

# Government Policies and Initiatives in Housing Markets

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# The Importance of Housing Finance

- ▶ Housing is the largest household asset, and mortgages the largest liability.
- ▶ Mortgage markets vary considerably across countries.
  - ▶ What are the causes of this variation?
  - ▶ What are the consequences?
  - ▶ Certainly part of the answer lies in government policies and initiatives, which differ across countries.
  - ▶ Part of a broader research agenda (Oxford-Harvard-Sloan) on international comparative household finance.

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# Public Sector Guarantees

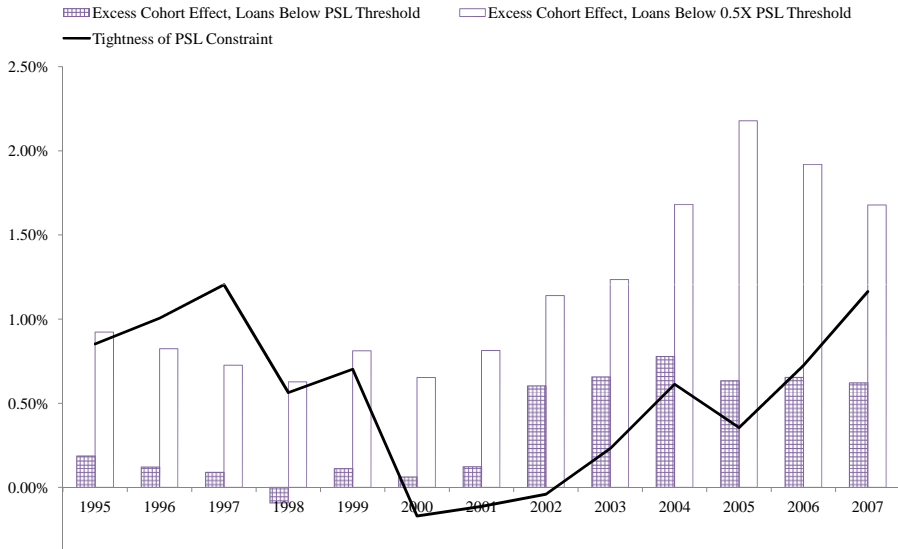
- ▶ A cautionary tale:
  - ▶ FNMA (Fannie Mae) and FHMC (Freddie Mac) increasingly pushed to expand mortgage loans to low and moderate income borrowers.
  - ▶ Difficult to price the implicit government guarantee on roughly 50% of the \$12 trillion mortgage market.
  - ▶ Estimates: will end up costing US taxpayers roughly \$300 billion.
- ▶ UK government dipping its toe in the water with its recently announced "help to buy" scheme.
- ▶ Worth thinking hard about such policies ex-ante?

# Stimulating Demand is Not Straightforward

- ▶ Laudable objective is to increase quantity of housing:
  - ▶ But need to understand the existing regulatory regime in all of its facets.
  - ▶ Consider zoning or FSI regulations - in such an environment, housing supply elasticity is constrained.
  - ▶ So policies to stimulate demand for housing chase limited supply, resulting in price effects...
- ▶ Unintended consequence of well-meaning regulation?
- ▶ Worth thinking hard about this ex ante?

# PSL-Qualifying Excess Delinquencies

Overlaid with measure of tightness of PSL constraint





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  - ▶ Careful, consider entire regulatory architecture, or you may create inflation rather than simply expand housing quantity.
- ▶ Policy design is very important but so is flexibility in the policy architecture.
  - ▶ **Design policies to be indexed, transparent, and flexible.**