THE MORTGAGE LENDING IMPACT ON THE US ECONOMIC DEVELOPMENT

Abstract. In light of recent economic fluctuations, understanding the intricate relationship between mortgage lending and the overall U.S. economic development has become imperative. The housing market, intertwined with various economic sectors, plays a pivotal role in influencing consumer behavior, investment decisions, and fiscal policies. The purpose of this research is to dissect the nuanced relationship between the U.S. mortgage lending landscape and its consequential impact on national economic development. Employing a quantitative analysis approach, we utilized data on home purchase volumes, mortgage volumes, mortgage rates, and their percentage of GDP over recent years. The study also incorporated a comprehensive review of seminal works by noted economists to provide a holistic perspective. Mortgage lending displayed a significant correlation with U.S. economic trends. As mortgage rates fluctuated, they influenced not only the volume of housing sales but also the broader economic indicators. The period of study witnessed both peaks and troughs in the mortgage sector, which directly mirrored shifts in the larger economy. Further, the comparative analysis with global metrics offered insights into the U.S. market's unique characteristics. By understanding the dynamics of mortgage lending in the U.S., policymakers, investors, and stakeholders can strategize better. This knowledge aids in foreseeing potential economic shifts, enabling preemptive measures to mitigate adverse effects and harness positive trends for the betterment of the economy.

Keywords: Mortgage lending, U.S. economy, Housing market, Economic development, GDP impact, Mortgage rates.

Formulation of the problem. Mortgage lending and housing, quintessential cornerstones of the American economic landscape, serve as both a reflection of
national prosperity and a driving force behind economic fluctuations. For numerous Americans, homeownership transcends a mere financial transaction, symbolizing milestones of personal achievement and stability, often equated with the realization of the American Dream. Beyond these personal narratives, the vast expanse of the housing market, anchored by mortgage lending, casts a dominant shadow over broader economic parameters, shaping consumption habits, steering job markets, and influencing pivotal monetary policies.

This interrelation between mortgage lending and the broader economy is multifaceted. Changes in lending behavior, affected by myriad factors ranging from global economic shifts, technological innovations, policy adjustments, to societal trends, reverberate across sectors. These oscillations are felt in the bustling activity of construction sites, in the financial corridors where lending policies are crafted, and in local governments where property tax revenues are harnessed for community development.

Furthermore, the U.S. mortgage market, when juxtaposed against the backdrop of global financial systems, offers intriguing contrasts and parallels. Some nations see mortgages woven even more deeply into their economic fabric, while others showcase a more tempered integration. These global perspectives not only provide comparative insights but also potential lessons for the U.S. market.

Analysis of recent research and publication. The intricate relationship between mortgage lending, housing markets, and broader economic systems has long been a topic of scholarly interest, underpinned by extensive research. Muellbauer and Murphy's 2008 research provides insights into the complex relationship between housing markets and the wider economy. They identify factors such as income, housing stock, and credit availability as major drivers of house prices [6]. Deep and Domanski's [7] study examines the resilience of household spending during economic downturns, particularly focusing on the 2001 downturn in the OECD region. Study Lambertini, L., Nuguer, V., Uysal, P. [8], who showed the importance of mortgage lending in the purchase of housing. In a recent study, Iacoviello [9] delves into the link between housing and finance. However, the research primarily zeroes in on the financial aspects of the business cycle. Iacoviello suggests that when there's a sudden default on mortgage loans, it negatively impacts bank assets, leading to a downturn. This economic slump worsens as banks, facing capital limitations, struggle to provide credit to the broader economy [9]. The impact of the mortgage market on macroeconomic processes was studied by Piazzesi, M., Schneider, M. [10]. At the same time, there is a lack of thorough and new research on the impact of mortgage lending on the economy, which is why the current study has significant scientific value. For this reason, our study focuses on statistical data covering the current state of housing prices, the mortgage lending market, and key mortgage lending indicators for 2022-2023.
The purpose of this research is to dissect the nuanced relationship between the U.S. mortgage lending landscape and its consequential impact on national economic development. Through an in-depth exploration, we endeavor to illuminate the intricate pathways through which mortgage dynamics shape, and are shaped by, the broader contours of the U.S. economy.

Presenting main material. The real estate market, with its cyclical ebbs and flows, stands as one of the most influential sectors in the U.S. economy. Acting as a barometer of economic health, housing prices and their fluctuations can provide insights into consumer confidence, investment behaviors, and broader economic trends. The period from 2019 to 2023 offers a unique lens into the dynamics of the U.S. real estate market, witnessing accelerated growth, historical highs, and subsequent corrections. This study delves into the statistical data of U.S. home price changes during this period, juxtaposing them against historical figures to draw meaningful insights. By examining these trends, we aim to elucidate the economic implications of such changes and shed light on the interplay between the housing market and the broader U.S. economy. Let's consider the trends in housing prices over the past 5 years (fig.5).

![Fig. 1. Dynamics of housing price growth in the US in 2019-2023, %][1]

Between 2019 and 2022, U.S. homes experienced a sharp growth trajectory. Prices climbed steadily from a 5.8% increase in 2019, culminating in a significant 17.7% peak in 2022.

In 2021, the market reached its zenith with an all-time growth rate of 18.5%. Yet by 2023, the growth rate moderated to 8.75%. This shift is evident when examining the quarterly figures: December 2022 saw an 8.8% y/y increase, down from the 12.2% y/y surge in the previous quarter. When placed alongside historical data, the recent spikes in growth, particularly in 2021 and 2022, stand out. With an historical average growth rate of 5.4% from March 1992 to December 2022, it becomes evident that the years 2019 to 2022 were remarkable for home price appreciation. The U.S. housing market has seen its share of volatility. Historical
peaks and troughs, like the 18.5% high in September 2021 and the deep -11.9% low in March 2009 (post-global financial crisis), underscore the market's dynamic nature.

Rising home prices directly influence the broader economy. The wealth effect becomes pronounced as homeowners, feeling richer with appreciating assets, spend more, driving up consumption. However, there's a flip side: swift price hikes can render housing unaffordable for many, potentially limiting homeownership opportunities for new buyers and escalating rental costs for others. The credit market feels the ripple effect too. Booming home prices result in increased borrowing as homeowners tap into their augmented equity. On the contrary, a dip in prices risks pushing properties into negative equity, triggering loan defaults, reminiscent of the 2008 financial crisis. Furthermore, an active housing market fuels the construction industry, generating jobs in allied sectors. Conversely, when the market cools, the opposite effect ensues. Investors, eyeing lucrative returns, increasingly turn their attention to real estate as prices ascend, sometimes at the expense of other investment avenues. Not to be overlooked, local governments stand to gain as well, with ballooning home prices potentially enhancing property tax revenues.

To wrap up, rising home prices undeniably stimulate the economy and elevate consumer confidence. Yet, unchecked and prolonged surges can disrupt the balance, compromising affordability. Hence, vigilant oversight by policymakers is paramount to maintain both a robust housing market and a stable economy.

Changes in housing prices can significantly influence the volume of home purchases, as prices often determine the accessibility and attractiveness of homes to potential buyers. To understand the relationship between housing prices and sales volumes, we can consider the provided sales statistics in units across the years (fig.2)

![Fig. 2. Housing sales in the US, in thousand units [2]](image)

There was a rise in units sold, moving from 4900 to 5450 thousand units. This 11% increase indicates a growing demand for homes. Given the increase in housing prices of 6% in 2020 (as stated in previous data), it seems the moderate price hike
did not deter buyers, and the market was still seen as attractive. There also was a significant jump in sales, with 6550 thousand units sold in 2021, an increase of 20% from 2020. This surge corresponds with the 10% increase in housing prices in 2021. Even though prices were on the rise, other factors might have fueled the surge in purchases, such as favorable mortgage rates, increased savings, or a shift in housing preferences.

A dramatic drop is observed in 2023, with sales plummeting to 4000 thousand units, a 36.5% decline from 2022. Despite a softening in the rate of price growth to 8.75% in 2023, the cumulative effect of multiple years of rising prices and the relatively high prices might have finally deterred a significant portion of potential homebuyers.

The provided statistics illustrate a strong correlation between housing prices and the volume of purchases. Initially, as prices moderately increased, sales volumes grew, suggesting other favorable market conditions. However, as housing prices continued to rise sharply, especially in 2022, the volume of purchases began to decline. By 2023, despite a moderation in price growth, the volume of sales saw a drastic drop, indicating that continuously rising prices might have reached a threshold that significantly affected buyer decisions.

Mortgage lending is a cornerstone of the U.S. housing market. It allows individuals to purchase homes without paying the full price upfront, thereby increasing homeownership rates and stimulating the housing economy. Mortgages create accessibility, especially for first-time homebuyers who might not have significant savings. Moreover, they drive housing demand, influencing prices and construction activity. The stability and policies of the mortgage market can significantly affect the broader economy, as seen during the 2008 financial crisis when subprime mortgage defaults led to widespread economic disruption.

Statistically, the volume of mortgage lending underscores its importance. From 2019 to 2022, there's a consistent rise in mortgage lending in trillion dollars (fig.3).

Fig. 3. Dynamics of the Mortgage Lending Market in trillion USD [3]
This growing trend suggests that as home prices have been rising, consumers have been increasingly relying on mortgage lending to finance their purchases, emphasizing the pivotal role mortgages play in the U.S. housing market.

Let us consider the impact of the mortgage rate on the mortgage market and the economy as a whole, and for this purpose, we will provide statistics on changes in the mortgage rate in the United States (Fig.4).

![Mortgage interest rates in the US, %](image)

**Fig. 4. Mortgage interest rates in the US, % [3]**

The period saw a consistent decrease in mortgage lending rates, making borrowing more affordable. This likely contributed to the expansion of the mortgage market as seen in the growing lending volumes, and the spike in housing sales up to 2021. The significant jump in rates in 2022 would have raised the cost of borrowing. This could be a key factor in the decrease in housing sales volumes observed in 2022, as higher rates made mortgages less affordable.

The change in mortgage lending rates has a domino effect, influencing the mortgage market volume, housing sales, and the broader economy. The observed data corroborates the theory, with low rates in 2019-2021 likely fueling mortgage and housing market growth, while the rate hike in 2022 corresponds with reduced housing sales.

Mortgage loans, relative to GDP, shed light on a country's economic and housing landscape. The UK and Switzerland, with 135% and 125% respectively, show a dominant housing market possibly driven by cultural factors and foreign investments. Canada's 65% suggests a strong, balanced housing stance. The USA and France, both at 50%, indicate a significant yet balanced contribution of mortgages to their economies. In the US, mortgages catalyze sectors like construction and real estate, provide employment, and serve as economic indicators. They enable homeownership, drive investment, and can even reflect the country's broader economic health [4].
The mortgage market directly impacts a country's GDP, as can be inferred from the Household Debt to GDP indicator. The statistics for this metric in the USA are as follows (Fig.5).

![Household Debt to GDP for United States, %](image)

**Fig.5. Household Debt to GDP for United States, %**

Based on the provided data, we can draw the following conclusions regarding the influence of the mortgage market on the economy:

- Reflecting Economic Status. The spike to 79% during the pandemic in 2020 might indicate an increased financial burden on households, possibly arising from economic uncertainties. However, the subsequent decrease in the following years suggests a potential recovery.

- Mortgage as a Primary Debt Component. Given the significant contribution of mortgage loans to the GDP, it's evident that mortgages are a pivotal factor in the overall household debt composition.

- Economic Bellwether. Shifts in the mortgage market can serve as indicators of broader economic trends. An increasing mortgage rate reflects robust consumer confidence, whereas a decline might signal waning confidence.

**Conclusions.** Mortgage lending in the U.S. offers a vivid insight into the nation's economic pulse. Over the years, we've seen home prices fluctuate, with a particularly striking rise from 2019 to 2022. These price shifts had a domino effect on home purchase volumes, propelling sectors like construction and real estate. Concurrently, the upward trajectory of mortgage lending volumes from 2019 to 2022 underscores the Americans' belief in real estate's promise. However, this relationship isn't one-dimensional. Mortgage rates, for instance, dipped enticingly in 2021, then climbed in 2022, dictating consumer enthusiasm and lending behavior. These rates,
combined with the availability of mortgages, influence whether homes are bought or sold, driving economic activity. When housing prices rise and lead to increased borrowing, the Federal Reserve may opt to raise interest rates to stabilize the economy and curb inflation. Higher rates make borrowing more expensive, thereby cooling off overheated markets like housing, and slowing down consumer spending and business investment. This helps to bring down inflationary pressures, ensuring that economic growth proceeds at a sustainable pace rather than spiraling into boom-and-bust cycles. Thus, raising interest rates serves as a tool to maintain equilibrium in the economy. Meanwhile, the Household Debt to GDP ratio highlights the weight of consumer debt in the economy, hinting at mortgages' pivotal role. Globally, when the U.S. is juxtaposed with nations like the UK or Switzerland, where mortgages are more deeply embedded in GDP, one wonders about the untapped potential of the U.S. mortgage market. Conclusively, mortgages in the U.S. aren't just financial instruments; they're barometers of economic health, influencing myriad sectors and shaping the country's economic story. Balanced policies in this domain are thus essential for continued growth.

References: