

# Social week 6



**ASSIGN  
BUSTER**

Social week 6 Introduction Housing market refers to the market where buyers and sellers directly enter into a transaction to buy and sell properties or through any intermediary or broker. Just a few years ago there was a near collapse of the financial system and the housing market and again we are moving in that direction where housing prices are regaining their old prices due to the formation of a stock bubble. The Fed is pumping dollars into the system to prop up all asset prices and so we are heading towards a territory of the unknown.

#### Discussion

The Fed is actively trying to create a bubble when they talked about tapering back in the month of May, 2013. Mortgage rates spiked up and stock prices fell when the news of tapering hit the market. The Fed though is denying such charges. It is very much unlikely that the Fed will begin its tapering anytime in the near future. But if we assume such an event occurs in the near future, it will put an end to the low interest rates in the mortgage market. The private market will then come back in and come back in strong. There is a huge gap of \$85 billion a month and that has to be filled up by someone. When the news of tapering hit the market back in May, 2013, mortgage REITS which made profits by borrowing short term and lending long term mortgages, fell endangering the \$ 40 billion industry (The Department of Treasury and U. S. Department of Housing and Urban Development, 2011). So if the Fed begins its tapering anytime in the near future, mortgage REITS have to raise their rates or rather will be forced to raise their rates or else their business will liquidate. The housing market will then take a big hit by the rise in the mortgage rates. The May, 2013 news had already made home buyers stop paying their mortgages and the home

<https://assignbuster.com/social-week-6/>

owners stopped refinancing. The housing market has clearly slowed down since May, 2013 and has showed no signs of regaining the past momentum (Wallison and Pinto, 2012).

The US is the only country in the developed world to have such a troubled housing market. It is also probably the only developed country to have a major government role in housing policy. “ Affordable housing” and other policies related to housing has turned the healthy US market into a financial ruin. Moreover the factors that caused the financial crisis are still in force and until those and the government’s role in housing are eliminated, it is very difficult for the US housing market to return back to normalcy (Wallison and Pinto, 2012).

#### Conclusion

Housing finance is largely handled by the private sector in most other countries. So private markets should be the primary source of mortgage credit and they should be the one to bear the burden for losses. The support that the government provides to the housing market must be reduced. The government should work in tandem with the private sector in structuring the long term role of the government in the housing finance market while making sure that the private sector plays the central role in providing mortgage credit. The government should take necessary action to ensure that the Americans have access to quality housing within their affordability and also provide necessary support to people having a desire to own a home but who are underserved by the primary market.

#### References

Stroebel, J. and Floetotto, M. (2014). Government Intervention in the Housing Market: Who Wins, Who Loses?. Retrieved from <http://pages.stern.nyu>.  
<https://assignbuster.com/social-week-6/>

edu/~jstroebe/research/pdf/GovernmentInterventionHousingMarketStroebeF  
loetotto. pdf.

The Department of Treasury and U. S. Department of Housing and Urban  
Development. (2011). HOUSING FINANCE MARKET A REPORT TO CONGRESS.  
Retrieved from [http://www.treasury.gov/initiatives/documents/reforming  
%20americas%20housing%20finance%20market.pdf](http://www.treasury.gov/initiatives/documents/reforming%20americas%20housing%20finance%20market.pdf).

Wallison, P. J. and Pinto, E. J. (2012). Free fall: How government policies  
brought down the housing market. Retrieved from [http://www.aei.  
org/outlook/economics/financial-services/housing-finance/free-fall-how-  
government-policies-brought-down-the-housing-market/](http://www.aei.org/outlook/economics/financial-services/housing-finance/free-fall-how-government-policies-brought-down-the-housing-market/).