



GOP bill would put traditional home mortgages out of reach for masses, U.S. Rep. Gwen Moore says

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After the real estate market collapsed during the Great Depression, the federal government created entities to encourage families to buy houses and banks to make home loans.

The Federal Housing Administration, founded in 1934, issues mortgage insurance to guarantee banks they will get their money back even if a homeowner doesn't make payments. That made it easier for banks to approve mortgages for people who don't have a lot of money or have mediocre credit.

Fannie Mae and later Freddie Mac, two government-sponsored enterprises, were created to buy up, bundle and sell mortgages as mortgage-backed securities on the open market. That gave lenders more money to make home loans.

But by 2008, Uncle Sam had to bail out Fannie Mae and Freddie Mac, as the recession took hold.

And several years later, FHA was also in financial straits.

Those developments helped precipitate a move in July 2013 by Republican leaders of the House Financial Services Committee. They announced they would introduce the Protecting American Taxpayers and Homeowners Act (PATH), aiming at largely removing the government from the financing of home purchases.

That prompted U.S. Rep. Gwen Moore, a member of the committee, to go on the attack.

"This radical bill would push the dream of home ownership further and further out of reach for Wisconsin families. The so-called PATH Act is, in actuality, the PATH to Nowhere," the Wisconsin Democrat charged in a July 24, 2013 news release.

The bill, Moore continued, "would eliminate a person's ability to obtain 15- and 30-year mortgages – the cornerstone of our housing finance system."

Let's see if that's so.

Moore's evidence

Moore spokeswoman Staci Cox told us that when Moore referred to "a person's" ability to obtain a traditional fixed-rate mortgage, she meant the "average American."

To back the statement, Cox highlighted testimony made to the House Financial Services Committee by Mark Zandi, chief economist for the Moody's Analytics economic research firm. He said the PATH bill would put 30-year fixed-rate mortgage loans "out of reach for most Americans."

Without the government guarantees, mortgage rates would increase, adding \$130 per month to the cost of a mortgage for the typical borrower, Zandi said. And while three-quarters of mortgage loans currently are fixed rate, that would drop to 20 percent to 25 percent, he said.

Moore also cites opposition to aspects of the bill from several major players in housing. The National Association of Home Builders, for example, said the bill would "greatly limit homeownership" for "many qualified Americans"; and the Credit Union National Association said it feared the bill could not "ensure continuation of long-term fixed-rate mortgage products."

So, Moore doesn't have hard evidence that the PATH bill would eliminate the ability of a person to get a traditional mortgage; that remains to be seen. But experts say such mortgages could become unavailable or unaffordable for many people.

GOP response

The PATH bill, pushed by U.S. Rep. Jeb Hensarling, R-Texas, chairman of the House Financial Services Committee, would shut down Fannie Mae and Freddie Mac in five years and limit the focus of the FHA's mortgage insurance to first-time home buyers with moderate incomes.

Jeff Emerson, a staff member of the House Financial Services Committee, gave us a response to Moore's claim.

Emerson cited a *Washington Post* editorial that rebutted the assertion that 30-year mortgages would go away. The editorial noted that 30-year fixed-rate loans known as jumbo mortgages "already exist without government help," saying: "Presumably private-sector innovation could create loan products, with 30-year terms or otherwise, appropriate for smaller borrowers as well."

But current jumbo mortgages require a borrower to have a higher income, a good credit score and typically a 30 percent down payment, according to Realtor.com.

Emerson also said PATH "is designed to create more opportunities for more choices, including the 30-year fixed rate loan. The market will respond to customer demand, as it always does."

So, while there is no indication that traditional mortgages would cease to exist, neither of Emerson's points are evidence that they would remain as available as they are with today's government guarantees.

Other evidence

Other experts, while disagreeing on the overall impact of PATH on traditional fixed-rate mortgages, acknowledge that the elimination of government guarantees or subsidies inevitably means that the terms of such mortgages would change.

Georgetown University law professor Adam Levitin, whose specialties include housing finance, agreed with Zandi. He testified to House Financial Services Committee that the 30-year fixed-rate mortgage is "heavily a function of federal backing of the housing finance system" and that if PATH became law, "it would be difficult for most American families to obtain 30-year, fixed-rate mortgages."

Douglas Holtz-Eakin, president of the conservative American Action Forum, and Mark Calabria, director of financial regulation studies at the libertarian Cato Institute, testified that affordable fixed-rate mortgages would still be offered, but they weren't specific. Calabria noted the current availability of fixed-rate jumbo home mortgages, as well as fixed-rate auto loans.

In a *New York Times* opinion column, University of Maryland public policy professor Phillip Swagel, who is also a scholar at the conservative American Enterprise Institute, praised the PATH bill. But he acknowledged that without government guarantees, mortgage interest rates would rise, though "it is hard to know quite how much." He also stated the housing market "is in an upswing and affordability remains high, so it seems likely that the housing sector would continue to recover even with higher rates."

Our rating

Moore stated that a Republican bill to largely privatize the nation's housing finance system "would eliminate a person's ability to obtain 15- and 30-year mortgages."

It's unknown how exactly the effects of the bill would play out. But there is reason to believe that without government guarantees, traditional home mortgages would become less available, less affordable, or both, for many Americans.

Our definition of Half True is a statement that is partially accurate but leaves out important details. That fits for this one.