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Responding to the Housing and Financial Crises: Mortgage Lending, Mortgage Products and Government Policies

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Abstract

The long period of house price growth in markets across the world ended with the US and global financial crisis of 2007/08. The crisis and the consequent recession had profound effects on mortgage market actors – including households, institutions and governments – in most advanced economies, whether or not they participated in this rapid house price growth. Many of the trends observed during the boom, especially the innovations in financial instruments, were reversed.

This paper presents evidence on how mortgage markets and stakeholders responded in the initial period after the crash. In particular it reports on a 2009 survey of housing experts from 16 industrialised countries, which concentrated on how each country's

mortgage system responded to the crisis and how governments addressed the problems of borrowers.

Key Words:

- Housing finance
- mortgages
- housing crisis
- credit crisis
- government policy

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Notes

1. They were:

- Australia: Judy Yates, University of Sydney
- Finland: Tommi Laanti, Finland's environmental administration
- France: Bernard Vorms, Agence Nationale pour l'Information sur le Logement
- Hungary: Jozsef Hegedüs, Metropolitan Research Institute
- Iceland: Magnus Arni Skulasson, Reykjavik Economics
- Ireland: Tom O'Connor, Irish Banking Federation
- Netherlands: Jan Rouwendal, VU University
- New Zealand: Blair Badcock, New Zealand Corporation
- Norway: Rolf Barlindhaug, Norwegian Institute for Urban and Regional Research
- Portugal: Paulo Conceição, University of Porto
- Russia: Andrej Tumanov, Institute for Urban Economics
- Spain: Baralides Alberdi
- Sweden: Peter Englund, Stockholm School of Economics.

Information about the UK, USA and Denmark was collected by the authors.

2. The countries covered in this paper are:

- | | | | |
|----------------|------------|--------------|----------------|
| 1. Australia | 2. Denmark | 3. Finland | 4. France |
| 5. Hungary | 6. Iceland | 7. Ireland | 8. Netherlands |
| 9. New Zealand | 10. Norway | 11. Portugal | 12. Russia |
| 13. Spain | 14. Sweden | 15. UK | 16. USA |
- Several of the data

sources used did not contain information about all 16 countries, so many of the tables cover only a subset.

3. Then-UK Prime Minister Gordon Brown wrote on 22 February 2009 that he wanted to 'control' new mortgages for over 100 per cent of the value of the property ([Brown,](#)

[2009](#)).

4. For comparative European mortgage interest rates, see European Mortgage Federation's Quarterly Review of European Mortgage Markets.
5. Implementation was complicated because many securitisation agreements for mortgages contained clauses that limited the ability to change the mortgage terms. A 2009 Congressional bill to enable courts to change mortgage terms over the objections of debt holders (known as 'cramdown') failed to pass.
6. This was an option under the US's Homeowner Stability Initiative but was not employed; under the Home Affordable Modification programme, 27.4 per cent of contract modifications included 'principal forbearance' (reduction of principal) (US Treasury Department, 2010).

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