

## The New Housing Policy

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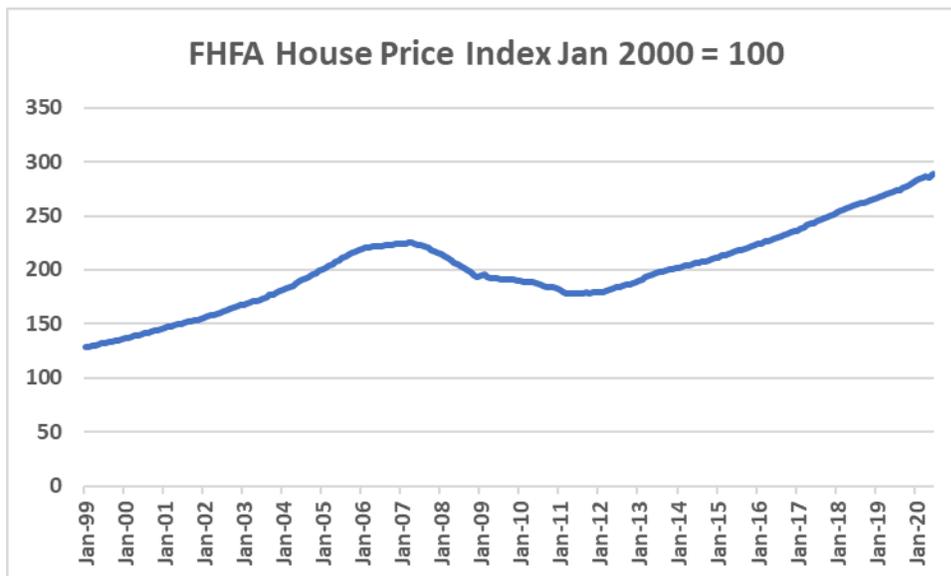
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### Introduction

Throughout the post-WWII era, economic policy discussions in the US were dominated by the conduct of monetary and fiscal policy. Eventually a consensus formed that monetary policy was best suited to conduct countercyclical policy while fiscal policy dealt with so-called “structural” issues. This model was often criticized for the lack of a proper framework for credit and financial markets, but it was widely adopted around the world<sup>1</sup>. One of the most prescient criticisms however came from UCLA’s Ed Leamer, who wrote a paper called “Housing IS the Business Cycle”<sup>2</sup>, published in 2007 by the NBER. The timing was perfect: A housing bubble was about to burst, creating the most severe economic downturn since the Great Depression.



Source: FHFA

Out of the rubble, a new policy consensus was born. First, with rates at or near the zero lower bound, central banks around the world implemented unconventional monetary policies, including the purchase of mortgage related securities, in recognition of the important role of

<sup>1</sup> See, for example <https://www.imf.org/external/pubs/ft/fandd/basics/monpol.htm>

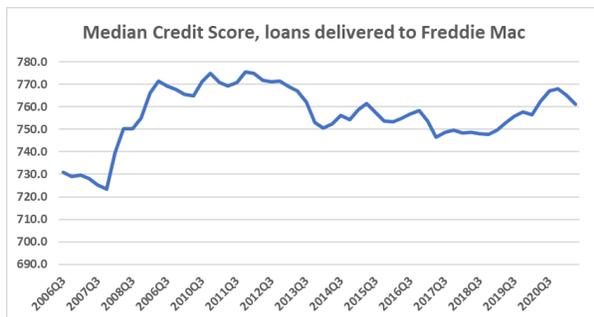
<sup>2</sup> <https://www.nber.org/papers/w13428>

housing in the Global Financial Crisis (GFC) <sup>3</sup>. In addition to fiscal and monetary policy, a new tool was adopted by policymakers: macroprudential policies. These policies were designed to avoid a repeat of the experience in the run-up to the GFC by limiting lending to credit-worthy borrowers and subjecting banks to rigorous stress-tests that would ensure that they had sufficient capital to cover losses in economic and market downturns.

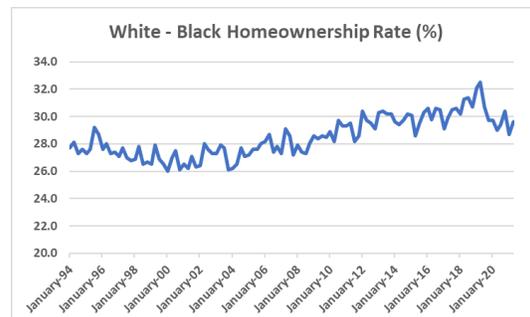
A fine description of the new consensus following the GFC was presented by former IMF Deputy Managing Director Min Zhu at a conference at the Bundesbank in 2014 called “Housing, Financial Stability and the Economy”<sup>4</sup>. In his talk he laid out three principals:

- First, *housing is an essential sector of the economy but also one that has been the source of vulnerabilities and crises.*
- Second, *detecting over-valuation in housing markets is still more of an art than a science.*
- Third, *the policy toolkit to manage housing booms is still under construction.*

Policy intervention in the housing and housing finance markets had become part of the status quo, but experience was limited. As the decade of the 2010’s drew to a close, some observers noted that the credit tightening implicit in macroprudential housing policy seemed to be falling most heavily on low income and minority households<sup>5</sup>.



Source: Freddie Mac, Recursion



Source: US Census Bureau

### The Onset of the Covid-19 Pandemic

The unexpected arrival of a global pandemic once again sent shockwaves through the policy community. The policy response was quick and decisive. In particular, the Federal Reserve and other central banks around the world opened the policy spigots and prevented the kind of

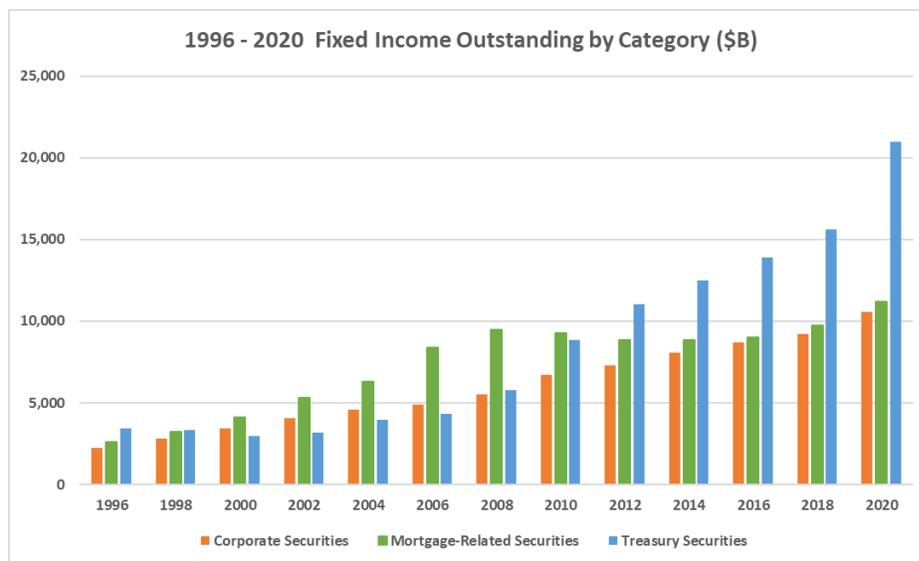
<sup>3</sup> <https://www.federalreserve.gov/newsevents/speech/bernanke20120831a.htm>

<sup>4</sup> <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp060514>

<sup>5</sup> See for example <https://www.urban.org/urban-wire/new-data-confirm-urgency-addressing-expiration-gse-patch>

liquidity squeeze that resulted in the financial crash that was the hallmark of the Global Financial Crisis (GFC). No banks of any size went under.

In addition, fiscal policy became far more aggressive than was the case after the GFC. All told, the recent example and lessons learned from the GFC likely prevented a worse outcome during this crisis. Consequently, as shown in the following chart, the outstanding balance of treasury securities ballooned to over \$20 trillion in 2020, from \$15 trillion in 2018.



Source: SIFMA

The main difference in the policy response from the GFC was the powerful bilateral support for the CARES Act. This amounted to a fiscal stimulus of over \$2 trillion, more than double the stimulus after the GFC. For the housing market, a key innovation was Covid-related forbearance. Millions of homeowners entered programs whereby their principal and interest payments would be deferred for a period up to 18 months. According to the Federal Reserve Bank of Philadelphia, 7.8 million borrowers have entered forbearance programs since the start of the program, and 1.76 million loans remained in such programs in early August<sup>6</sup>. The improvement is in line with the recovery in the labor market.

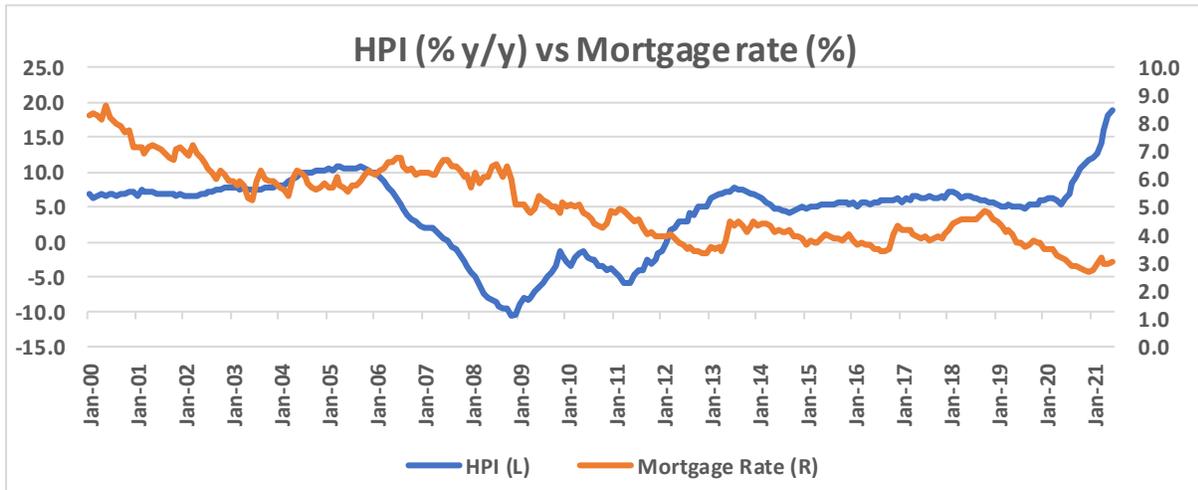
### The New Housing Policy (NHP)

Even more than in previous downturns, the pandemic hit hardest on low-wage service sector workers<sup>7</sup>. The unprecedented coordinated monetary and fiscal policy response stabilized the economy and sent financial markets soaring, including the housing market. The breathtaking spike in home prices reflected three main factors: low interest rates, a lack of available supply

<sup>6</sup> <https://www.philadelphiafed.org/consumer-finance/mortgage-markets/examining-resolution-of-mortgage-forbearances-and-delinquencies-august-2021>

<sup>7</sup> <https://www.epi.org/publication/swa-2020-employment-report/>

and a desire to live in less densely populated areas encouraged by technology that enabled workers to easily work from home. Inequality trends in the US have been widening for many years<sup>8</sup>, but the onset of the pandemic and its great economic toll on low income and minority families combined with sharply higher home prices served to drive home the vast divide that exists in our society.



Source: FHFA, Freddie Mac

In 2019 median family wealth for homeowners was \$255,000 compared to \$5,900 for renters, a ratio of 35-1. This wealth gap is certainly much wider now<sup>9</sup>.

Broadly speaking, the New Housing Policy is designed to place as many households as possible into an ownership position and to support the basic right to safe and affordable housing<sup>10</sup>. This is, to cite Min Zhu, a policy toolkit that is still very much under construction. It is nothing less than a reformulation of traditional fiscal, monetary, and regulatory policies with this goal in mind. Housing is not just an essential sector; it is the primary tool for spurring economic and social development.

### a. Fiscal Policy – Housing as Infrastructure

From the first statements of his campaign, President Biden viewed housing policy as the centerpiece of his economic and social development agenda<sup>11</sup>. What this means in practice started to roll out on September 1<sup>12</sup> with a commitment to provide over 100,000 additional housing units to homeowners and renters affordable to low- and moderate-income borrowers

<sup>8</sup> <https://www.stlouisfed.org/open-vault/2020/december/has-wealth-inequality-changed-over-time-key-statistics>

<sup>9</sup> <https://www.federalreserve.gov/econres/scfindex.htm>

<sup>10</sup> For a cogent view, see Raphael Bostic, <https://www.atlantafed.org/news/speeches/2020/09/18/bostic-using-finance-to-create-racial-equity>

<sup>11</sup> <https://joebiden.com/housing/>

<sup>12</sup> <https://www.whitehouse.gov/briefing-room/statements-releases/2021/09/01/fact-sheet-biden-harris-administration-announces-immediate-steps-to-increase-affordable-housing-supply/>

over the next three years. This is seen as a first step towards a program that will create or rehabilitate over 2 million units, half to renters<sup>13</sup>.

### **b. Access to Housing and Credit**

Not all the NHP is directly connected to the Administration. On August 12, HUD and FHFA announced a historic agreement to coordinate their activities regarding the Fair Housing and Fair Lending Acts<sup>14</sup>. The Fair Housing Act was signed by President Lyndon Johnson on June 11, 1968, one week after the assassination of Dr. Martin Luther King. The Equal Credit Opportunity Act<sup>15</sup> was signed by President Gerald Ford on October 28, 1974<sup>16</sup>.

The Acts prohibit discrimination in the provision of housing or credit due to:

- race or color
- religion
- sex
- age
- national origin
- familial status, or
- disability.

The Credit Act stipulates that discrimination can only take place based on creditworthiness. There is a great deal remaining to be done. Going after redlining and other overt forms of discrimination is not enough. The Fair Housing and Lending Acts identify three forms of discrimination

- Overt discrimination
- Disparate treatment: individual basis
- Disparate impact: practices that adversely affect one group of people more than others

Upon her elevation in June 2021 to the position of Acting Director at FHFA, Sandra Thompson noted that “...today the Black-white homeownership gap is wider than it was in the 1960s, when lending discrimination based on race was still legal.”<sup>17</sup>

The policy spigots are now wide open. Two recent very significant developments are

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<sup>13</sup> For more detailed analysis see <https://www.whitehouse.gov/cea/blog/2021/09/01/alleviating-supply-constraints-in-the-housing-market/>

<sup>14</sup> [https://www.hud.gov/press/press\\_releases\\_media\\_advisories/HUD\\_No\\_21\\_121](https://www.hud.gov/press/press_releases_media_advisories/HUD_No_21_121)

<sup>15</sup> <https://www.justice.gov/crt/equal-credit-opportunity-act-3>

<sup>16</sup> <https://www.justice.gov/crt/fair-housing-act-1>

<sup>17</sup> <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Virtual-Listening-Session-Closing-the-Gap-to-Sustainable-Homeownership.aspx>

- i. On Aug 11, Fannie Mae announced an innovative program to take rental history into account in its underwriting decisions<sup>18</sup>. They estimate that 17% of applicants who did not receive a mortgage in recent years could have done so had rent payment been taken into consideration. In addition, they found that Black consumers identify insufficient credit score or credit history as their single biggest obstacle to getting a mortgage and do so at a much higher rate compared to white consumers (29% to 18%).
- ii. On September 7, the Federal Housing Finance Agency (FHFA) announced that the Government Sponsored Enterprises (GSE's) Fannie Mae and Freddie Mac will have to produce Equitable Housing Finance Plans by the end of the year. The plans will identify and address barriers to sustainable housing opportunities, including the Enterprises' goals and action plans to advance equity in housing finance for the next three years<sup>19</sup>. Acting Director Thompson stated that these plans "...can responsibly reduce the racial and ethnic disparities in homeownership and wealth that still exist today."

### C. Bank Regulation

The Community Reinvestment Act (CRA) was passed in 1977, giving regulators the responsibility to ensure that financial institutions meet the credit needs of moderate- and low-income communities in which they serve. Violations of the Fair Lending and Fair Credit Acts are considered in these evaluations.

The three regulators are:

- Federal Reserve (FED)
- Office of Comptroller of the Currency (OCC)
- Federal Deposit Insurance Corporation (FDIC)

In December 2020, the Fed released a notice indicating its intention to modernize the regulations under the CRA, and on July 20, the three agencies announced their intention to coordinate their activities. In a speech in Chicago in December 2020, Fed Governor Lael Brainard said "*First and foremost, the CRA should focus on addressing credit disparities and financial inclusion in low- and moderate-income and minority communities to fulfill its core purpose*"<sup>20</sup>.

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<sup>18</sup> <https://www.fanniemae.com/newsroom/fannie-mae-news/fannie-mae-introduces-new-underwriting-innovation-help-more-renters-become-homeowners>

<sup>19</sup> <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Equitable-Housing-Finance-Plans-for-Fannie-Mae-and-Freddie-Mac.aspx>

<sup>20</sup> <https://www.federalreserve.gov/newsevents/speech/brainard20201201a.htm>

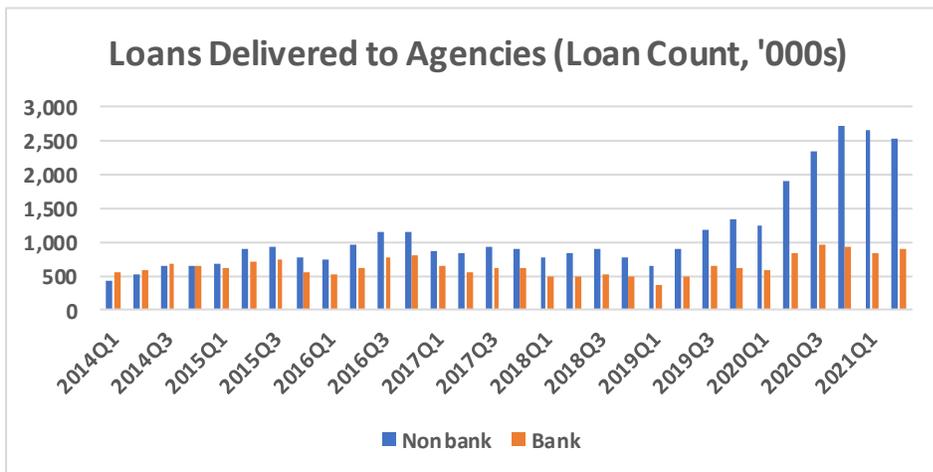
## Conclusions and the Road Ahead

The onset of the Covid-19 Pandemic not only triggered a massive cyclical policy response but also served to shine a bright light on growing disparities in economic wealth among different segments of our society. A strong set of consistent principles across numerous agencies have been established regarding the goals of what is called “The New Housing Policy”. However, details about implementation are scarce, or, as yet nonexistent. To achieve the desired ends, a variety of roadblocks will have to be addressed.

### **1. Coordination**

Unlike fiscal and monetary policy, housing policy is spread out over numerous agencies. These include HUD, FHFA, US Treasury, the Federal Reserve, OCC, FDIC, CFPB, Financial Stability Oversight Council (FSOC) and many more. While recent developments have given the President more opportunity to influence some of these agencies, differing views and reporting lines sets the stage for dissonance in policymaking and muted outcomes. For example, a recent announcement by FHFA that it intends to encourage Fannie Mae and Freddie Mac to provide more liquidity to low- and moderate-income borrowers places it in the traditional lending space occupied by FHA.

A particular issue is the growing share of nonbanks in the mortgage markets. These institutions’ primary regulators are state financial agencies, with widely varying goals and levels of expertise.



Source: Ginnie Mae, Recursion

### **2. Data Availability**

An increasingly popular adage is that “Data is the oil of the 21st century.” Housing and housing finance data are massive, with tens of millions of loans outstanding across tens of thousands of financial and real housing sector organizations. Government and agency disclosures are becoming increasingly more detailed, but a great deal of information, particularly sourced from

financial companies, is kept in private hands and available only at substantial cost, reflecting not their effort, but their market power. This has served to create a divide between the large wealthy organizations who can access it, and the less-well-off municipalities, academic researchers, smaller firms and think tanks whose efforts are crucial for a robust discussion about these crucially important policies. As the policy discussion pivots from overt discrimination to disparate impacts, more nuanced analysis based on easily accessed information will be necessary to keep large firms with a vested interest from dominating it.

### **3. NIMBY**

A key characteristic of the New Housing Policy is its intersection between big picture market developments and local behavior. In particular, issues related to infrastructure such as building residences for low- and moderate-income communities need to work their way through local community boards dominated by entrenched interests that are often resistant to increased density and diversity in neighborhoods. The last point made in the Administration's plan to boost the housing supply in the next several years is

- Work with state and local governments to boost housing supply by leveraging existing federal funds to spur local action, exploring federal levers to help states and local governments reduce exclusionary zoning, and launching learning and listening sessions with local leaders.

The effectiveness of such measures is a major uncertainty surrounding the ultimate success of these programs.