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The future of housing finance

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1

The Future of Housing Finance

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

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2

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)

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3

Factors influencing housing finance

- Government Policies
- Technology
- Factors affecting housing demand

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Government Policies

- Property rights
- Provision of infrastructure
 - Roads, drainage, water, sewage, electricity, phones...
 - Privatization, regulation and competition.
 - Technological changes.

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Government Policies

- Regulation
 - Regulating land use and building codes
 - Rent control
 - Financial market regulation

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Government Policies

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

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Government Policies

- 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

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Technology

- Financial engineering
 - Matching savings to investments
 - Minimizing taxes
 - Liquidity
- Technology
 - Communication
 - Information processing

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Consequences of technological progress

- Unbundling of mortgage process
 - Originating
 - Servicing
 - Credit risk taking
 - Investing
- New intermediaries
 - “Maes”
 - Investment banks

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Origination

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

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Servicing

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

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Credit Risk

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

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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.

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14

Housing Demand

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