

NYT OpEd Proposes Excellent Idea: Down Payment Insurance to Boost the Housing Industry

January 26, 2012 by [Rosa Schechter](#)

An op-ed piece in this week's *New York Times* entitled "[A Way to Make People Buy Homes Again](#)," proposes a way to boost the housing industry by helping potential buyers get into houses. And it's smart - something that would help all of the country, to be sure, but it would be especially helpful to our struggling Florida housing market.

The brainchild of economist [James A. Wilcox, a professor of business at the University of California, Berkeley](#), here is what Professor Wilcox proposes in a nutshell:

- the federal government would offer down-payment protection for home purchases
- the program would be available to all buyers
- buyers would buy a protection plan for a set fee (which he suggests to be 1% of the purchase price)
- risk of real estate market values falling (which keep some people from buying in a community) could be addressed by adjusting the fee according to the risk of market decline
- if after 3 years, there was a market decline then the federal government would pay the program buyer to cover their loss due to the decline; the payment is made only if there is a decline. Alternatively, the government payment is applied to the mortgage principal so there is less due on the house.
- Declines would be determined using federal housing price indices.

Bottom line, the home buyer is protected because at the end of three years, either their home value did not decline or if it did, then the federal program covers their loss in equity up to the full amount of their initial down payment.

Helps Buyers and Lenders, Too

Lenders would be helped by this proposed down-payment protection program because, the Berkeley Economist argues, it helps lenders free up their current tight mortgage credit standards since the program buyer could assign their protection plan to the mortgage lender in exchange for a better mortgage rate or a lower down payment. This should help mortgage lenders feel comfortable making mortgage loans to more people.

Consider the Cost

Sure, this program would cost millions. Actually, Professor Wilcox suggests that it might cost a "few billion" in federal funding. That's a lot of money, true. However, it's less than the home-buyer tax credit: remember, [the feds spent a lot more than a "few billion" for the \\$8,000 tax credits](#) for first-time buyers.

Meanwhile, [mortgage borrowing is falling since people aren't getting home loans like they used to do](#). The financial industry is hurting and getting the mortgage market healthy again is very important for South Florida - as well as the rest of the country.