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US govt role in secondary mortgage market

Reforms to America’s property finance market must ensure a reliable source of affordable mortgage lending for creditworthy consumers, according to the country’s real estate agents.

The National Association of Realtor’s mid year annual meeting heard that the government’s large presence in the housing finance market is ‘unhealthy’ and that private capital is unlikely to return to the US market until it has stabilised.

The NAR position is that reform of government sponsored enterprises (GSEs) is required, tax payers must be protected from losses and the federal government must continue to play a role in the secondary mortgage market to ensure a steady flow of mortgage liquidity in all markets under all economic conditions.

‘As the leading advocate for home owners, NAR is concerned that eliminating the GSEs without a viable replacement is not a reasonable option and will severely restrict mortgage capital and result in higher fees and costs for qualified borrowers,’ said Steve Brown, 2011 NAR first vice president nominee.

‘Reform of the secondary mortgage market needs to be comprehensive and undertaken methodically,’ he told delegates.

James Parrot, senior advisor for housing at the National Economic Council in Washington, said that the primary objective of the government proposals was firstly to lay out an immediate near term path for reform, with steps that could be taken the next few years to reduce taxpayer risk and move the housing market to more stable footing, and secondly, to frame the discussion regarding the government’s long term role in housing finance.

‘The government’s large presence in the housing finance is unhealthy and needs to be scaled back. However, the steps we take over next few years to reduce the government’s role and increase private capital will have a tremendous impact on the housing market and economy as well as the availability and affordability of mortgages,’ he explained.

‘The objective isn’t to turn away from housing, but to make the housing finance market stronger so that families and their most important asset are better protected,’ he added.

Susan Wachter, a professor at The Wharton School, University of Pennsylvania, agreed that private capital needs to return to the housing finance market, but that most likely won’t happen until the market has stabilized.

‘There needs to be more accountability and transparency in the secondary mortgage market so that private investors can best assess their risk and safely get back into the market,’ she said.

Mark Calabria, director of Financial Regulation Studies at the Cato Institute, argued for a very limited government role in the secondary mortgage market, saying that the private capital market has the funds and capacity to absorb Fannie Mae and Freddie Mac’s market share.

He explained that increased government support in the past few decades have only slightly increased America’s home ownership rate and that rates in other countries are higher despite their government’s limited involvement. Despite his opposing viewpoint to the level of involvement, Calabria did acknowledge that some government backstop was essential in the future,...