The Future of Housing Finance

- Housing finance will differ across countries
- Factors that influence the development of housing finance
Housing Finance and the Economy

• Housing represent a large fraction of expenditures in any economy.
• Adequate finance structure plays a crucial role in the production and allocation of housing.
• Housing finance also has an important role in providing a vehicle for savings. (collateral)

Factors influencing housing finance

• Government Policies
• Technology
• Factors affecting housing demand
Government Policies

• Property rights

• Provision of infrastructure
  – Roads, drainage, water, sewage, electricity, phones...
  – Privatization, regulation and competition.
  – Technological changes.

Government Policies

• Regulation
  – Regulating land use and building codes
  – Rent control
  – Financial market regulation
Government Policies

- Taxes
  - Mortgage interest deductions
  - Capital gains treatment
  - Taxes on labor
  - Taxation in financial markets

- Inflation
  - Inflation destroy credit markets
  - Brazil, Mexico

- Interest rates
  - $92 billion in 81-82 in U.S. (16% rates)
  - $900 billion in 92-93 (8% rates)
  - Prepayment option
Technology

• Financial engineering
  – Matching savings to investments
  – Minimizing taxes
  – Liquidity

• Technology
  – Communication
  – Information processing

Consequences of technological progress

• Unbundling of mortgage process
  – Originating
  – Servicing
  – Credit risk taking
  – Investing

• New intermediaries
  – “Maes”
  – Investment banks
Origination

- Decline of thrifts
- Surge of mortgage bankers
- Low capital base
- Niche players (Homeshark)
- Future role of real estate brokers

Servicing

- Economies of scale
- End of geographic advantages
  - Technology
  - Deregulation
Credit Risk

- Diversification: In U.S. diversification cut credit risk by 2/3.
- Highly predictive credit models.
- Incentives

Investment

- Investors are less geographically specialized.
- Mortgage are partially financed by non-traditional investors
- Fully funded v.s. pay as you go systems.
- Smaller stock of government debt.
Housing Demand

- Demography
- Growth
- Demand for urban proximity
  - Cheap communication and demand for proximity
  - Land prices is an important component in housing prices.