1. Introduction:

The main aim of this paper is to outline the likely emergency, stimulus and longer-term/recovery implications of Coronavirus-19 effects for mortgage and housing markets and to identify policy measures to reduce adverse outcomes.

The paper compresses, compares and contrasts information presented in the bilateral discussions of the Network. The paper first, compares the pre-pandemic mortgage market context in each country. Secondly, it summarises each government’s emergency policy response post March 2020. Finally, it reviews the expert presentations and discussions at the MDFN sessions to outline preliminary findings on anticipated mortgage market implications and to identify key policy measures to support long-term recovery. The broader contexts of monetary and macroprudential policies are outlined in Topic Review Paper 3 (Housing Systems and Economic Instability).


UK:

- There have been falling levels of home ownership and rising difficulties in affordability in the UK since 2000.
- The proportion of households owning a home with a mortgage fell from a late 1990’s peak by about 10 percentage to around 40% by 2008 – this proportion is above the European average but below north west Europe and Scandinavian countries.
- Mortgage debt as a proportion of national income is lower in the UK than that in the Netherlands and Sweden.
- Four out of five UK mortgages are held by resident home owners, and the remainder by investors (buy-to-let landlords) in private rental lets with the latter share growing rapidly in this millennium.
- The UK has not returned to mortgage lending levels seen before the GFC - in 2019, overall lending (in real terms) was around a third lower than that in 2007: nominal house prices have recovered to above 2007 levels, but are still lower in real terms (with the exception of Edinburgh and London and the surrounding region where prices have increased in real terms).
- The Great Financial Crisis (GFC) in the UK required major bank bailouts, nationalisation of bank equity and significant restructuring.
- To prevent future mortgage foreclosures, the government put in place stringent measures in the banking foreclosure process to protect individual home owners facing difficulties servicing mortgages.
- Alongside low interest rates (from 5 percent falling to 0.5 percentage points between 2007 and 2019) and quantitative easing (of around £400 billion up to 2016) by the Bank of England to

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support asset prices, the government approach post GFC has largely been regarded as successful in supporting home-owners.

- Although a lack of structural reform in the housing system post GFC is apparent, the reforms to the mortgage market (e.g. review of affordability/stress tests, removal of interest only mortgages, lower LTV rates) are regarded as successful in reducing the systemic risks from the housing market.
- Several different schemes offering government equity stakes to support first time buyers (known as ‘Help to Buy’ (and worth £2.5 billion) were put in place in 2013 to support house building and first time buyers (with up to 200,000 households supported to date) and research indicates that large housebuilders depend on this scheme and, as the programme details have evolved and become better targeted over time, it has attracted continued government support to 2022.

**Australia:**

- Home ownership in Australia has long been the dominant tenure and it plays a key role (as indeed it does in the other countries) in establishing life cycle savings, by mortgage repayment to provide low cost housing and assets or retirement (in all the ABC countries, households over 65 hold two-thirds of net housing wealth).
- Sustained, but unequal, income growth, high immigration and household formation rates with growth concentrated in the larger metropolitan areas with least elastic supply possibilities have seen major phases of price growth over the last 20 years and the opening up of the housing finance and capital markets have unleashed a surge in available mortgage finances.
- Home buyers are able to take advantage of tax concessions for ownership and investor landlords also enjoy negative gearing tax benefits that reduce the real user cost of housing capital significantly.
- Home buyer affordability has deteriorated: average home-buying in the lowest two income quintiles represented 18.9 per cent of gross household income in 1982, increasing to 30 per cent in 2013. The proportion spending more than 30 per cent of income on housing costs rose from 27.9 per cent to 48.1 per cent over the same period (ABS Survey of Income and Housing).
- Housing affordability problems are attributable not only to housing shortages and rising prices and rents but also to slow wage growth, the rise in precarious and casual employment and weakening in the Australian welfare system over the last 30 years.
- Mortgage indebtedness has increased across the board and to levels relative to GDP that are higher than in almost all other OECD countries, increasing sharply among mature age Australians: 1 in 4 50-60 year olds owners were paying mortgages in 2001, increasing to 1 in 2 in 2017 (the Household, Income and Labour Dynamics in Australia Survey).
- There are growing numbers of Australian owners approaching old age with outstanding mortgage loans.
- ‘Generation rent’ face more pronounced problems in Australia than in the UK, Australians are staying longer at home, or in private rental housing, underpinning suggestions of increasing numbers of lifetime renters and ownership for those at the edges (i.e. those experiencing biographical disruption and loss of employment) and homeownership rates for the under 30’s have been falling since the mid-1990’s.

**Canada:**

- Home ownership rates in Canada increased in Canada until 2016 and early age ownership rates have fallen, to date, much less than in the UK and Australia.
- Mortgage debt growth been for households within the 25-50 age group.
- Aspirations to own homes ownership remains high and is regarded by consumers as a key element of family stability and financial security over the long term.
- Canada, like the other countries, contains multiple local-metropolitan-regional markets, though there is essentially a single national financial market; with Australia and Canada both having

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almost half of GDP produce within 3 metropolitan housing markets the interaction of global, national and local factors in shaping market outcomes is particularly obvious, though these synergies are rarely reflected in housing market policy delivery and design (see TPR 3);
• Concerns for housing affordability are particularly acute in Vancouver and Toronto;
• The Government has the significant policy levers within the mortgage market, and the national housing and mortgage agency, CMHC, has significant roles in mortgage insurance and mortgage securities.

3. Emergency policy responses affecting mortgage market:

UK:

• The policy response on mortgage market pressures in the UK has been led mainly by central governments via monetary policy (i.e. quantitative easing and interest rates ($r$)).
• A new £100 billion funding scheme to support lending and a lower base rate to 0.10% for loans to households (this is a continuation of the approach since the GFC).
• The Bank of England (BoE) suspended the requirement for lenders to hold a countercyclical capital buffer for at least 12 months and reopened the term funding scheme to provide ‘cheap’ money to banks and building societies - the non-banks sector is excluded (i.e. key lenders to marginal mortgage borrowers) to create a significantly skewed prime mortgage market.
• 3-month mortgage payment holidays were put in place in March and households can apply to join the schemes until October: this has significantly reduced cash flows to lenders and there is evidence that a significant share of mortgage holidays were taken by non-stressed households and used to fund non-essential consumption.
• Furloughed employees are paid 80% of their wages up to a ceiling of £2500.
• Movement restrictions on the buying and selling of homes were imposed in March.

Australia:

• Similar to the UK, the Australian government introduced a wage subsidy programme (Job Keeper in Australia) where employees of eligible businesses receive a flat rate $1500 per fortnight.
• Doubled unemployment benefit (Jobseeker allowance) until September;
• Banks have offered deferrals on mortgage repayments of up to 6-months for mortgage-holders facing financial hardship;
• Labour force participants are permitted (temporary) to dip into their superannuation balances before reaching their preservation age.
• Households have significantly increased early depletions of their superannuation funds but, as for UK mortgage holidays, withdrawals have not been widely used to accelerate housing debt reductions

Canada:

• 6 months deferral of payments on mortgages with estimates of around 12-15% take up of all mortgage customers in Canada but unclear who of the demographic split.
• Insured mortgage purchase programme was resuscitated worth up to 150 billion dollars, but without significant uptake to date due to Bank of Canada offering addition measures to support liquidity in the system.
• Significant income support schemes for unemployed or furloughed workers similar in generosity and duration to the other countries (had cost close to $20bn by end June).

- As the crisis has unfolded, hopes of a V shaped recovery have withered and replaced by expectations of a slow and prolonged recovery (in mid-July the Bank of Canada forecast a 7.8 percent decline in GDP in 2021, double digit unemployment rates and underemployment rates that will likely reach even higher levels.
- These expectations pose a threat to housing market stability because of mortgage commitments that have to be maintained in the face of falling and uncertain incomes. These observations apply equally, in broad terms, to the UK and Australian housing markets.
- Although the most concentrated effects of Covid-19 have been on employment and incomes for younger, less skilled and women workers, and these are groups more likely to rent than own, as recession deepens unemployment will spread across the socio-economic spectrum and impact core home-owners groups significantly.
- Falling house prices and increased difficulties in letting in some markets (see TPR 4) may mean that ‘investor’ landlords also severe difficulties in maintain returns and mortgages.

The data on the housing market post-COVID-19 is also limited to evidence based on sentiment (i.e. estate estates with an interest in ‘talking up’ the market) as opposed to transaction data.

UK:

- Mortgage payment holidays have been taken up by around 2million (16%) of all mortgage borrowers in the UK.
- The housing and mortgage market largely closed from a stop on physical valuations and extended or paused mortgage offers and transactions plummeted during the period alongside the number of new mortgage loans; markets were re-opened in late June and have reported a ‘bounce’ in activity.
- Non-prime mortgage market shrank following tighter income assessment and loss of interest only mortgages and high LTV rates meaning no putative recovery expected in the UK in that market for the short to medium term.
- The Monetary Policy Committee (MPC) Report and Bank of England (BoE) Interim Financial Stability report predict a 16% fall in house prices and a rise in mortgage impairment and a limited degree of negative equity (6%)
- Over 6 million employees on furlough in the UK and remains unclear how many will be able to return to work at the end of the period (September/October);
- The government has restated its commitment to helping first-time buyers onto the housing ladder by “cutting the cost of new homes through the new First Homes scheme”, encouraging a market for long-term fixed-rate mortgages and bringing in a new national shared ownership model;
- Extensions to the current ‘Help to Buy’ scheme and of stamp duty cuts in the UK are thought to be preferred stimulus measures when the time comes (the sense of such measures when prices are expected to fall by 16pc is discussed in TPR 3)
- The ONS with such low transaction rates, has suspended its house price index as have others (both Nationwide and Halifax have published their index based on their own data – the former up 0.7%, the latter down 0.6%). And some big shifts in behaviour and preferences are anticipated.

Australia:

- The Job keeper policy in Australia means some low wage and especially part time workers will have higher incomes than when working, offering more support to those most at risk of mortgage default (low income home buyers) although gaps for some workers (e.g. casual workers employed for less than 12 months).
• Regardless of the job keeper and job seeker allowance and mortgage deferral terms until end September, a number of households experiencing mortgage stress increased by 100,000 to 1.41 million in April (Digital Finance Analytics); DFA now report 40pc of owners, at the start of July, and a similar share of renters, and notably 50pc of investor landlords as having housing payment stresses.
• DFA and CoreLogic both report that house prices have remained robust in well connected towns with good infrastructure, and in lower density suburbs, as workers with increased long-term potential to work at home are decentralising: attractive rural and coastal locations have also remained robust but house prices in core metropolitan areas in eastern Australia have been declining at 1pc per month since March.
• The doubling of unemployment benefit will help those who have seen real income fall to very low levels in recent, but unlikely to ‘save’ the younger unemployed mortgagor who have the largest mortgages.
• Labour force participants permitted to dip into their superannuation balances are a buffer for those home buyers with a steady record of employment.

Canada:

• The lending market response depends on anticipated levels of market risk and government’s ability to maintain liquidity in the market, which so far has been positive, but over the longer term, government may require the private lending market to do more than they are comfortable with.
• Housing sales slower significantly post-pandemic and of those sales that did take place were idiosyncratic.
• The implication of mortgage deferrals ending after 6 months are not fully known.
• Consumer attitudes may shift due to their fears about the future their employment and income and how the mortgage stress tests can support their ability to borrow.
• Down payment requirements have increased to affect the LTV rates in Canada.
• The stress test on mortgages has tightened to potentially impact mortgage deferrals.
• Alternative lending markets have potentially reduced to affect the renewal of mortgages and reduced consumers access to available and diverse range of funding sources.
• There is the need for a retrenchment of mortgage market regularly policies to support and encourage greater homeownership as a mechanism to supporting economic prosperity post-pandemic.
• Job losses post pandemic have been concentrated in low income groups and younger age groups and large impacts on the rental sector. This also implies a potential impact in future construction in housing supply due to a falling demand for housing formation.
• Ontario and Quebec appear to have been affected the most by the pandemic and Alberta is also most at risk relative to the mortgage market implications given it was struggling pre-crisis as an oil producing area and both the CMHC forward Outlook and the Bank of Canada’s July statement have forecast house price declines into 2021/2 that similar to the 10-15 range predicted for the UK. Urgent stimulus and mortgage rescue packages are needed but they have not yet materialised.

5. Policy Outcomes, Gaps and Limitations

Implication of operational changes in the mortgage market:

• The pandemic shrunk the non-prime mortgage market in UK following tighter income assessment and loss of interest only mortgages, meaning a potential resurgence in the non-prime market unlike previous economic downturns in that there is nothing fundamentally wrong with the housing market and hence, it is the external factors to the market that pose the largest long term risk, relative to future situation for employment and income potentials.
• The take up of mortgage payment holidays in all countries are thought not to be not due to financial stress but because of the opportunity to take a break from paying, but it is largely unknown how many of those on payment holidays will return to a normal payment schedule after the term of the ‘holiday’.
• The after-effects relative to repossessions will take time to feed through also due to delays and closure in the legal systems until mid-late 2021 will delayed impacts and the arrears process will take time to unfold.

Policy measures to support income and job support towards end 2020 and thereafter:

• Important measures to prevent a ‘cliff edge’ in the market once emergency policy measure end must be born in mind, particularly taking account of policy implications across diverse geographical and demographic groups.
• There will be regional and local variations on the impact on the mortgage market but the payment holidays are expected to be effective with the return to work meaning most mortgage payments should resume post September/October. However, nobody can fully predict the implications in terms of the shape and duration of the recovery and the final outcome with the pandemic forcing most countries to look more closely at how and where people work and live.
• The economic outlook of rising unemployment and reduced incomes poses challenges for future lending and external factors to the mortgage market (unemployment etc) pose the largest long term risk to the mortgage market relative to the future situation for employment and income potentials.
• If the recovery in each country is slow and protracted, then housing and mortgage markets could ‘fall off the cliff’ when pandemic support measures are abruptly removed but there will be a better idea post end September/October when a lot policy measures end. If the signals continue to suggest a slow path to recovery then it is hoped that government will avoid precipitous change to policy support programmes.
• Australia is more exposed than other countries to a protracted downturn in the market, as there is no safety net in the social security system with respect to mortgage payments, while the UK has a long history of helping unemployed buyers to meet mortgage payments after a waiting period has elapsed. However, there has not been any real change to the previous social security system or adjustment to policies to support those paying mortgages in the lowest income brackets in the UK or Canada. Australia did put in place mortgage support via a ‘job keeper policy’ focussed on those most in need and at risk of mortgage default (low income home buyers), but no support for those within the social security system.
• An expansion of non-means-tested home ownership grants and subsidised loans for first time and repeat buyers has been announced in Australia and regarded a successful economic policy but ineffective as a housing policy relative to increasing inequality in housing ownership over the long term.
• In the longer run, it is thought allowing home buyers access to their superannuation in Australia makes explicit the trade-off between home ownership and retirement incomes. Although the contemporary Australian relationship is thought to differ to other countries, it highlights the possibility that ‘generation rent’ may actually be banking on their superannuation balances (and inheritances) to fund late entry into home ownership so that concessions with respect to the age pension (and age care) can be exploited.
• In Canada, some argue that the governments regulatory ‘stress tests’ for lending need revised and eased.
Impact on inequalities in the mortgage market:

- The distributional effects of managing the effects of the pandemic on the mortgage market are important to keep in mind, including variations in income and housing quality across different areas sub-nationally.
- Over time, skewed elements of support for banks, lenders and borrowers in each country will lead to large geographical variations in mortgage market impacts across different household incomes, including those on the lowest incomes, lower skilled and relatively young.
- Closing the sales market in the UK had an immediate effect on the withdrawal of high LTV products impacting, disproportionately, first time buyers entering the market and the self-employed due to tighter assessment of incomes for borrowers making the problem more acute in the UK.

Potential for new policy measures to produce better outcomes for affordability, stability and productivity:

- UK national debt as a percentage of income is now thought to be double what it was when entering the GFC, as well as interests rates at historically low levels, meaning there are limitations on the amount of flexibility government can exert over the use of monetary policy to support the mortgage market post the pandemic.
- There is a suggestion that the UK would benefit from a reintroduction of the ‘mortgage guarantee’ and ‘mortgage rescue schemes’ implemented in 2009 and to develop a scheme/measures to support higher LTV lending for those disproportionately affected in the housing market, specifically, first time buyers and the self-employed.
- Mortgage markets and their products continue to shift most of the risk burden on to leveraged home buyers. It is home buyers that take a ‘haircut’ if house prices plunge; they also must cut spending on other needs if interest rates rise. Is it now time for financial institutions to introduce innovative mortgage products that ensure mortgagees share in the risk burden? These types have products have been championed by Robert Shiller in the USA and Susan Smith in the UK. Their risk sharing features might be especially attractive in the turbulent economic conditions that might be ahead.
- Fiscal concessions and the planning system can both play a part in destabilising housing markets and reforms of housing taxation thought long overdue in both Australia and UK. The arrangements are widely believed to be inequitable, and a source of inefficiency in housing markets. The removal of stamp duties and their replacement by a uniform land tax could improve access to home ownership by easing borrowing constraints, but could also ensure a more efficient residential land market.

Post-pandemic, there are uncertainties across all countries relative to future employment and income potentials for buying and selling homes and the implications of financial and economic repercussions that the pandemic has created. A summary of post-pandemic mortgage market considerations include:

- Pre-pandemic mortgage markets have relied on large scale borrowing by households to sustain a booming housing market, resulting in skewed wealth patterns. With a considerable proportion of the population facing uncertainty of employment, this could lead to a major reprioritisation of society’s previous preoccupation with home ownership and borrowing.
- Wellbeing measures vs economic growth – the shifting focus from GDP to a holistic measure of wellbeing could have implications for the mortgage market and reduced policy focus on home ownership schemes towards better provision of social renting.

Linda Christie, July 2020