From Isabelle Terry

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Policy Analysis

Questioning Homeownership as a Public Policy Goal

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For decades U.S. housing policy has focused on promoting homeownership. In this study, I show that the set of policies designed to further homeownership has been ineffective and expensive and that homeownership as a public policy goal is not well supported.

I document that homeownership rates have remained roughly constant over the past 40 years. I then show why homeownership policies have not boosted homeownership rates. The first policy I consider, the deductibility of mortgage interest from income for tax purposes, is a tax break enjoyed by people earning above-median incomes who should otherwise have no trouble buying a home. The other key policy, the subsidization of the large mortgage entities Fannie Mae and Freddie Mac for the purposes of reducing the rate of mortgage interest, has been ineffective because Fannie and Freddie marginally affect mortgage interest rates, and mortgage interest rates are essentially uncorrelated with homeownership rates. A back-of-the-envelope calculation suggests the present value of the cost of these two policies to U.S. taxpayers is a staggering amount, $2.5 trillion.

Finally, I show that policymakers fail to make the case for promoting homeownership as an explicit public policy goal. I note that the costs and risks of homeownership are almost never discussed by public agencies and that the benefits of homeownership as widely articulated are either hard to measure or are quickly refutable. I conclude that U.S. housing policies and government institutions designed to promote homeownership are deeply flawed. Serious discussion should occur at the highest levels about eliminating current policies and de-emphasizing homeownership as a policy objective.

Full text of Policy Analysis no. 696