GROUNDWORK COLLABORATIVE

POLICY BRIEF

Unraveling the Mortgage Maze

How Government Can Make Homeownership More Affordable for American Families

Emily DiVito
Bharat Ramamurti

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I. Introduction

Historically, homeownership has been the anchor of America's middle class. But, today, a family must earn almost $117,000 a year to be able to afford a home — nearly 50% more than just five years ago.[1] Current and prospective homeowners face significant headwinds. High mortgage rates, out-of-reach home prices, a stagnant housing supply, and a labyrinth of private investors, lenders, and financial intermediaries stand between them and a set of keys. For many, what was once a dream feels more like a mirage, while millions of would-be homebuyers are stuck on the sidelines of a market difficult to navigate or too costly to join.

$117,000

Annual income now required to afford a median-priced home — nearly 50% more than five years ago

When interest rates are elevated, as they have been since 2022, households become "locked in" to their existing mortgages, unwilling or unable to move without forfeiting their lower-rate loans. This lock-in effect suppresses housing turnover, constricts supply, and inflates prices — consequences that ripple across generations and regions. Today, younger families disproportionately confront a market in which suitable homes are scarce, mobility is costly, and the financial advantages once associated with homeownership are increasingly out of reach. And beyond the financial strain, navigating the mortgage process itself adds a heavy mental toll: more than 80% of prospective buyers report anxiety about the homebuying process.[2]

When the Great Depression triggered a wave of mass foreclosures and bank failures, the federal government intervened to prop up floundering housing markets. In doing so, it reshaped the mortgage finance system, establishing new national housing agencies and financing programs. The days of small, private lenders and balloon mortgages were soon gone for good. Although the federal government has created more housing agencies and programs in the decades dense, the system has become a hybrid: The government provides liquidity and takes on risk for financial firms, while consumers still rely on private lenders, brokers, and loan servicers. Borrowers must navigate a complex maze of intermediaries and financial markets, making it difficult to find — and even harder to secure — an affordable mortgage.

At a time when American families are struggling with a severe housing affordability crisis, relief for overburdened consumers requires the federal government to reshape and strengthen its role in the mortgage financing system. So far, however, the proposals from President Donald Trump and Federal Housing Finance Agency (FHFA) Director Bill Pulte would do little to ease borrowers' financial burdens — and might even make them worse. For instance, Trump and Pulte impulsively introduced a 50-year mortgage proposal in early November 2025 that would lower a family's monthly payment on a median-priced home by less than $120, while saddling homeowners with higher interest rates and a slower path to equity.[3] And, this administration's ongoing efforts to privatize the government-sponsored entities (GSEs) would end up raising mortgage costs and restricting credit while generating huge windfalls for hedge funds and billionaires.[4] The Trump administration has said it is considering other mortgage reforms to bring down costs for consumers, but at the time of writing no detailed policies have been proposed.[5]

This paper outlines practical, targeted reforms to provide relief for millions of households struggling amidst the housing affordability crisis, including:

POLICY RECOMMENDATIONS

1 CUT MORTGAGE INSURANCE PREMIUMS

Save families hundreds of dollars per year and thousands over the life of their loans

2 PORTABLE MORTGAGES

Allow families to keep their mortgage rate when moving to alleviate the lock-in effect

3 DIRECT FEDERAL LOANS

Let consumers benefit from the government's low cost of borrowing

4 TRANSPARENT PRICING PLATFORMS

Help families navigate complicated markets with greater ease and efficiency

While these measures will not solve all the problems affecting renters — millions of whom are weighed down by high rents, a lack of affordable options, and unscrupulous landlords — they would make homeownership more attainable and sustainable for a large share of American families.

II. The United States Mortgage Market: A Complicated Balance Between the Private and Public Sectors Leaves Borrowers Overextended

Before the Great Depression triggered a widespread housing market collapse, the federal government was not directly involved in the mortgage market. Instead, prospective borrowers in search of financing could turn only to a few private institutions for help. From the early 1860s to 1913, most commercial banks were barred from issuing loans secured by real estate, rendering them an ineffective source of mortgages for consumers.[7] In their place, Building and Loan Associations (B&Ls), an early 19th century import from Great Britain, became the dominant institutional mortgage issuers as they spread throughout the rapidly urbanizing country.[8] These institutions, which tended to be small and localized cooperatives, used so-called Share Accumulation Contracts as their financing structure. These allowed borrowers to repay mortgage debt over time by buying shares of the association, which differed from the balloon payment model that most commercial banks used at the time. By the 1920s, B&Ls operated nearly 13,000 locations, served more than 11 million members, and financed half of all new housing built that decade.[9]

The Great Depression precipitated a simultaneous banking system and housing market collapse that exposed the underlying fragilities in the U.S. mortgage market which, until then, had exclusively relied on private capital and lenders. In the 1930s, one-third of the roughly 12,800 B&Ls that were operating in 1929 failed.[10] So too did an additional 9,000 commercial banks, wiping out nearly nine million household savings accounts.[11] At the same time, cratering home prices and steep unemployment acted as a "double trigger" for widespread foreclosures, while new housing construction ground to a halt as investment dried up.[12] In response, President Franklin Roosevelt — for the first time — wielded financing power of the federal government to stabilize the home mortgage market and stimulate flows of lending and borrowing.[13] In doing so, he created the mortgage system we still have today — one of complicated coexistence between private financial institutions and the federal government.[14]

in 1933, Congress created the Home Owners' Loan Corporation (HOLC) to directly refinance the mortgages of struggling borrowers.[15] By the time it halted its lending activities in 1936, the HOLC held approximately 1 million loans — roughly 10% of all nonfarm owner-occupied homes — and had helped more than 800,000 families avoid foreclosure.[16] To revive shell-shocked lenders and jumpstart new construction the Federal Housing Administration (FHA) was created in 1934.[17] A permanent agency, the FHA insured privately-issued mortgages and required lenders to offer loans at lower interest rates with longer durations than most private institutions were willing to offer at the time.[18]

Despite these measures, the U.S. housing market had not fully recovered by the late 1930s, and the federal government responded by chartering the first GSE. The Federal National Mortgage Association (Fannie Mae), established in 1938, issued bonds for purchasing mortgages at par — without interest rate risk — to give investors the confidence to invest in communities with little local capital.[19] This provided liquidity to the market by making additional sources of financing available for new loans.[20] But the economic forces of the Great Depression, followed immediately by World War II, caused the mortgage market to remain stagnant in the years following the creation of Fannie Mae.[21]

In 1944, anticipating the imminent return of millions of service members at the end of World War II, Congress passed the Servicemen's Readjustment Act (or, G.I. Bill of Rights), which created the Veterans' Home Loan Program.[22] Although the Department of Veterans Affairs (VA) did not finance the loans directly, the new program did cap interest rates charged to borrowers, eased down payment requirements, and provided a partial guarantee against default that encouraged banks to lend to returning veterans.[23] These generous terms made the loans popular: Between 1949 and 1953, they accounted for roughly 24% of the market.[24] By 1955, the VA had granted more than four million home loans, totaling $33 billion in value.[25]

These new federal housing finance institutions and mortgage programs, along with rising real incomes, favorable tax treatment of owner-occupied housing, and liberalizing terms for FHA loans, enabled an historic post-World War II housing ownership boom.[26] In 1940, about 44% of Americans owned their home; By 1960, 62% did.[27] Research suggests that federal intervention — in particular the availability of long-term, fixed rate, low-down-payment mortgages like those available from the VA and FHA — accounted for approximately 40% of the overall increase in homeownership during this period.[28]

During this time, homeownership opportunities expanded across both urban and rural areas, and enabled younger Americans to buy homes at dramatically higher rates than earlier generations.[29] While wartime economic priorities had slowed private housing construction, the postwar surge in demand sparked an unparalleled building boom: New single-family starts rose to 1.7 million in 1950 — an increase of roughly 2,000%.[30]

By the early 1970s, Savings and Loan Associations (S&Ls, or thrifts) — the institutional successors to B&Ls after post-war federal changes to chartering — were vulnerable to rising interest rate risk. Congress then established a second GSE, the Federal Home Loan Mortgage Corporation (Freddie Mac), to purchase long-term mortgages from struggling thrifts.[31] This increased their capacity to fund additional mortgages and keep pace with rising demand for homeownership.[32] Around this time, Congress also authorized Fannie Mae and Freddie Mac to buy and sell conventional mortgages.[33]

By the early 2000s, Fannie Mae and Freddie Mac had both been converted to private, shareholder-owned corporations.[34] But their status as GSEs created a dangerous misconception that the federal government would unquestionably bail them out if they ran into financial trouble. As for-profit corporations, Fannie Mae and Freddie Mac began adding higher-yield (and higher-risk) private-label securities to their investment portfolios, which were increasingly backed by sub-prime mortgages.[35] When the sub-prime mortgage bubble burst in 2007 and helped trigger the Great Recession, Fannie Mae and Freddie Mac suffered huge financial losses and were placed into government conservatorship — where they remain today.[36] By the end of the crisis, millions of families had lost their homes to foreclosure, over seven million workers had lost their jobs, and over $19 trillion in household wealth had been wiped away.[37]

Today's mortgage finance system reflects this historical tussle between private players and the federal government — culminating in a complicated network of public and private institutions and financial activities that can be difficult for borrowers to navigate.

Of the 51.4 million outstanding residential mortgages in the U.S., more than 41.3 million (over 80%) are either government-sponsored or have been acquired by the GSEs.[38] Just over 10 million (less than 20%) are conventional. Though the federal government is critical to backstopping and keeping capital flowing through the mortgage market, it issues very few loans directly to consumers. The VA's Native American Direct Loan (NADL) program for Native veterans and the U.S. Department of Agriculture's (USDA) Section 502 Direct Loan Program (42 U.S.C. 1472) for low-income rural households are the only federal programs that grant consumers direct access to residential mortgage financing from the government.[39] Though vital to eligible beneficiaries, these programs are strictly limited in scope. Since 2010, only 111,888 Section 502 Direct Loans have been issued to low-income and very-low income borrowers — fewer than 8,000 per year.[40] And from fiscal years 2012 to 2021, NADL originated just 89 loans to veterans in the contiguous U.S., 91 loans in Hawaii, and none in Alaska, accounting for less than 1% of an estimated eligible population of 64,000 to 70,000 veterans.[41]

As the U.S. mortgage market grew larger and more complicated throughout the 20th century, it created opportunities for intermediaries. One type of intermediary — the mortgage broker — exemplifies how middlemen were able to forge a foothold in the mortgage market as it became increasingly financialized. The mortgage broker industry which took shape with the advent of the secondary market and mortgage-backed securities, emerged to help consumers navigate the newfound complexities of mortgage financing and institutions.

Since the 1970s when mortgage brokers first became popular in the U.S., the industry has come to serve a large role in the homebuying process. Today, mortgage brokers find and recommend loan terms to borrowers for a fee. In 2022, nearly a quarter of new home purchases involved a mortgage broker.[42] But a borrower can feel coerced into using a mortgage broker if they are not confident about navigating the homebuying market on their own. And brokers, who maintain relationships with banks and are typically compensated a 1% to 2% of the loan value, can be incentivized to steer borrowers to certain lenders, even if those institutions aren't offering the most competitive terms.[43]

A series of recent mortgage brokerage lawsuits, as well as growing concern from consumers, has triggered increased government scrutiny. In 2024, the Consumer Financial Protection Board (CFPB) announced it would examine mortgage broker compensation rules and practices to curb the all-too-common schemes that steer clients to certain lenders.[44] For instance, the CFPB filed a lawsuit in 2024 against mortgage lender Rocket Homes, which had been giving kickbacks to real estate brokers and agents in exchange for directing homebuyers to its sister company, Rocket

Mortgage.[45] In April 2025, the Ohio Attorney General's office filed suit against the United Wholesale Mortgage (UWM) for colluding with brokers to funnel loans back to itself while charging borrowers above-market rates and improper fees.[46] According to the filing, 99% of the $605 million in mortgages it issued from 2021 to 2023 was directed back to UWM.[47] Though many homebuyers use brokers without complaint, their prevalence as an intermediary in a complex financial marketplace with operations obscure to most consumers presents opportunities for such scams.

Though intermediaries like brokers emerged to help consumers, wading through the mortgage market's many layers of banks, financial intermediaries, and eligibility terms and paperwork creates undue mental strain for prospective buyers. A survey on homebuyer stress found that the vast majority of people who don't yet own a home are anxious about the process.[48] Seventy-four percent found the homebuying process complicated, with 74% citing financing the main driver of their anxiety — more than that which cited getting the down payment together. Nearly two-thirds of men and women find buying a home more stressful than getting married.

The history of the U.S. mortgage market illustrates a persistent tension between private financial institutions and federal intervention, resulting in a system that is both essential and deeply complicated for borrowers. From the early reliance on localized B&Ls to the creation of GSEs like Fannie Mae and Freddie Mac, federal involvement has consistently sought to stabilize the market and expand access to homeownership. Yet, the coexistence of private profit motives and public backstops has created a complex web of mortgage lending institutions, intermediaries, and opaque costs — resulting in consumers spending unnecessary time, money, and energy trying to access home financing. Even as the federal government has mitigated risk and injected liquidity at critical junctures, the U.S. mortgage market remains layered, confusing, and prone to systemic vulnerabilities.

III. From Backstop to Frontline: An Agenda for Reviving Federal Power to Reduce Mortgage Costs for Families

Though the federal government has propped up the mortgage market for generations, it is far from using its full power as a direct market participant to lower costs and reduce burdens for families. Instead of the status quo where the government's role is submerged within a network of public-facing private financial firms, we outline the following assertive interventions the federal government could enact to bring down housing costs. While the following policies will not completely solve the housing affordability crisis that affects more than 44 million renters in the U.S., they could make housing more affordable for the millions of families struggling to buy or stay in their homes.[49]

Lowering the Cost of Mortgage Insurance

Each year, millions of homebuyers must take out costly mortgage insurance to protect their lender from the risk of their default. Government-backed mortgages require the borrower to purchase mortgage insurance[50] in the form of an Upfront Mortgage Insurance Premium (UFMIP) and an annual Mortgage Insurance Premium (MIP) paid monthly.[51] Conventional mortgages require private mortgage insurance (PMI) for the approximately 800,000 homeowners each year who put down less than 20%.[52] Approximately 34% of all loans originated between 1999 and 2022 required mortgage insurance.[53]

Most borrowers do not realize that mortgage insurance protects the lender, *not* the borrower, to induce lenders to do more lending.[54] In theory, it also benefits homebuyers because, without it, lenders would require larger upfront down payments. Although mortgage insurance covers the risks associated with a low down payment, borrowers often pay for it over the life of the loan. While not the most expensive line item when buying a home, mortgage insurance can tack on thousands of dollars to an already-expensive process. PMI runs families an average of $2,110 per year, or $176 per month.[55] In some states, PMI costs as much as $6,210 per year, or over $500 per month. For FHA insurance, premiums cost an average of $1,650 per year, or about $137 per month.[56]

$2,110

Average annual cost of private mortgage insurance for families — on top of their mortgage payment

The federal government already has several options for relieving mortgage insurance costs for borrowers. First, without Congressional action, it could lower the rate at which the MIP is charged to borrowers. In fact, it did so as recently as 2023, when the FHA announced a 30 basis-point reduction to annual premiums.[57] Although the reduction applied only to forward mortgages, it saved more than 1.1 million borrowers each an average of $453 annually.[58] Total savings for these borrowers over a loan life of roughly 10 years is forecasted to amount to more than $5.1 billion.[59]

Though the capital ratio of the Mortgage Insurance Fund, which acts as the insurer of FHA-backed mortgages, must be at least 2% under the National Housing Act of 1938 (12 U.S.C. § 1711(f)(2)), it is currently nearly six times that at roughly 11.5%.[60] Over the last 10 years, the fund's capital ratio has *increased* — even after FHA lowered premiums in 2023 — suggesting that there is room for significant additional MIP rate cuts.[61] Because FHA loans account for roughly 15% of all mortgage loans, lowering the MIP rate would deliver savings to millions of families, especially for the first-time homebuyers holding more than 80% of FHA loans.[62]

Second, the federal government could shorten the lifetime of MIP payments for government-backed loans by requiring automatic termination earlier or at a lower loan-to-value (LTV) ratio than currently required. If a borrower puts down less than 10% on government-backed loans, the MIP will be assessed for the lifetime of the loan or until the borrower can refinance.[63] If a borrower puts down more than 10%, MIP payments are automatically cancelled after 11 years. PMI, on the other hand, is supposed to be cancelled automatically at 78% LTV, and borrowers can request early cancellation at 80%.[64] However, many borrowers report that servicers fail to terminate their payments when they hit the threshold.[65] Policymakers can amend Section 4902 of the Homeowners Protection Act (12 U.S. Code § 4902) to enable earlier cancellation of PMI, which is enforced by the CFPB.[66] For FHA insurance, the FHA can amend its rule (24 C.F.R. § 203.318 & § 203.512) to allow earlier termination of MIP payments.[67]

Expanding Access to Assumable and Portable Mobile Mortgages

Whether families need to buy a new home as they have more children or adjust to life events such as a job in a new city, elevated interest rates and high mortgage costs can trap families in homes that may no longer fit their circumstances — and force them to trade-in low-rate mortgages for more costly financing. The U.S.'s elevated interest rates are making new mortgages much more expensive and "locking in" homeowners who bought when rates were lower. Today, empty nesters, for example, own twice as many large homes as Millennials with young children, worsening housing shortages and making it harder for families to find homes that meet their current needs.[68]

To address this, policymakers can expand access to an underutilized home loan product that could deliver thousands in cost savings to homeowners each year: mobile mortgages.

Prior to the 1980s, federal law allowed homebuyers to take on the terms of a seller's existing conventional mortgage.[69] Called "assumable" mortgages, these arrangements required a lender to forego executing a due-on-sale clause within a mortgage contract.[70] Due-on-sale clauses enable a lender to declare a mortgage loan immediately due and payable if the real property securing the loan is transferred without the lender's consent, thereby functionally rendering an assumable mortgage impossible and forcing homebuyers to take out new, market-rate loans.

Assumable mortgages were not particularly popular until the 1970s, when a prolonged period of elevated interest rates meant homebuyers faced dramatically higher mortgage rates on new loans than most home sellers' existing mortgages.[71] During this time, the Federal Reserve raised interest rates as high as 19% and the 30-year fixed rate mortgage peaked at 18.4% in October 1981, hovering at or above 10% through the early 1990s.[72] Mortgages that had been taken out in the years prior became incredibly attractive to buyers otherwise facing double-digit market-rates.

As more homebuyers sought to take advantage of assumable financing, a series of high-profile court cases triggered regulatory changes intended to limit their use.[73] In *Wellenkamp v. Bank of America*, 1978, the Supreme Court of California restricted the automatic enforcement of due-on-sale clauses and protected buyers' ability to utilize assumable financing.[74] This ruling, and a series of state laws that also safeguarded assumability, were a victory for consumers. But banks and other lenders — which wanted borrowers to take out more profitable higher-rate loans —

strongly opposed mobile financing and lobbied for legislative changes to codify their ability to execute due-on-sale clauses.[75] The political contestation of assumable financing set the stage for the Garn-St Germain Depository Institutions Act of 1982 (Public Law 97-320), which, among other deregulatory matters, granted lenders the right under federal law to enforce due on sale clauses, pre-empting state laws and court rulings prohibiting them.[76] Garn-St. Germain freed lenders from virtually all restrictions on the use of due-on-sale clauses, largely ending the option for borrowers to take advantage of assumable financing.[77]

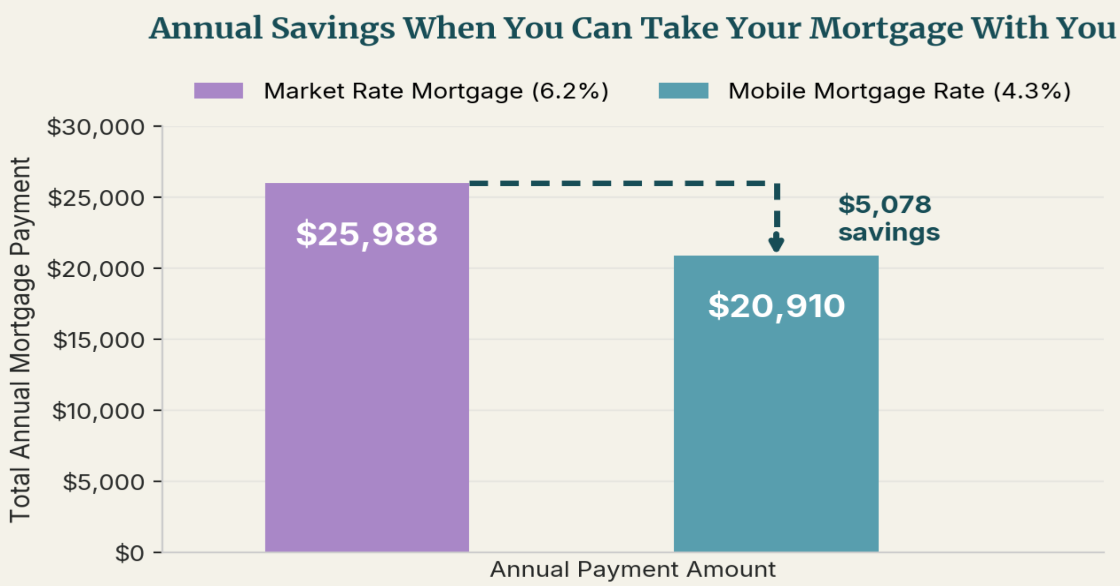
Via a similar mechanism, families could take — or "port" — their mortgage with them when they move to a new home. So-called "portable" mortgages would allow homeowners to transfer the terms of their current mortgage to a new property, using the sale of one home to pay off the balance of their existing mortgage. Because, under this scenario, the homeowner has already been assessed for creditworthiness, a portable mortgage wouldn't necessitate an entirely new underwriting process. Instead, lenders could adjust the loan value based on the new home price. Portable mortgages are already relatively common in Canada and the United Kingdom, where they've helped thousands of families sell their homes and buy new ones under their current mortgage terms.[78]

By preventing mortgage mobility, due-on-sale clauses perpetuate a lock-in effect whenever market rates surpass the fixed rates of existing mortgages — squeezing the housing supply and discouraging homeowners from moving or refinancing. Recent research shows that the likelihood of a home selling drops by 20% for each percentage point that mortgage rates rise above fixed rates.[79] Studies also show that every $1,000 increase in annual mortgage costs reduces family mobility by about 12%, and that a 200-basis-point rise in interest rates corresponds to roughly a one-third lower probability of moving over the following eight years.[80]

The lock-in effect also inflates home prices and exacerbates economic inequality, as more affluent borrowers can better time their home sales strategically and absorb fluctuations in prices.[81] When mortgage rates started to climb in 2022 after bottoming out at less than 3% during the early days of the COVID-19 pandemic, lock-in prevented an estimated 1.7 million home sale transactions and increased home prices by 7%.[82]

Mortgage mobility, on the other hand, can help alleviate this lock-in effect, freeing up existing housing supply and making it easier for families to move affordably and when they want — no matter the interest rate environment.[83] Research shows that by allowing new home purchases at lower-than-market rates, assumable mortgages stimulate housing market activity and can even help mitigate the adverse labor market effects associated with reduced mobility. Similarly, portable mortgages can make it easier for families to relocate as their needs change, improving overall housing mobility.[84] In the U.S., where approximately 16% of households, or roughly 21 million people, are empty nests and Baby Boomers own 28% of the nation's largest homes, more affordable and flexible mortgage financing could free up millions of existing homes for younger buyers or large families.[85]

Mortgage mobility can also save families money. For example, if a family buying a median-priced $429,400 home could use the lower 4.3% rate that many current homeowners already have, instead of taking out a new mortgage at today's 6.24% rate, they would save roughly $5,000 a year.[86]



Source: Groundwork Collaborative analysis

Although a handful of private companies have recently begun offering mobile mortgage financing in the limited situations where it is already permitted under federal law, policymakers can do their part to unlock access by, first and foremost, eliminating the federal due-on-sale clause pre-emption in the Garn--St. Germain Act (12 U.S. Code § 1701j-3).[87] Doing so would remove one of the key roadblocks to scaling conventional mortgage mobility.

However, revoking the due-on-sale prohibition pre-emption would not, on its own, enable wider uptake: States could still pass their own laws requiring or banning automatic due-on-sale clauses. To ensure mobile mortgage financing is available to borrowers who want it, Congress can include language that explicitly requires lenders to permit mortgage assumption and portability when requested by both buyer and seller, subject to existing creditworthiness and underwriting requirements. Additionally, to ensure that using a portable mortgage, in particular, wouldn't trigger a full repayment, Fannie Mae, Freddie Mac, and FHA can amend their securitization standards such that changing the collateral of a loan (i.e., porting a mortgage from one home to another) is not considered a violation of investor contracts on the secondary market.[88]

Policymakers can also expand the option for mobile financing for the government-backed loans — from FHA, VA, and USDA — already eligible for it by eliminating requirements for lender approval. Other credit and income requirements that assess borrower repayment capacity could remain in place. Doing so would require an Act of Congress for VA loans (38 U.S.C. § 3714), but easing these restrictions for FHA (24 C.F.R. § 203.512) and USDA (7 C.F.R. § 3550.163) loans could be done through rule changes.[89] To account for the transaction costs that lenders incur when transferring mortgages, FHA and VA can also raise the cap that servicers can charge — currently set at $1,800 for FHA loans and a base amount of $250 for VA loans.[90] Conventional mortgage lenders aren't bound by a cap and often charge between 0.5% and 1% of the loan amount.[91]

Additionally, because mortgage portability, in particular, primarily benefits families who already have low rates, it would have limited effect on expanding or equalizing access to homeownership. To blunt this disproportional impact, Congress could set limitations on how many times a homeowner (in the case of portables) or a property (in the case of assumables) can utilize a mobile mortgage. It could also ensure that such financing options apply only to forward mortgages.

Expanding mortgage financing is not a fix-all for the U.S.'s housing affordability crisis, as it is only an advantageous tool when interest rates are high and will not resolve the urgent issues facing millions of renters overburdened by high rents, shrinking options, and exploitative landlords.[92] Moreover, enabling more mobile mortgages will not mean every family who wants to utilize one can. Mortgage mobility does not reduce the upfront cost of home purchase and borrowers may still need to secure second mortgages to finance down payments.[93] But mobile mortgages *can* help free up existing housing stock and meaningfully reduce recurring monthly costs, making home ownership more affordable and sustainable for families into the future.

Enabling Government Issued Low-Rate Mortgages Directly to Consumers

Perhaps the most direct role for the federal government in the mortgage market is to extend the government's low cost of borrowing to prospective homebuyers by directly financing mortgages at lower rates than commercial lenders.

Private lenders attach a spread to the cost of borrowing to hedge the risk of issuing the loan (like the potential for default or early refinancing if rates fall) and the reduced liquidity of mortgage-backed securities compared to other kinds of holdings. The 30-year fixed mortgage — the most popular mortgage product in the U.S. — is benchmarked to the 10-year Treasury yield. Historically, lenders have added a spread of roughly 1.8%.[94] Since 2020 it's been roughly 2.3%. Depending on the total value of the loan, this add-on can cost families tens of thousands of dollars over the lifetime of their mortgage.

Instead, the federal government could provide direct loans to consumers at (or close to) the cost of borrowing, thereby saving families thousands of dollars each year. Doing so would extend the benefits of the government's cheaper financing directly to consumers. To ensure that the program targets the low- and middle-income homeowners who are most likely to need and benefit from cheaper financing, awards could be pegged to the median purchase price of single-family homes in any given area. Income and credit thresholds could also be established, as they already are for government-backed mortgages, to allow for more efficient underwriting.

This would be a more effective use of government support than the indirect policy lever of the Mortgage Interest Deduction (MID). Though the MID is the federal government's primary mechanism for offsetting high mortgage costs for borrowers, it disproportionately benefits the higher-income households who are more likely to itemize deductions.[95] It also drives up house prices and encourages construction of larger and more expensive homes, while having no effect on homeownership for new buyers or delivering any meaningful benefit to low- or middle-income households.[96]

The federal government could finance these direct loans without necessarily servicing them (i.e., conducting the customer-facing activities like collecting payments and handling defaults and foreclosures). Indeed, federal student loan programs have a similar structure: The government finances student loans but private firms compete for contracts to service them for consumers. That system, reliant on third-party contractors as middlemen, has considerable downsides — especially for the millions of borrowers who must contend with unaccountable practices and abuses by student loan servicers each with their own websites, customer service lines, and inquiry and resolution processes.[97] This arrangement is a rare example of the federal government directly financing, but not servicing, loans.

Alternatively, the federal government can act as both lender and servicer. It already does so in the vast majority of instances in which agencies operate direct loan programs. This is how both the NADL program and USDA's Section 502 Direct Loans function, as do the Small Business Administration's Economic Injury Disaster Loans, the Department of Energy's Innovative Energy Loan Guarantee Program and Advanced Technology Vehicles Manufacturing Direct Loan Program, and the Department of Transportation's Transportation Infrastructure Finance and Innovation Act Direct Loan program. While building out this capacity at the federal housing agencies to accommodate direct mortgage lending at scale would require investing in agency infrastructure and staffing, it would not require the government to take on dramatically different functions or conduct dramatically different activities than it has historically.

Enhancing Consumer Transparency in the Mortgage Market

Policymakers can also enhance consumer protections to ensure that navigating the mortgage market is safe and straightforward for consumers.

Since the onus of finding and securing the "best" mortgage is on the consumer, many — especially first-time homebuyers without experience in this complicated marketplace — simply fail to pursue better financing alternatives.[98] The CFPB has found that more than 30% of borrowers do not comparison-shop for their mortgage, and more than 75% apply for a mortgage at only one lender.[99] Going with the first or only lender a borrower checks out — regardless of if they offer the more competitive terms — costs the average homebuyer approximately $300 per year and many thousands of dollars over the life of a loan.[100]

Even if borrowers have the resources to research different mortgage offers, the systemic lack of transparency in rates and terms creates opportunity for lenders to collude and drive up prices. A recently filed federal class-action lawsuit alleges that dozens of major lenders, including mega-players like Wells Fargo, Rocket Mortgage, and JP Morgan Chase, used analytics software to share proprietary, real-time pricing information and coordinate mortgage rates.[101]

Policymakers can alleviate this time and energy burden for consumers by creating a centralized online platform where all lenders must list their terms, fees, eligibility requirements, and customer service information. Such a platform could bring closely-held industry information out of the shadows, equipping consumers with the knowledge necessary to navigate the mortgage market successfully. The CFPB, already responsible for overseeing mortgage servicers, is well-positioned to provide and maintain this platform.

IV. Conclusion

The federal government has the potential to play an affirmatively market-shaping role in the mortgage market, reducing costs for borrowers and improving accessibility to financing for families. While no single reform will completely resolve the widespread housing affordability crisis in the U.S., federal measures to lower mortgage insurance costs, expand access to mobile loan products, issue low-rate direct loans, and enhance consumer protections are an opportunity for the federal government to come off the sidelines and shape the mortgage market in service of American families.

By leveraging the government's unique financing power and regulatory authority to craft a mortgage system that is simpler, less costly, and more responsive to households' needs, millions of families who feel buying a home is out of reach may finally be able to achieve and maintain homeownership.

Author Bios

Emily DiVito is the Senior Advisor for Economic Policy at Groundwork Collaborative. Prior to Groundwork, she was the Director for Finance, Corporate Regulation, and Consumer Protection at the Roosevelt Institute and a policy advisor at the U.S. Treasury Department. Emily has a BA from Wellesley College and an MPA from Columbia University.

Bharat Ramamurti served as Deputy Director of the National Economic Council and Advisor for Strategic Economic Communications in the Biden-Harris administration. In that role, he helped shape the administration's economic message, worked with Congress to secure the enactment of several landmark pieces of economic legislation, and helped lead the administration's efforts on student debt, competition policy, broadband, artificial intelligence, social media platforms, financial regulation, and more. Before joining the administration, he was appointed as a Member of the Congressional Oversight Commission for the CARES Act by Senate Majority Leader Chuck Schumer. He previously served as the top banking and economic policy advisor for Senator Elizabeth Warren, including during her presidential campaign. He is a graduate of Harvard College and Yale Law School.

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77. There are several exceptions to a lender's ability to enforce due-on-sale provisions in conventional mortgages, including if the original homebuyer(s) go through a divorce or legal separation, transfers the property to their children, or transfers the property to a relative in the event of death or to a living trust. However, even in these instances, the CFPB has found that lenders often deceive or pressure borrowers into refinancing, overcharge, or delay to prevent timely mortgage assumption; *Homeowners Face Problems with Mortgage Companies after Divorce or Death of a Loved One*, Issue Spotlight (Consumer Financial Protection Bureau, 2024), https://www.consumerfinance.gov/data-research/research-reports/homeowners-face-problems-with-mortgage-companies-after-divorce-or-death-of-a-loved-one/; Preemption of due-on-sale prohibitions, 12 U.S.C 12, § 1701j-3, https://www.govinfo.gov/content/pkg/USCODE-2020-title12/pdf/USCODE-2020-title12-chap13-sec1701j-3.pdf.

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