



The Unintended Consequences of Housing

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April 8, 2016

Now six years into the recovery, housing is still faced with challenges that prove difficult to overcome, and as an industry, this series of misfortunes is simply an unavoidable fault to the mortgage market.

Director of Financial Regulation Studies at the [Cato Institute](#), Mark A. Calabria, sat down with *MReport* and explained some of the hot-button issues affecting the mortgage space including the economy, regulation, compliance, homeownership, and the upcoming election.

***MReport:* Compliance has been one of the biggest hot topics in the mortgage industry, will it continue to be under a new administration?**

Calabria: The regulatory side is going to get a little more certainty. I think that's going to be good for the cost side, it's going to be good for the business side. I think it's going to take a little while to get there, because of course with TILA-RESPA, we've had a little bit of a delay, but once these things get implemented it'll be a little bit on a more steady state for business. So the regulatory environment isn't completely calm but it will be calmer.

***MReport:* Demand in the housing market continues to surge upward, while supply remains a few steps behind. How will this imbalance in supply and demand play out in 2016?**

Calabria: I do think that, first of all, both buyers and sellers that have been on the fence are going to get off the fence. Some buyers will get pushed off to the side, but I think what you're going to actually see more of is that anybody who is thinking that this is the time to buy, may not have the opportunity to. The investors who bought up a lot of the foreclosures a few years ago will begin to put some of that inventory on the market.

It's not just the institutional inventory—that's somewhat historically new—it's sellers, those who have had second homes, a lot of people during the crisis sat on the home they couldn't sell and bought a new one because they had to move for a job. So I think you're going to see the

inventory both on existing sales and on new starts get better this year. That's one of the reasons why I think the price increases we've seen are going to moderate. So I don't think we're at the point where prices are going to be down—let's just be clear—they're going to increase but at a decreasing rate. I'm sure at some point in the future they will come down again. Probably not now, but it's always tough with a forecast.

I think 2017-2018 is likely when we'll see a peak in the housing market. That's one reason why I think you'll see some of this inventory come back online.

MReport: There are many regulations circulating in the mortgage industry right now, which of these currently has your attention??

Calabria: There's a lot going on. I mentioned TILA-RESPA. The qualified mortgage rules as well as the qualified residential mortgage rules are in place, but they're still being figured out. There's a lot of uncertainty and there's a lot of litigation risk. Unfortunately, there's some of this that's only going to be settled in the courts, which is obviously an expensive way to settle things, but there is just a lot of uncertainty. You can do what you can to document and protect yourself, but if we start to see a weakening job market, we see a weakening housing market, or we see any increase in foreclosures, then lots of foreclosures are going to be contested in the future. And that's really going to be how tight these rules are and how tightly you have to protect yourself as an originator. And the sad truth is you won't know until loans stop performing.

MReport: What will the homeownership picture look like in 2016? Will there be any gains?

Calabria: We're certainly not going to be anywhere near where we were 10 years ago. So I would characterize this as moderate gains primarily driven by the job market. So when people start to get that certainty again, you're going to see homeownership rates start to notch up. One of the big conversations that continues to be talked about leads back to student debt. Student debt is a bigger problem when you're not working. I think this is going to be the year where the labor market starts to look a lot better for people in their 20s. And again I think that's going to make some of the student debt issues a little more manageable.

MReport: Millennials – what's really keeping them from homeownership?

Calabria: Let me first emphasize that jobs have been a big part of it. The job picture has been, in the short run, bigger than the student debt picture. Because some of the choices of living in mom and dad's basement are driven by either not having a job or having a job that's—you're not making what you thought you were going to make. So that's some of it. I feel like that's getting better, and of course we've seen that the last couple years unemployment rates have come down. I do think student debt is an issue, but it's not—it's a segment of the market, not the overall market.

MReport: How do you think the election will affect housing? If at all?

Calabria: For me, since I own and live within the District of Columbia, it might affect house prices so there's certainly concern around that. I'll also emphasize that for 2016 it doesn't matter as much that, obviously we're not going to have a new president until 2017, it will pull more of the attention away from Washington's doing, which quite frankly won't be a lot in an election year. So certainly in terms of focus on what's going on in Washington is going to decrease, so I guess I interpret the question partly to be what does it mean for 2017, will we see a new administration shift priorities? There will be some talk in Congress about Fannie and Freddie, but unless Fannie and Freddie start bleeding money in a big way, you're not going to really see reform. You're going to continue to see the status quo. I think what will drive Fannie and Freddie reform is if those companies start losing, which I don't think will happen until the next downturn.

Want to hear more from Director of Financial Regulation Studies at the Cato Institute, Mark A. Calabria? Be sure to check out his exclusive interview in the April issue of *MReport*.