

## Abstract

### US Housing Finance Policy in the Aftermath of the Crisis

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The purpose of paper is to review the policy responses to the US mortgage market crisis and assess how much the market has changed. There were many contributors to the meltdown of the US mortgage market. As summarized by the Financial Crisis Inquiry Commission, the major causes of the crisis included a credit bubble fueled by low interest rates and imported capital, a housing bubble fueled by speculation and lax underwriting of mortgage loans, non-traditional mortgage instruments designed to improve initial affordability, incentive misalignments for participants in the mortgage market, government housing policy supporting mortgage lending to low and moderate income households, dependence on securitization for funding and excessive leverage in large financial institutions.

In the aftermath of the crisis there have been a multitude of legislative and regulatory initiatives addressing the perceived causes of the crisis. However, despite record levels of distress and taxpayer bailouts of major housing finance institutions it is surprising how little has changed in the US. The government sponsored enterprises and guarantee providers still dominate the market. The long-term fixed rate mortgage is still the overwhelming mortgage instrument provided to consumers. Sub-prime and Alt A lending disappeared but is creeping back on the fringes of the market. The Dodd-Frank financial regulation and reform legislation has created a massive increase in compliance costs for lenders but has not significantly changed the housing finance system. Important aspects of the legislation such as risk retention have yet to be implemented. There have been a number of policy initiatives dealing with mortgage defaults – some successful and others not. More importantly, legislative and judicial action to deal with mortgage distress may have weakened the collateral value of housing.

The lack of meaningful change in the US housing finance system, the continued dependence of the economy on housing and the mortgage market on government support suggest that important lessons about the causes of the crisis have not been learned and a repeat of the boom and bust could happen. The paper will conclude by comparing the major US housing finance reform initiatives with those in other developed countries.