CHAPTER 2

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(1) James B. Thomas and Ben R. Craig (August 2001)

In August 2001 James B. Thomas and Ben R. Craig had studied about the Federal Home Loan Bank Lending to Community Banks are Targeted Subsidies Necessary? The Gramm-Leach-Bliley Act of 1999 amended the lending authority of the Federal Home Loan Banks to include advances secured by small enterprise loans of community financial institutions. Three possible reasons for the extension of this selective credit subsidy to community banks and thrifts are examined, including the need to: subsidize community depository institutions, stabilize the Federal Home Loan Banks, and address a market failure in rural markets for small enterprise loans.

They empirically investigate whether funding constraints impact the small-business lending decision by rural community banks. Specifically, they estimate two empirical models of small-business lending by community banks. The data reject the hypothesis that access to increased funds will increase the amount of small-business loans made by community banks.

(2) Fulbag Singh and Reema Sharman (December 2006)

In December 2006 Fulbag Singh and Reema Sharman had studied about the housing Finance in India. Housing, as one of the three basic needs of life, always remains on the top priority of any person, economy, government and society at large. In India, majority of the population lives in slums and shabby shelters in rural areas. From the last decade, the Government of India has been continuously trying to strengthen the housing sector by introducing various housing loan schemes for rural and urban population. The first attempt in this regard was the National Housing Policy (NHP), which was introduced in 1988. Te National Housing Bank (NHB) was set up in 1988 as an apex institution for housing finance and a wholly-owned subsidiary of Reserve Bank of India (RBI). The main objective of the bank is to promote and establish the housing financial institutions in the country as well as to provide refinance facilities to housing finance corporations and scheduled commercial banks. Moreover, for the salaried section, the tax rebates on housing loans have been introduced. The paper is based on the case study of LIC Housing Finance LTD., which analyzes region-wise disbursements of individual house loans, their
portfolio amounts and the defaults for the last ten years, i.e., from 1995-96 to 2004-05 by working out relevant ratios in terms of percentages and the compound annual growth rates. A relevant chart has also been prepared to highlight the results.

(3) Michael LaCour-Little (May 2008)

In May 18, 2007 Michael LaCour-Little had studied about the Economic Factors Affecting Home Mortgage Disclosure Act Reporting. The public release of the 2004-2005 home Mortgage Disclosure Act data raised a number of questions given the increase in the number of percentage of higher priced home mortgage loans and continued differentials across demographic groups. Here we assess three possible explanations for the observed increase in 2005 over 2004: (1) change in lender business practices; (2) changes in the risk profile of borrowers; and (3) changes in the yield curve environment. Result suggest that after controlling for the mix of loan types, credit risk factors, and the yield curve, there was no statistically significant increase in reportable volume for loans originated directly by lenders during 2005, though indirect, wholesale organizations did significantly increase. Finally, given a model of the factors affecting result for 2004-2005, we predict that 2006 results will continue to show an increase in percentage of loans that are higher priced when that final numbers are released in September 2007.

(4) Stephen F. Borde (May 1999)

In May 1999 Stephen F. Borde had studied about the “Is the Saving and Loan Industry Facing Extinction?” This article tells about the saving and loan crisis. Proposed solutions are discussed in the context of the industry as it currently stands. Wit somewhat similar liability structure to that of banks (mainly short-term deposits); the asset structure of S & Ls is quite different. Whereas banks assets consists of short-term loans. S & L assets consist largely of long-term loans, such as home ownership mortgages. Therefore, in the absence of adequate hedging measures, S & Ls are more vulnerable to interest rate risk, which can lead to lower profits when interest rates rise.

(5) Joshua Rosner (June 2001)

In June 29, 2001 Joshua Rosner had studied about the housing in the new Millennium: A home Without Equity is Just a Rentel wit Debt. They studied about the prospects of the U.S. housing/mortgage sector over the next several years. Based on our analysis, we believe there are elements in place for the housing sector to continue to experience growth
well above GDP. However, we believe there are risks that can materially distort the growth prospects of the sector. Specifically, it appears that a large portion of the housing sector’s growth in the 1990’s came from the easing of the credit underwriting process. Such easing includes:

- The drastic reduction of minimum down payment levels from 20% to 0%.
- A focused effort to target the “low income” borrower.
- The reduction in private mortgage insurance requirements on if loan to value mortgages.
- The increasing use of software to streamline the origination process and modify/recast delinquent loan in order to keep them classified as “current”.
- Changes in to appraisal process with as led to widespread over appraisal/overvaluation problems.

If these trends remain in place, it is likely that the home purchase boom of to past decade will continue unabated. Despite to increasingly more difficult economic environment, it may be possible for lenders to further ease credit standards and more fully exploit less penetrated markets. Recently targeted populations that are historically been denied homeownership opportunities are offered the mortgage industry novel hurdles to overcome. Industry participants in combination with eased regulatory standards and the support to GSEs (Government Sponsored Enterprises) have overcome many of them.

If there is an economic disruption that causes a marked rise in unemployment, the negative impact on the housing market could be quite large. These impacts come in several forms. They include a reduction in the demand for homeownership, a decline in real estate prices and increased foreclosure expenses.

These impacts would be exacerbated by the increasing debt burden of the U.S. consumer and the reduction of home equity available in the home. Although we have yet to see any materially negative consequences of the relaxation of credit standards, we believe the risk of credit relaxation and leverage can’t be ignored. Importantly, a relatively new method of loan forgiveness can temporarily alter the perception of credit health in the housing sector. In an effort to keep homeowners in the home and reduce foreclosure expenses, holders of mortgage assets are currently recasting or modifying doubled loans. Such policy initiatives may for a time distort the relevancy of delinquency and foreclosure statistics. However, a
protracted housing slowdown could eventually cause modifications to become uneconomic and, thus, credit quality statistics would likely become relevant once again. The virtuous circle of increasing homeownership due to greater leverage has the potential to become a vicious cycle of lower home prices due to an accelerating rate of foreclosures.

(6) Melissa B. Jacoby (December 2002)

In December 2002 Melissa B. Jacoby had studied about the Home Ownership Risk Beyond a Subprime Crisis: The Role of Delinquency Management. They studied that Public investment in and promotion of homeownership and the home, mortgage market often relies on three justifications to supplement shelter goals: to build household wealth and economic self-sufficiency, to generate positive social-psychological states, and to develop stable neighborhoods and communities. Homeownership and mortgage obligations do not inherently further these objectives, however, and sometimes undermine them. The most visible triggers of the recent surge in subprime delinquency have produced calls for emergency foreclosure avoidance interventions (as well as front-end regulatory fixes). Whatever their merit, I contend that a system of mortgage delinquency management should be an enduring component of housing policy. Furtherance of housing and household policy objectives hinges in part on the conditions under which homeownership is obtained, maintained, leveraged, and - in some situations – extend. Given that high leverage of trigger events such as job loss and medical problems play significant roles in mortgage delinquency independent of loan terms, better origination practices cannot eliminate the need for delinquency management.

One function of this brief essay is to identify an existing rough framework for managing delinquency. Legal scholarship should no longer discuss mortgage enforcement primarily in terms of foreclosure law and instead should include other debtor-creditor laws such as bankruptcy, industry loss mitigation efforts, and third-party interventions such as delinquency housing counseling. In terms of analyzing this framework, it is tempting to focus on its impact on mortgage credit cost and access or on the absolute number of homes temporarily saved, but my proposed analysis is based on whether the system honors and furthers the goals of wealth building, positive social psychological states, and community development. Because those ends are not inexorably linked to ownership generally or owning a particular home, a system of delinquency management that honors these objectives should strive to provide fair, transparent, humane, and predictable
strategies for home exit as well as for home retention. Although more empirical research is needed, this essay starts the process of analyzing mortgage delinquency management tools in the proposed fashion.

(7) Yoko Moriizimi (1999)

In 1999 Yoko Moriizimi had studied about the Current Wealth, Housing Purchase and Private Housing Loan Demand in Japan

Japanese households accumulate wealth for down payments at aggregate. Therefore, current wealth plays an important role in home acquisitions public loans whose direct mortgage lending is a strong support for home purchasers. We estimate the wealth effect on private mortgage debt as well as housing consumption by applying a model where mortgage debt demand derived from house purchase decisions and is determined jointly with housing consumption. We use a simultaneous equation To bit estimation method. Wealth effects on private mortgage debt, likelihood of borrowing, and housing consumption are not elastic. On the other hand, a change in housing consumption affects the likelihood of borrowing elastically much more than the private mortgage amount of borrowers. Housing and private mortgage markets fluctuate very closely with the number of participants in the mortgage market. Therefore, the number of housing starts is linked strongly to the private mortgage market.

(8) Robert B. Avery and Allen N. Berger

Robert B. Avery and Allen N. Berger had studied about the Loan commitments and bank risk exposure. They studied about the London commitments increase a bank’s risk by obligating it to issue future loans under terms that it might over wise refuse. However, moral hazard and adverse selection problems potentiality may result in these contracts being rationed or sorted. Depending on the relative risks of the borrowers who do and do not receive commitments, commitment loans could be safer or riskier on average than other loans. The empirical results indicate that commitment loans tend to have slightly better than average performance, suggesting that commitments generate little risk or that this risk is offset by the selection of safer borrowers.
(9) Sumit Agrawal, Souphala Chomsisengphet and John C. Driscoll

Sumit Agrawal, Souphala Chomsisengphet and John C. Driscoll had studied about the Loan commitments and private firms. They studied that, most loans are in the form of credit lines. Empirical studies of line demand have been complicated by their use of data on publicly traded firms, which have a wide menu of financing options. We avoid this problem by using a unique proprietary data set from a large financial institution of loan commitments made to 712 privately held firms. We test Martin and Santomero’s (1997) model, in which lines give firms the speed and flexibility to pursue investment opportunities. Our findings are consistent with their predictions. Firms facing higher rates and fees have smaller credit lines. Firms with higher growth commit to larger lines of credit and have higher rate of line utilization. Firms experiencing more uncertainty in their funding needs commit to smaller credit lines. Almost all firms convert unused credit line portions into spot loans and take out new lines.

(10) Faik Koray and Eric T. Hillebrand

Faik Koray and Eric T. Hillebrand had studied about the Interest Rate Volatility and Home Mortgage Loans. They studied that The U.S. economy has experienced substantial fluctuations in real and nominal interest rates since the 1970s. This paper investigated empirically the relationship between home mortgage loans and volatility in mortgage rates for the period 1971:02 through 2003:03. Contrary to common wisdom, we find a positive relationship between mortgage rate volatility and home mortgage loans. Further investigation indicates that this due volatility in the bond market. In times of high interest volatility, households disinvest in government securities and invest in real assets, which yield a positive relationship between mortgage rate volatility and home mortgage loans.

(11) Michelle J. White and Emily Y. Lin (November 2000)

In November 2000 Michelle J. White and Emily Y. Lin had studied about the Bankruptcy and the Market for Mortgage and Home Improvement Loans. They studied that This paper investigates the relationship between bankruptcy exemptions and the availability of credit for mortgage and home improvement loans. We developed a combined model of debtors’ decisions to file for bankruptcy and to default on their mortgages and show that theory predicts positive relationships between both the homestead and personal property exemption levels and the probability of borrowers being denied mortgage (secured) and
home improvement loans. We test these predictions empirically and find strong and statistically significant support when evidence from cross state variation in bankruptcy exemption levels is used. Application for mortgages are 2 percentage points more likely to be turned down for mortgages and 5 percentage points are likely to be turned down for home improvement loans if they live in states with unlimited rather than low homestead exemptions. These relationships also hold when we introduce state fixed effects into the model.

(12) David P. Bernste (October 2004)

In October 2004 David P. Bernste had studied about the Home Equity Loans and Private Mortgage Insurance: Recent Trends and Potential implications. They studied about the impact of increased use of home equity lines and decreased private mortgage insurance (PMI) on mortgage markets. The data confirms that in the years leading up to the mortgage crisis home buyers and lenders have aggressively used piggyback loans to avoid taking out PMI on first mortgages. Multiple mortgage financing packages as percent of newly originated mortgages (mortgages originated within the previous five years) went from 14.8% in survey years 2001 to 21.5% in survey year 2007. The multiple mortgage percentage for seasoned mortgages (mortgages originated more than five years prior to the originated date) also increased by modest amount. Further comparisons reveals a large decrease in the proportion of mortgages with PMI with the largest decrease in PMI coverage occurring among newly originated multiple-lien packages. Data from the SCF was used to compare five financial characteristics (credit card debt, installment loans, consumer credit, home-owners equity, and liquid assets) for multiple-lien versus single-lien households. The comparison suggest single-lien households tend to have slightly stronger financial variables than multiple-lien households. The data does not support the view that homeowners with multiple lien are less risky and should therefore be allowed to avoid PMI. The reduce use of PMI and increased use of home equity loans increased mortgage holders risk in several different ways and was a contributing factor to the 2008 mortgage financial crisis. This change in lending and borrowing behavior is not a subprime market problem.

(13) Michael LaCour-Little (August 2007)

In August 2007 Michael LaCour-Little had studied about the Home Purchase Mortgage Preferences of Low and Moderate Income Households. Housing policy in the United
States Has long Supported homeownership, yet variation persists across income groups.
This article employs recent mortgage origination data to focus on the revealed preferences of Low and moderate income (LMI) households in home purchase, mortgage choice. I identify the factors associated with conventional conforming, FHA, nonprime and specially targeted programs. Empirical results show that individual credit characteristics and financial factors, including pricing, generally drive product choice, with some variation evident when loans are originated through brokers. Results also indicate that targeted conventional programs effectively compete with government insured products in the LMI segment.

(14) David C. Wheelocock (October 2004)

In October 2008 David C. Wheelocock had studied about the Government Response to Home Mortgage Distress: Lessons from the Great. They studied about the The Great Depression was the worst macroeconomic collapse in U.S. history. Sharp declines in household income and real estate values resulted in soaring mortgage delinquency rates. According to one estimate, as of January 1, 1934, fully one-half of U.S. home mortgages were delinquent and, on average, some 1000 home loans were foreclosed every business day. This paper documents the increase in residential mortgage distress during the Depression, and discusses action taken by state governments and the federal government to reduce mortgage foreclosures and restore the functioning of the mortgage market. Many states imposed moratoria on both farm and nonfarm residential mortgage foreclosures. Although moratoria reduced farm foreclosure rates in the short run, they appear to have also reduced the supply of loans and made credit more expensive for subsequent borrowers. The federal government took a number of steps to relieve residential mortgage distress and to promote the recovery and growth of the national mortgage market. The Home Owners Loan Corporation (HOLC) was created in 1933 to purchase and refinance delinquent home loans as long term, amortizing mortgages. Between 1933 and 1936, the HOLC acquired and refinanced one million delinquent loans totaling $3.1 billion. The HOLC refinanced loans on some 10 percent of all nonfarm, owner occupied dwellings in the United States, and about 20 percent of those with an outstanding mortgage. The Great Depression experience suggests how foreclosures might be reduced during the present crisis.
(15) Tullio Jappelli and Maria Concetta Chiuri (March 2001)

In March 2001 Tullio Jappelli and Maria Concetta Chiuri had studied about the Financial Market Imperfections and Home Ownership: A Comparative Study. They explore the determinants of the international pattern of home ownership using the Luxembourg Income Study (LIS), a collection of microeconomic data on fourteen OECD countries. In most, the cross section is repeated over time and includes several demographic variables carefully matched between the different surveys. This allows us to construct a truly unique international data set, merging data on more than 400,000 households with aggregate panel data on mortgage loans and down payments ratios. After controlling for demographic characteristics, country effects, cohort effects and calendar time effects, we find strong evidence that the availability of mortgage finance – as measured by outstanding mortgage loans and down payment ratios – affects the age profile of home ownership, especially at the young end. The results have important implications for the debate on the relationship between saving and growth.

(16) Irina Paley and Chau Do (December 2007)

In 10 December 2007 Irina Paley and Chau Do had studied about the Explaining the Growth of Higher Priced Loans in HMDA: a Decomposition Approach. The period 2004-2005 showed a significant increase in Home Mortgage Disclosure Act (HMDA) rate spread reporting. Following the Oaxaca (1973), Blinder (1973), and Fairlie (2005) decomposition techniques, this identifies the fraction if the increase due to the flattening of the yield curve. Even after controlling for changes in borrower risk characteristics, the finding reveal that during 2004-2006, the flattening of the yield curve explains a significant amount of the increase in rate spread reportable loans. This is the case for both prime and subprime originations.

(17) Vincent W. Yao and Eric Rosenblatt and Micheal LaCour-Little (February 2009)

In February 1, 2009 Vincent W. Yao and Eric Rosenblatt and Micheal LaCour-Little had studied about the unique paired loan dataset containing information on multiple conventional conforming mortgage loans of households to examine home equity extraction decisions over the period 2000-2006. The main question addressed is how much households borrow when refinancing their current mortgage debt in a cash out transaction.
We also provide estimates of the marginal effect of certain borrower characteristics. Results contribute both to the literature on refinancing behavior and the role of house price appreciation in providing funds that may be used for consumer spending or other purposes.

(18) Mark Carey and Greg Nini (August 2004)

In August 2004 Mark Carey and Greg Nini had studied about is the Corporate Loan Market Globally Integrated? A Pricing Puzzle. We offer evidence that interest rate spreads on syndicated loans to corporate borrowers are economically significantly smaller in Europe than in the U.S., other things equal. Differences in borrower, loan and lender characteristics associated with equilibrium mechanisms suggested in the literature do not appear to explain the phenomenon. Borrowers overwhelmingly issue in their natural home market and bank portfolios display significant home “bias.” This may explain why pricing discrepancies remain puzzle. Thus, important determinants of loan origination market outcomes remain to be identified, home “bias” appears to be material for pricing, and corporate financing costs differ in Europe and the U.S.


In July 2005 Gwilym B.J. Pryce and Patric H. Hendershott had studied about “The Sensitivity of Homeowner Leverage to the Deductibility of Home Mortgage Interest”. Mortgage interest tax deductibility is needed to treat debt and equity financing of homes equally. Countries that limit deductibility create a debt tax penalty that presumably leads households to shift from debt toward equity financing. The greater the shift, the less is the tax revenue raised by the limitation and smaller is its negative impact on housing demand. Measuring the financing response to a legislative change is complicated by the fact that lenders restrict the mortgage debt to the value of the house (or slightly less) being financed. Taking this restriction into account reduces the estimated financing response by 20 percent. The estimation is based on 86000 newly originated UK loans from the late 1990s.

(20) Marsha Courchane (November 2007)

In November 2007 Marsha Courchane studied about The Pricing of Home Mortgage Loans to Minority Borrowers: How Much of the APR Differential. The public releases of the 2004 and 2005 HMDA data have engendered a lively debate over the pricing of
mortgage credit and its implications regarding the treatment of minority mortgage borrowers. We provide a unique empirical assessment of this issue by using aggregated proprietary data provided to us by lenders and an endogenous switching regression model to estimate the probability of taking out a subprime mortgage, and annual percentage rate (APR) conditional on getting either a subprime or prime mortgage. We find that up to 90 percent of the African American APR gap, and 85 percent of the Hispanic APR gap, is attributable to observable differences in underwriting, costing and market factors that appropriately explain mortgage pricing differentials. Although any potential discrimination is problematic and should be addressed, our analysis suggested that little of the aggregate differences in APRs paid by minority and non minority borrowers are appropriately attributed to differential treatment.

(21) Susan M Wachter and Paul S. Calemhad (1991)

In 1991 Susan M Wachter and Paul S. Calemhad studied about the Community Reinvestment and Credit Risk: Evidence from an Affordable Home Loan Program. This study examines the performance of home purchase loans originated by a major depository institution in Philadelphia under a flexible lending program between 1988 to 1994. We examine long term delinquency in relation to neighborhood housing market conditions, borrower credit history scores, and other factors. We find that likelihood of delinquency declines with the level of neighborhood housing market activity. Also likelihood of delinquency is greater for borrowers with low credit history scores and those with high ratios of housing expense to income, and when the property is unusually expensive for the neighborhood where it is located.
References


