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Federal Policies Are Making Houses Unaffordable

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The Senate Banking Committee held two hearings on housing finance reform last week, proving once again the truth of that old adage: The more things change, the more they stay the same.

If the Senate witnesses looked familiar, that's because they were. Many of them had testified in the House last December, and virtually all have long been on record supporting an expanded federal role in housing finance. They want more federal subsidies, more financial guarantees, more regulation, and more standardization. They also want to impose more fees on homebuyers to pay for ill-defined plans to make housing more affordable.

What they most definitely do not want is anything that resembles a true competitive market place for housing.

Not invited to the hearings were conservative think tanks such as The Heritage Foundation, American Enterprise Institute, Cato, R-Street, Mercatus, and the Competitive Enterprise Institute. Conservatives, of course, all want lessfederal subsidies, guarantees, regulation, and standardization. For views such as these, there was no room at the Banking Committee inn.

If the committee's antipathy were limited to conservative think-tankers only, there are also plenty of non-think tankers it could have brought in to hear a diversity of opinions on housing finance reform. For instance, the committee could have invited the folks from the Bryan/College Station Habitat for Humanity affiliate.

I visited the Habitat folks a few weeks ago, and it turns out they see the federal government as getting in the way of their mission. They want to provide more families with affordable homes, but federal policies keep making it harder for them to deliver. (Here is a Daily Signal report and video spawned by the Texas trip.)

As Charles Coats, Habitat's director of homebuyer services put it:

“This is not a game, and people are getting hurt by America's bipolar view of housing. A home can't both be a safe, wealth-building, ever-increasing value investment and affordable.

At the federal level, policies have been enacted for decades which allow and push people to buy more and more house as an investment good, and at the local level, often the city governments act as if their reason for existing is to protect wealthy homeowners' investments through stringent zoning, ordinances and building codes which squeeze the already small pool of affordable rental and ownership housing options to the point of extinction. At the same time, these same government entities then continue to throw more and more money at the “affordable housing crisis” that they themselves are responsible for creating!”

Charles and his colleagues are dedicated to giving people a firm foundation to improve their lives, thus helping to build solid, sustainable communities. They do not give away houses or any sort of hand-outs. (They call what they do giving a hand up, not a handout.)

They work carefully with prospective buyers to ensure that they are creditworthy, and they require 500 hours of community service, much of which consists of literally helping build other people's homes. They work together so that habitat homeowners and their neighbors feel invested in their community.

Habitat then provides a zero-interest loan to the buyer. This type of loan keeps the monthly cost down and makes sure the buyer is building home equity right from the start.

This equity-building feature should be a critical part of the housing finance reform debate in Washington. Unfortunately, it tends to fall to the wayside.

Instead, supporters of more expansive federal policies – such as nearly every witness at the recent Senate and House hearings – equate affordable housing with getting more people to take out long-term low-equity home loans. The problem is that these loans represent mortgage ownership, not home ownership.

Pushing low-to-moderate income families into low-equity, long-term loans doesn't really help them. In fact, it's quite harmful. It puts upward pressure on home prices and rents, making it even harder for first-time buyers to afford housing. Moreover, it puts people at risk by forcing them to live barely within their means.

If anything goes wrong – one spouse loses a job or the local government raises property taxes – they face choosing between foreclosure or selling a house with zero equity. A financial planner that pushed these kinds of loans on people would be derelict in his duty. It is the polar opposite of what public policy should be doing.

The 2008 crisis made it clear that the so-called gains in homeownership from these kinds of loans is fleeting. (The written testimony of Mr. Hilary Shelton, a director for the NAACP, recognizes this problem, though it still calls for the wrong solution: more long-term low-equity credit.)

Now, these policies are starting to hurt even groups like Habitat, because home price growth has continued to outstrip income growth, and regulations have continued to pile on. Some Habitat affiliates have closed down, and others are building fewer homes.

The College Station affiliate is building about two fewer homes each year, and that's after raising their income cutoff to 80 percent of the median area income. (They used to serve only those at or below 68 percent of the median income, but because of the higher home prices it's very difficult to justify the larger loans for people at this lower cutoff.)

According to Coats: "Habitat's very existence and its ability to continue to provide sustainable, affordable homeownership and housing for families in need, both here in Bryan/College Station and throughout this country, is threatened by this nexus of federal and local (not to mention state) government intervention in housing. We cannot continue to sell homes affordably to low-income homebuyers if the deck is stacked against making homes affordable and instead the focus remains on a home as a lucrative investment. No amount of federal funding from HUD or anywhere else will fix this."

It is very difficult to argue with Mr. Coats, but neither the House nor the Senate seems to agree. The Trump administration has not yet released a detailed reform plan, and Mark Calabria, the nominee to run the FHFA, has not yet been confirmed, but several elements in the recently released presidential memorandum match the bad reform ideas percolating in Congress.

If Congress and the administration really want to make housing more affordable, they will listen to Mr. Coats and others who want to shrink the federal government's role. Unfortunately, Democrats and Republicans alike seem set on doing just the opposite: preserving and expanding as much of the old system as possible.

That system triggered the 2008 financial crisis and is fueling the current rise in home prices. And that's precisely why Washington's latest reform efforts are so scary.