The Role of Government in Supporting Affordable Housing

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

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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

• 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