HOUSING 2020

HOUSING FINANCE

Housing finance plays a larger role in housing availability and affordability than any other aspect of housing. A stable mortgage market was the major contributor in bringing our homeownership rate to nearly 70%, but exotic and risky mortgage products were a primary cause of the housing crash in 2007 and the subsequent great recession.

Ethan Handelman, Policy Director at the National Housing Conference, joined with Housing Virginia to explore the recovery and the re-shaping of our national system of housing finance. The finance chapter of Housing 2020 looks at the future of the GSEs, new mortgage products and underwiting standards, rental financing gaps and long term interest rates.

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Key Finance trends include:

• Long term mortgage interest rates will likely continue to be low for the next several years by historical standards.

• The range of mortgage product types will remain very limited with a slow return to some specialized programs. The long term, fixed rate mortgage will once again be the standard.

• More conservative underwriting criteria are likely to stay in place for several years and will be slow to change. Higher credit score and higher down payments will remain the rule.

• Lenders will continue in a conservative posture and “stay inside the box” due to compliance with new federal standards for qualified mortgages. Lenders will be very slow to take on additional risks.

• Secondary market reform of Fannie and Freddie is also likely to be slow and uneven. Without political will to address this issue, costs will rise in the effort to encourage private capital to return to the secondary mortgage market.

• With the decline in the role of the federal government in housing finance there is an opportunity for states to play a larger role in meeting affordable housing needs.