

Subsidized debt drives up prices, sucks up wealth, and makes it hard for millennials to buy homes.

The Case Against 30-Year Mortgages

By Patrick M. Brenner

I usually roll my eyes at millennials' complaints about how much harder they have it than their parents. But when it comes to homeownership, they have a point. Millennials reached the 50% homeownership milestone later than any previous generation, burdened by record- high housing costs, elevated mortgage rates, and struggles with down payments. Nearly a quarter say they expect to rent forever.

But the obstacle is more than prices or supply: It's an insidious financial instrument so predatory and deceptive that it has warped the housing market for nearly a century. Ladies and gentlemen, I present the 30-year mortgage.

The mortgage is less a product of market choice and more one of central planning. Created by Depression- era reforms, subsidized through the Federal Housing Administration, the Department of Veterans Affairs, Fannie Mae and Freddie Mac, the modern mortgage represents Washington's promise of a home for every American.

The mortgage industry comprises \$12.94 trillion tied to more than 80 million active loan contracts, with roughly 70% of mortgages backed by the federal government. Like every centrally planned system, the mortgage distorts markets, inflates prices, and serves institutions rather than individuals.

Before the mortgage, most home buyers purchased with cash or risky balloon loans—which have a short duration and end with one large payment of the loan's balance. So in the 1930s the federal government introduced long-term, fully amortized loans through the Home Owners' Loan Corp. and the FHA. These were sold as relief from balloon loans and a way to democratize housing access. But the change came at a steep price: The 30-year mortgage locked families into a lifetime of interest payments that cost the borrower far more than the original price.

Today someone who buys a \$400,000 property at 6% interest effectively pays for the home almost twice. By the end of the loan, a family can expect to pay more than \$690,000 in principal and interest, assuming a 20% down payment. The problem isn't interest rates or housing costs—it's the loan itself. Lower down payments make entry to the market easier, but the borrower pays dearly for that privilege. An FHA loan on that same house with its minimum down payment of only 3.5% means the borrower eventually shells out \$833,000. Inflation may erode some of the burden but can't keep up with the scale of interest charges.

As this model grew across the 20th century, it dramatically raised base housing prices relative to income. Postwar programs such as the GI Bill turbocharged the mortgage model. Easy credit powered an artificial demand boom, which, over time, inflated home prices. When buyers had to pay cash, sellers were constrained by what households could actually afford. But when banks are dangling decades of borrowed money, buyers bid higher, sellers raise prices, and lenders pocket the spread.

In response to higher prices, lenders gradually extended terms, lowered down payments, and created complex loan structures to keep the carousel spinning. By the 1970s, Fannie Mae and Freddie Mac had institutionalized securitization, creating a secondary market hungry for mortgage debt.

In the 2000s the game was in full swing: subprime, adjustable-rate, interest- only and no-money-down loans flooded the market. The 2008-09 panic and recession exposed the consequences. Millions lost their homes, yet the financial instrument that led to this catastrophe survived untouched.

Which leaves millennials struggling to afford a home of any kind. Gone are the 1970s, when an average home could be secured for about \$26,300 against an annual household income of \$9,870. Today's latest data shows that the annual

household income is \$83,730 and the average home costs \$410,800.

Most home buyers don't notice how they're mistreated because of a sleight of hand with loans' disclosures. In 1968 Congress passed the Truth in Lending Act, which it advertised as a victory for transparency. In practice, the law entrenched a regulatory framework that lets lenders use a deceptive measure to cover up a loans' real cost: the annual percentage rate, or APR.

The law mandated that lenders disclose a loan's APR. But it isn't actually a rate; it's a function of a rate over time. It's like the difference between acceleration and speed in physics. Just as it makes no sense to tell drivers the speed limit in terms of acceleration, it's duplicitous to explain a loan in terms of APR. While a 5% APR may sound benign—it's lower than the APR for a car loan or a credit card—the comparison is meaningless because it doesn't account for time. A car loan lasts five years, and a credit card can be paid off at will, meaning the interest has little time to compound. Lenders do also have to disclose the total cost of a house—interest and all—but they have every reason to emphasize the APR. The amortization schedule for my last home purchase was buried on page 71 of the closing documents, while the interest rate was boldly emblazoned on page 1.

Todd Zywicki, in his work on mortgage law and economics, notes that APR hides the cumulative cost and distorts borrower behavior. Families anchor on the "rate" without understanding how compound interest quietly siphons away their wealth. This further inflates prices.

We've seen this dynamic before. In higher education, governmentbacked loans artificially inflated tuition, saddling students with generational debt. The mechanism is the same with housing: Subsidized credit raises prices.

The mortgage isn't the foundation of the American Dream. It's the scam of the century: a loan so exploitative it required a federal law to disguise its true nature. For generations, lenders, regulators and politicians have normalized a system that drains family wealth under the guise of opportunity. Until Americans demand honesty, the scam will continue—and homeownership will remain a dream sold on indebted servitude.

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