The Future of Housing Finance Background Material

Alex J. Pollock
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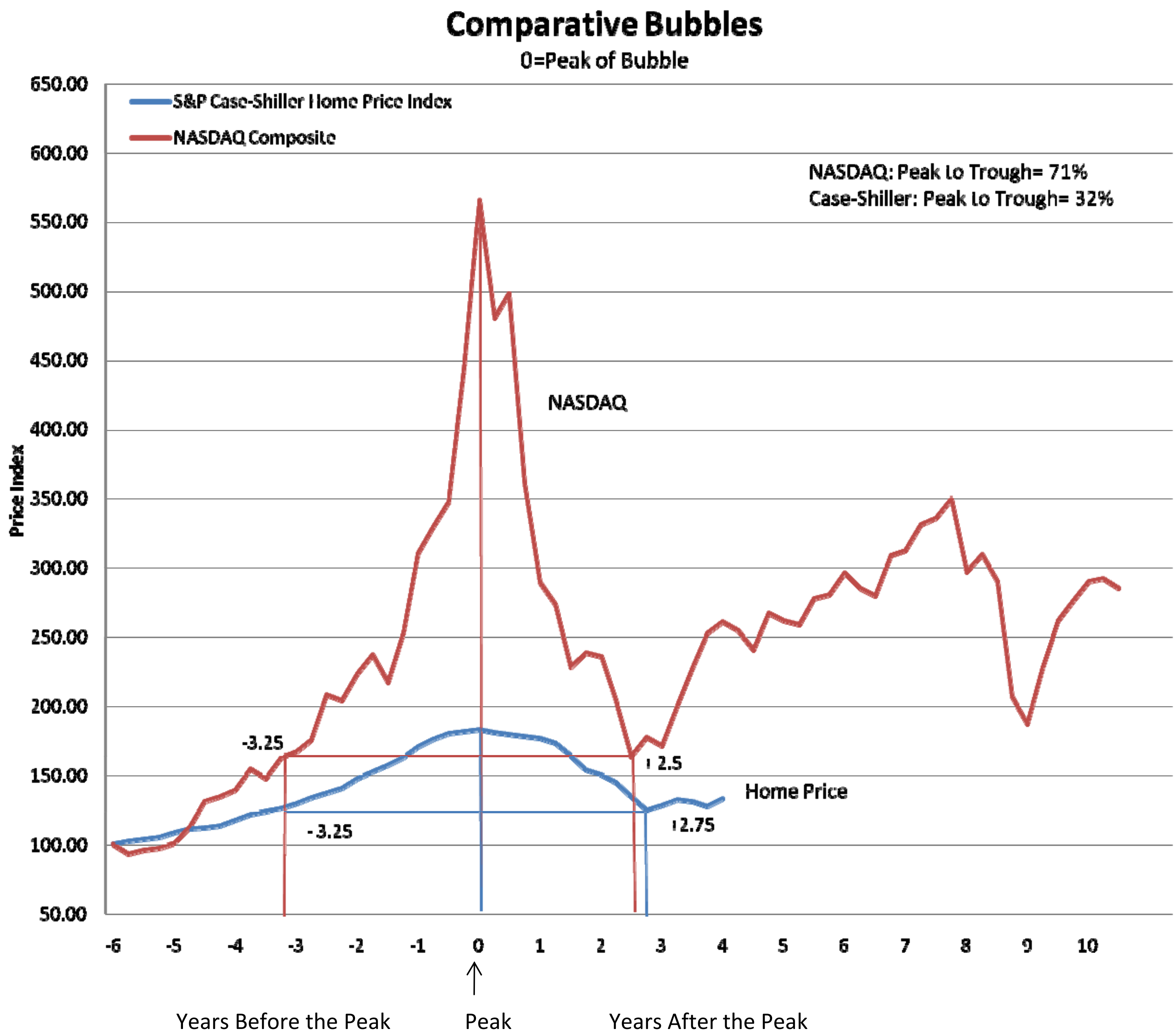
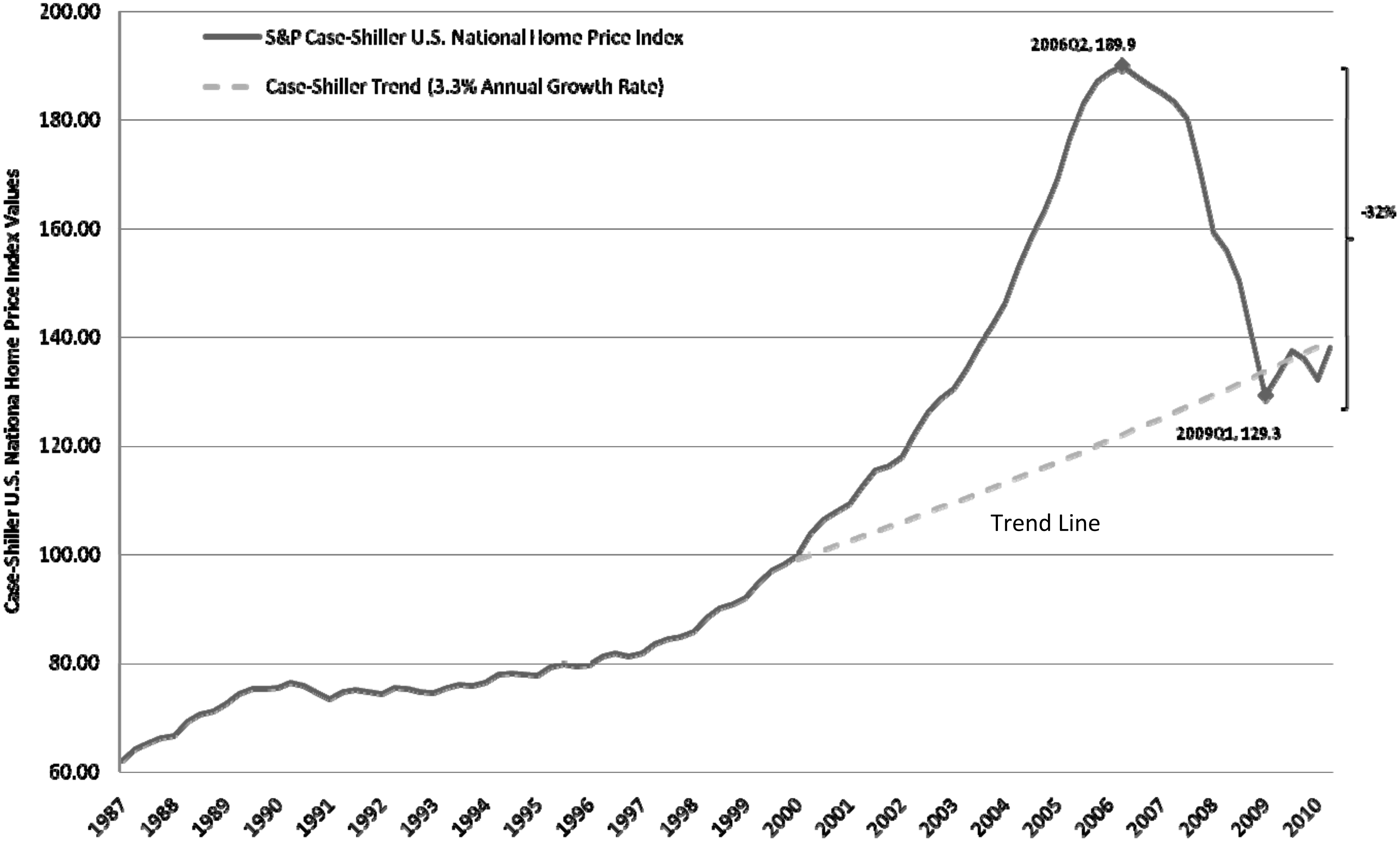
Comparative Home Ownership Rates

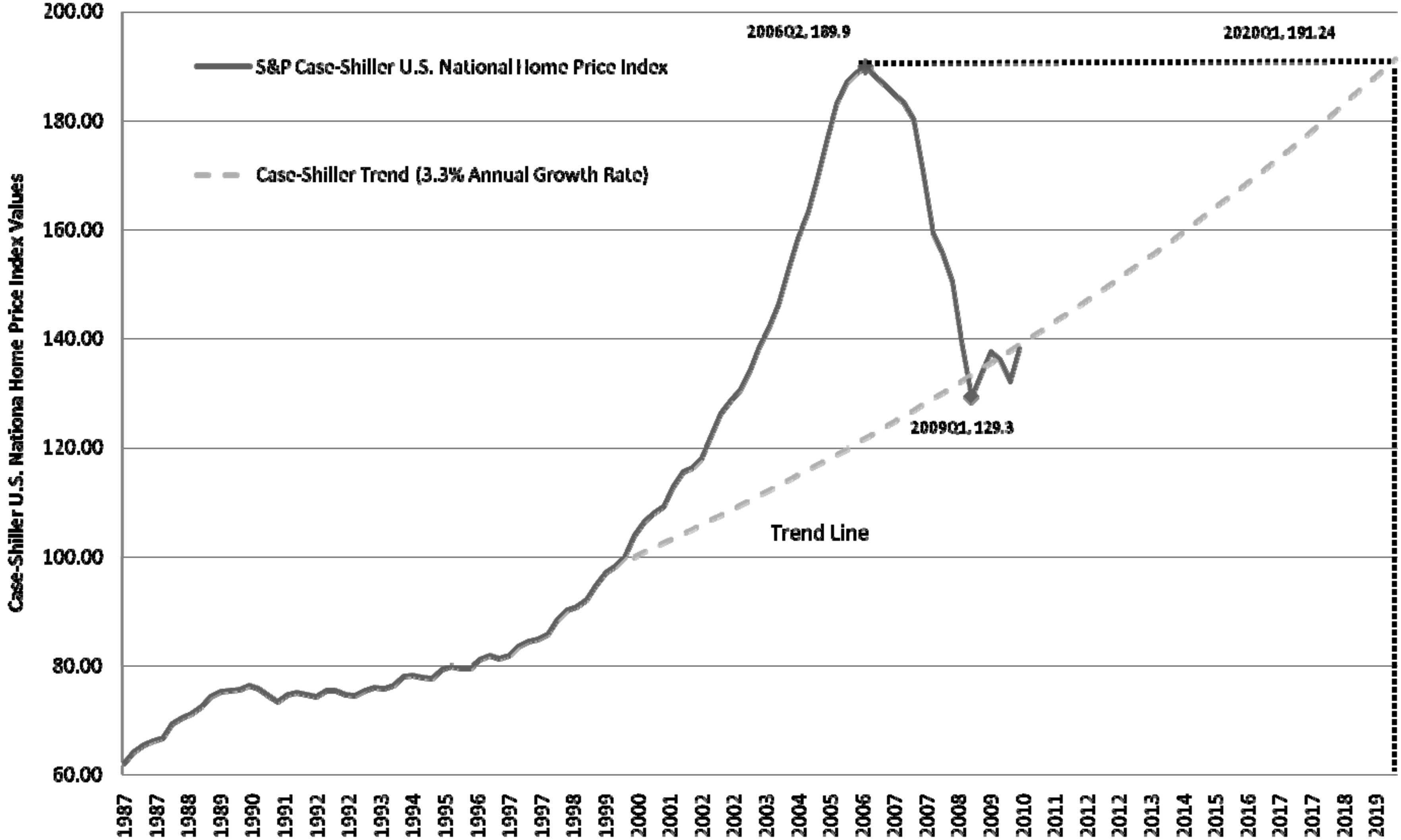
Rank	Country	Ownership Rate	Date	Source
1	Singapore	89%	2009	Statistics Singapore
2	Spain	85%	2008	European Mortgage Federation
3	Iceland	83%	2005	Statistics Iceland (HES survey)
4	Belgium	78%	2007	European Mortgage Federation
5	Norway	77%	2001	UN Economic Commission for Europe
6	Portugal	76%	2007	European Mortgage Federation
7	Luxembourg	75%	2008	European Mortgage Federation
8	Ireland	75%	2009	European Mortgage Federation
9	Chile	73%	2002	UN Housing Policy
10	Italy	72%	2007	INSEE and Eurostat
11	Israel	71%	2004	UN Economic Commission for Europe
12	Australia	70%	2006	Australian Bureau of Statistics
13	England	68%	2010	Building Societies Association
14	Canada	68%	2006	Statistics Canada
15	Sweden	68%	2008	European Mortgage Federation
16	New Zealand	68%	2001	Statistics New Sealand
17	UNITED STATES	67%	2009	US Census Bureau
18	Japan	61%	2003	Statistical Yearbook 2005
19	Finland	59%	2008	Statistics Finalnd
20	Czech Republic	59%	2007	European Mortgage Federation
21	France	57%	2007	European Mortgage Federation
22	Netherlands	57%	2008	European Mortgage Federation
23	Austria	56%	2009	Statistics Austria
24	Denmark	54%	2009	European Mortgage Federation
25	Germany	46%	2007	INSEE and Eurostat
26	Switzerland	35%	2000	Statistics Switzerland

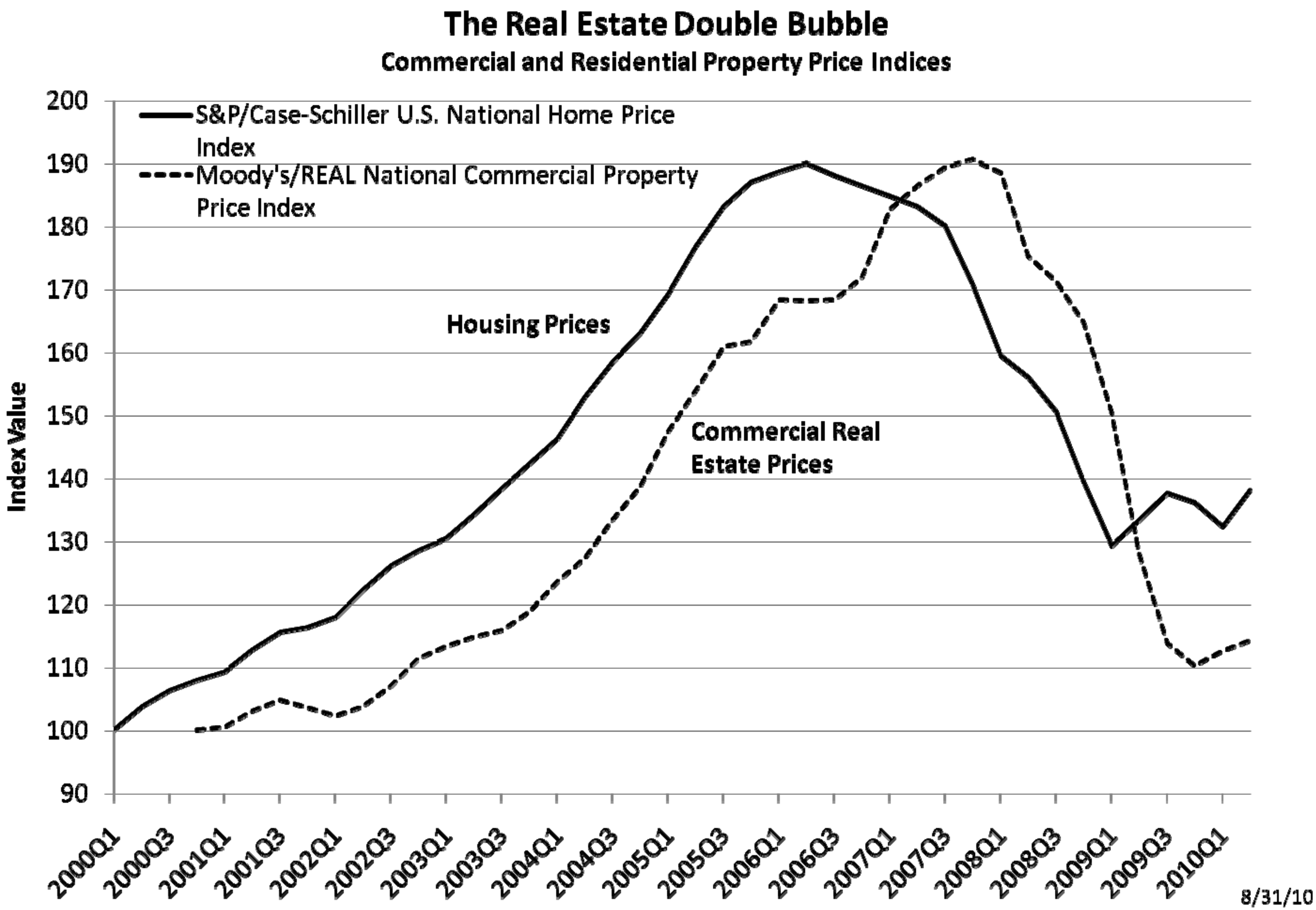

Comparative Bubbles
0=Peak of Bubble
S&P Case-Shiller Home Price Index
NASDAQ Composite
NASDAQ: Peak to Trough= 71%
Case-Shiller: Peak to Trough= 32%
NASDAQ
Home Price
-3.25
- 3.25
+2.5
+2.75
Price Index
650.00
600.00
550.00
500.00
450.00
400.00
350.00
300.00
250.00
200.00
150.00
100.00
50.00
-6 -5 -4 -3 -2 -1 0 1 2 3 4 5 6 7 8 9 10
Years Before the Peak
Peak
Years After the Peak

The U.S. Housing Bubble:
Case-Shiller National Home Price Index Values
1987-2010

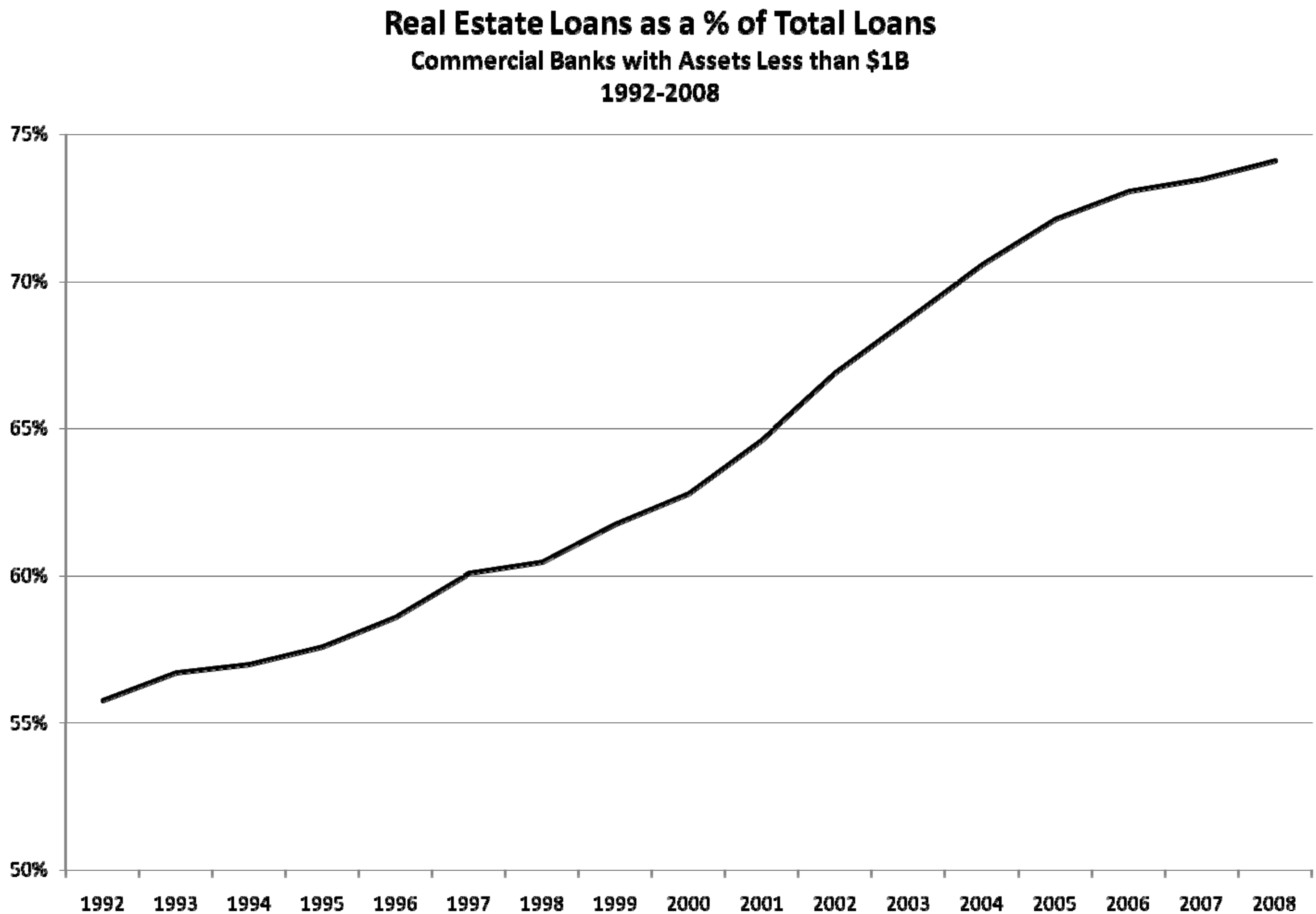


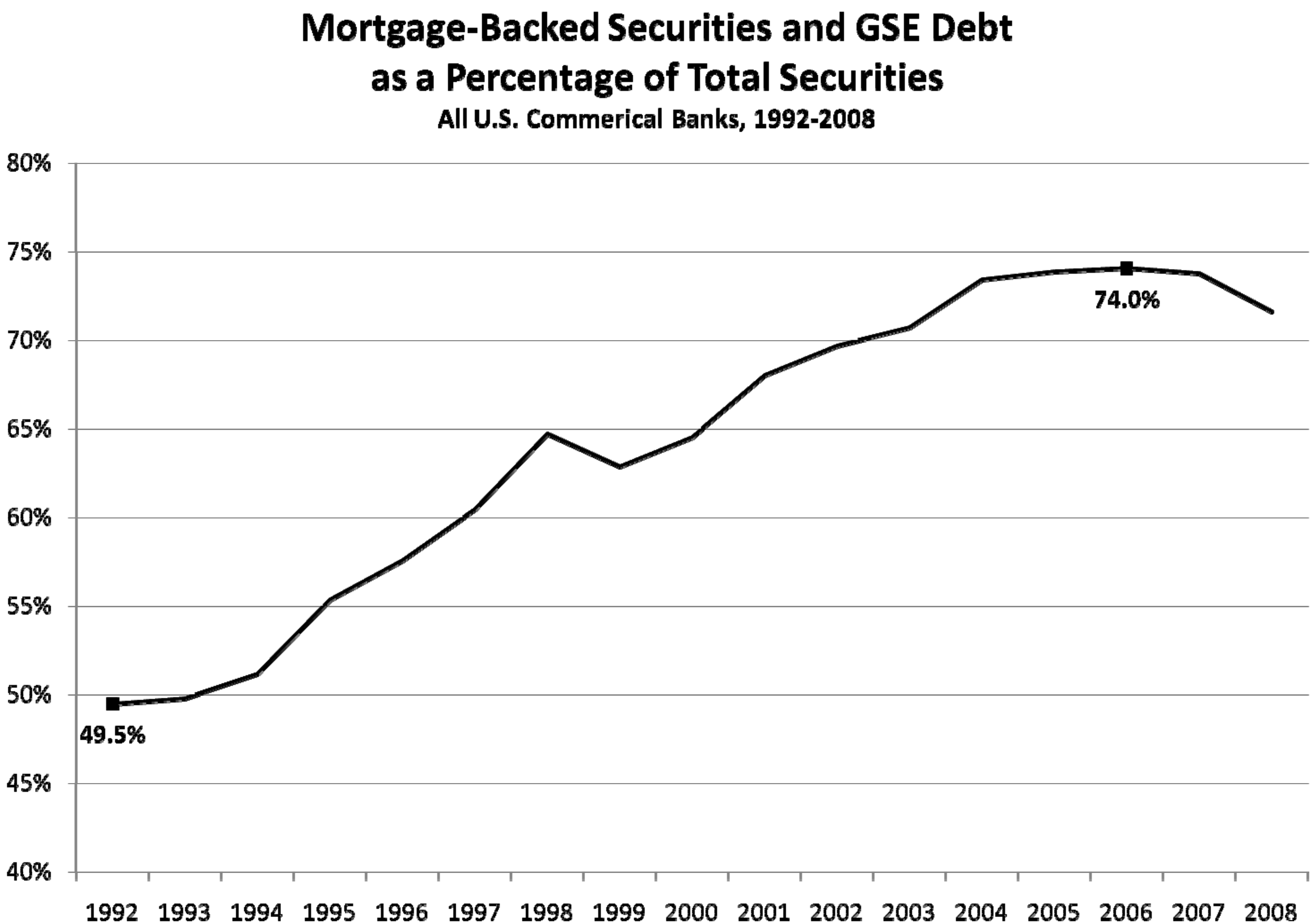
The U.S. Housing Bubble: When Do We Get Back to the Peak?




The Real Estate Double Bubble
Commercial and Residential Property Price Indices
S&P/Case-Schiller U.S. National Home Price Index
Moody's/REAL National Commercial Property Price Index
Housing Prices
Commercial Real Estate Prices
Index Value
200
190
180
170
160
150
140
130
120
110
100
90
2000Q1
2000Q3
2001Q1
2001Q3
2002Q1
2002Q3
2003Q1
2003Q3
2004Q1
2004Q3
2005Q1
2005Q3
2006Q1
2006Q3
2007Q1
2007Q3
2008Q1
2008Q3
2009Q1
2009Q3
2010Q1
8/31/10


Real Estate Loans as a % of Total Loans
U.S. Commercial Banks
1946-2008
60%
55%
50%
45%
40%
35%
30%
25%
20%
15%
2006, 55.3%
1974
1946, 23.5%
1946
1948
1950
1952
1954
1956
1958
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Source: Federal Reserve- Flow of Funds Account


Real Estate Loans as a % of Total Loans
Commercial Banks with Assets Less than $1B
1992-2008
75%
70%
65%
60%
55%
50%
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008


Mortgage-Backed Securities and GSE Debt
as a Percentage of Total Securities
All U.S. Commerical Banks, 1992-2008
80%
75%
70%
65%
60%
55%
50%
45%
40%
74.0%
49.5%
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008

GSE Omnia Divisa in Partes Tres

The Treasury Department convened a conference on the future of housing finance in August 2010. These are the remarks of Alex J. Pollock.

SEC. GEITHNER: Alex.

MR. POLLOCK: Many thanks to the Treasury and to HUD for inviting me here. In my two minutes, I'm going to try to make three points with one quick addendum.

Point one, the housing finance system of the future needs to have countercyclical factors built into it, particularly (a) countercyclical loan-to-value ratios, which move in the opposite direction as inflating house prices in a boom; and (b) much bigger loan loss reserves in good times to avoid the illusory profits which feed booms and bubbles.

Second, we need a private secondary market for the bulk of mortgage loans. The financial system of the future should have withdrawn from it a large part of the subsidization and distortion of the market caused by the activity of the GSEs. This private secondary market should handle the loans for the middle class and the upper middle class mortgages, which are the vast majority of the market. Such a private market could include the covered bonds; it has to have private market rates, spreads, and risk evaluations and avoid the subsidies which drive up house prices and make houses less affordable.

Third, ultimately, we should have no GSEs. Fannie and Freddie should no longer be GSEs. You can either, in my view, be a private company or a government agency—one or the other, but not both. I think almost everyone now agrees with this, but which is right, a private company or a government agency? My answer is, both are right.

Part of Fannie and Freddie should turn into a private company, the part which is actually a business. Part of it should turn into a full-fledged government agency, that part which is a government operation providing subsidies and nonmarket transactions; that should simply be merged into the structures of the Department of Housing and Urban Development subject to the normal government disciplines of appropriations and oversight.

There unfortunately has to be a third part, which is the liquidating trust or "bad bank" to run off the remaining government-guaranteed debt with a significant loss, of course, to the taxpayers. This could be legally modelled on the structures used in the privatization of Sallie Mae, I think quite successfully. I call this the "Julius Caesar strategy" because like Gaul in Caesar's time, we divide Fannie and Freddie into three parts.

My addendum is that if, counter to my recommendations, the GSE form does survive, then we must make sure that the double leveraging of GSEs through the banking system is stopped. Banks had special regulatory encouragements to own the preferred stock, debt and MBS of Fannie and Freddie. All of this ran up the leverage, the real leverage of the system viewed as a whole. Remember that the biggest fault of the system was excessive leverage, and GSEs were key to excessive leverage. So we need to eliminate this ability to double-leverage the system by using the banks to finance the GSEs, should the GSE form somehow survive.

SEC. GEITHNER: Thank you, Alex.

Overhead at a Savings & Loans Conference, 1989

"Those Neg-am loans everybody's been doing are toxic mortgages. It's a good thing we won't be seeing them any more."

Overheard at a Mortgage Banking Conference, 2009

"Those Neg-am loans everybody's been doing are toxic mortgages. It's a good thing we won't be seeing them any more."

To Be Overheard at a 2029 Credit Conference

"Those Neg-am loans everybody's been doing are toxic mortgages. It's a good thing we won't be seeing them any more."