of benefits between ownership and rental?
- Until larger goals articulated, policy looks tactical
  - Case in point will be modification strategy discussed later

# Building Toward Institutions of Future

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- ❑ We are wasting this crisis!
- ❑ Current pattern of almost all finance coming from unwilling suppliers (our children) is unsustainable
- ❑ Where is the debate on what next?
- ❑ Embarrassing contrast with legacy of Great Depression
  - Thirty year fixed rate mortgage!
  - Federal Housing Administration!
  - Secondary mortgage markets!

# We May be Too Late

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- Absent a radical change of direction, disorderly collapse may be in store
  - Institutions that produce non-sustainable ownership at high cost to taxpayers will not survive
- 15 years ago, Joe and I with Sewin Chan and Charlie Freeman spotted need for change: “Market at Crossroads” proposed equity sharing as a way to improve affordability
  - Despite early encouragement from community groups, 15 years of travel down wrong path
  - Still no sense of urgency or open debate of alternatives

# But It May Not Be!

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- Signs of increased urgency. Equity sharing attracting some interest
  - In Congress, Gary Miller offered an amendment to FHA Bill that Barney Frank found to be of potential interest
- Must simultaneously launch massive research effort
  - Many costs will be borne by taxpayers
  - Research could save tens to hundreds of billions of dollars
  - Launch with “Space Race” urgency
- Time finally to focus on the vision for the future