

The Role of Government in Supporting Affordable Housing

Workshop on Appropriate Government Role in U.S.
Mortgage Markets

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April 27, 2017

Rationale for Government Role

Very reasonable to think that canonical economic motivations for government intervention – externalities, market failure, paternalism – apply to housing affordability for renters & buyers

- Agglomeration benefits & mobility vis-à-vis markets with high housing costs & supply constraints
- Environment
- Asymmetric information in mortgage market
- Imperfect observability of housing quality
- Shelter necessary for human survival
- And so on ...

Some Challenges for Policy Design

- Many ways to define housing affordability for renters & buyers
- Limited evidence on scale & scope of the problem that justifies government intervention (& distortions)
- Misalignment between desired economic outcomes & effectiveness of existing policy tools
- Mistrust in market forces to improve affordability
- Politics & special interest groups

3 Treasury “Issue Briefs” (2016-2017)

- Frame Obama Administration’s principles for GSE reform in context of affordability
 - In particular, “broad access to affordable mortgages and rents” for creditworthy buyers & renters in framework with risk-based pricing, competition, taxpayer protections
- Marker for accomplishments enhancing affordability
 - 4.2 bps & HTF/CMF, FHFA duty-to-serve, national loss-mitigation standards

Tradeoffs & Uncertainty

- Policymakers lack framework for understanding & evaluating tradeoffs for achieving competing goals
 - Risk-based pricing versus “cross-subsidization” (viewed as affordability tool)
 - Private capital versus ending taxpayer bailouts
 - Enhancing affordability versus reducing government subsidies
- Range of institutional designs across GSE reform proposals make this more challenging
- Uncertainty in knowing what works is also an impediment