The Daily Dish

May 16th Edition

DOUGLAS HOLTZ-EAKIN | MAY 16, 2014

The FCC had two important votes yesterday. The first was to move forward with the controversial proposed rule on net neutrality. Chairman Wheeler contends that the rule will protect net neutrality, but opponents believe it does not do nearly enough and will open the door for Internet service providers to create the fast and slow lanes. The second vote was to restrict AT&T's and Verzion's access to the 2015 spectrum auction. AAF has written on how this decision will hurt both consumers and the companies involved.

Weekly Checkup- Late ACA Enrollment Dominated By Bronze and Silver Plans: "In the final weeks of open enrollment, nearly 90 percent of enrollees chose a Silver or Bronze plan…While many analysts expected a surge of enrollment in low cost plans as young adults on the fence picked up the cheapest available option, the preference of Silver and Bronze plans was a relatively consistent trend throughout the entire period of enrollment."

Eakinomics: GSE Reform

The housing reform bill co-authored by Democrat Tim Johnson and Republican Mike Crapo was passed by the Senate Banking Committee on a 13-9 vote. That is the good news. According to most news reports (see here or here), however, it will not be put up for a vote by the Senate as a whole. That is the bad news.

Housing finance reform is long overdue, as the government remains far too involved in the mortgage market and the private sector needs to understand the rules of the road. The crises revealed the flaws in Fannie Mae and Freddie Mac — too little capital, large undiversified hedge funds investing in risky housing assets, and a crony capitalism business model — and the Federal Housing Administration (FHA) (zero down payment loans to risky borrowers do not serve the public interest). Unfortunately, the only response thus far has been to make Fannie and Freddie *de facto* government agencies and to push the FHA to become involved in even more of the mortgage market.

Reform should have some essential features. It should provide a comprehensive and coordinated reform to the FHA, Fannie and Freddie, single-family mortgages, and multi-family housing finance. With regard to Fannie and Freddie, they simply must go — if only because AAF polling indicates that public distaste is high and reform will not be perceived as fair if they survive. It should provide for the securitization of mortgages and have a clearly specified glide path for the exit of Fannie and Freddie, the withdrawal of the government from the market, and implementation of the new rules.

The wild card is whether reform *must* contain a government guarantee against mortgage default. Those who argue against a guarantee point out that the U.S. does not guarantee financial products, that the 30-year fixed rate mortgage guarantee is an international anomaly, and that there are some 30-year mortgages outside the government guarantee. Proponents want the 30-year mortgage because of its familiarity and beneficial terms for borrowers. (They also usually want it cheap, which should not happen. Any guarantee should be paid for and the cost incorporated into the mortgage.) A middle ground position — and one I favor — acknowledges that there is no first-principle need for the guarantee but that when the next crisis hits a future Congress will feel compelled to step in and effectively guarantee mortgages to avoid distress. It is better to put it in place and protect the taxpayer in advance.

There are also some things that should not be a part of a new housing finance model, notably another regulator and off-budget affordable housing initiatives. On the former, the Dodd-Frank reform created prudential standards for banks and other lenders. The Consumer Financial Protection Bureau was created to ensure that products were “safe” and understandable. There is no reason to create another set of regulations. On the latter, the U.S. has a long-standing commitment to ensuring the least well off have access to shelter. But there is no reason to dictate what kind of shelter. And no defense for creating off-budget slush funds to be misused by advocacy groups.

From this perspective, the irony is that the Senate bill — which has these unnecessary features, see this comparison — has been doomed by Democrats who want to unwind the Dodd-Frank reforms (the Administration got a little ahead of them this week by doing a u-turn on mortgage standards and ordering the agencies to open the spigots). They are unlikely to get what they want as any final reform will come through a conference of the much more market-driven House reform and the Senate bill.

The greater disservice is grinding reform to a halt yet again. Until reform is complete, uncertainty will continue to pervade the housing markets and hamper their recovery.