

Public Policy and the Housing Recovery



By Professor Chris Mayer

THE PAUL MILSTEIN CENTER FOR REAL ESTATE

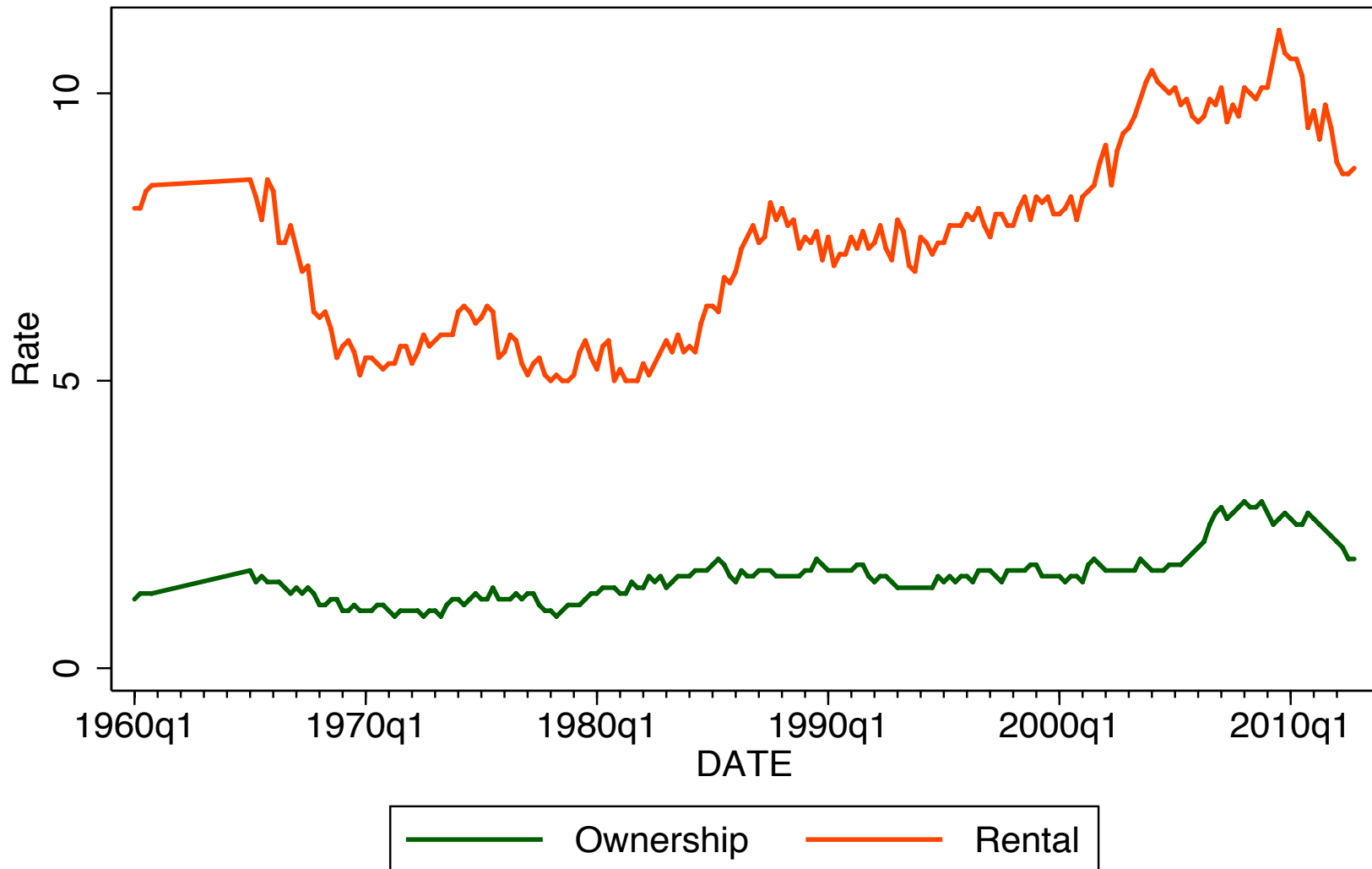
Today's outline

- Comments on Dynan, Gayer, & Plotkin
- What other policies did the government pursue to stabilize housing?
 - Modifications for delinquent borrowers
 - Provide support for GSEs/FHA to provide mortgage credit
- How successful was government support of mortgage credit?
- Takeaways for the future

DGP: Very Nice Work

- Comprehensive summary of various federal and state homebuyer assistance programs
- Variety of different estimation strategies
- Conclusion: small positive, but limited effect on demand and prices
- Results make intuitive sense and are consistent with the findings on many other government programs to help housing

Vacancy rate for housing is falling; Many vacant units in depressed places



Current as of Quarter 1, 2013
Source: US Census
US Residential Vacancy Rates

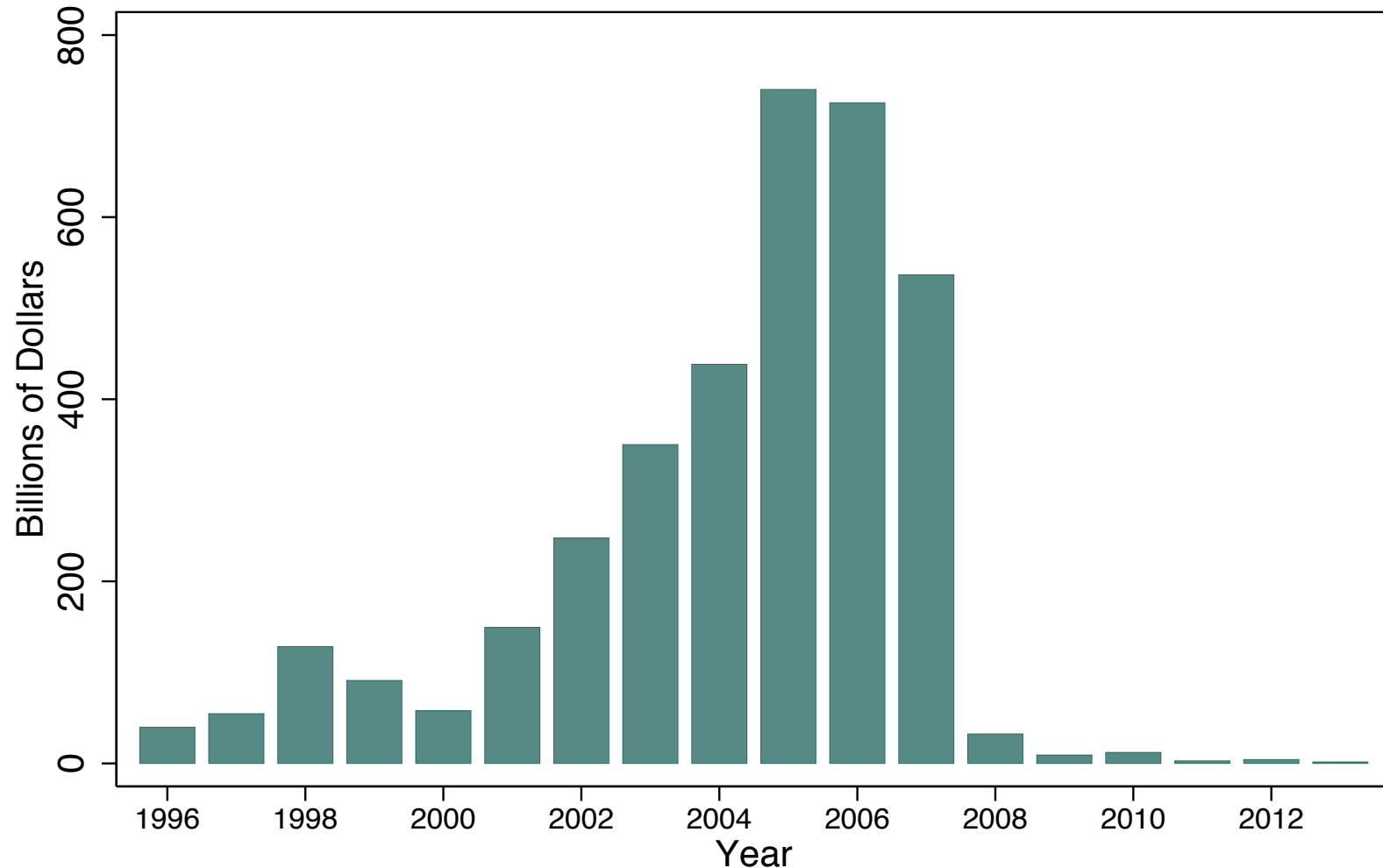
Mortgage-related policies had limited effectiveness

- HAMP (Home Affordable Mortgage Program) was a victim of its own claims & bureaucracy
 - Targeted 3 to 4 million modifications
 - So far: 1.1 million permanent modifications (2.0 million temporary mods), but saved many foreclosures (Agarwal, et. al., 2013)
 - Some private lenders opted out; the latest GSE programs apply to all delinquent borrowers and do not require new paperwork
 - Moral hazard was much less of a problem than feared (Mayer, Morrison, & Piskorski, 2012)

Mortgage-related policies had limited effectiveness

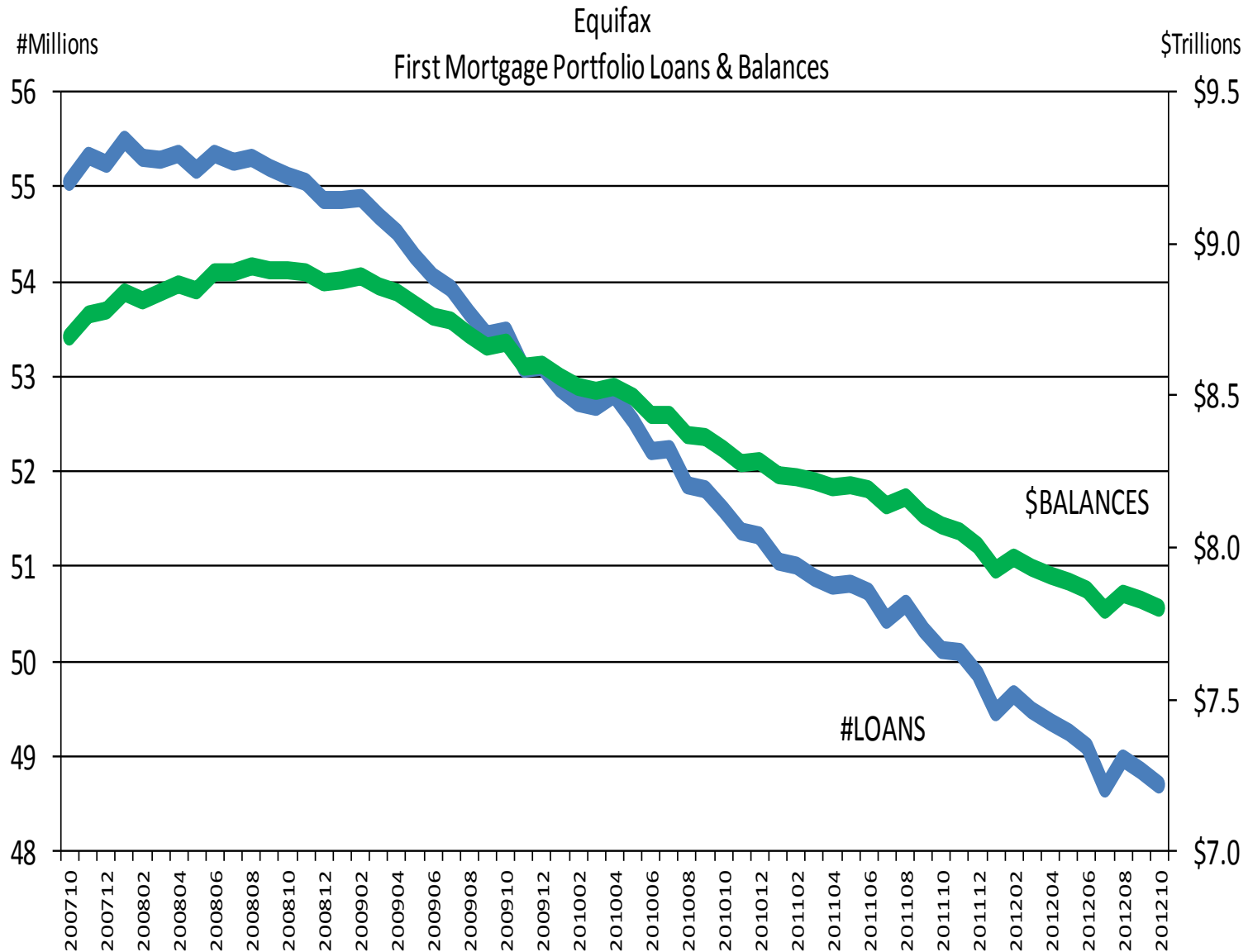
- Government support for mortgages helped, but only for the best borrowers
 - For most of the last 5 years, the government has financed more than 9 in 10 mortgages (Fannie, Freddie, and FHA)
 - HARP refinancings were almost exclusively pursued by high quality borrowers until mid-2012
 - Refinancings never reached levels set in previous interest rate declines
 - Purchase mortgages were only available for the very best borrowers (760 FICO, 28% downpayment)

Private debt capital has disappeared; Little issuance of private MBS

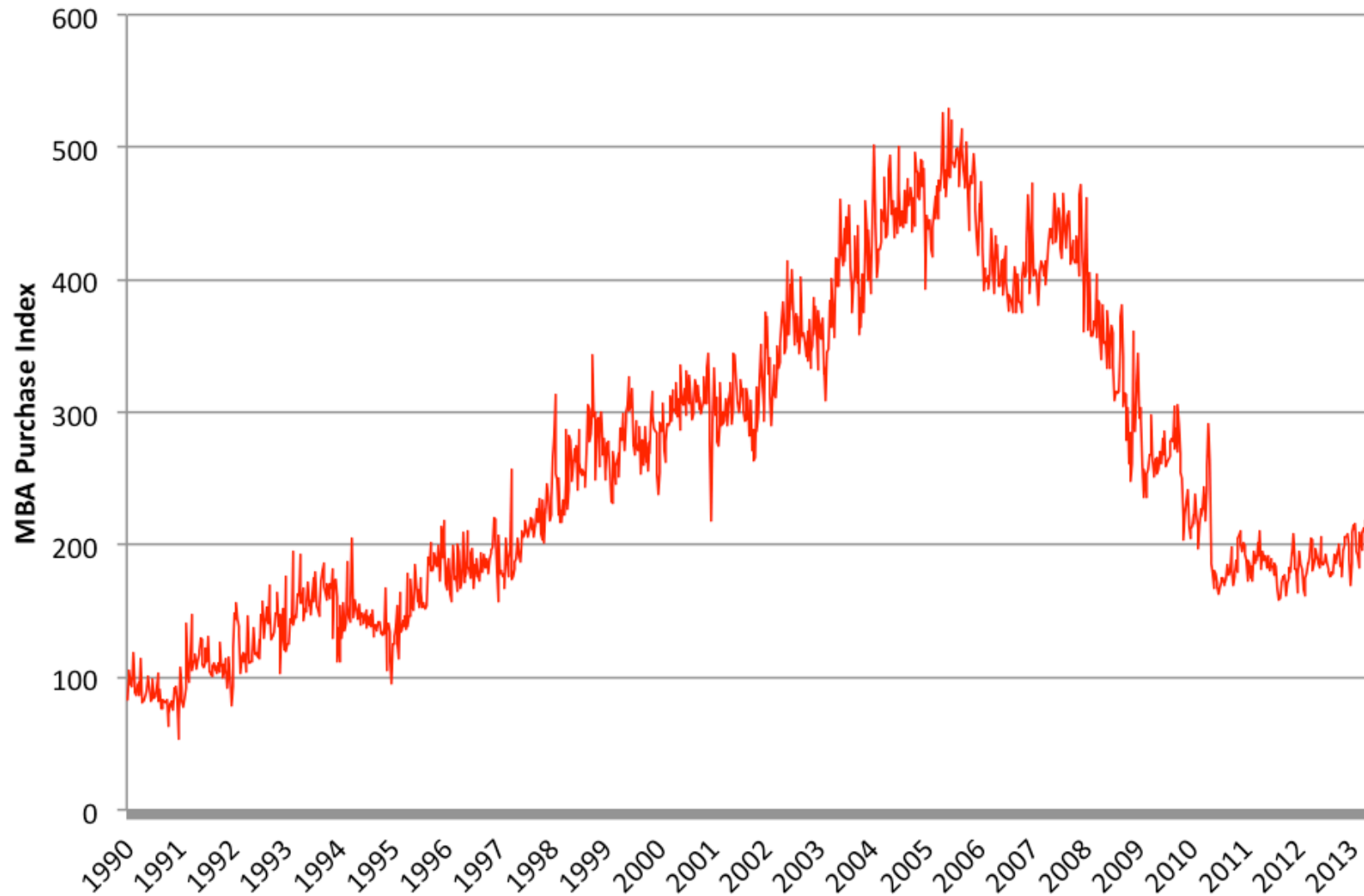


Gross Non-Agency MBS Issuance by Year (Includes CMBS)
Current as of April 2013, annualized
Source: SIFMA

Number of first mortgages drops from 55 million to 49 million

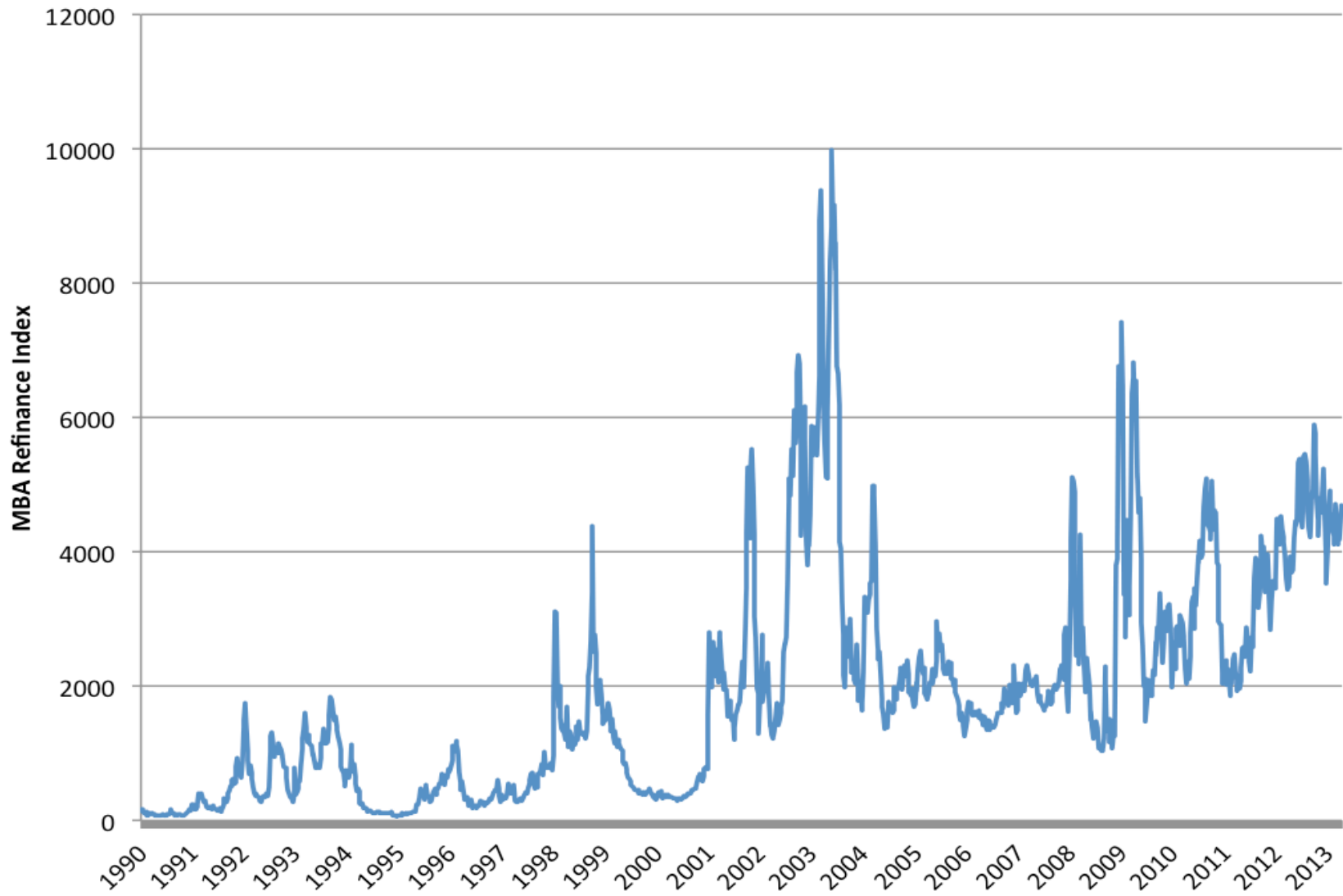


Home purchase mortgages are at levels seen in mid 1990s



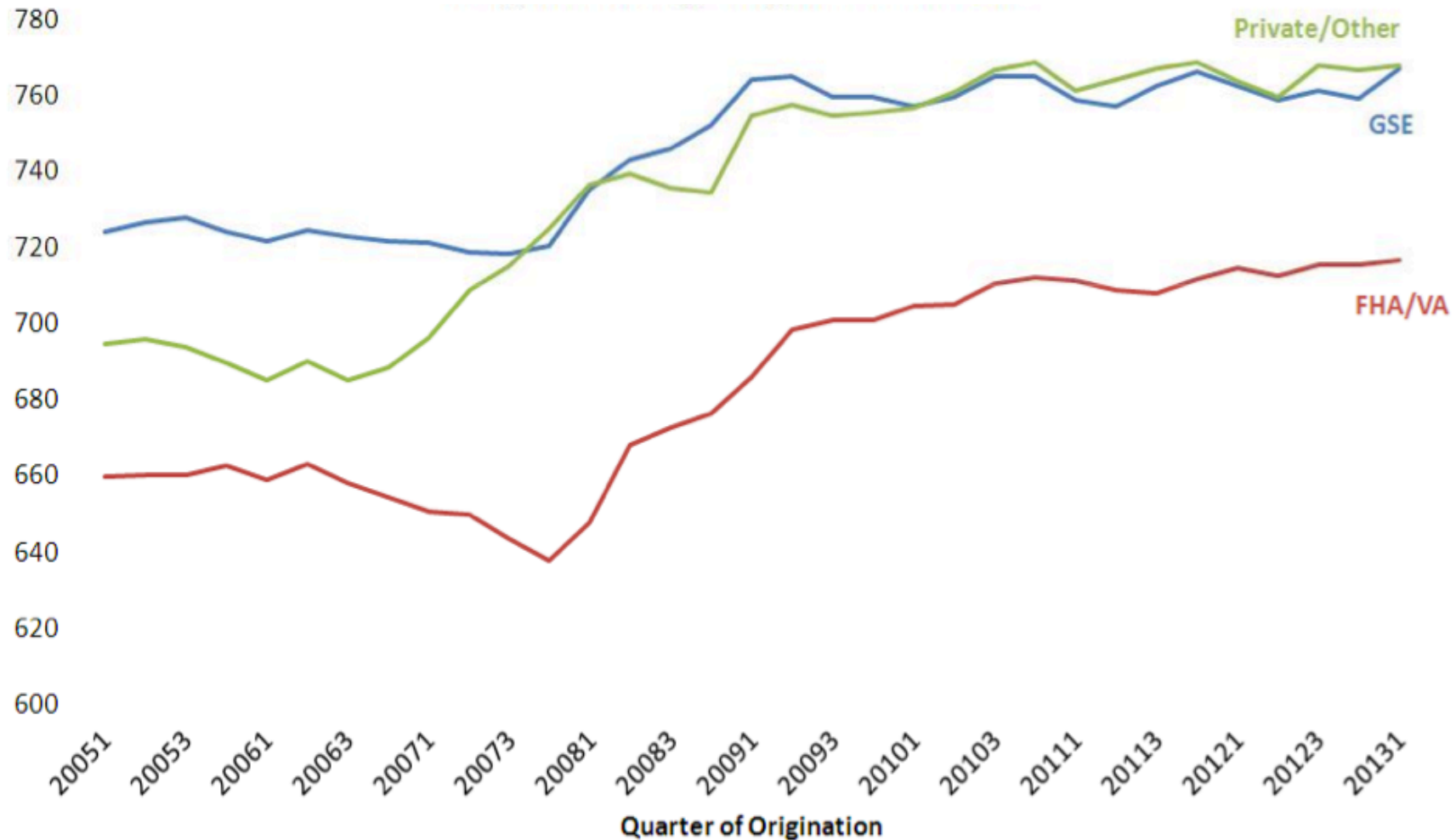
Source: Mortgage Bankers Association

Even refinancing activity is well below previous peaks



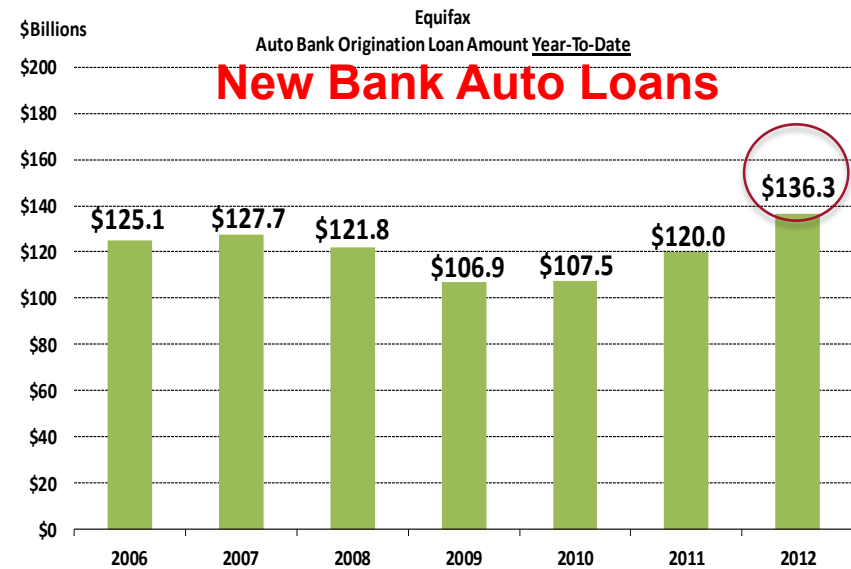
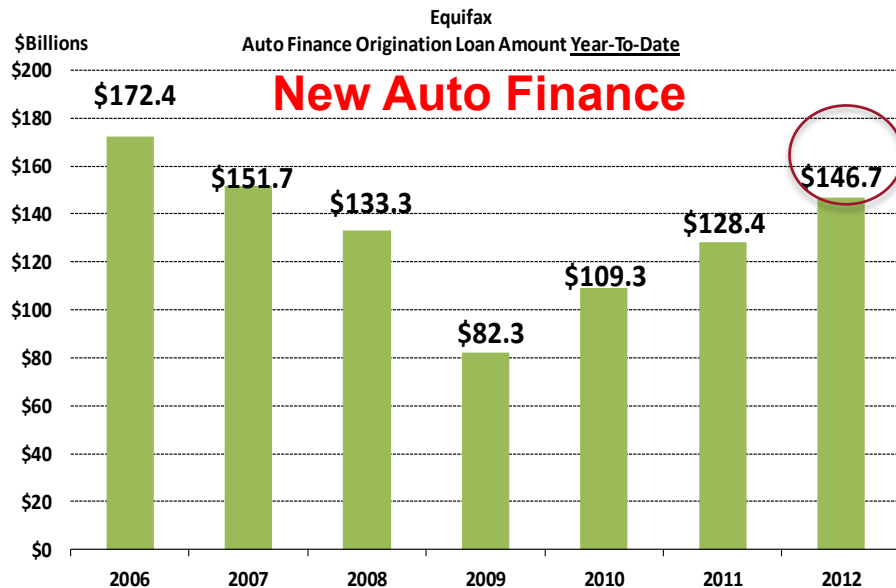
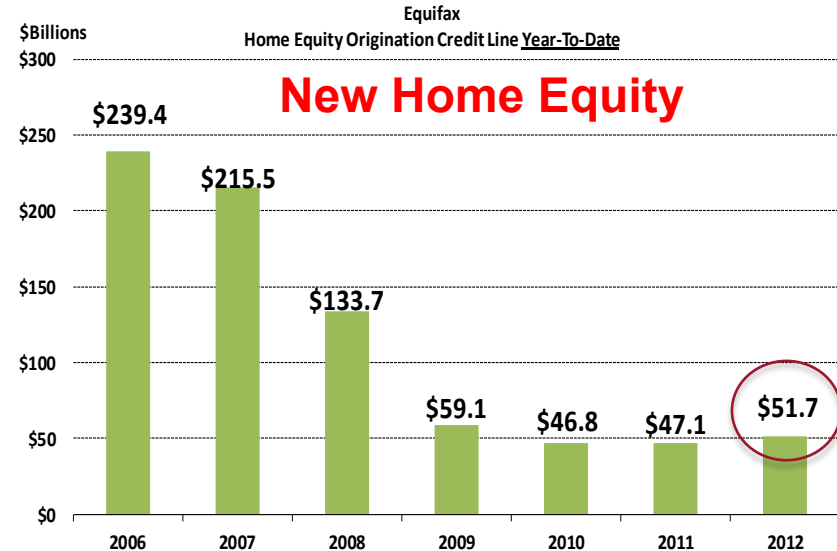
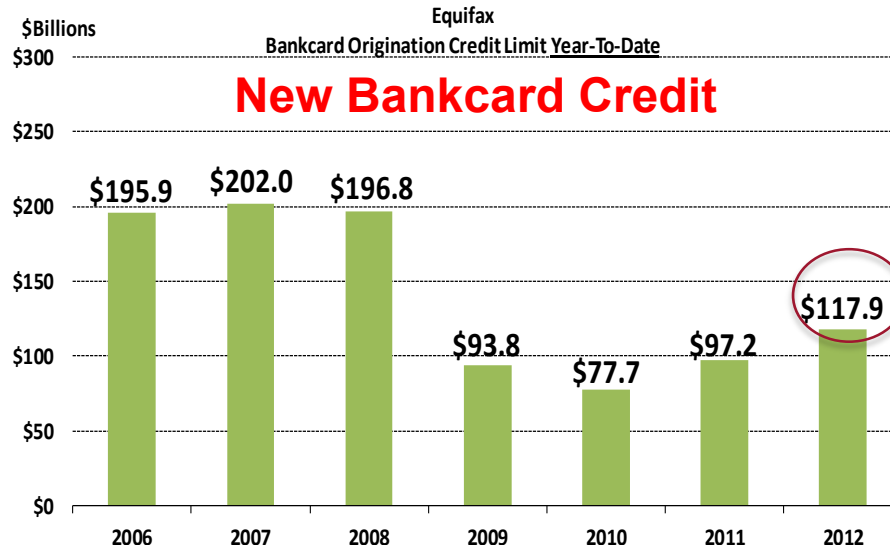
Source: Mortgage Bankers Association

Origination Credit Scores are at unprecedented highs



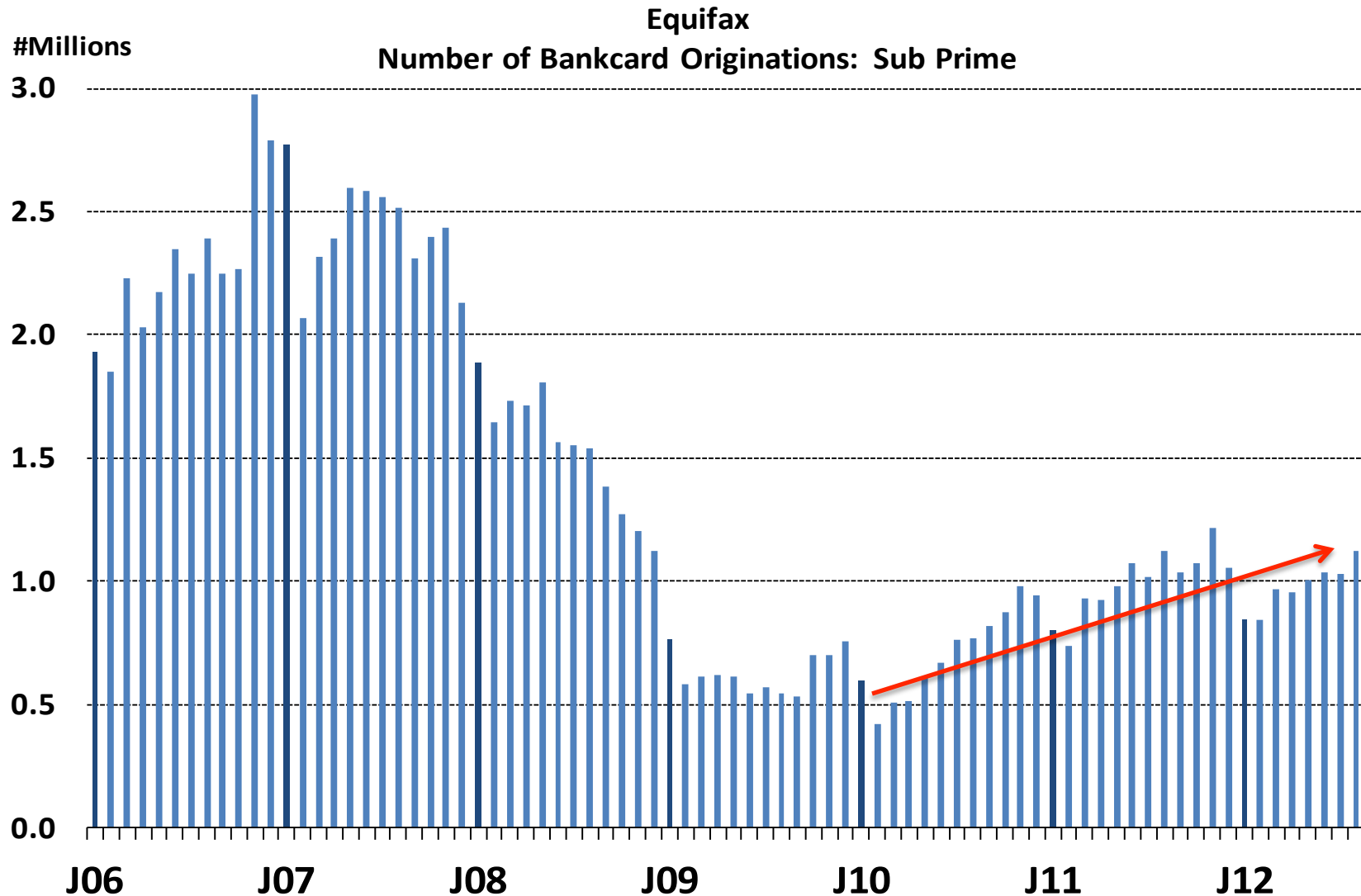
Source: Lender Processing Services

New lending has returned for Autos, CC's

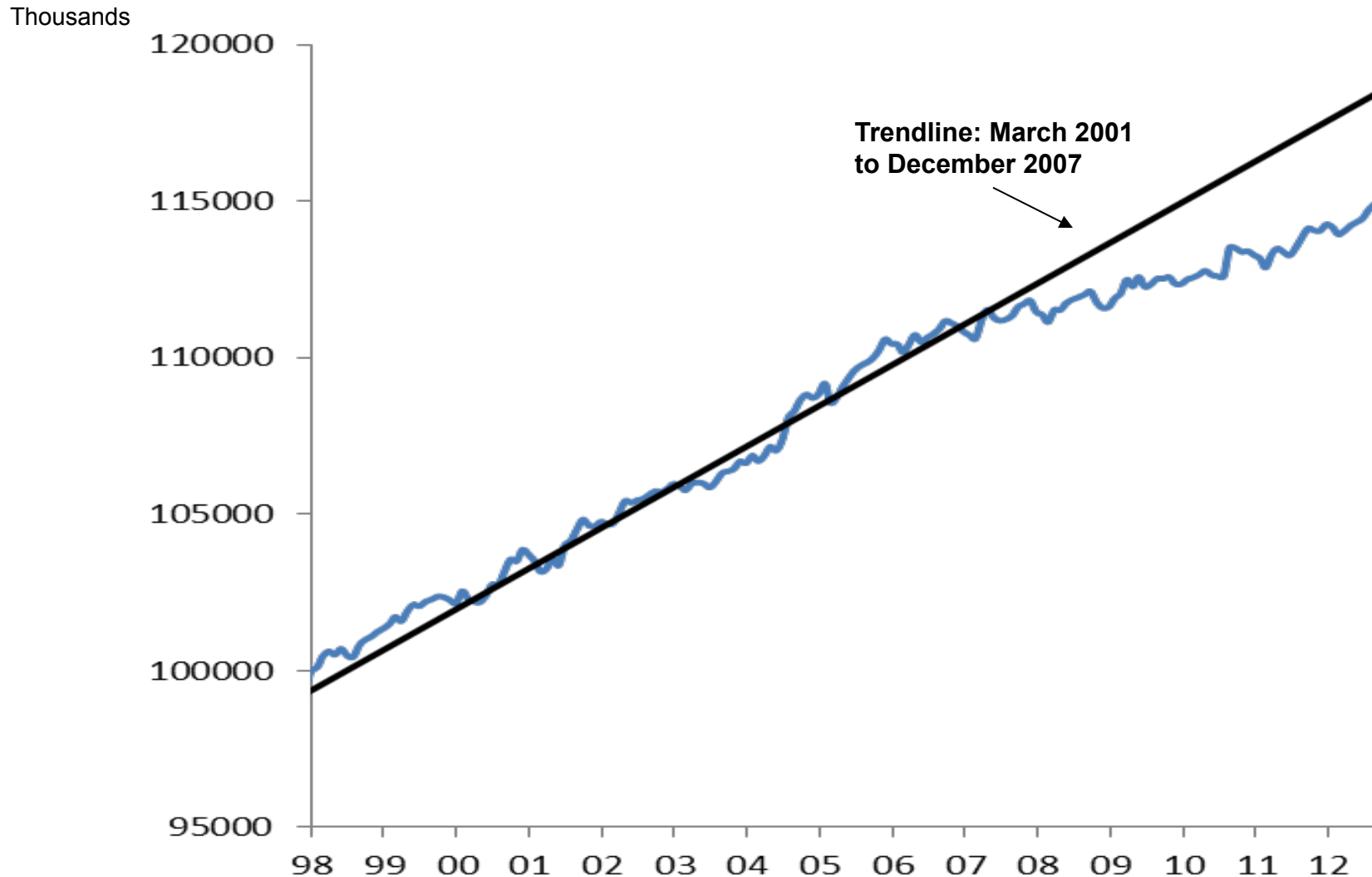


Source: Equifax Credit Trends

Subprime Bankcard (and Auto) lending has returned (FICO<660)



Good news: Household formation is below trend...but will catch up



Source: Census Bureau

Conclusion for housing policy

- Policy has not stabilized US housing nearly as much as it could have
- Future government actions should focus on re-establish reasonable lending standards and ground rules
- Need private capital, but in a sustainable way with countercyclical credit support
- Rental market for single-family homes is growing, but is not a long-run solution