



The Daily Dish

Just Say No

DOUGLAS HOLTZ-EAKIN | MAY 9, 2024

On April 16 Freddie Mac sought [approval](#) from the Federal Housing Finance Agency (FHFA) to begin purchasing and guaranteeing closed-end home equity loans for borrowers where Freddie already owns the first mortgage.

FHFA should just say no.

Home equity loans - aka second mortgages - allow homeowners to turn into cash some of the equity that has built up in their homes. Notably, this takes the form of a 20-year fixed-rate loan. Notice that home equity loans don't do anything for housing itself. They don't improve affordability and they won't be available to renters, or those recent buyers and first-time purchasers with little equity. And, ironically, the one thing that one cannot do with the money is buy a house.

They have nothing to do with Freddie Mac's mission. The FHFA should just say NO.

These home equity loans would attempt to meet a need already served by private markets. Similar products are offered by private lenders, funded by private capital, and used to finance home improvement projects and other major expenses. Freddie Mac is in conservatorship and functionally an agency of the federal government. The first test of a potential government intervention is whether there is a private-sector market failure.

There is no private-sector market failure. FHFA should just SAY NO.

FHFA should especially say no now. A variety of observers ranging from [advocates](#) to [analysts](#) have estimated that there is between \$800 billion and \$1.5 trillion in potential home equity loans. (This assumes that Fannie Mae gets in the business, but if Freddie Mac is approved, Fannie Mae will get in the business.) That is, there is the potential for up to \$1.5 trillion in additional consumer spending that would be financed.

Remember when the Biden Administration's American Rescue Plan flooded the economy with \$1.9 in stimulus in 2021? Remember when inflation jumped from 1.4 percent to 9.1 percent? This cash infusion would make that look like child's play. And the only way to dodge another inflation spike would be draconian Fed policy. Anybody in the mood for another 500 basis points in rate hikes?

The last thing the economy needs now is more reckless fiscal stimulus. The FHFA should JUST SAY NO.

It is odd that the Biden Administration would even entertain this. After all, the target clientele for these loans is affluent owners with lots of housing equity and a low credit risk. (Of course, taking out all that housing equity would generate additional risk.) Why would it undertake an election-year policy so at odds with reducing inequality, especially in direct conflict with its housing equity goals?

The last thing the United States needs is a discretionary policy riddled with such manifest unfairness. The FHFA SHOULD JUST SAY NO.

Finally, the flip side of the policy will be broad strain in credit markets. Private lenders cannot compete with the terms offered by a 20-year, fixed-rate product. All the best risks will migrate away from private consumer lenders to Freddie and Fannie, and the banking sector and other lenders will be saddled with a riskier book of business.

The last thing the economy needs is a deliberate increase in financial fragility. THE FHFA SHOULD JUST SAY NO.