Biden Administration's Home Financing Policies May Create a Meltdown in Housing Prices

June 14, 2024 - The Biden administration has implemented several policies to make home financing more accessible for borrowers with lower credit scores. While these measures aim to address housing affordability, they actually pose significant risks for both borrowers and the broader economy.

Government-sponsored enterprises (GSEs) Freddie Mac and Fannie Mae, under the regulation of the Federal Home Financing Administration (FHFA), have introduced policies to facilitate loans for higher-risk borrowers. One such policy, effective since May 2023, adjusts mortgage pricing to favor high-risk borrowers over low-risk ones. For instance, borrowers with credit scores between 640 and 659 who put down a 15-20% down payment now face a lower fee rate than those with higher credit scores. That makes absolutely no sense if one of the goals to avoid loan defaults.

This shift is an attempt to make homeownership more accessible but raises concerns about encouraging risky borrowing and could create another subprime borrowing crisis, similar to what we saw in 2008. The fear is that high-risk borrowers may take on debts they cannot repay, potentially leading to increased foreclosures and defaults, which could destabilize the housing market.

Additionally, the FHFA has increased the mortgage limit for single-family homes to nearly $1.15 million in certain areas, allowing for larger government-facilitated loans. This move, coupled with a proposal allowing GSEs to purchase second mortgages also elevates the overall debt burden and risk to the market.

Total consumer debt in the U.S. reached an all-time high of $17.69 trillion in the first quarter of 2024, with $190 billion of this increase attributed to mortgage debt. The Consumer Financial Protection Bureauâ€™s standards, which cap mortgages at 43% of a borrowerâ€™s income, often do not apply to government-related entities, allowing for riskier loans.

While the administration's policies intend to make home financing more inclusive, they carry inherent risks. The potential for increased defaults and a strained housing market could have far-reaching economic implications, which should raise questions about the long-term viability and safety of these measures.
by Jim Malmberg
Note: When posting a comment, please sign-in first if you want a response. If you are not registered, click here. Registration is easy and free.

Follow ACCESS