



## Federal Housing Policies Make It Easier To Get A Loan But Not Be A Homeowner

By Nobert Michel

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Last week I testified at the House Financial Services Committee hearing *Boom and Bust: Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market*. It was not the first time I've testified—or written—about these topics, so I wasn't the least bit surprised how many witnesses (and members of Congress) want to throw even more of other people's money at the so-called housing shortage. But given Rep. Ed Perlmutter's (D-CO) comments, I want to keep the record straight.

According to Perlmutter (at about the 2:55 mark), I don't want to do anything about housing supply, and I want to "cut the demand by making sure people don't have any cash." But that's an inaccurate description of what I suggested.

I have no problem with building more housing, whether single family homes or apartments. The problem is that housing is always somewhat supply constrained. In many locations that people want to live, there simply is not enough land to appreciably increase the supply.

Some of this scarcity is due to state and local zoning restrictions, such as those that keep high-rise apartments out of most suburban neighborhoods. Those neighborhoods are dominated by single family homes, and they're going to stay that way. There simply is not much vacant land left in the most desired urban and suburban areas, so even lifting all zoning restrictions won't bring about enormous changes anytime soon.

Either way, it takes time to build new housing units, and people can't just go pick one up at Walmart. (Yes, it's possible to buy a shed or a small barn at Home Depot.)

Another problem is that people generally must pay for large expenditures over long periods of time, and the ability to consistently make those payments depends on a whole host of economic and social factors. Many of these factors have nothing to do directly with housing finance policy.

So, while I am all for building more homes and apartments, the truth is there is little that the federal government can do other than refrain from making supply constraints worse and from shrinking economic opportunities. Yet, historically, that's exactly what federal policies have done.

Federal policies have consistently boosted demand by making it easier to get loans in all geographic areas of the country, with the trend toward ever-lower equity and longer terms to maturity. All this approach has ever done is push more people into the market to bid up the same constrained supply. And it has often done so with sheer disregard for individuals' ability to deal with the high risk of long-term, low equity mortgages, thus leaving people with more debt and less affordable housing.

Astonishingly, federal policymakers remain fixated on boosting demand even further by pushing more people—especially those with lower incomes—into the market with huge mortgages.

The pitch often includes some version of closing the wealth gap because housing makes up a large portion of Americans' wealth. But if any member of Congress proposed increasing poor peoples' wealth by subsidizing margin accounts to gamble on stocks, the proposal would be laughed off Capitol Hill. Yet, equity markets and home prices have exhibited similar volatility—i.e., similar financial risk—for decades.

So, to clarify, I'm not in favor of taking peoples' cash away.

I am, however, in favor of letting them keep more of their cash and deciding on their own when it's the right time to take on debt. Put differently, I'm saying that it is well past the time for the federal government to stop making it so easy to get low equity, long-term mortgages. That approach clearly does not achieve the results—making housing more affordable—so many members of the House Financial Services Committee claim to want.

In fact, it makes no sense to profess that affordability is the main goal while doing everything that is known to accomplish the opposite. Even the president of the National Association of Real Estate Brokers concedes (see the 2:55:56 mark) that “demand is much higher than supply right now,” so even continuing the same level of federal policies that boost demand will put upward pressure on prices.

Long term, the solution to high housing prices cannot simply be to increase supply because federal policy would still be boosting demand, something that's much easier to do than increase the supply.

Rather than allow individuals' shelter decisions to evolve with their economic circumstances, federal policy has essentially told people to forget about those circumstances and take out bigger loans with less money for a downpayment. This approach often fails for the borrower—just ask the millions who went through foreclosures after the rise of Fannie and Freddie—as well as everyone trying to save to get more secure before taking on a giant loan.

What's so astounding is the atrocious track record from exactly the same policy prescriptions that all my hearing counterparts and most House Financial Services Democrats are calling for now.

The New Deal era Federal Housing Administration created redlining and segregated neighborhoods, extended mortgage terms, and pushed downpayments well below 20 percent. The GSEs were then created in the late 1960s (as a budget gimmick, for what it's worth) but the homeownership rate has barely budged. Bill Clinton's 1994 strategy of using the GSEs to get the rate up by making it even easier to obtain long term, low-equity mortgages was an unmitigated disaster, and the black ownership rate went even lower after decades of these policies. Many Democrats even want to expand the most abysmal housing policies of the 1900s, public housing and rent subsidies.

Aside from these obvious failures, federal policies have crowded out private sector businesses that could have helped build a more sustainable system. Private companies could, for example, provide more diverse lending and insurance options if they weren't forced to compete with the federal government. But the federal government dominates the market.

So, no, I do not want to make sure people don't have cash to buy homes. But I do want the federal government to stop taking people's cash away to fund more federal programs and more loans that ultimately take even more of their cash away.

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