

THE U.S. GOVERNMENT IN THE MORTGAGE BUSINESS

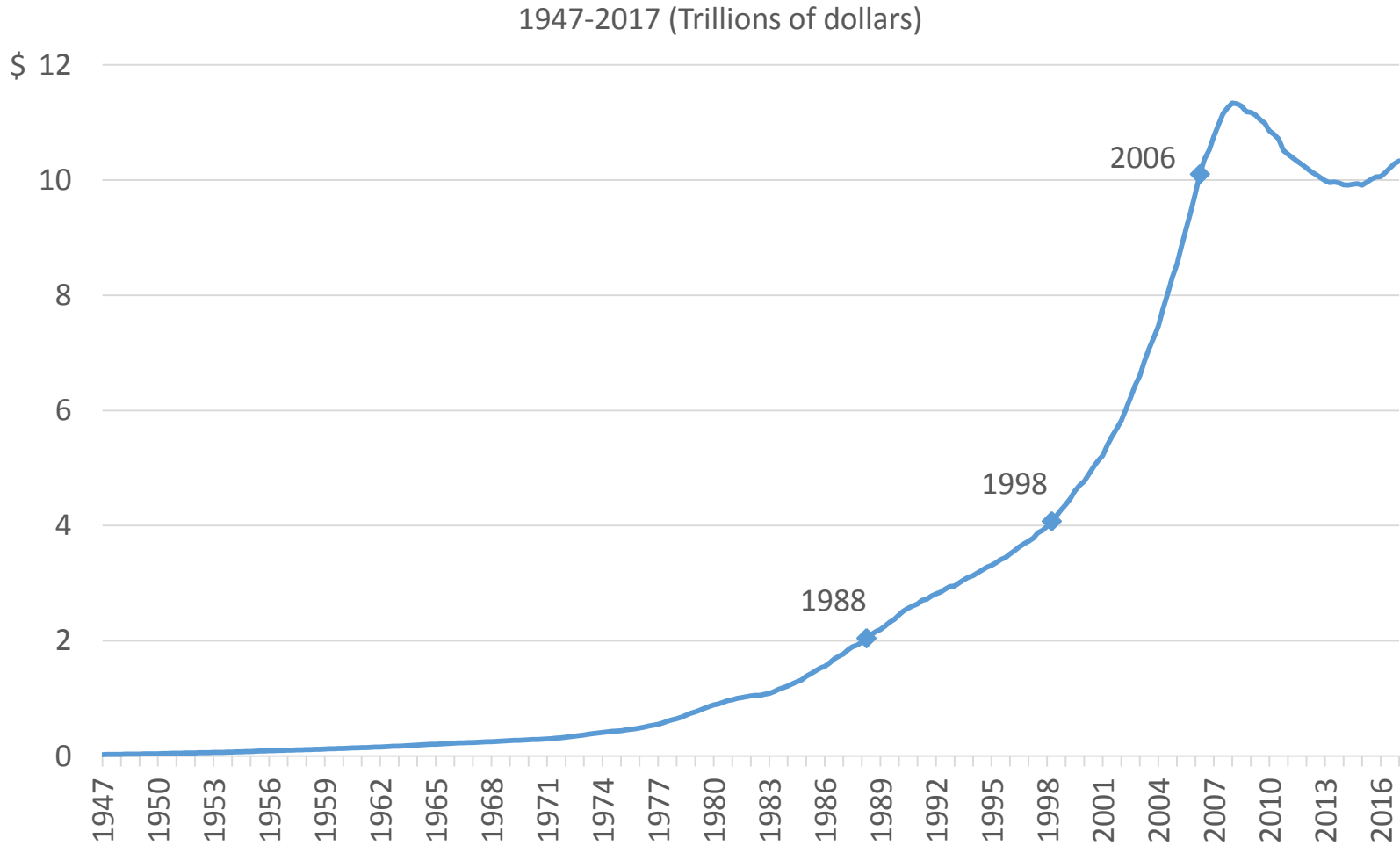
Or: “WHO’S THE SOCIALIST?”

Alex J. Pollock

R Street Institute

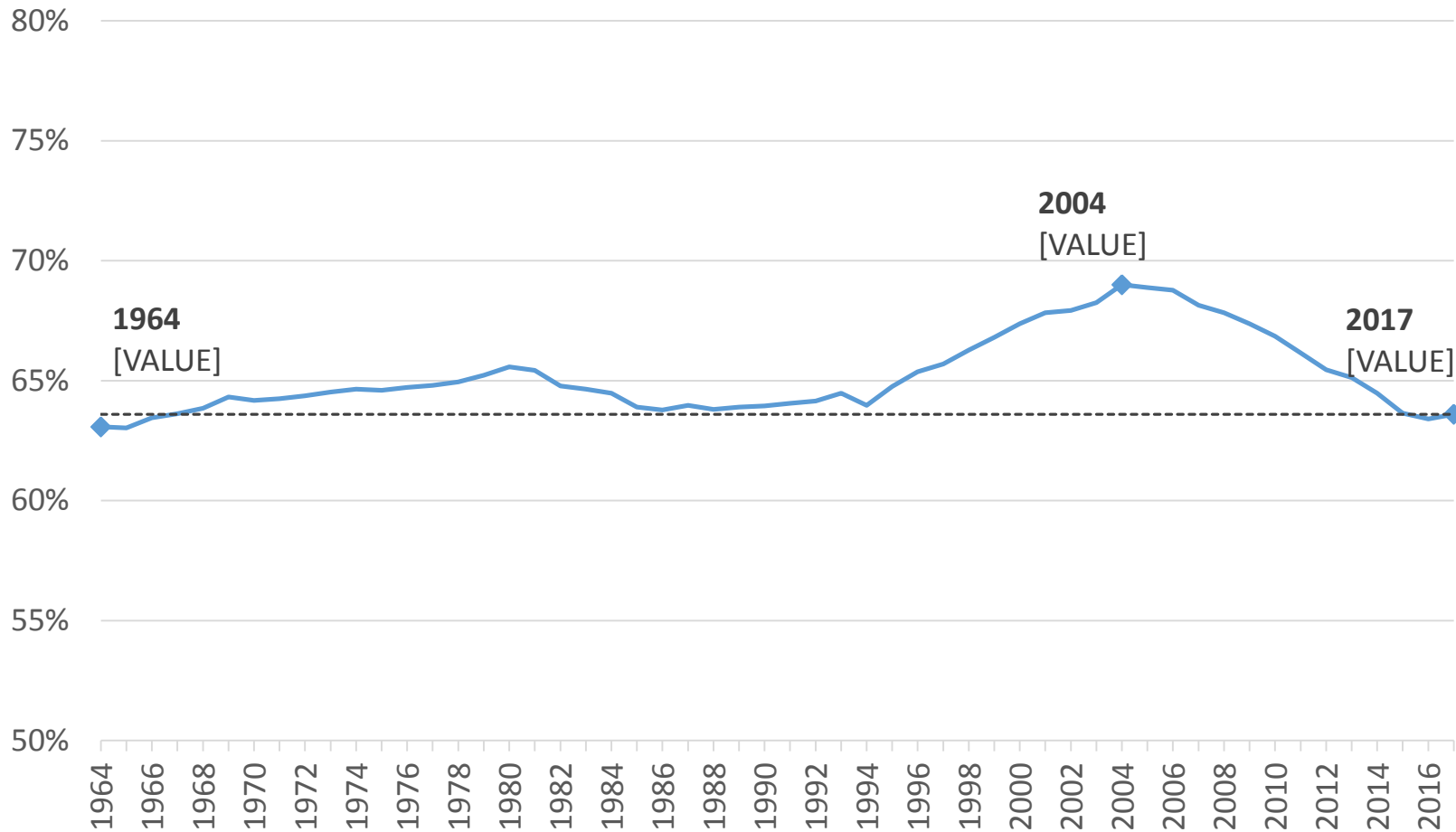
IUHF World Congress
June, 2017

TOTAL U.S. RESIDENTIAL MORTGAGES



Source: Board of Governors of the Federal Reserve, Z.1 Financial Accounts of the United States

LONG TERM U.S. HOME OWNERSHIP RATE



Source: Bureau of the Census, Housing Vacancies and Homeownership Statistics

RESIDENTIAL MBS AND MORTGAGE LOANS

Trillions of dollars, 2016 Q4 (end of period)

Fannie Mae	\$ 2.7
Freddie Mac	\$ 1.7
Ginnie Mae	\$ 1.7
Fannie, Freddie, & Ginnie total	\$ 6.0
Total mortgage loans	\$ 10.3
Fannie, Freddie, & Ginnie MBS as % of total	59%
Mortgage loans on bank balance sheets	\$ 2.4
Bank loans as % of total	24%

Sources: Board of Governors of the Federal Reserve System; sifma

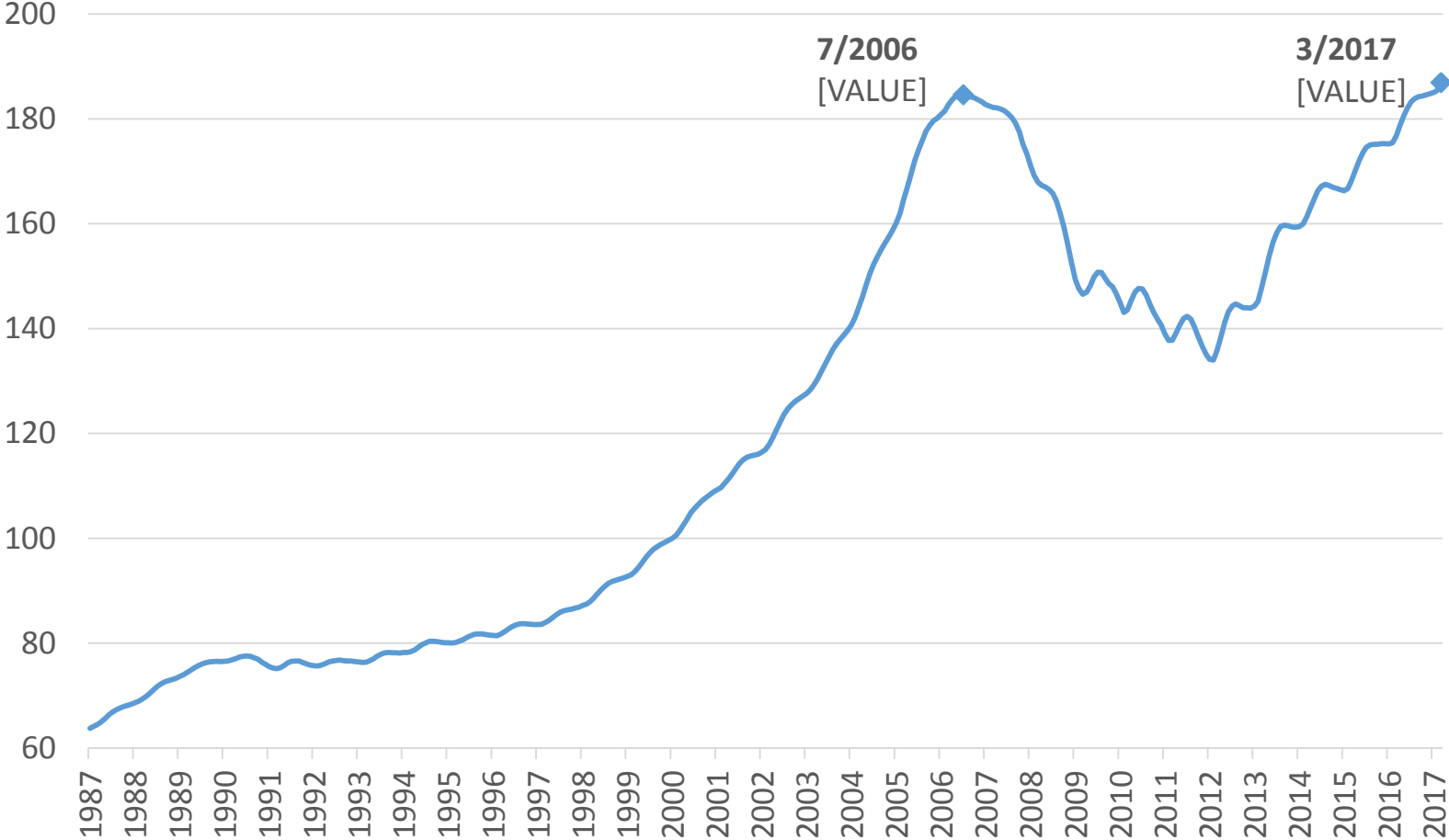
FEDERAL RESERVE SECURITIES PORTFOLIO

Billions of dollars

	12/31/2007	6/14/2017
Treasury bills	\$ 242	\$ 0
Treasury notes and bonds	\$ 471	\$ 2,338
Mortgage Securities	\$ 0	\$ 1,774
Fannie, Freddie, & Ginnie total MBS	\$ 4,372	\$ 6,050
% of all MBS the Fed owns	0%	29%
All Treasury notes and bonds	\$ 3,017	\$ 10,450
% of all notes and bonds the Fed owns	16%	22%

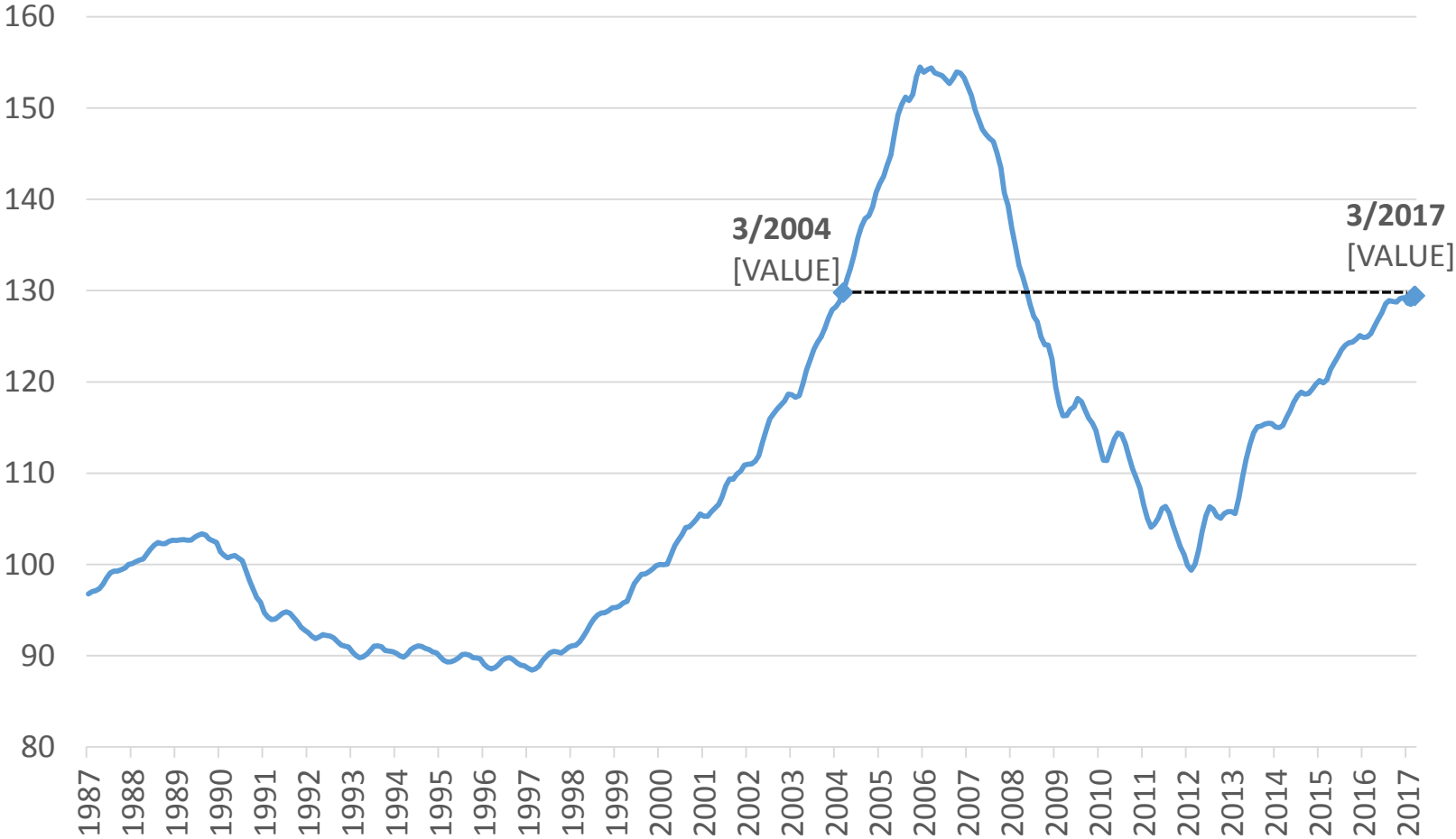
Source: Board of Governors of the Federal Reserve, H.4.1 Factors Affecting Reserve Balances; Financial Reports of the United States Government

U.S. HOUSE PRICES—NOMINAL



Source: S&P Dow Jones Indices, Case-Shiller Index

U.S. HOUSE PRICES—REAL

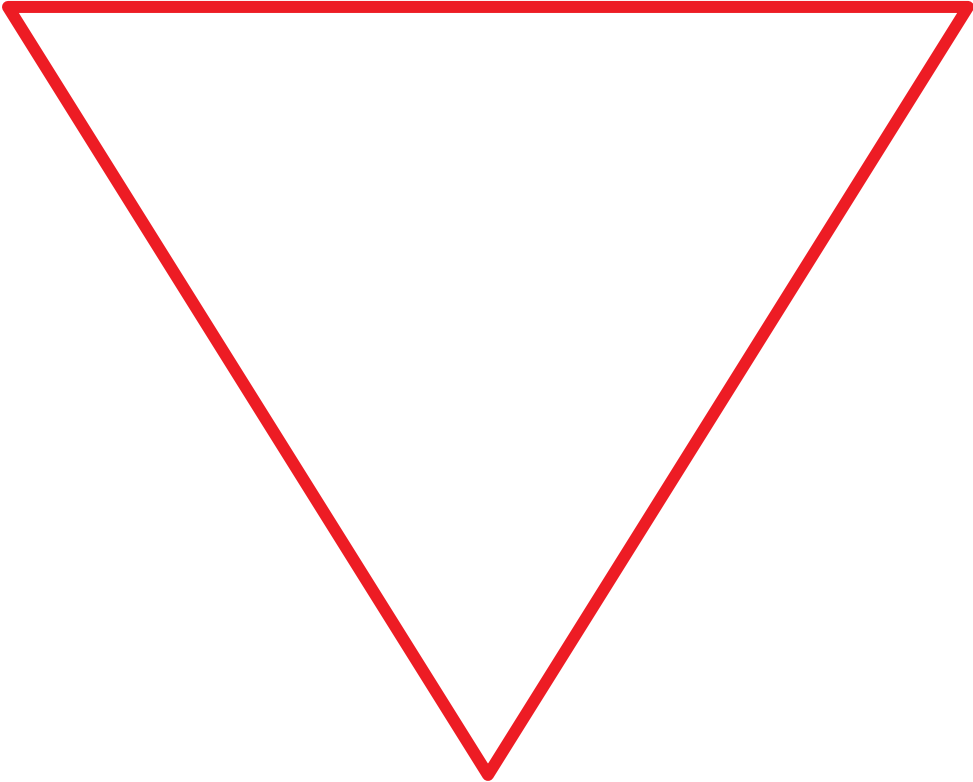


Source: S&P Dow Jones Indices, Case-Shiller Index (2000 dollars)

GOVERNMENT HOUSING COMBINE

U.S. Treasury

Federal Reserve



Fannie & Freddie

GOVERNMENT HOUSING COMBINE

U.S. Treasury

Fannie & Freddie



Guarantees all debt



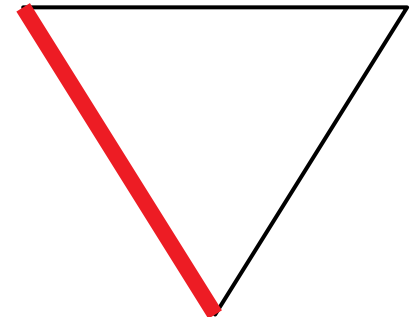
Owens \$189 B of preferred stock



Warrants for 79.9% of common stock



100% of profits (\$20 B for 2016)



GOVERNMENT HOUSING COMBINE

Fannie & Freddie

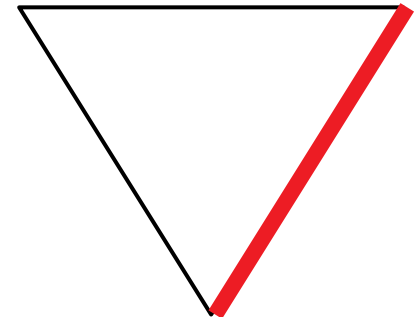
Federal Reserve



Owns \$1.8 T in MBS



\$46 B in interest



GOVERNMENT HOUSING COMBINE

U.S. Treasury

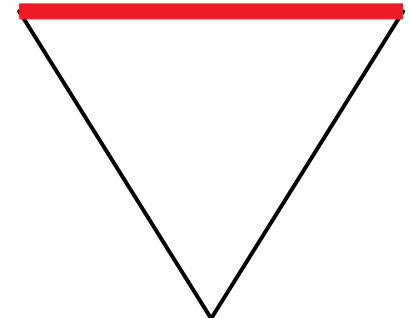
Federal Reserve



99% of profit (\$91 Billion)



Owns \$2.5 T of Treasury Debt



How are we going to get out of this?

That is the question.

What should happen?

- A Fannie & Freddie we can live with
- More credit risk retained by mortgage originators
- Countercyclical credit policy
- Dodd-Frank reforms
- Reduction of the role of the government

What will happen?

- Likely: politicized gridlock
- Possible: modest reforms
- Hope: real movement toward a market-based system