

Introduction

Conference on

Does the United States Really Have the Best Housing-Finance System in the World?

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In his speech in early February at an AEI conference, Franklin Raines said: “[W]ith Fannie Mae at its core, the American system of financing home ownership is the best in the world. Wherever I travel abroad, I’m asked how Fannie Mae works and how they can go about creating a secondary mortgage market.”

Like that other claim of support from foreign leaders, this may or may not be true, but unlike that other claim this one can be tested.

That’s what this conference is about.

There are a lot of myths associated with American housing policy—among them that the US has the highest home ownership rates in the world. This, it turns out, is not true. Despite enormous support for home ownership through the tax system and a whole cabinet department, there are at least five countries—Ireland, Greece, Luxembourg, Spain and the UK—that have home ownership rates as high as or higher than the United States. And Belgium, Portugal and Sweden are close behind. In your packages is a copy of a table from a publication of the European Mortgage Federation, showing the different rates of home ownership in most of the developed countries of Europe.

The same table also shows that fixed rate loans are not unique to the United States, either. They predominate in Belgium, Denmark, France, Germany and the Netherlands. Not all of these are 30 year loans, as are common in the United States, but in fact the vast majority of mortgages do not last 30 years. They are refinanced in much shorter periods—either because better rates are available or the home is sold—so the availability of the 30 year fixed-rate mortgage loan should not necessarily be the standard by which we judge the quality of a housing finance system.

Given the problems associated with government backing for our secondary market intermediaries, Fannie Mae and Freddie Mac, it is useful to consider whether other systems could do as well, without requiring government involvement.

Incidentally, it seems possible to have a better system in the United States, without government backing. As many of you know if you have been attending our

conferences on the privatization of Fannie Mae and Freddie Mac, Bert Ely has proposed a structure he calls the Mortgage Holding Subsidiary that has the potential to provide a fixed rate mortgage at less cost than that currently provided by Fannie and Freddie. All that is really required is a change in the capital requirements for subsidiaries of banks, S&Ls and bank holding companies that will take only the credit risk on mortgages they hold in portfolio.

At any rate, one of the most interesting systems in Europe is that used in Denmark. In fact, contrary to what Franklin Raines said at the February conference, the US system does not always win converts when compared to other mortgage financing structures. When Mexico was looking recently for a new system for mortgage financing it considered both Fannie Mae and Freddie Mac and the Danish system—and ultimately chose to follow the Danish format. We will review the Danish system during the panel discussion.

In any event, as we enter a period during which Congress will be considering the role of Fannie Mae and Freddie Mac in the US housing finance system—and how the risks they create can best be contained—it is important to keep in mind that the way housing is financed in the United States is not the only way this important economic function can be organized.