The Daily Dish

Reforming Housing Finance

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | MAY 17, 2017

The White House announced that beginning on January 1, 2018 small businesses will be able to bypass healthcare.gov when signing up for health care coverage. Centers for Medicare and Medicaid Administrator Seema Verma said the administration aims to "reduce ACA burdens on consumers and small businesses" therefore small businesses will be able to purchase coverage directly through an insurance agent or broker.

Yesterday in a bipartisan vote of 408-3 the House passed a sweeping cyber-security bill which will allow the National Computer Forensics Institute to investigate cyber crimes. Many members of the House cited the recent "Wanna Cry" cyber-attack as a reason for supporting this bill.

Eakinomics: Reforming Housing Finance

Federal Housing Finance Agency (FHFA) Director Mel Watt testified recently before the Senate Banking Committee on the topic "The Status of the Housing Finance System After Nine Years of Conservatorship." In his testimony he presented four questions that he said needed to be answered by Congress (and not the FHFA) as they seek to reform the housing finance system:

1. How much backing, if any, should the federal government provide and in what form?
2. What process should be followed to transition to the new housing finance system and avoid disruption to the housing finance market, and who should lead or implement that process?
3. What roles, if any, should the Enterprises [Fannie Mae and Freddie Mac] play in the reformed housing finance system and what statutory changes to their organizational structures, purposes, ownership and operations will be needed to ensure that they play their assigned roles effectively?
4. What regulatory and supervisory structure and authorities will be needed in a reformed system and who will have responsibility to exercise those authorities?

These are fine questions, but it seems first that it would be useful to see where housing finance — largely mortgage lending — fits in the housing policy of the future. Put differently, will the U.S. continue to have low-income housing tax credits, Section 8 housing vouchers, mortgage interest deductions, Fannie Mae and Freddie Mac mortgage guarantees, off-budget housing trust funds, affordable housing goals, a Federal Housing Authority, Ginny Mae guarantees, and the remainder of the complex, uncoordinated taxpayer backing of shelter and shelter finance in the U.S.

It seems reasonable to assume that there is a shared commitment that all Americans should have access to adequate shelter, whether they own it or not. To meet this commitment, some basic questions should be answered:

1. Should there be a unified, basic subsidy for access to shelter of any kind? How should low-income subsidies be delivered — a voucher, a tax-based subsidy, or through the housing finance system?
2. Does there remain a reason to have homeownership as a policy goal? Or, should the system balance

homeownership and rental subsidies?

3. Where should low-income subsidies be delivered? In a single program, or via multiple programs, whether tax, spending, or loan guarantees?
4. If the system will subsidize housing finance, will it continue to offer a bias toward debt — mortgage interest deduction, loan guarantees, etc. — or will equity investments in housing be rewarded as well?

It is hard to believe that Fannie Mae and Freddie Mac remain unreformed wards of the state nearly a decade after the housing crisis, so it is sensible to think hard about reforming federal support for housing finance. But it would be even better if those reforms were embedded within a cohesive strategy to meet the shelter needs of the population without excessive exposure to loss of taxpayer dollars.