

Save the 30-Year Mortgage

Written by [Carolyn Maloney](#) & [Christie Peale](#) on December 11, 2013. Posted in [Features](#), [Housing](#), [Opinion](#).

Before the 1950s, a fixed-rate, 30-year mortgage was as rare as bipartisanship is in national politics today. Since World War II, however, the 30-year home loan has become the norm and helped countless Americans become homeowners for one simple reason: the fixed rate and long term create stable monthly payments that fit comfortably into the average household budget. So why is the 30-year-mortgage suddenly endangered?



Rep. Carolyn Maloney

Legislation proposed by House Republicans would likely return the 30-year, fixed-rate-mortgage to an oddity, inaccessible to the majority of Americans hoping to purchase a home. And what are the alternatives? We saw what happened when loans with balloons, interest-only payments, and other exotic features became commonplace during the housing bubble. Those loans were the first to go into default because they were never meant to be affordable over the long-term. We've seen first-hand how hard it is to make these substandard loans affordable compared to 30-year mortgages, which require fewer resources and less time to straighten out after a default.

The proposed legislation, though termed the “Protecting American Taxpayers and Homeowners” (PATH) Act (H.R. 2767), does more to limit access to affordable mortgages than it does to protect taxpayers. In fact, the legislation seems to be based on the belief that any government intervention in the housing market is automatically a bad thing—even if it helps sustain mortgages for the middle class.

The PATH Act would do away with Fannie Mae and Freddie Mac and replace them with an entity that lacks government backing. Fannie and Freddie, which currently guarantee more than two-thirds of new mortgages in the U.S., purchase mortgages, package them into financial products, and sell them to investors. The federal government backs those Fannie and Freddie financial products, which reduces risk and incentivizes investors to purchase them. This systems helps make more mortgage financing for American families than would otherwise be available from the private market.

Without some form of government guarantee, there will be much less financing available for home mortgages.

The federal government's guarantee is what induces investors to take the risks associated with a 30-year fixed rate product. Without it, banks will offer fewer loans, shorter terms and higher interest rates. Owning even a modest home will be out of reach for most middle-income New Yorkers.



Christie Peale, Executive Director, Center for NYC Neighborhoods

But that's not all that will happen. Without some form of a government guarantee, multi-family housing developments will also be more difficult to build. That's because Fannie Mae and Freddie Mac also provide essential financing for many multi-family housing construction projects across the country. In New York City, where multi-family housing accounts for roughly two-thirds of the housing stock, and where affordable housing is in increasingly short supply, removing the government guarantee will, without question, mean even less affordable housing.

We agree that the structure of our housing finance market is in need of reform; to be truly effective, reform must address four core issues. Any reform should level out the booms and busts of the housing market; provide an explicit government guarantee of certain mortgages (to maintain affordability); ensure equal access to all qualified borrowers; and provide a

stable source of funding for affordable housing initiatives. The PATH Act focuses on privatization of the secondary mortgage market and falls short on all of these issues.

As Congress sorts through the details of the proposed reforms, it is essential to retain a sense of the important benefits of homeownership, rather than turning our backs on those aspects of the housing finance system that have worked well for generations of Americans. It is important that we reform Fannie and Freddie to better protect taxpayers, but some government role is necessary to ensure that affordable mortgage financing remains available for the middle class in New York and throughout the country.

Congresswoman Carolyn B. Maloney represents Manhattan, Queens and Brooklyn. Christie Peale is the executive director of Center for NYC Neighborhoods. NYC homeowners can access free housing counseling and legal services by calling 311 and asking for the Center for NYC Neighborhoods.