Center for American Progress

What Is at Stake in Housing Finance Reform?

By the CAP Housing Team

The choices we make about how to structure our housing finance system will have huge impacts on households, communities, and the economy. Research and experience confirm the link between housing and economic opportunity in this country, from the importance of decent and affordable rental housing to the many benefits of homeownership to the central role of the housing market on economic vitality.

Without reform, the next generation of homeowners will remain sidelined. First-time homebuyers, young homebuyers, and homebuyers of color make up the future of homeownership in the United States. Yet they have largely been shut out of the conventional mortgage market in recent years. The Federal Housing Administration, or FHA, backed financing for more than two-fifths of first-time buyers and about half of home purchases obtained by homebuyers of color in 2011—a situation that is unsustainable and drives up costs for these borrowers. Homeownership rates for young people have declined markedly in recent years.

Today's fledgling housing recovery is largely fueled by investors and refinancing, not traditional homeownership. Approximately two-thirds of mortgage originations in the second quarter of 2013 were refinances, not home purchases. Among the purchases that are occurring, estimates suggest that as much as 40 percent may be investor purchases, far above the historic norm of 10 percent to 12 percent. This investor presence may support housing prices and perhaps even inflate them, but it will not necessarily stabilize neighborhoods and enable creditworthy, local borrowers to obtain mortgages.

Homeownership may not recover to traditional levels without housing finance reform. Our national mortgage market today is significantly smaller than it was in the early 2000s, and the homeownership rate has dropped from close to 70 percent to 65 percent. At the same time, many creditworthy borrowers cannot obtain mortgages, which unnecessarily slows our economic recovery and denies these households a means to build wealth.

Without reform, rents may continue to increase. The decline in homeownership has led to an increase in renters, yet production of multifamily apartment buildings is falling behind demand. As supply and demand shift, rents have risen significantly—by 5 percent in 2012. This increase in the cost of rent is only putting more pressure on the nation's renters, half of whom are "rent impoverished," or spend more than 30 percent of their income on housing, and 27 percent of whom spend more than half of their income. We need a housing finance system that encourages developers to support affordable options for all Americans.

The Federal Housing Finance Agency, or FHFA, is playing an outsized role in shaping the future of housing finance. It has now been five years since Fannie Mae and Freddie Mac went into conservatorship, the legal arrangement under which they are essentially controlled by the federal government. In the absence of direction, the FHFA is unilaterally making significant policy decisions, such as scaling back Fannie and Freddie's presences in the market and sharply limiting the public purpose that the companies are supposed to serve. These decisions broadly impact American families—whether they own their home, hope to become homeowners someday, or are seeking affordable rental options—and lay the foundation for the shape of the market for many years to come. These decisions are far too important to leave to one single agency whose deliberations largely take place behind closed doors and whose officials are not elected, appointed, or confirmed.