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## The future of housing finance

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## The Future of Housing Finance

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

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## 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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## 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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# Housing Demand

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