



Ideas Changing the World

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Economic Issues

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Housing Market Doesn't Need 30-Year Fixed Loans

As Congress begins debating the future of Fannie Mae and Freddie Mac, proponents of keeping the taxpayer on the hook for the mortgage market argue that without such support the 30-year fixed-rate mortgage would disappear. The advantages of the 30-year mortgage have, however, been grossly exaggerated. Subsidizing it should not serve as an excuse for continuing to put the taxpayer at significant risk, says Mark Calabria, director of financial regulation studies at the Cato Institute.

First, we should recognize that the 30-year fixed isn't going anywhere.

- The "jumbo" mortgage market offers a 30-year fixed without a government guarantee.
- In fact, fixed-rate mortgages have historically been around half of the jumbo market.
- Of course it is more expensive -- but more expensive to the borrower does not mean more expensive to society.

The difference between 30-year jumbo and conforming loans has been about 30 to 40 basis points.

- In the absence of a federal guarantee, rates would likely go up somewhere between 10 and 30 basis points.
- That smallish jump would not have any impact on homeownership rates and is hardly an amount worth putting our entire financial system at risk.

While the current system has given borrowers some stability in their monthly mortgage payment, it has done so by exposing households, as taxpayers, to massive, hard-to-predict contingent liabilities. There has been no bigger "hidden fees" or "payment shock" in the mortgage market than the cost of the bailout of Fannie Mae and Freddie Mac, says Calabria.

Source: Mark A. Calabria, "Housing Market Will Be Fine Without 30-Year Fixed Loans," Investor's Business Daily, March 16, 2011.

For text:

<http://www.investors.com/NewsAndAnalysis/Article/566222/201103161808/Housing-Market-Will-Be-Fine-Without-30-Year->

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