

**Federal Reserve Bank of Cleveland
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Inequality
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The New Housing Finance System: Are We There Yet?

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Where We Are Today

\$10 trillion in outstanding single-family mortgage (at the end of 2012)

52% owned / guaranteed by Fannie or Freddie

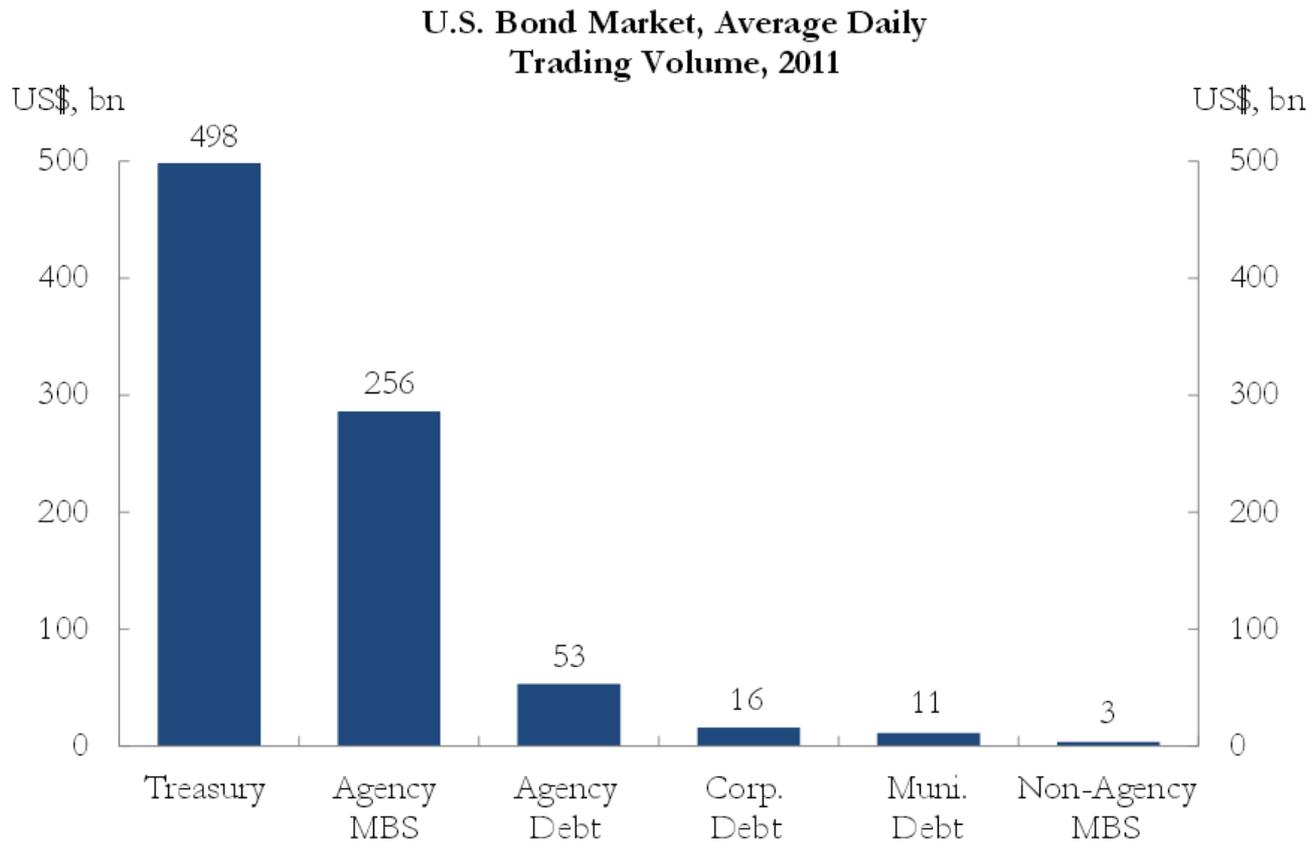
13% directly guaranteed by the government

Agreed: risk needs to be transferred to private markets

Emerging Consensus on Reform But Unresolved Issues

- **Government Backstop on MBS**
- **Private capital takes losses ahead of taxpayers, no insurance for corporate debt**
- **Mortgage securities or entities to replace GSEs to be FMIC regulated, to replace FHFA**
- **Major unresolved issues around liquidity, pricing and countercyclicality**

Agency MBS Market Relative to Treasuries



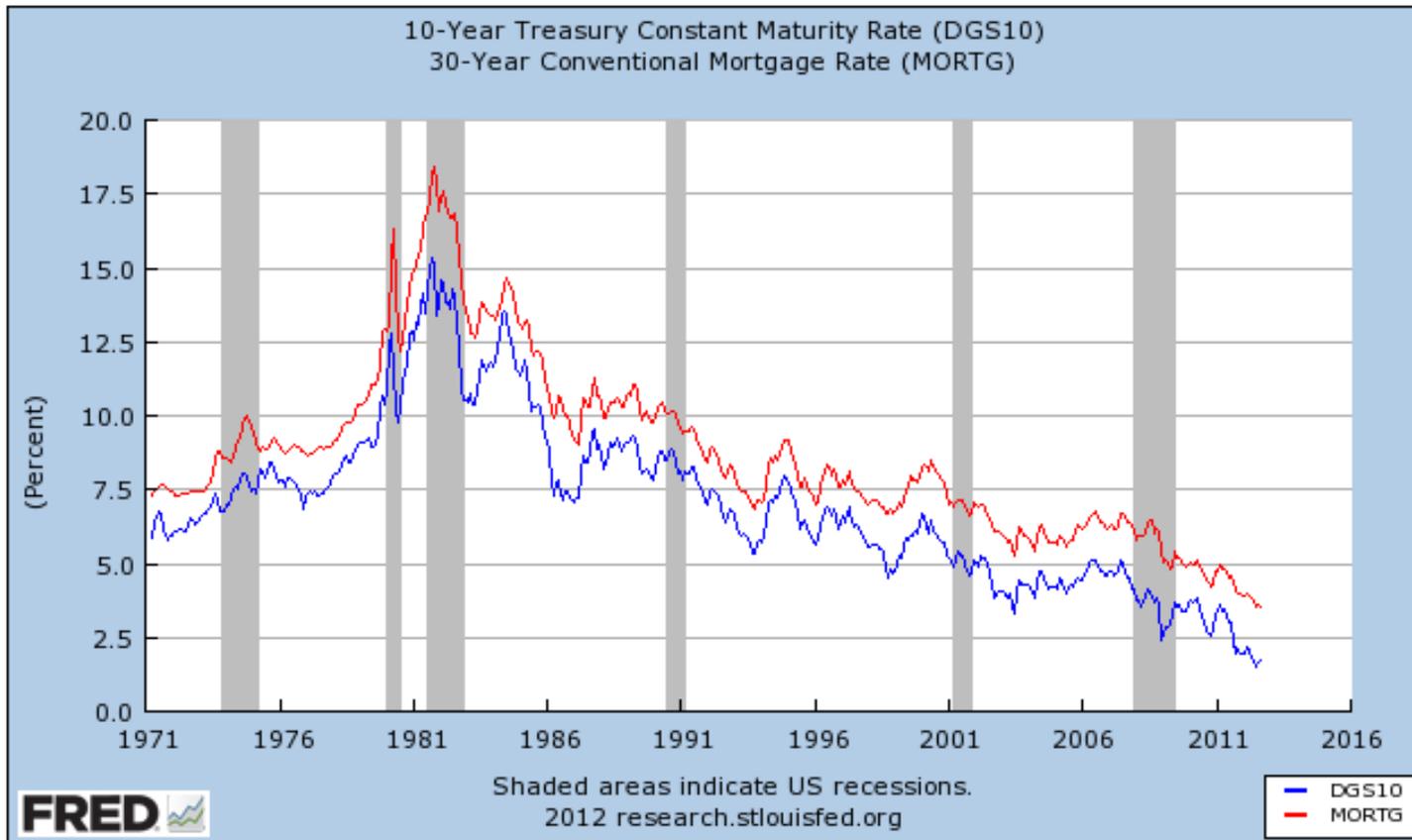
Sources: SIFMA; Federal Reserve Bank of New York.

Notes: Treasury and corporate debt transactions exclude trading in issues of one year or less.

<http://online.wsj.com/public/resources/documents/WilsonCenter5.22.12.BlueprintforHousingFinanceReform.pdf>



FRM Rates: Spread to Treasury



Liquidity, TBA and Pricing

Liquidity delivers *affordable* financing

Capital market trade is efficient: \$5 Trillion market, \$250 Billion daily trade

Sustainable homeownership needs sustainable financing

Financing available to credit worthy borrowers? Across geographies, across time?

Enabling a large, liquid market, which delivers affordable financing

How does pricing affect liquidity and countercyclicality?

Issuer Based v. Securities Based Approach*

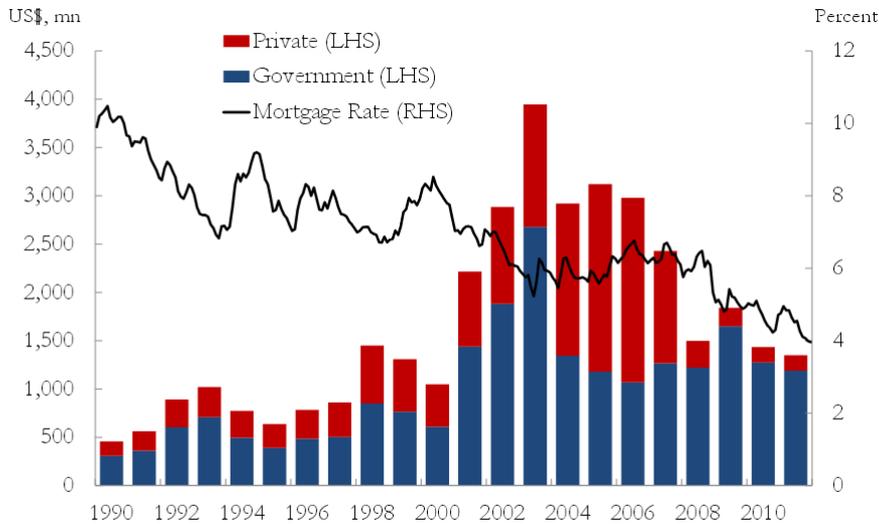
IB: Creditor guarantees the value of its securities to investors, backed up by the shareholder's capital, complemented by government support for federally-approved, -regulated, and -supported entities which provide explicitly guaranteed securities

SB: Risk absorbed by capital markets, rather than mortgage-issuers. Similar to the old private-label mortgage-based securities (MBS) market. While this market also had failures, the failures were probably due to a lack of appropriate infrastructure.

* DeMarco, May 9, 2013

Facts: Subprime mortgage originations went from \$1 trillion to \$0

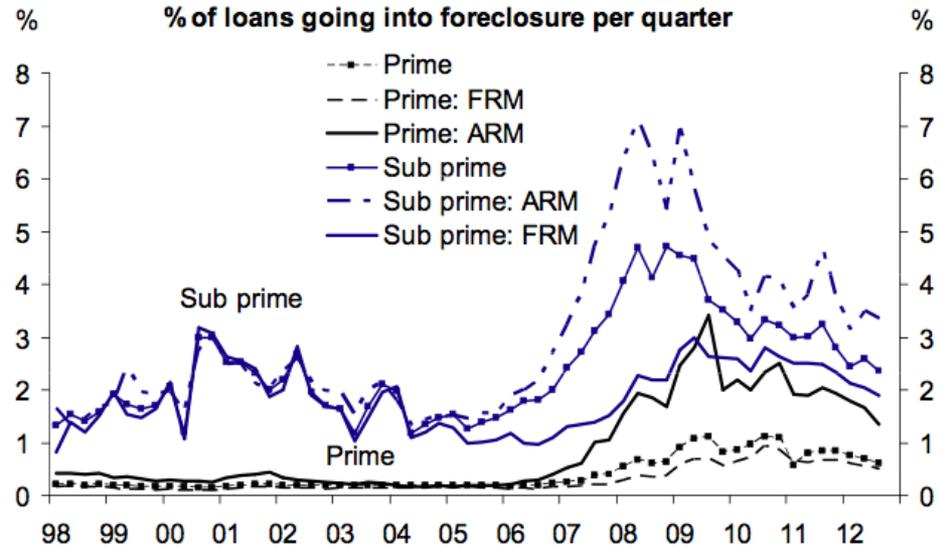
U.S. Residential Mortgage Originations and Rates



Sources: Federal Reserve Board, Inside Mortgage Finance.

Notes: One-to-four family mortgages. Contract rate on 30-year, fixed-rate conventional home mortgage commitments.

% of loans going into foreclosure per quarter



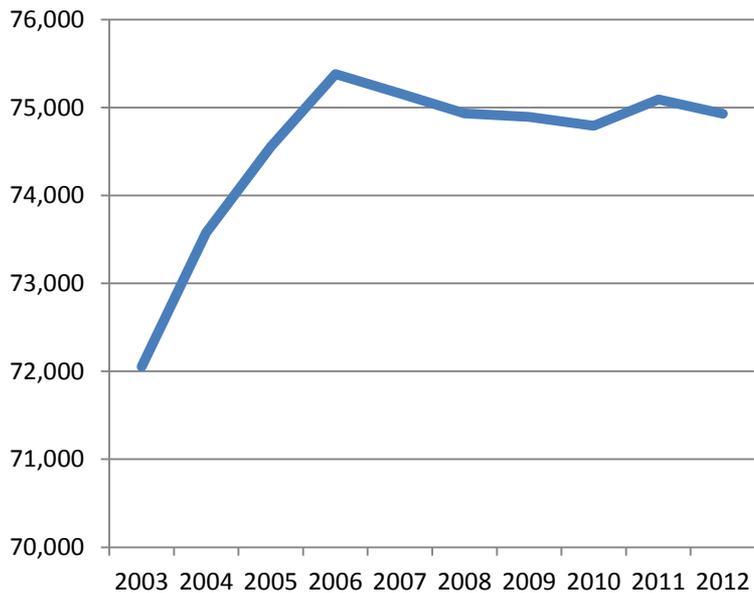
Note: ARM=Adjustable Rate Mortgage, FRM=Fixed Rate Mortgage



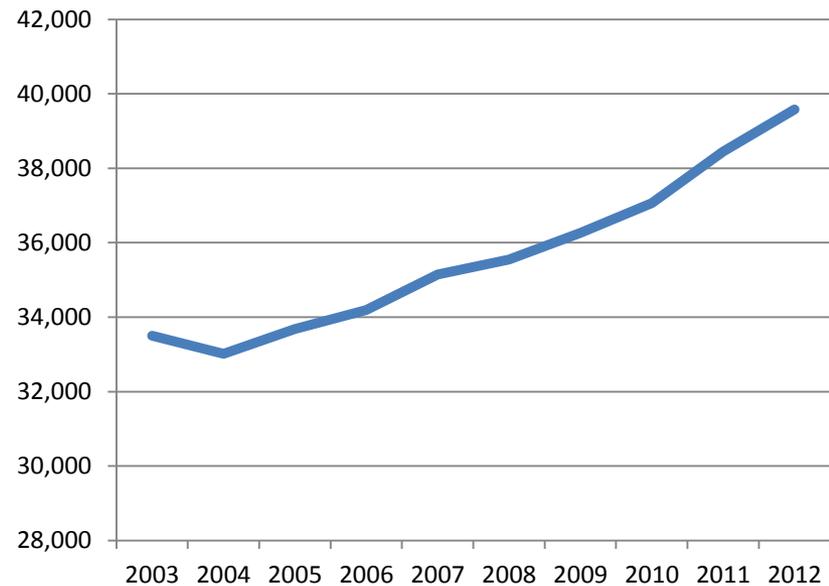
Facts: No gain in homeowner households since 2003

75M homeowner households unchanged, 6M more renter households

Owner-occupied



Renter-occupied



Thank you

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KNOWLEDGE FOR ACTION
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