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Making the Mortgage Market Work for America's Families

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Introduction and summary

America's housing-finance system stands at a crossroads. We can restructure the mortgage-finance system to restore balance to the housing market and provide credit to a broad and diverse population, or we can live with a system in which credit and housing choices are more costly, more limited, and less sustainable, especially for minority and low- and moderate-income households. The choice we make will determine not only the sustainability of a robust housing market, but also future economic opportunities for millions of families.

In 2008 our financial system failed spectacularly; taxpayers bailed it out, but at great cost. Going forward, some measure of continued government support for mortgages as well as for banks and other financial institutions seems extremely likely, either in the form of an explicit guarantee or another bailout if the system fails again. In return for backstopping the mortgage market and financial institutions, taxpayers deserve a market that serves the long-term interests of families and the economy as a whole.

Most people think of mortgage lenders as the point of intersection with the public. However, the less transparent but very large secondary mortgage market—which buys mortgages, packages them into securities, and sells them to investors—plays a critical role in ensuring access and affordability within the housing-finance system. Lenders prefer to make the types of mortgage loans that the secondary market will buy. For this reason, one of the most effective ways to ensure a broad, accessible, and affordable primary mortgage market is by creating a secondary market that promotes these same principles.

Using a range of possible tools, the secondary market can encourage lenders to provide all Americans access to safe, affordable mortgages, including traditionally underserved populations such as Hispanics, African Americans, rural residents, low- and moderate-income families, Asians, Baby Boomers, and Echo Boomers. It can also help increase access and affordability by supporting standardization and lowered costs and by adopting responsible, targeted product innovations that can be made widely available throughout the mortgage market.

Section 1 of this report, "The need for increased access to affordable homeownership," discusses the importance of homeownership and the housing finance system to strong families, neighborhoods, and the overall economy. The United States has a long history of unequal access to sustainable, affordable mortgages, particularly for minority and low- and moderate-income communities. Lack of equal access to mortgage credit can be explained by a variety of factors, including not only traditional discrimination but also the failure of mortgage lenders to serve geographies and populations that they may see as less lucrative (known as market creaming). This difference in access to credit contributes to the nation's unprecedented wealth gap despite government efforts to improve access. For this reason, it is critical to redesign the system to account for shifting demographics and changing consumer profiles, including the rapid growth of communities of color, decreased economic security, and increasing demand among rural Americans.

Section 2, "The secondary mortgage market's role in supporting access and affordability," reviews the secondary mortgage market's ability to influence the primary market and improve access to mortgage credit for a broader population of potential homeowners. The secondary market's willingness to purchase select loan products, as well as its policies regarding pricing, underwriting, documentation, capital reserves, and repurchases, can either encourage the primary market to or discourage it from extending credit to underserved populations. Leveraging this influence to improve access will not only increase opportunities for affordable homeownership but also create new business opportunities for the primary market.

Section 3, "Rental housing's connection to the secondary mortgage market," discusses the role of the secondary market in ensuring adequate financing for the development of affordable rental housing. The government-sponsored enterprises, or GSEs, and the Federal Housing Administration have a long history of supporting the principles of access and affordability in the rental-housing context. In fact, during the 2008 financial crisis, when private capital retreated nationwide, government-supported channels, especially the GSEs, were virtually the only sources of capital for financing any rental housing at all. For this reason, proposals regarding the future of housing finance must include consideration of multifamily finance as well as single-family finance.

Section 4, "The Market Access Fund," outlines the importance of promoting safe product innovation as a way to increase access. Many potential homeowners who were once thought to be unacceptable risks because of low wealth, unconventional employment, or lack of traditional credit have been successfully served by the housing-finance system through careful underwriting and targeted lending programs that use limited amounts of credit enhancement. We recommend establishing a Market Access Fund to support the type of innovations that have proved so successful in the past and, when appropriate, bring to scale new lending products and services best suited to the needs of these borrowers.

Section 5, "Strategic plans and evaluation," details the need for effective oversight of the secondary market to ensure that the public benefits of a taxpayer-backed system are widely available. The market regulator(s), for example, can increase access to affordable, sustainable credit by identifying market gaps, elevating promising products, and halting predatory or discriminatory activity. We outline one possible strategy for robust regulation that relies on market analyses, strategic plans, and public input to monitor performance of secondary market entities, both broadly and in regard to reaching underserved markets.

In short, we believe it is possible to design a housing-finance system that effectively meets America's housing needs, as long as we are intentional and thoughtful about doing so. By supporting these core values of access and affordability, the housing-finance system can help provide access to credit, enable families to build wealth, build strong neighborhoods, and support both the local and national economy.