

Saving for Housing—or Lack Thereof—in the United States

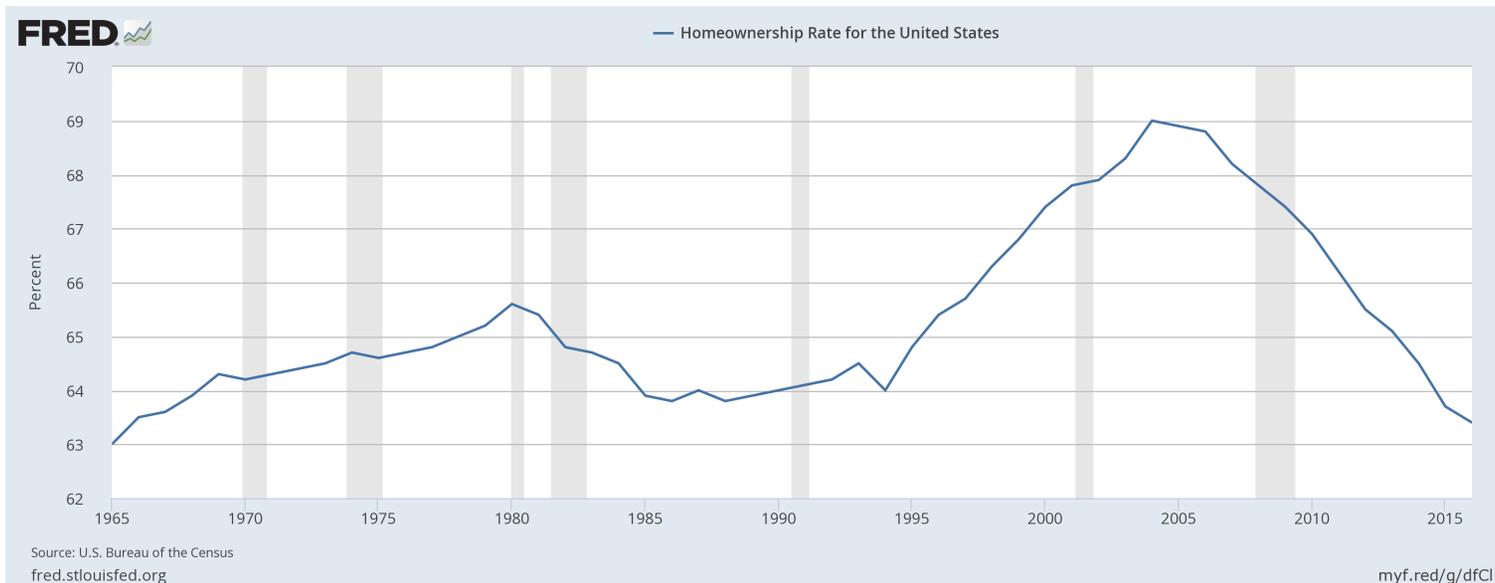
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Introduction: Homeownership

- Promoting homeownership a popular, bipartisan policy goal in the U.S.
 - For example, see Pres. George W. Bush’s “Ownership Society;” August 6, 2001 speech by Pres. Obama on “Responsible Homeownership”



- How best to promote homeownership?
 - Need to consider both efficacy and possible side effects

- Outline of this presentation:
 - Ways of promoting homeownership
 - * Costs and benefits
 - * What is used in the United States
 - Brief discussion of Singapore's saving for housing program
 - Why isn't such a program seen in the U.S.?
 - Conclusions

Ways of Promoting Homeownership

- Expand supply of housing, to lower prices
 - Direct government construction of housing, or encouragement of private sector construction
 - Latter may include incentives or requirements to build affordable housing, particularly in high-demand urban areas
- Although U.S. has private market incentives, land use regulations generally restrict supply
 - Particularly evident in high-demand urban areas
 - See work by Glaeser, Gyourko, and Molloy

- Provide subsidies to home purchasers through transfer payments or voucher schemes
 - Some of the subsidy effect is eaten away by increased housing prices due to increased demand
 - Have to hope that effect is less than dollar-for-dollar
- Make credit cheaper or more available
 - Most popular approach in the U.S.
 - Mortgage interest deduction—a transfer payment
 - Securitization—could in principal increased availability, lower financing costs

- * Securitization market boosted by presence of GSEs, Fannie Mae and Freddie Mac
- * But work by Passmore and coauthors casts some doubt on degree to which GSE government support lowers mortgage rates
- * Also, lax mortgage underwriting standards encouraged by private-market securitization, opacity of mortgage-backed securities contributed in an important way to the financial crisis.

Saving for Housing

- Could be compulsory—a parallel to U.S. Social Security system
- Or could incentivize households to save for housing, as for other areas:
 - Retirement: 401(k)s and equivalent
 - Healthcare: HSAs
 - Education: 529 plans for college
- But no U.S. program for housing
 - Partial exception: allowed to make 401(k) withdrawals to fund housing down payment

A Contrast: Singapore

- Singapore has a saving for housing program
- Program is part of its more general mandatory saving program, the Central Provident Fund (CPF)
 - CPF has mandatory employer, employee contributions, at a much higher rate than U.S. Social Security
 - Defined contribution, with a guaranteed rate of return
 - Originally intended for retirement, expanded for healthcare and housing

- CPF funds can be used for down payment
 - Means-tested subsidy provided in addition
 - Subsidized borrowing rates
- Program also exists in a context where the vast majority of housing is constructed by the government
- Result: Home ownership rate is about 90 percent—compare with 63-69 percent in U.S.

Why Not in the U.S.?

- Mandatory savings programs may not be popular
 - While there is Social Security, attempts to modify it during the Bush administration to convert some of the contributions to privately-owned accounts met with considerable opposition and ultimately failed
- What about an incentive scheme—a 401(k) for housing?
- Benefits are clear, but there are questions about cost and efficacy:
 - Retirement saving is arguably a higher priority, and amounts saved are arguably insufficient

- * U.S. saving rate is very low
- * Work by Poterba, Wise, Laibson and others suggests that savings incentives may largely benefit those who would have saved anyway
 - Amount of additional saving from incentives is likely small. For example, employees don't take up employer matches to 401(k) donations
 - Incentive schemes tend not to work unless participants are "nudged," by, for example, having them default into it
- U.S. mortgages (like those in Singapore) are non-recourse
 - * Gives a greater incentive to borrow more, provide less of a down payment

Conclusions

- Increasing homeownership a popular, perennial policy purpose
- Could imagine a combination of mandatory and voluntary incentives to:
 - Increase housing supply
 - Make borrowing for housing cheaper
 - Boost saving for down payment

- U.S. has focused on making borrowing cheaper
 - Homeownership rate between 63 and 69 percent
- Singapore has done a combination of all three, with saving for housing program one of the bigger differences
 - Homeownership rate about 90 percent
- Such a program, even on a voluntary basis, may not be popular or effective in the U.S.
 - Unclear that current saving incentive programs are effective in boosting saving

Thank You