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Opinion: Housing Crisis? Look to Canada for Answers

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(Sept. 3) -- President Barack Obama has tried to prop up the housing market by helping people stay in their homes, even though they're still overwhelmed with mortgage debt. This is the latest in a long series of government interventions intended to promote homeownership.

But propping up the housing market has only prolonged the housing slump -- a depressing fact brought home by the recent dismal home-sales reports.

So what to do?

Perhaps Obama could learn a lesson from our neighbors to the north. Canada, after all, didn't have a housing bubble. What explains the difference?

For decades, the U.S. has actively promoted homeownership through a raft of programs: generous mortgage interest tax breaks, subsidized loans, Fannie Mae and Freddie Mac loan guarantees, limits on what banks can repossess when a borrower defaults and so on.

The result has been an increase in homeownership, true, but it's also convinced far too many people to buy homes who couldn't afford them, helping to unrealistically push up home prices, which inevitably led to the subsequent collapse.

Even now, with interest rates near zero, millions continue to struggle to make mortgage payments, making it likely that the number of mortgage defaults will increase when interest rates rise. That means more homes will be offered by individual homeowners and banks with an urgent need to sell, depressing home prices.

Contrary to popular belief, a home isn't a good investment for everyone. First of all, it's imprudent for people of limited means to have virtually everything tied up in a single asset such as a home, whose value can go down as well as up. The bills are never-ending. For many, owning a home makes it almost impossible to save money for anything else.

And when people get government help to make their mortgage payments, they still have more debt and housing-related expenses than they can handle. In such circumstances, it's almost impossible to save money for the future.

Until the affected homes have been transferred to people who can afford the costs and risks of homeownership, those homes will hang over the market and continue depressing prices, as we're seeing now. When the government steps in to keep financially stretched people in their homes, it simply delays inevitable adjustments.

What's needed isn't more government involvement to help to prop up homeownership, but less. And if you don't think so, look at what's happened in Canada. More Canadians (68 percent) than Americans (66 percent) own their homes, yet the Canadian government has interfered very little in the private housing market.

- Canada doesn't have an income tax deduction for mortgage interest. Nor is there a tax advantage to converting home equity into debt.
- In Canada, mortgages aren't issued without verification of employment and income.
- Unlike Americans, Canadians cannot walk away from their homes without serious consequences -- Canadian mortgages are generally full recourse, which means a bank can attach an individual's other assets and wages/salaries if necessary to pay the deficiency in the event of a mortgage default.
- Canada has nothing like Fannie Mae or Freddie Mac, subsidizing subprime mortgages on a gigantic scale.
- Nor has Canada had anything comparable to the U.S. Community Reinvestment Act that promotes political influence over mortgage lending decisions.

The principal Canadian intervention in the housing market is to require that people buy mortgage insurance if their down payment is less than 25 percent of the purchase price.