Fixing Housing Crisis: Time To Scrap the 30-Year Mortgage?

MORTGAGES, HOUSING, REAL ESTATE, CREDIT, LOANS, LENDING, ECONOMY, RECESSION, GOVERNMENT, FORECLOSURES, CONSUMERS, HOUSING CRISIS, 30-YEAR MORTGAGE, DEPRESSION-ERA, BANKS, PROPERTY VALUES, SHORT-TERM HOUSING FINANCE, AMERICANS, TAX DEDUCTIBLE, ROBERT J. SHILLER, CASE-SHILLER, IMF, RAGHURAM G. RAJAN, YALE UNIVERSITY, UNIVERSITY OF CHICAGO BOOTH SCHOOL OF BUSINESS

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The long-term mortgage, which began as a **Depression**-era remedy to keep Americans in their homes, may be out of step, given the current **housing crisis**.

Could it be time to say good-bye to the popular 30-year mortgage?

“The 30-year mortgage is outdated, the standard fixed-rate mortgage is outdated, and it has to be improved,” housing expert **Robert J. Shiller** told CNBC.

Shiller is Yale University professor and author, who is best known for co-creating the **S&P/Case-Shiller Housing Indices**, which track home prices in the United States.

“People want a more modern vehicle, and that's something we need to think about next,” Schiller said.

With the sweeping **financial regulations bill** nearly finished, the next big job of Congress may be to revamp the broken housing market and scrutinize all its key elements, even the vanilla 30-year mortgage.

Once Americans look more closely at this country's housing situation, they may realize, and maybe even be surprised by, the fact that even though the US leads the world in 30-year mortgages, it doesn't in home ownership.

“We spend a whole lot on housing in the US and don't necessarily get a very big bang for the buck,” said Mark A. Calabria of the **Cato Institute**.

American homeowners, it turns out, have a very sweet deal to buy their home sweet homes, with the government being their candy man. For instance, America is nearly alone in not charging a fee for paying off mortgages early. And it's one of the most liberal countries in allowing interest to be tax-deductible.

“If America wants the government out of housing, it has to get used to a number of things,” said **Raghuram G. Rajan** former **IMF** economist, author of **Fault Lines: How Hidden Fractures Still Threaten the World Economy** and professor at the University of Chicago's **Booth School of Business**.

“For example, shorter mortgage durations, higher interest rates [and] potentially lower housing prices, because the cost of financing has gone up. Is it ready for that? I don't know.”

- ***Slideshow: US Cities with Most Underwater Mortgages***

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