ISSUES IN MORTGAGE AND HOUSING FINANCE

HOW HOUSING SUBSIDIES AND FANNIE & FREDDIE ALLOCATE RESOURCES TO BIGGER HOMES

James R. Barth
Auburn University and Milken Institute

Enhancing Prudential Standards in Financial Regulations
Federal Reserve Bank of Philadelphia & Wharton Financial Institutions Center
April 8-9, 2014
Philadelphia, Pennsylvania
Building Housing Structures vs. Human Capital

Should Americans Follow Asians: Spend Less on Housing and More on Education?

U.S. Consumer Spending

- Housing: 31%
- Transportation: 18%
- Food: 13%
- Insurance/pensions: 12.1%
- Health care: 7%
- Entertainment: 5%
- Personal care products: 1%
- Apparel and services: 3%
- Cash contributions: 4%
- Other: 8%

Asian Consumer Spending

- Education: 15%
- Transportation: 6%
- Health care: 5%
- Communication: 5%
- Food: 23%
- Other: 8%
- Insurance/pensions: 12.1%
- Housing: 15%
- Apparel and services: 3%
- Cash contributions: 4%
- Personal care products: 1%
Housing Subsidies Generate Perverse Effects

“[B]y subsidizing housing the way we do,...we have actually done some pretty perverse things in our society as it relates to housing....]”

Senator Bob Corker
U.S. Senate Hearing on “Housing Finance Reform: Should There Be a Government Guarantee?”
September 13, 2011
Housing Subsidies Contribute to Bigger Homes Despite Smaller Households

[Diagram showing the average size of new homes (left axis) and the average number of people (right axis) from 1980 to 2010. The average size of new homes increases over time, while the average number of people decreases.]
Housing Subsidies Also Contribute to More Bedrooms & More Bathrooms Per Person

1940: average new home size per person = 360 sq. ft.; 2.9 bedrooms; 1.7 bathrooms
2010: average new home size per person = 915 sq. ft.; 3.6 bedrooms; 2.8 bathrooms
Fannie & Freddie Contribute to Bigger Homes But Not A Greater Home Ownership Rate

Fannie and Freddie emerge as securitizers

Average size of new homes (right axis)
Homeownership rate (left axis)
Private Label Securitization Boosts Home Ownership But Only Temporarily

Home mortgage interest tax deduction retained and contributes to bigger homes

Time to Eliminate Tax Benefits When Home Size Per Person Exceeds, e.g., the 1980 Figure

Note: Tax benefits include (OMB estimated amount) deductibility of mortgage interest ($456 B), imputed rental income ($441 B), and capital gains exclusion ($332 B) for 2015-19.
Sources

- CLSA Asia-Pacific Markets.
- U.S. Census Bureau, Census of Population and Housing.