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## Over-Indebtedness, Predatory Lending, and the International Political Economy of Residential Home Mortgage Securitization: Comparing the United States' Subprime Home Mortgage Lending Crisis to Home Finance in the United Kingdom, Germany, and Japan

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### Abstract

Following the United States, many countries around the world have increasingly turned to structured finance, also known as securitization, to fund loan portfolios. This trend has taken on troubling undertones in the wake of widespread default in the American sub-prime residential mortgage backed securities market. This essay provides a brief introduction to the business practices of, and law governing residential mortgage securitization in, the United States. Moreover, it surveys the use of securitization in three influential countries: the United Kingdom, Germany, and Japan. In comparison to these countries, relatively lax regulation, poor oversight of intermediary originators, and volume-oriented underwriting have all contributed to widespread foreclosures in the United States. Private structured finance of American sub-prime mortgages has created economic incentives that promote consumer over-indebtedness as well as predatory lending. Furthermore, by drawing politically powerful financiers into aggressive and ethically questionable lending, residential mortgage backed securitization tends to empower opponents of consumer protection law. Drawing on the U.S. example, caveats for other countries are offered.

**Keywords:** securitization, structured finance, finance, foreclosure, mortgage, predatory lending, loan, debt, borrower, default, sub-prime, regulation, united kingdom, Germany, japan, Fannie Mae, Freddie mac, pfandbrief, pfandbriefe, GHLC, jusen, yield spread premium, CDO, collateralized debt obligation, hedge

**JEL Classification:** D18, F34, G18, G21, G28, G32, G33, G38, L85, N20

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