

Commentary Week of Nov.23:

In our last commentary we reviewed housing affordability and the several reasons causing this prolonged issue (e.g., lack of affordable building, interest rates, increased taxes/insurance, home prices, lock-in effect).

The Trump administration has floated several ideas recently to combat unaffordability and the two gaining recent attention are the 50-year mortgage and the portable mortgage.

The 50-year mortgage has some benefits in lower monthly payments of about \$200 on a \$360k mortgage, but these would be offset by a higher interest rate, length of time to build equity in the home, difficulty in hedging such a long duration product, and much higher overall interest payments (almost double that of a 30-year mortgage for a typical homebuyer). It should also be noted that the United States had a 40-year mortgage which departed several years ago in the crosshairs of the above-mentioned concerns, as well as the fact that most countries don't even offer a 30-year mortgage.

The portable mortgage would allow borrowers to transfer their existing mortgage to a new home, essentially freeing up inventory especially for new borrowers. This option could reduce the "lock-in effect".

Several countries including Canada and the UK offer portable mortgages, but only on shorter terms. A concern in the US, where the 30-year mortgage is so prevalent, is that the portability of a low-rate mortgage would extend substantially causing investors to increase the interest rate to compensate for the added risk.

These ideas and others need to be discussed as affordability continues to be a pain-point for many Americans.