Informing Mortgage Market Reform

Discussion of
“The Time-Varying Price of Financial Intermediation in the Mortgage Market”
“Eyes Wide Shut? Mortgage Insurance During the Housing Boom”
“Economics of Underwriting, Pricing and Managing (Mitigating) Credit Risk: Implications for (Re)Organizing the Mortgage Market”

Karen Dynan
Harvard University and Peterson Institute for International Economics
MIT Golub Center for Finance and Policy Annual Conference
September 28, 2017
Credit to conference organizers
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3 really excellent papers!
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Important in different ways
Context
9 years, 22 days since Fannie and Freddie went into conservatorship
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“It is clear to all that conservatorship is a temporary form ...”
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So conservatorship continues ...
Why no reform yet?
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NOT BECAUSE of a lack of proposals!
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Political obstacles—plans have winners and losers
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Different goals and how to weight them
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Different goals and how to weight them

All of the above make for a messy policy process!
Contributions
Fuster, Lo, and Willen (FLW)
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Thoughtful intensive exploration of new data on the cost of financial intermediation (originating, underwriting, servicing, maybe profits)
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Find degree of pass-through from secondary market to primary market large and timely
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**CAVEAT:**

Importantly, we are not making any welfare statements.
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The institutional details of the system really matter
Dokko and Golding (DG)
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Proposals don’t actually fit neatly into the columns
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Create matrix showing how different market structures perform with regard to different possible goals of reform.

Inherently stylized exercise:

- Proposals don’t actually fit neatly into the columns.
- Many of the rankings are informed guesses based on limited evidence.
Dokko and Golding (II)
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In addition to compiling and distilling a lot of information (both from research and authors’ own institutional expertise), the paper:

Policymaking often involves operating in a $2^{nd}$ (or $n^{th}$) best world!
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Heightens focus on features (like system’s ability to mitigate shocks) that probably haven’t gotten enough attention

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All told, this set of papers helps reduce the obstacles to reform
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FLW and BK fill in some missing evidence relevant to cost, access, systemic risk
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FLW and BK fill in some missing evidence relevant to cost, access, systemic risk

DG help to organize what we do know, simplify the conversation, provide a concrete framework for comparing options => should generally make the policy process less messy
Where to go next?
Obvious scope for FLW and BK to help inform the DG boxes

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More to say with FLW data?
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How do you deal with goal of not causing another global financial crisis?
Answer unclear
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Maybe you simply assume structures will have best possible design
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Realistic? (costs of being wrong big)
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Could incorporate concerns into “macro stability” row
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*But hard and don’t want to distract from important point that some structures are better once you are in a crisis*
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Add more rows?
Answer unclear

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Add more rows?

Scope for regulatory capture? Transparency? Safeguards against incentives to take excessive risk?