Home ownership and the 'risk society'

Marginal home purchase in the Netherlands

Eigenwoningbezit en de 'risico maatschappij'

een onderzoek naar de grenzen van het kopen van een woning

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Foreword

Few other European countries promote home ownership more generously than the Netherlands. Since the late 1990s, housing prices have risen dramatically, as fiscal rules, land scarcity and housing market conditions promoted inflationary tendencies conducive to the growth of capital gains in the housing market. Crucial factors underlying this growth were the promotion of home lending via fiscal rules, new marketing techniques and mortgage products. Indeed, during the 1990s the finance sector can be considered to have undergone a revolution in terms of organisational structure and importantly product development. Mortgages, such as interest only and investment products have introduced a whole new set of risks to home purchases and indeed shifted the distribution of risk in new and different ways across Dutch society.

The research essay discusses the concept of a "risk society" in the Dutch context. It provides an outline of developments in the Dutch housing sector and concludes with a focus upon the institutional developments in the home finance sector which have influenced the distribution of risk across Dutch households. A number of key issues and questions are raised at the end of the report, intended to stimulate public policy debate on the issue of home purchase and risk.

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Dr. Julie Lawson

1 Home ownership and marginal purchase

1.1 Introduction

Home ownership is a consumption and investment phenomenon infused with positive notions of security, self fulfilment and social status. In recent years popular preference for home ownership has been strongly supported by the Dutch government, banks and development companies. Indeed, few other European countries promote home ownership more generously than the Netherlands. There, a regulatory regime of tax favoured individual home ownership encourages highly geared mortgage arrangements, most recently incorporating endowment schemes, savings and insurance policies. Land and housing market conditions promote inflationary tendencies conducive to the growth of capital gains in the housing market.

During the economically buoyant late 1990s the capacity to borrow to purchase a home grew exponentially, as gendered employment patterns and traditional borrowing norms fell by the wayside. Throughout this dynamic period, the home loans sector underwent a revolution in terms of structure, product development and sales techniques. It is now common for mortgage contracts to fully exploit the rules permitting the deduction of interest from taxable income, rely upon the performance of share portfolios and delaying principle repayments, thereby reducing monthly payments. Yet these arrangements inevitably transfer and potentially extent mortgage obligations well into the retirement years.

For this reason, a continuing favourable tax regime, steady inflation of housing prices, a healthy stock market and secure retirement income have together become important factors influencing long term housing affordability and security. These factors are of course vulnerable to many changes – tax rules can be amended, house prices and likewise share values may rise and fall and the rules, conditions and payout of pension funds may vary over time. In a country where social rental housing and generous rental allowances have long provided secure, long term and affordable housing, this vulnerability is new for many low to middle income households. For this reason, it is timely that the phenomenon of home ownership be considered in all its dimensions - including those of marginality, vulnerability and risk. Thus, alongside the positive notions mentioned above, ownership can also imply a less secure, debt encumbered future and for those at risk of default, potential housing loss.

Recent financial history reveals that the mortgage market has grown exponentially and home ownership rates have risen to surpass those renting in the social and private sector. Alongside this trend, the level of household indebtedness has risen to be highest in the European Union. This new pattern of housing investment and consumption poses new and different risks for Dutch society. It concentrates risk amongst particular types of households, specifically the young, early career purchasers of older dwellings in larger cities who have financed their purchase with endowment mortgage contracts and have few accumulated assets. Attracted by lower monthly premiums, many are committed to a long term investment regime, with no guarantee of sufficient end capital to pay off the principle. Whilst the short term costs are manageable, post retirement housing costs may not be.

The long term consequences of this form of housing consumption differ dramatically from more traditional forms of housing consumption such as social rental housing and traditional mortgage contracts. Indeed, the rise of investment financed home ownership has also occurred in the context of declining emphasis upon collective forms of social housing.[1] Further, opportunities for the expansion of the social rental sector have narrowed and rent policy tightened to protect the revenue stream of social housing corporations in a more deregulated financial climate.

This report discusses the concept of a risk society in the Dutch context, with specific reference to the shift from social rental tenure to home ownership and increasingly dynamic arrangements for purchasing housing services via a range of new mortgage products, which incorporate new risks. In the discussion, the subject matter builds from the definition of the concept of risk to an outline of developments in the Dutch housing sector, and concludes with a focus upon the institutional developments in the home finance sector which have influenced the distribution of risk across Dutch households. This report is intended to inform and stimulate public policy debate on the issue of home purchase and risk.

1.2 The shift in tenure and concentration of risk

Since the mid 1990s, responsibility for housing dual income households has increasingly shifted from private non-profit agencies, such as social rental housing associations utilizing government secured loans, to project developers constructing new houses and the existing housing market for purchasing households who are financed by individual mortgage credit. It has been contended, in earlier work, that this shift has been promoted by a number of related developments in the property, finance and labor markets (Lawson, 2003 PhD Thesis). It is not possible to understand this shift without reference to these interconnected markets as together they underpin movements in housing tenure. This report is the first tentative extension of this thesis and focuses on the role of the finance sector in contributing towards this shift, which has generated a new set of risks being experienced by Dutch households. It briefly considers the consequences for marginal purchasers in terms of their capacity to absorb the risks of mortgage finance in a dynamic capital, housing and labor market.

Home ownership is a consumption phenomenon common to many western countries but not so in The Netherlands. As indicated, for many decades housing services were primarily obtained through the rental sector from private landlords in the social or for profit sector. This report will examine the financial restructuring which has contributed to the shift towards ownership in the past decade. These shifts concern the institutional change, product and marketing innovations in the home finance sector; the substantial growth in capital gains amongst mature purchasers; and further economic growth

[1] For descriptions and explanations of the shift in Dutch housing provision see Lawson, 2003, Salet, 1999, Lawson, 1999, Larkin and Lawson, 1998, Dieleman, 1996, and Priemus, 1996.

favouring female participation in the labour force. These conditions have promoted an expanding ownership sector, encouraged further investment in housing and enticed some households out of traditional tenancies.

With this shift in tenure outcomes, responsibility for the nations housing 'solution' has increasingly narrowed to rest upon the private housing market and therefore the financial institutions providing and securing home loans and indebted households, in a less protected and fluctuating labour market and less generous climate for the build up of post retirement pensions. The housing aspirations of many in the Netherlands carry far more risk for the individual than in the past, when housing associations played a more dominant role. This report is about the nature of this risk and how it has been generated.

1.3 Focusing on the institutional changes rather than consumer characteristics

The focus of much research on risk and home ownership is the characteristics of the individual borrowers – their household income, marital status, employment, level of personal indebtedness and their mortgage commitments – the debt, interest rates and level of payment (DNB, 2003, OTB, 2003, EIB, 1985). Few research projects give specific emphasis to the contingent institutional context, which may promote the risk of marginal purchase (Neuteboom, 2002). The question remains, *are there processes emergent from institutional relations in the mortgage sector, which are distributing risks along new societal lines?*

1.4 What is known about the causes of marginal purchase?

Home buyers are far from being a homogenous and essentially fortunate collection of households. They can be differentiated by when and where their home is purchased, their personal resources, life plans, and demands. Marginal home buyers[2] can be defined as those vulnerable to default their mortgage, when faced with changes in borrowing conditions, the loss of income, and or the breakdown of personal relationships. These changes may tip the balance between coping and defaulting on a mortgage. There may be a significant number of purchasers on the margins of home ownership, over burdened, over worked - facing high personal risks and difficult life choices. But we know little about such a group and in particular the generative causal mechanisms promoting marginal home purchase. It is appropriate and timely that this phenomenon examined more carefully as a matter for policy discussion and action.

We already know that home ownership is positively associated with marriage, work experience, socio-economic status, higher education, self-employment and parental resources (Mulder and Wagner, 1998). But are there institutional factors within the financial sector that are associated with *marginal* home ownership?

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[2] According to the National Mortgage Guarantee marginal home purchasers are those with mortgage arrears of more than four months.

The *characteristics and causal factors of marginal purchase* have been researched in several countries where home ownership has long been the norm. According to research in Australia and the UK, the risk of mortgage default is enhanced when a home purchaser experiences periods of unstable employment, has a single/part time or casual income, becomes divorced or must provide for a high number of dependants – leading to a unsustainable and non-permissible level of mortgage arrears. These are all highly individualised characteristics and often considered to be the causes of marginality by researchers. Further, other factors such as high loan to value ratios, unexpectedly high mortgage interest rates, and regional market variations are also of causal significance.

1.5 Contrasting two phases of marginality in the Netherlands

In the late 1970s, deflation and economic recession led to the collapse of the ownership market and stagnation in the construction sector. During this period, housing prices stagnated, real incomes declined and unemployment pushed indebted households into arrears, leading to significant rates mortgage default. Interest rates began to rise in the late 1970s further constraining demand and increasing the cost of ownership (Van den Brink and Van Raaij, 1989:180). In 1983, 77,000 borrowers were having payment problems, and 17 percent where forced to sell their homes. For those with a municipal mortgage guarantee (about one third of all borrowers) 21 percent of problem cases were 'solved' via forced sale of the housing asset. Research commissioned by the Ministry of Housing, Planning and the Environment (VROM, 1989) examined the characteristics of households forced to sell. They were often subject high interest, linear mortgage commitments. The structure of these mortgages placed considerable burden on purchasers in the first few years of their contract. Other mortgages involved schemes linking levels of mortgage payments to assumed rises household income. Yet these assumptions were not fulfilled as labour accords in the 1980s stymied wage growth and unemployment worsened. Mortgage arrears were particularly common amongst low and single income borrowers whose household income declined due to divorce or unemployment, work based injury or bankruptcy. In a survey of financial institutions undertaken at the time, forced sales often resulted in negative equity, particularly if the mortgage was established when the financing costs were high in proportion to value of the dwelling and where the dwelling was in poor repair. According to some, the auction process actually reduced sale proceeds, especially were the demand was low and pre-sale period short (VROM, 1989:22-26).

The circumstances surrounding the late 1970s and early 1980s pattern of home ownership crisis, marginality and forced sales strongly differs from the recent period of (unevenly) rising house prices, which has followed a period of high consumer confidence, relatively easy access to credit, tax friendly mortgage products and minimal unemployment. In this most recent period, linear mortgages and mortgage contracts with repayment schedules linked to income improvements are no longer promoted by brokers. Instead, savings schemes and investment mortgages have taken much greater prominence.

Recent conditions in the housing market buffer many purchasers from the worst consequences of loan default. Indeed, housing prices rose so rapidly during the late

1990s that many existing owners obtained second mortgages, often involving the purchase of shares, on the basis of real and speculated capital gains. First home buyers were enticed by strong work prospects, income growth and spurred along by rapid house price inflation. Borrowing and investments rose rapidly until consumer confidence faltered with weakening economic growth, declining rates of house price inflation and uncertain employment prospects.

The conditions in the housing market remain inflationary. Indeed, the scarcity of housing supply supports this inflationary process, despite a less favourable employment market and gradually increasing interest rates. Further, whilst the rate of forced sales is increasing quickly, it does so from a very low base. Whilst no reliable figures exist for the entire sector, experts estimate current forced sales to be in the low thousands – far lower than the early 1980s. The National Mortgage Guarantee has recently released figures from its own client revealing that the number of guaranteed borrowers in arrears has risen from 956 in 2002 to 854 in the first half of 2004 (NHG, 2004)

Nevertheless, research by the Netherlands Bank (DNB) argues that if interest rates rose by 2-3% the rate of foreclosures would rise very rapidly. One housing expert cautioned that many borrowers may be sitting on the precipice of default, already eating into reserve funds and delaying other household purchases in order to maintain their mortgage obligations. With accumulating household debt, such households could be marching towards a pattern of arrears and eventual foreclosure under less favourable interest rate and housing market conditions. As in 1980s, Dutch Association of Banks (NVM) argues that the forced auction process in some cities lacks transparency and adequate promotion, reducing potential sale proceeds.

An important difference between the previous wave of foreclosures and today's situation concerns the conditions of mortgage credit. The mortgage market enticing contemporary purchasers differs in terms of the promoted products and their profit margins, selling practices and commission structures, the administration of mortgages, guarantee and securitisation structures and most importantly interest rates. It is appropriate that these changes also be considered in the new risk scenario.

1.6 Structure of this report

Following this introduction, there are five additional sections.
Section two reviews what is understood by the concept of risk in the field of housing studies. A particular approach to the study of risk is then outlined, which defines housing related risk as potentialities which may emerge from the contingent definition and packaging together of key causal relations underlying the system of housing provision. In sum, this section outlines and justifies the approach taken to explain the shifting risks in Dutch housing tenure.

Section three re-examines the period from 1983 to contemporary situation in the Netherlands, towards an explanation of how the shift in housing tenure has taken place, by applying the perspective already outlined. It demonstrates how the flow of capital through the social housing sector has changed and describes the increasing role of individual mortgage loans in the circuit of housing investment.

Section four returns the reader to a more conceptual level of discussion, explaining the nature of housing finance and its connection to broader capital markets and the role of the secondary mortgage market.

Section five applies this knowledge to a description of the home lending sector in the Netherlands. It examines the nature of the mortgage market and the reasons behind the rapid growth of this sector during the late 1990s. The various mortgage products, their distribution and the level of competition between providers and their brokers is discussed.

Section six concludes with a discussion about risk and home ownership in The Netherlands, in the context of shifting tenure patterns and the nature of housing investment.

Recommendations for the prevention of risk are briefly discussed, as put forward by experts in the sector. Finally, a summary of the report is provided and a number of issues are raised for broader discussion. These issues concern the desirable balance of housing tenure, the allocation of risk along housing careers, responsibility for risk taking, product regulation, supervision and security. A list of acknowledgments, including those interviewed for this report, is provided in Appendix 1. The summary and issues have been translated into Dutch and are provided in Appendix 2. Recommended reading in both the Dutch and English language is listed in Appendix 3.

2 The concept of the risk

2.1 Introduction

It is now timely to take a step back to examine the concept of risk and its' relevance to the study of home ownership. This section also concerns a number of key relationships which influence housing investment and consumption and the contingent circumstances which may generate arrears and compound repayment problems. This approach promotes the view that there is always 'more than meets the eye' as reality is complex and structured, involving relational institutions, reinforcing ideologies and individual experiences that together mediate the field of mortgage production, exchange and consumption. Such an approach requires the 'breaking down' of the research phenomenon into constituent dimensions without losing sight of their open, interconnected and exposed nature.

2.2 The study of risk

The study of risk and risk assessment is a growing field that has emerged from particular branches of economic, behavioural psychology and environmental assessment and is related (although not necessarily so) to rational choice theory. The notion of 'risk' has been applied to a diverse range of substantive fields including organisational decision-making, financial management, marketing, health policy and environmental assessment. The contribution of risk research varies from self-assured calculation of objective risk to discursive debates on its social construction. The scope of research also varies significantly. Risk has been applied to shifts across western society (the transition from modernity to radical modernity) and within household relations, as well as shifts in the global money market. Risk has also been depicted as being differentially perceived between different actors, professions, groups, classes and cultures. For this reason, it is argued, risk must be historically and spatially defined.

2.3 Risk and housing research

The concept of risk has entered the field of *housing studies*, particularly in the UK where home purchasers experienced a major economic downturn generating unemployment, falling house prices, negative equity, and a jump in mortgage defaults. In parallel and spurred on by these worrying developments, an increasing number of contributions are also being made by Dutch housing researchers from a variety of institutions including the Netherlands Bank (DNB), Ministry of Finance, Dutch Economics Institute (NEI), Financial Markets Authority (FMA) and OTB (University of Delft), Central Bureau for Statistics (CBS) and the Central Planning Bureau (CPB). It is timely that these contributions be brought together for discussion. More empirical Dutch contributions are reviewed in section five which concerns the mortgage market in the Netherlands. To begin, the following subsections outline and evaluate the various notions of risk that appear in more abstract housing literature.

2.3.1 Housing risks are constantly shifting

A basic definition of risk, chance or 'odds' concerns the perception of potentialities, which may positively or negatively influence the achievement of desired goals. This perception may be based on experience and evidence - however complete, accurate or otherwise. Different types of mortgages can be considered to generate different risks for both borrowers and lenders. A simple annuity mortgage requires the stable and defined number of repayments of interest and loan principle. Interest may be fixed for a defined period to promote certainty in the level of payments. Periodically payments may vary to ensure sufficient coverage of interest and principal. Conversely, very different risks are associated with investment mortgages, which anticipate that purchased shares will generate sufficient dividends to pay for the loan amount, over a 30 year term. If they do not, the purchaser must repay the outstanding amount from other accumulated assets and income, such as the increased value of the home, inheritance or a pension plan, or enter an additional mortgage contract.

The above examples illustrate the importance of institutional factors which generate risks such as changes in interest rates; housing prices; the share market and pension rules and provisions. There are of course those emanating from consumers of housing mortgages. Divorce, sickness and unemployment are not only personal tragedies; they also disturb the smooth finances of any household and threaten the continuous payment of mortgage obligations. For this reason housing risks can be considered as complex and multiple, involving many exogenous and endogenous factors, which are unevenly distributed and constantly subject to change (Croft, 2001:738-742). Further, risk is not appreciated in a logical, uniform or rational manner. Risks may be perceived as offering positive or negative opportunities. Further, when risks crystallize into consequences they too may generate further risks.

Beyond the personal factors evoking risk for mortgage consumers, Neuteboom (2002) takes a comparative institutional perspective when assessing the relative costs and risks associated with home loans across Europe. The author's concept of risk considers a number of factors set in an institutional context, which may influence the home purchasers perception, estimation and value of different mortgage products and ultimately their actual behaviour in terms of the costs and payment obligations. These potentially influential factors include developments in interest rates, purchase price, investment return, inflation, income and the composition of the household. Such factors may guide the purchasers choice in terms of the term of the loan, interest fixed period, form of debt and level in relation to the value of the house and income of the household. Further, the factors influencing the choice of mortgage product are made within a potentially influential institutional context which may involve preferential tax treatment, provide subsidies, influence access to alternative housing services such as rental tenure, legislate or regulate to inform and protect housing consumers. It is this institutional context which is of interest to this research.

2.3.2 Risks vary throughout ones housing career

The simplest application of risk to the realm of housing studies concerns the potential threats to the achievement of an individually desired housing career or ladder. Typically, life course risk analysis has focussed upon the choices households tend to make according to their demographic and socio-economic characteristics. Actual events, available resources, and perceived opportunities or risks may influence steps down or 'along' the ladder, or indeed 'falling off', leading to displacement or homelessness.[3]

Whilst some housing researchers focus on a 'housing career' others have examined a households 'debt career'. In Western capitalist societies, most households pay for their housing services in some form. Capacity to pay largely depends upon one's financial resources, income security and gender. Financial security is strongly related to income as defined by the households' dynamic position in the paid labour market, the number of dependents, living and lifestyle expenses, and any provisions derived from a welfare system emergent from family, community, private or government relations. Transfer payments or subsidies from the state to the individual, such as rental allowances and the ability to deduct interest from taxable income, may assist ones capacity to pay for housing costs. In the case of home purchase, payments for housing services may relate to a schedule of mortgage payments to a financial institution and vary according to the purchase price, the duration of the loan and changes in the interest rate.

At certain life stages or circumstances, the risk of income loss, causing housing stress or even homelessness, may heighten. According to research in Australia and the UK, the risk of mortgage default is enhanced when a home purchaser experiences periods of unstable employment, has a single/part time or casual income, becomes divorced or must provide for a high number of dependants. Vulnerability may increase when caring for the young, taking the first steps from the parental home, during unemployment, when divorced, elderly or disabled. It may also occur at certain stages of the business cycle when housing costs may rise beyond capacity to pay. Further, the level of mortgage arrears is also important, as well as factors such as high loan to value ratios, unexpectedly high mortgage interest rates, and regional market variations.

2.3.3 Multiple perspectives and experience of risk

As suggested above, the risks influencing decisions about the consumption of housing are exogenous and endogenous. They are also embedded in time and space. Beyond consumption, different types of risks and risk averting behaviour may also influence other aspects of housing provision: namely the finance, production and allocation of dwellings. Towards this end, it is helpful to view housing as being embedded in a solution of connected, reinforcing and/or conflicting relationships; involving actors operating in a specific environment and time. From this perspective, it can be appreciated that different agents involved in various dimensions of housing provision will be subject to their different, dynamic and uneven interpretations of relevant risks.

Institutions offering mortgage finance to home purchasers face the risk of mortgage arrears and eventual non-payment of the borrowed sum. Such risk may be reduced where the

[3] The level of payments made by renters to their landlord is less often dependent on the original purchase or cost price of the dwelling and is often more related to the market position of tenant and possibly subject to the conditions laid down in a rental agreement.

land title, a cash deposit or other valuable assets are committed as security. Borrowers can be required to privately insure their capacity to pay. Further, governments may establish guarantee funds to reduce potential risks faced by financial institutions lending to lower income households.

The calculation of risk may or may not be informed by adequate information or 'hard facts' but rather by a history of experience, estimation, impressions and even ignorance. The study by Gruis (2002) examines the increasing importance of financial continuity amongst Dutch housing associations and argues the need for a more informed rational decision-making based on the collection and interpretation of data. The necessity for financial self-reliance requires associations to actively protect their income stream (rental, investment revenue) in a way that anticipates market developments, likely expenditure, maximises yield from investments and minimises vacancies. This necessity has stimulated interest in the risk assessment processes associated with asset management for housing associations.

The estimation of opportunities and threats plays a cumulative role influencing the actions and in-actions of many different types of agents active in the system of housing provision. Consider the role the estimation of risk plays in the family plans of home purchasers, investment strategies of housing associations, election campaigns (including housing manifestos) of political parties, lending criteria of financial institutions and the design of instruments by mortgage guarantee funds.

2.3.4 Source of risk, severity and the degree of control

If the context of risk is just as important, it must be considered. This fits well with an understanding of a housing sector as vulnerable to influences outside its immediate or core network of operations. Changes in interest rates, rising land, building and labour costs as well as unemployment all hold indirect but important implications for housing investment and consumption. The actions of individuals within the finance, property and labour markets may hold important ramifications for the definition of various influential dimensions contributing towards a housing solution. According to Croft (2001), risk may emanate from the individual agent themselves, their partners for action, the actions of contingent others, or cumulative actions of externally related agents, as well as natural events influencing all or some relevant agents.

The source and severity of risk can be allocated across two intersecting continuums depth and breadth: acute – chronic and systematic - individual (6,1998). The power to secure oneself against the different types of risk, including those that are acute and individual, varies between different agents in the housing network over time. Importantly, agents do not have uniform powers and resources to control the circumstances influencing housing related risk and thereby ensure the certainty of outcomes. For example, the risk of a tenant's eviction may be minimised during a supple rental market, whilst a tighter housing market may permit the landlord to raise rents without generating vacancies.

Indeed, the perception of risk also relates to the degree of control over important contingent circumstances. These include market conditions, institutional conventions, income levels and security, personal relations, health and the availability of social protection (Ford et al, 2001). Housing choices may be made on the basis of the perceived availability of resources such as a stable, sufficient and secure income, the provision of which may be beyond control of individuals, whilst being of great personal significance. Indeed, opportunities in the labour market, interest rate policy, social welfare provisions, and fiscal rules all provide a source of personal risk and opportunity but are largely beyond the control of individual agents.

2.3.5 Allocation of risk and the asymmetric organisation of trust

A common theme throughout risk related housing research concerns the distribution of risk via state/market institutions and the individual (employment, class, gender, ethnicity, life course). In particular, an aspect of research on home purchase concerns the movement of financial risk from the collective to the individual via promotion of home ownership, withdrawal of state mortgage protection schemes, compulsory mortgage insurance and mortgage guarantee funds (Croft, 2001:737). It has been argued in the UK that risks have been accumulating amongst housing consumers in the context of increasing deregulation of labour markets, polarisation of incomes, reliance upon part time and temporary work, relationship breakdown and reduced role of government in mortgage relief, dwelling allocation and social housing provision (Ford et al, 2001).

An important related phenomenon is termed the ideological 'individualisation of risk', which demands self-sufficiency and responsibility for managing one's own housing needs and risks and less dependence upon universal, redistributive state centred strategies.

Social insurance, which may guard against housing related risks, is also shifting towards user pays pension contributions, and away from collectively funded and redistributed social provisions. In the Netherlands, employers are being required to work longer and potentially receive less from their pension funds. This development holds many different implications for both housing and debt careers in the post employment phase. Conversely, an argument has emerged that home ownership is a form of private social insurance (Stretton, 1986, Castles, 1998,1998a, Taylor-Gooby et al 1999). Ownership is perceived as investing in a secure post retirement future, when housing costs will be low or minimal and building up an asset which can be passed to future generations. Nevertheless, Taylor-Gooby et al (1999) argue that the shifting patterns of housing investment, from the public or social sector towards individual mortgage financed purchase actually erodes rather than fortifies personal security.

The response to risk, which plays a role in defining the careers, strategies, policies, regulations and instruments developed by individuals and organisations, involves efforts to avert negative risks – and thereby maximise trust. Thus the two concepts of risk and trust can be integrally related. Yet, the capacity and ability to avert risks is far from uniform.

2.3.6 Responsibility for risk minimization and tenure differences

The three points above, concerning the multiple perspectives; source and allocation of risk lead us to the question concerning responsibility for housing risks. To what extent can housing agents be held responsible for the actualisation of risks beyond their control and expectations? For example, if the risk of unemployment rests in the hands of corporate directors beholden to shareholder interests in another country, who should be responsible for insuring against the potential loss of income, which may lead to mortgage default? Currently, the borrower may be required to pay a mortgage protection premium, to insure against the eventuality of unemployment. Yet this insurance protects the banks and not the borrower (Ford, et al 2001). In a few countries, the state may intervene to address mortgage payment shortfalls, albeit for a limited period or amount, before eventual foreclosure. In contrasts renters may receive generous rental subsidies over unlimited periods of time.

2.3.7 Risk as social theory

The concept of risk has also entered broader discussions on social theory in housing studies. The 'risk society thesis', as postulated by sociologists Giddens and Beck (1994), claims that greater uncertainty, flexibility and change in social and economic relationships (in the workplace, home and social networks) are shifting risks along new societal lines. As societies modernise, old processes are subject to increasing scrutiny and modification. Traditions fall rapidly by the wayside, old structures and collective institutions recede. Risks, both natural and manufactured, accumulate differentially. The post-traditional society sees risk as emanating from human interventions in the natural world through technology, which may mitigate or generate risks. These risks are difficult to control and expert opinion on strategies to avert them is divided. Overloaded with information, the laypersons' trust in experts is undermined, eroding the influence of rational reasoning and increasing reliance upon individualised solutions focusing on safety and preventative life strategies, promoting the rolling back of collective welfare state (Taylor-Gooby et al, 1999:179). This post-traditional 'risk society' provides more space for individualisation and personal strategy making - and indeed personal *risk* taking. However, *increased and uneven awareness of risk and limited choices* distributes social vulnerability in different ways, with risks accumulating amongst the lower socio-economic classes.

The risk society thesis has emerged in property and housing studies (Winter and Stone, 1998, Allen, 1998; Perri 6, 1998; Berry et al, 2000, Ford et al, 2001) concerning shifts in social vulnerability, policy decision-making and property investment. Ford et al (2001) conditionally apply the thesis to examine how risks associated with home ownership have been inserted into individual agency and broader psychosocial change. Using the risk society thesis as a sensitising framework brings agency and identity to the foreground when examining the process of change. Via extensive empirical research, they examine low-income home ownership in the context of an increasingly complex and uncertain economic environment. Globalisation, deregulation of financial markets, flexibility and insecurity labour, housing market recession and the rolling back of welfare state support all have important consequences which are both quantitatively and qualitatively examined (Ford et al, 2001:6).

2.3.8 Summing up - risk and home ownership

In the literature reviewed above a number of different definitions and aspects of risk in housing research were outlined. These included:

- The constantly shifting definition of risk
- Risks vary throughout ones housing career
- Risks are multiple and unevenly allocated
- Information about risks varies between agents and limits ‘perfectly rational’ decision making
- Sources of risk and our ability to control them differ
- Allocation of risk and the asymmetric organisation of trust
- Measures to protect households against risk and their differentiation by tenure
- Individualised risk versus socialised risk
- Risk as a basis for understanding social change

We now need to refine and develop a more robust and focused notion of risk as it relates to the system of housing provision, with specific reference to the contingent relations underpinning the investment and consumption of housing services – in the ownership rather than rental sector.

2.4 Risk as emergent from contingently defined relations

Home ownership is a form of consumption which involves a different type and allocation of social and individual risk from rental tenure. Risk is integrally bound to the process of home purchase via the financing arrangements required. Given the substantial financial resources required to purchase a home, almost all households enter into a long term agreement with a lending institution. Time exposes both these households and lenders to circumstances which influence the capacity to meet the obligations outlined in such agreements. Mortgage financed purchase involves long term commitments from households who are subject to changes in their composition and resources in a dynamic finance and labour market.

Risks associated with mortgage financed ownership emerge from temporarily and spatially specific forms of provision, thus they cannot be generalised out of context. It is argued that every system of housing provision comprises various relations, which are always historically embedded in the political, economic and social relations of society. Differences between systems of housing provision are generated by the different definition and packaging of property, investment and savings and labour and welfare relations. The following sub-sections outline these relations in abstract terms and list the type of contingent conditions and risk reducing strategies which may emerge over time and space.

2.5 Key relations underpinning home ownership

Like any form of housing consumption, ownership is defined by the contingent and intersecting social relations of property rights, circuits of investment and savings and labour relations. Private home ownership typically involves commodified property relations and individual mortgage finance which demands a long term capacity to pay. Although we are dealing with similar physical entities, (social) rental housing differs markedly in terms of rights, risks and obligations of occupants and owners (for a discussion of the differences see Lawson, 2003, chapter 5).

The following paragraphs explore the definition of three necessary relations of provision: property, investment and consumption, in order to demonstrate how they can be differently defined under diverse contingent conditions, emitting a variety of risks for different agents. Later these definitions are applied in the Dutch context.

2.5.1 Property relations

Property relations can be perceived as abstract social relations between people, rather than concrete things, which define the liberties, benefits and costs associated with the ownership and exchange of scarce, useable goods. Property relations imply norms of behaviour between people with respect to ownership, trespass, usage, capturing the benefits from that usage, as well as the right to alter the property or transfer it to another party. In Western societies, such relations are commonly expressed in law and enforced by legal authority (Pejovich, 1990: 27).

The *property relations* underpinning the residential development of a city, region or nation play an important role in the form and distribution of housing outcomes (Badcock, 1984). They define the rights of possession, use or development, and may specify how the rewards or costs of occupation, use, or exchange should be allocated. A number of contingent relations may influence the actualisation of property relations between owners of land and residential developers. These are listed below.

Contingent relations influencing the definition of property rights may include:

- Location of land, accessibility to end users, existence of related infrastructure.
- Land tenure: leasehold or freehold
- Certainty and flexibility of land-use or zoning rights: relative value of existing and potential uses.
- Cost of developing land, availability of materials, and suitability for development.
- Costs associated with land holding: taxes, levies, maintenance or transferring property rights.
- Exclusivity of land title: undisputed ownership or threat of repossession.
- Land value: inflating, stable or deflating.
- Competition, collaboration, or monopoly position of landowners or purchasers.
- A secure, long-term method of financing purchase.
- Capacity to repay the loan, the prospects of return and rising land value.

Risk-reducing strategies employed by relevant actors may include:

- Clear system of land survey, legally enforceable system of ownership, undisputed occupation rights.
- Right of compulsory purchase or repossession to meet ‘public interest’ goals.
- Laws permitting the collection of betterment tax on unearned increment in property values.

- Efficient and cost-effective system for transferring ownership.
- Price regulation and compensation based on former usage.
- State-subsidised infrastructure provision.
- Land use planning clearly defined, long term, and protective of property values.
- Monopoly selling or buying strategies.
- Maximising formal and informal influence upon land use defining agents.

2.5.2 Financial relations

Whilst fundamental to the system of housing provision, property relations do not exclusively define housing tenure and urban form. The *financial relations* of housing provision also play an integral and influential role in housing outcomes. Housing is costly to produce. Developers and purchasers of housing, whether they are voluntary, private or state institutions, often require the use of *borrowed capital* to purchase land and materials, or the labour required in order to complete, maintain or refurbish a particular dwelling. In return for capital, the lender or investors (joint venture partners, governments, public banks, retail banks, foreign banks, building societies, merchant banks, insurance companies and pension funds) will require a defined schedule of instalments or dividends. A wide range of contingent relations, as indicated below, defines the actual processes of housing credit provision.

Contingent relations influencing the definition of financial relations may include:

- Interest rate conditions in the capital and mortgage markets
- Existence of lenders offering favourable terms and conditions.
- Competition, collaboration or monopolisation of credit providers for particular segments of the housing market.
- Lending criteria, portfolio policies, services offered and territory of operation (including 'red lining').
- Organisation of mortgage retailing (shop front banking, commission dependent brokers, door to door sales, internet, etc.)
- Risk-return ratio of housing investment relative to other forms of investment, which influence the volume of credit available.
- Desired liquidity and mobility of investment.
- Perceived credit worthiness of borrower, existence of desired security.
- Existence of a range of financial products providing borrowers with a competitive choice.
- Degree of integration of lenders with other components of the housing network such as mortgage lending, insurance provision, land banking, infrastructure investment, residential construction, retail development, etc.
- Processing and bundling individual mortgages into mortgage backed securities and operation of a secondary mortgage market, thereby increasing the flow of mortgage credit at the retail end

Risk-reducing strategies employed by relevant actors may include:

- Fixed interest rates, monetarist policies, interest rate subsidies

- Techniques for assessing credit risk and risk-avoiding conventions.
- Promotion of certain financial management norms, values, processes and standards.
- Requirement of a substantial pre-purchase deposit (eg. 30% of purchase price).
- Conservative estimation of the value of the purchased property, as security in the event of foreclosure
- Promotion of practices supportive of maximising of property values and rents.
- Right of repossession over the property or other assets of the borrower.
- Demanding an equity share in the development or defined share of the profits.
- Security funds to protect investors from defaulting borrowers.
- Government policy regulating the system of credit provision (prudential standards, borrowing limits, deposit requirements, product promotion standards, codes of conduct, consumer rights, duty of care provisions, rights to information, .
- Cross-national treaties defining borrowing limits of governments.
- Subsidies to channel investment into particular sectors.
- Mutually reinforcing lending strategies, land banking, or company directorships
- System of bonuses and commissions promoting certain mortgage products
- Establishment of savings clubs and building societies
- Packaging of individual mortgages of like terms and conditions into mortgage backed securities

2.5.3 Labour relations

The way housing is 'consumed' and the circuit of investment (via landlords or owner occupiers) not only relates to property rights or investment mechanisms, but also to the system of *labour relations and welfare provisions* affecting the consumption of housing services, which often emerges over a long period of time (Castles, 1997, 1988; Kemeny, 1992; Therborn, 1989). Norms associated with the division of labour in the home, care of children, participation in paid workforce etc., all affect the capacity to pay for housing services. Family members, social networks, the wider community, as well as private, voluntary or state institutions may all provide some form of housing assistance and consolidate to 'fix' one form of housing consumption over another (Kemeny, 1992). As indicated below, a wide range of contingent, exogenous relations may influence the system of labour and welfare and ultimately the dominant pattern of housing consumption.

Contingent relations influencing the definition of labour and welfare relations may include:

- Economic value of skills possessed by members of household as determined by the labour market or prescribed by the state.
- Gender relations within a household allocating participation in paid work.
- Economic relations within the household and wider community networks.
- Existing labour-market norms, including discrimination against older men, migrants or married women in times of job scarcity.
- Informal or formal support services, such as affordable or free child-care.

- Economic policies of government regulating job growth, wage levels; such trade-offs and conditions that influence the ability of households to consume certain housing services.
- Role of labour organisations in promoting certain forms of housing production and services.
- System of social security, which may or may not cover ongoing housing expenses following retirement from the paid workforce.
- Role of welfare organisations in diverting collective resources to or away from housing-related support.

Risk-reducing strategies employed by relevant actors may include:

- Wage indexation, agreements and more general accords to regulate income levels and working conditions.
- Income transfers to maintain a certain level of purchasing power amongst households
- Breaking down traditional barriers to paid female employment (ideas about the role of both parents, division of paid labour, child development and domestic responsibilities)
- Provisions for paid maternity and paternity leave, child friendly work arrangements
- Available and affordable child care, education and after school programs
- Engagement of extended family to provide unpaid child care
- Housing allowances to assist payment of housing costs.
- Supplementary paid work (over time, additional (shift) work)
- Rent regulations to reduce or sustain a certain level of housing costs.
- Income and life insurance

The following section examines how these integral relations have been contingently defined in the Netherlands over the past two decades.

3 Dynamic relations in the Dutch system of housing provision

3.1 Introduction

All recent shifts in housing provision are embedded in the structures, institutions and actions of the past. For this reason, this section takes a strategic historical approach in order to place the contemporary shift towards home ownership in its emergent causal context.

Armed with the conceptual insights and probes outlined in section 2, it is now time to investigate the relevant past, recent and contemporary situation in the Dutch housing market in order to move towards an analysis of risk and marginality amongst purchasers. Rather than recount a chronology of events and policy interventions, the following analysis of recent housing history focuses upon the property, finance and labour relations defined earlier and their actual contingent definition. Further, special attention is given to the decline of the social rental sector in the provision of low cost rental accommodation, as rising rents and eligibility requirements have pushed many from renting dwellings into owner occupation. On the pull side, low interest rates, a buoyant economy and more flexible lending criteria have recently enticed many to purchase rather rent housing services.

3.2 Contingently defined property relations

For most of the 20th century, municipalities have played a relatively safe and predictable monopoly role in the planning, purchase, development and targeted release of land for new housing development.[4] However, an important shift in the municipality's role in the land development process occurred in the mid 1980s, opening up the bidding process and specifically promoting development around major cities in the Randstad region.

In the context of economic stagnation, unstable land prices and unemployment, the land development companies of smaller towns suffered major losses (Needham, 1988:73). The Fourth Report for Spatial Planning ended the growth and new town policies that had created cities such as Almere and Zoetermeer. The new policy concentrated development in an around a select number of major cities and promoted the construction of housing for purchase. Of course, such a policy influenced the land market and investments in these and less favoured areas.
Importantly, an addition was made to the Fourth Report in 1994, known as VINEX. This supplementary policy argued that environmental problems justified the need to minimise

[44] Reporting on Dutch land practices in 1988 Needham exclaimed that:
[t]he high quality of the housing and of the built environment in The Netherlands is undoubtedly attributable to a very large extent to the fact that the municipalities are the suppliers of most of the building land, and that they use this position most positively and creatively; the land cost in housing is not high; housing is built when and where it is desired, not when and where the land market makes it possible; some 'social mix' is achieved within neighbourhoods by not disposing of land for huge one-class housing estates (Needham, 1988:73).

car transport. This could be achieved via the expansion of existing urban areas with transport infrastructure. Numerous locations were openly specified, each sufficient for approximately 5,000 dwellings - before municipalities had the chance to secure land ownership. To enable these municipalities to realise their housing plans, central government negotiated targeted packages with regions and provinces, to subsidise land costs and contribute to the development of public transport and green spaces. According to Terhorst and Van de Ven, environmentalists, the agricultural sector, pension funds and the planning profession formed a powerful coalition behind this policy (1997:319).[5]

In a more open land market, the land companies of Randstad municipalities were no longer sole players able to pay market prices for the purchase and processing of former agricultural land for housing development. By publicly announcing their intentions early on, the central government awakened dormant players who entered the land market, promoting land speculation and increasing land prices - sometimes above municipal capacity to purchase.[6][7]

Today there are not only more players in the market, but they possess different resources and thus different powers of negotiation.[8] According to research by Korthals Altes and Groetelaers (2000) municipalities remain important players in the land market, but their task has become more complex and risky with less say over the content of future housing developments. Municipalities, once accused of profiting from their monopoly position, must now operate more transparently and encourage more opportunities for private-for-profit dwelling construction of homes for purchase, in order to promote 'choice' (Remkes, 2001). Yet the choice is not for everyone. The proportion of social housing in new areas has declined leading some to argue that new urban areas will only be accessible to a

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[5] According to these authors, environmentalists advocated compact urbanisation connected by public transport, the agricultural sector favoured urban containment, pensions funds favoured scarcity created by physical planning and planners orientated to balanced development favoured control over sprawl (Terhorst and Van der Ven, 1997:319)

[6] Indeed, the municipality of Leidsendam experienced a three-fold increase in land prices, from 15 to 45 guilders per square meter in their Leidseveen VINEX location. (Groetelaers, 2000, Needham, 1997, Meijer, 1996). In other cases, private developers simply bought the best plots from farmers just outside VINEX locations, where development gain could be the greatest, and waited.

[7] Residential development, once the domain of municipalities and housing associations, now involves multiple often-conflicting partners necessitating lengthy negotiations. This is confirmed by Groetelaers' study of 181 municipal land development companies:

Groetelaers writes: "the risks [for non-municipal players in the land market] decreased because of a flourishing housing market, a good economy and a changing context (policy). The smaller risks in combination with the publishing of VINEX, in which future urban extension areas where marked out on a map, where an 'open invitation' to private developers and building companies to acquire land and to get involved in the urban land development process" (Groetelaers, 2000:3).

[8] According to Groetelaers: "All actors [in the] real estate market have acquired land by negotiating. In the process municipalities often have less financial space than private developers, which results in a weak position during negotiation" (Groetelaers, 2000:7).

narrow range of household incomes (Terhorst and Vande Ven, 1997:327) and the poor will continue to remain in less wealthy city centres exacerbating their problems.[9]

In addition, the former State Secretary (Remkes) heavily promoted the sale of social dwellings, especially in larger cities, in the interests of 'consumer choice' despite resistance from 'independent' housing associations.[10] Yet entrepreneurial housing associations implementing this policy have also come under scrutiny. The State Secretary ordered the closure of sales offices run by associations, which mediated between tenants and associations, and demanded that existing real estate agents, operating in the private-for-profit sphere, exclusively handle the sales of social houses.

A new law, giving preference to expanding municipalities, aims to partially restore their diminished market position in new residential developments. These municipalities can use this law to fulfil provincial or central government plans in an around their cities, such as the establishment of parks, new houses, industrial areas and infrastructure. They can also demand conditions for the right to exploit land, without having to expropriate it. Only when planning conditions are not met, can the municipality compulsorily purchase in the public interest. However, municipalities must not use the law as a means to become a project developer, which continues to be discouraged by central government.

To further restore the weakened position of municipalities, a new national land policy was launched in 2000 and later passed by parliament in 2001. It requires land exploitation permits to be obtained by landowners and a contribution made to a fund for public infrastructure. When infrastructure is unable to be provided by the developer in a timely manner, municipalities can choose to expropriate required land in order to implement plans, paying inflated market rates and cash compensation.

By September 2001, the level of housing produced was half that anticipated by the State Secretary for Housing and crisis meetings were being held with industry representatives. These groups blamed local and provincial government urban planning requirements and processes for the slow down (Volkskrant, 8 September, 2001). Other experts blame the developments of the 1980s, which weakened position of the state in land release:

> *the most important cause of the stagnation is the market parties, including housing associations and sometimes municipal land companies. They and not the government now define the rhythm of building production, and have much interest in scarcity (Muňoz Gielen, 2002).*

The housing market is now primarily attuned to the needs for capital gains through sustained house price inflation. This of course is in the interests of everyone in the market, with the exclusion of new entrants.

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[9] Further, the VINEX policy stipulates a maximum percentage of social housing to be developed, 30 percent in new areas and 50 percent in inner cities. 'Fair' allocation has been perceived as the construction of as many non-subsidised home ownership units as possible (Terhorst and Van de Ven, 1997:320).

[10] Bouw, 1998, 'Ontwikkelaars negeren volkshuisvesting: corporaties en vinex' 53 (12):8-11

3.3 Contingently defined savings and investment relations

Not only has the monopoly position of the municipality been challenged, but also the role of the central government in channelling finance into the housing sector has been curtailed and privatised. By the mid 1980s, in a climate of financial austerity, the role of the central government in financing housing associations came under question.[11] In 1986, allegations of fraudulent activity by investors manipulating subsidy systems in the building sector began to emerge.[12] It was argued that subsidies should shift from the dwelling to the tenant, rents should rise and a proportion of social rental dwellings be sold (Murie and Priemus, 1994:113).
Until 1988, government secured loans had financed housing associations and municipal housing companies, set at market rates.[13]Institutional investors as well as social housing providers received object subsidies to ensure high levels of building activity, rents increases were moderate[14] and controlled to ensure affordability and wage restraint. Further, generous demand side subsidies, rental-housing allowances, were also provided to eligible tenants.
By the end of the 1980s under pressure from the Ministry of Finance, the central government proposed to withdraw completely from arranging finance for social housing production. Much emphasis was placed upon private and transparent nature of social housing provision, separate and independent from government. In this context housing associations were forced to become more financially independent and autonomous.

In 1993 the government initiated the process of cancelling all outstanding government secured loans to housing associations and Municipalities, in advance of forthcoming subsidies for renovations and construction. This 'grossing-up' process, known as *Brutering* made it feasible for Associations with good reserves to obtain funds independently from the capital market during a favourable interest rate climate. Central government temporarily secured the rent revenue stream, by permitting increases above the rate of inflation for several years.[15] Rents continue to increase, whilst the rate of incline has actually fluctuated.

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[11] Speaking in an interview in 1983, one substantial and influential constructor of dwellings, considered that the social housing budget was cut due the heavy drain it placed on government finances, via loans, object and subject subsides. Harloe Archive, Salford University Manchester.
[12] A Parliamentary Inquiry was held in 1987-1988 to investigate accusations of fraud and the role of central government administrating various subsidy rules and regulations affecting municipalities and the building industry (Murie and Priemus, 1994:113).
[13] Whilst between 1934 and the early 1960s market rates were reduced by hidden government subsidies to suppress cost rents.
[14] Between 1970 and 1979 real rents actually declined by 0.3%. Between 1980 and 1989 real rents increased by 1 % (Source: CBS and VROM, in Nota Wonen (2000) Table 6.2 Huurprijsontwikkeling 1950-2000)
[15] Yet this also had the consequence of pushing better off tenants into home ownership.

Table 3.1
Rent price developments 1990-2000.

Year	% Inflation	% Rent increase*	% Real rent increase
1990	2.5	3.3	0
1991	3.1	5.9	2.8
1992	3.2	5.6	2.4
1993	2.6	5.4	2.8
1994	2.7	5.2	2.5
1995	2	4.7	2.7
1996	2	4.1	2.1
1997	2.2	3.7	1.5
1998	2	3.4	1.4
1999	2	3	1
2000	2.2**	2.5***	0.3

Source: CBS/VROM, 2000 table 6.2, * exclusive rent harmonisation, **prognosis CPB, ***Huur Brief 2000.

Dutch housing associations must support improvements and stock expansion by utilising their own reserves (enhanced via favourable market conditions, the Brutering process and rent increases above inflation), private loans, financial restructuring and economically driven development strategies. Initially, the capital market was unfamiliar with the character and quality of social housing as an investment. Further, the financial health of Associations varied considerably, making the market cautious and interest rates potentially crippling. Towards this aim, the National Housing Council (Nationale Woningraad) and Ministry of Housing, Physical Planning and the Environment (VROM) proposed the establishment of the guarantee structure for reducing the risk and thereby the cost of capital loans. Two financial institutions have since been established to secure loans at more favourable interest rates for all Associations (WSW) and improve the financial structure of poorer ones (CFV).

Housing associations are now operating in a dynamic financial environment where minor changes in the rate of inflation, interest or rent can have major implications for financial reserves, solvency, and ultimately rents charged.

The primary investor in social housing in The Netherlands is the publicly owned Bank of Dutch Municipalities (Bank Nederlandse Gemeenten, BNG)[16], with commercial banks and pension funds playing a lesser role. Its dominant position in social housing finance has concerned AEDES, the combined umbrella group for association sector. They have

[16] In 1996 the BNG provided 18 billion USD in loans to housing associations. It is owned by and provides a dividend to central and municipal governments, each holding a 50 per cent share holding. The bank has a supervisory board of Ministers, Mayors, housing associations, and economic experts. Efficient payment services, secure electronic banking mechanisms and small overheads (one central office), reduce costs and therefore interest charged. The Banks also has a triple A rating and provides some of the cheapest loans to associations, allowing for a very low return.

initiated the establishment of another specialist mortgage provider, with stronger ties to one of larger commercial banks (ABN/AMRO). [17]

The Dutch government now plays a diminished but essential role in financing social housing yet faces little direct risk. The current role of the government in housing is guiding the operation of 'independent' associations, determining rent policy and permissible increases and providing housing allowances to tenants.

In the ownership sector, the government plays an important promotional role, providing substantial tax relief for home purchasers and setting low rates of imputed rent tax. Indeed, over the past decade home ownership has assumed far wider ideological prominence than any other sector. The proportion of social rented dwellings has declined with the promotion of owner occupation through central government taxation incentives, flow of funds into home mortgages and a flow of investment into free sector for land and housing development. The proportion of home purchasers and outright owners increased from 42 percent in 1981 to 52 percent in 2001 (VROM, 2001). On average, Dutch households became much wealthier in the second half of the 1990s, not only via their income but also via the appreciation of housing assets amongst homeowners (DNB, 2000:32). Indeed, appreciation was largely derived from dramatic rises in house prices, especially between 1995 and 1999 and is considered by industry groups to have played large but unacknowledged role in national economic growth (NVM in RICS, 2002).

During the 1990s, capital flowed from less profitable sectors of the stock exchange and bonds market to the property market. Financial institutions, such as ING and various pension funds, invested heavily in the residential property. Construction firms such as Hollandsche Beton Group (HBG), Volker Steven and the BAM Group were major recipients.[18]

Investment in mortgages at the lower end of the market was promoted by the re-launch of the mortgage guarantee.[19] A fund based on borrowers' premiums enabled the creation of the National Mortgage Guarantee in 1995. This triple A rated guarantee facilitated a lower interest rate for modest borrowers. In case of default, payment of interest and mortgage premiums were secured by the Foundation Guarantee Fund, which was backed by government guarantee in the context of an inflating housing market. With standardised, nationwide conditions and promotion via mortgage retailers, 80 percent of mortgages received a guarantee in 1995. However, with house prices in major employment centres rising rapidly, fewer purchasers could borrow within the loan to income ratios required and their NHG's share of the market has plummeted to 50 percent (Mersmann, 2002) and more recently 20% (Boelhouwer, 2003).

In general, inflationary and interest rate conditions were very favourable for existing owners and investors. From an average of 9.25 per cent in 1991, rates declined to 5.14 per cent in 1999, yet rose slightly to around 6.25 percent in 2004 (Boelhouwer, 2003:10,

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[17] Interview with Hans Polman, Director Public Housing, BNG, 1999, Lawson interview archive

[18] Cobouw, 1994, Vol. 138 (3) 'ING Groep ijzersterk verankerd in de bouw' [ING group strongly anchored in construction]

[19] Initially established in 1957, this mechanism had been locally administrated, with differing conditions and was relatively ineffective nationally.

data from CBS). Many borrowers fixed their home loan interest rates for long periods (5, 10 and even 15 years) capturing the low rate and buffering themselves from fluctuating obligations. The market for mortgages grew exponentially in the second half of the 1990s. As competition amongst lenders intensified new institutions such as the secondary mortgage market, new mortgage products and selling formats were developed, which fully exploited the government's policy enabling the deduction of mortgage interest.[20]The development of the secondary mortgage market is one new trend promoting the large volume of credit that has flowed into the retail mortgage sector. Coupled with developments in the supply of mortgages are those at the consumer interface. Rising rents (due to the removal of object subsidies and new financial relations in the social housing sector) pushed higher income tenants into the home ownership market. Yet this was a market based on two household incomes, not one. Dual income households were encouraged to borrow under a much more permissive lending regime, a growing job market and generous tax incentives.

As mentioned, the housing market during the late 1990s was highly inflationary. According to Boelhouwer prices grew by 9.5 percent per annum between 1995 and 1998, and by more than15 per cent per annum between1998 and 2000 (Boelhouwer, 2003:3 data from NVM and Monitor Nieuwe Woningen). Purchase prices in sought after housing markets skyrocketed, partly based on 'double income' capacity to pay and a flush of available credit. Yet today, many households are bound to mortgage contracts requiring high monthly premiums and thus, two full time incomes in a more precarious labour market. According to a European survey by the Royal Institute of Chartered Surveyors, Dutch households have taken on more debt than any other in Europe.

> *Undoubtedly, the biggest problem facing the housing market is that the boom was sustained by a huge increase in mortgage lending that has made the country 's home owners some of the most indebted in Europe (RICS, 2001).*

The European and National reserve banks are concerned about the implications of over indebtedness for national financial security. The Dutch National Bank has cautioned lenders that their borrowers are vulnerable to the inevitable decline in house prices,

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[20] Since 1996 the process of securitisation of home mortgages began to develop and a secondary mortgage market is now firmly established but currently processes less than 10% mortgages. This market permits the originator of mortgages to hand over legal responsibility to a special purpose vehicle (SPV). A SPV can issue mortgage-backed securities that can be openly traded. This process improves the balance sheet and cash flow of the mortgage originators and allows them to issue more loans (DNB, 2000a, Mersmann, 2002).

when the boom finally busts or taxation policy changes[21] and indeed marginal changes in interest rates. [22]

3.4 Contingently defined labour and welfare relations

With its roots in the Great Depression and WWII, the Dutch welfare state had emerged from the negotiated consensus between the social partners rooted in dominant Christian ideology, rather than the division between labour and capital (Van der Reijden, 1989). This system later became supported by resource royalties in the 1970s. Yet over the past decade, the general directions of government policies in the socio-economic field have been strongly influenced by monetary and fiscal policies in an intra-governmental European context. Thus national corporate interdependency has taken place within an internationally orientated economy, which has given little room for manoeuvre and government ambition (Geelhoed, 1989).

For the first time since 1945, economic growth during the early to mid 1980s did not bring additional employment. Labour intensive industries were moving their plants to low wage countries in Asia, Eastern Europe and Africa. A second-generation birth wave brought a massive influx of young school leavers into the job market, whilst technological change meant that the skills of their parents were increasingly obsolete (Vlek, 1998). New migrants were also competing for low skilled work, and as job opportunities for the low skilled diminished, long-term unemployment amongst older members of the labour market became entrenched. By the beginning of the 1980s, a gap emerged between the skills offered and those demanded in the labour market. Structural unemployment was and remains concentrated in the major cities such as Rotterdam and Amsterdam.

Since the 1980s there has been ongoing discussion between unions, employers and the central government about lowering labour costs to a minimum wage level to increase labour demand. During these negotiations the concept of the single male breadwinner, bringing home sufficient pay to cater for all the families needs has diminished. At this time, an increasing proportion of women were joining the paid, predominantly part time workforce in the service sector, complimenting the declining real wages of traditional male breadwinners.

The Wassenaar Labour Agreement of 1982 specified moderate wage demands in exchange for reduced working hours and preservation of the system of social welfare (Terhorst and Van de Ven, 1997:313). Collective work agreements contained wage

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[21] The policy mortgage of interest relief is not set in stone. During the 2003 election campaign, the Labour Party floated the reduction of mortgage interest relief for high-income earners and the broadening of relief for lower incomes to promote access to the housing market. Conservative political parties: the Christian Democrats and Liberals were opposed, and in preference promoted the scrapping of the property tax (of most benefit to those with high value properties).

[22] Home loan interest rates are currently declining to the benefit of those with variable rate loans. Yet, many Dutch purchasers prefer the certainty of a fixed rate for up to 10 years. Yet in April 2002, the EU argues that lenders should not be able to issue fixed interest loans after 2005 in order to promote more competition.

demands, particularly amongst labour intensive industries, and have been internationally praised as the mechanism for subsequent job growth in the late 1980s and mid to late 1990s. Further, major transport infrastructure projects have been fostered to promote private investment and generate employment in the distribution and service economy.

Yet during the 1980s and 1990s, Dutch welfare provisions came into regular and increasing conflict with monetarist fiscal policy driven by the entry requirements for European Monetary Union (Vlek, 1998). Under this paradigm, governments are considered best if they are small, their public services privatised and driven by market principles. In this context the social security buffer has come under scrutiny, driving the call for more targeted, reduced benefits and to discipline beneficiaries to look for work.

As mentioned earlier, the social welfare system is largely a contributory one, paid for by the policy premiums and taxes of low to middle income earners. Between 1976 and 1998 cuts in social spending raised 40 million guiders annually in savings on all social benefits, workers insurances, social provisions and pensions (Vlek, 1998:7). In recent years individual social contributions by employees have been criticised by employers. According to some employers, wages diverted to pensions presents a break consumer spending, harms international competitiveness and fuels wage demands. Yet premiums are desperately needed to feed a system obliged to an aging membership, yet relying on declining number policyholders and investment dividends. The sector has lobbied hard for an increase in premium, which are regulated by the central government.[23]

Individual Rental Allowance falls outside the individual insurance circuit. It is funded from general taxation revenue and is universally available to all tenants within certain rent and income limits. It is no longer a direct, project specific demand subsidy relating to the cost rent system, as in the 1970s, but a more targeted *welfare* policy available to *eligible* tenants. Expenditure on rental allowances rose considerably during the 1980s despite efforts to contain it.[24]After years of circling debate and increasing cost to the state, the then State Secretary (Heerma) recommended a number of measures to secure budget savings and reduce the financial burden: limiting subsidies to young people, sharpening the quality discount and limiting the rent that could be subsidised to 700 guilders. These provisions were to deliver 45 million guilders savings every year beginning in 1988. Yet the cost to the central government has continued to grow.[25]

Today rental allowance is the central governments only vehicle for influencing housing related welfare. It can adjust the eligibility criteria (income, rent levels, etc) and the level

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[23] In the 2003 election the Christian Democrats promoted a doubling of social security premiums and wholesale revision of the system, the Labour party was against the increase and the pace of reforms.

[24] These efforts included disassociating changes in minimum income from the changes in the level of subsidy, passing on rent increases to both non and subsidy receivers, calculation of all incomes in subsidised dwellings, lowering of the maximum subsidised dwelling and implementation of special rules for single person households (De Jong and Schoonhoven, 1992:61).

[25] Despite targeting almost half of renters remained eligible for the subsidy (De Jong and Schoonhaven, 1992:80-86). Further, targeting would not control contingent developments affecting demand for the subsidy, such as divorce, structural unemployment, low wage growth in certain sectors and the individualisation of households.

of payment provided. Whilst some commentators have argued that rent allowances have been too broad and deep, other aspects of rent policy have clearly not favoured tenants in recent years. During the mid to late 1990s, the government permitted rent increases above the rate of inflation (see Table 3.1 above), kept the eligible upper rent limit for allowances low, encouraged more targeted allocation of housing and promoted the sale of social housing to financially able tenants.[26] [27]These actions were motivated by the central governments strategy to protect the primary revenue source of the social landlords and secure their financial continuity, thereby stabilise the sector in the new financial context (outlined in this sub section above).

This financial context has played an implicit role defining the implementation of the social task of housing associations (to target low income households and those in housing need). In practice, associations have undertaken entrepreneurial activities, built for profit and ownership sectors, sold rental stock for owner occupation, liberalised and raised rents and merged with other associations. The market orientated activities of some associations, in the context of greater freedom to set rents, has reduced affordability for some low-income families. Increasing homelessness has also been noted (Priemus, 1996). According to Van Kempen et al (2000):

> *the operating risks of the housing associations were redefined to closely resemble those of large-scale private land lords. It is likely that this will entice them to adapt their operating rules and management strategies, resulting in severe erosion of the position of low-income households in the housing market (Van Kempen et al, 2000:512).*

Home ownership, once the preserve of wealthier Dutch households, is now being heavily promoted as a mainstream option by central government.[28] The government's explicit goal is to encourage the housing consumer's self-sufficiency (Vermaat 1996). To this end, social landlords have been encouraged to sell existing stock to suitable sitting tenants.

The new VINEX housing is primarily built by private firms for sale and not social rental. In a conducive finance and employment market, households have been enticed to borrow heavily in order to fund home purchase. Borrowing was made more attractive via generous (but regressive) taxation concessions enabling the deduction of the costs of

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[26] Since the late 1980s the government has expressed its commitment to the sale of some (15-20,000) social houses with the proceeds returning to the association to fund new or improvements to dwellings (Murie and Priemus, 1994:120). In recent years, the central governments drive to sell stock has accelerated, with the demand to sell of 500,000 rental dwellings to tenants via heavy discounting (DGVH, 2002).

[27] However, the number of rental dwellings sold to (future) renters by social landlords increased only very slowly, from 5,687 dwellings (2.5 per 1000) in 1993 to 8,158 (3.5 per 1000) in 1995 (various years, CBS, Maandstatistiek Bouwnijverheid: Table 5).

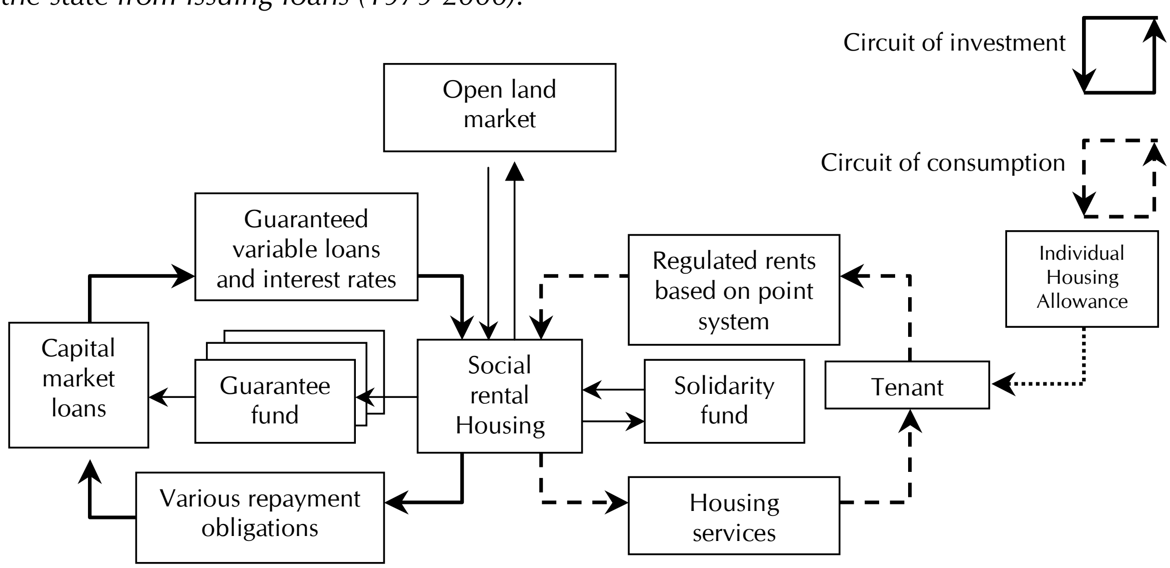
[28] The current state secretary for housing (DGVH, 2002) employs the libertarian language of public choice and anti paternalism to increase sales of social housing and bring more houses onto the private market in cities such as Amsterdam. He has embedded home ownership into a notion of citizenship, and in the context of very low production, this ideal can only be achieved by the sale of many more social rental dwellings.[28]

home finance. By 1995 almost one in every two households owned or was purchasing their home (NRW, 1997:13).

3.5 The generation of risk in the Netherlands since 1983

The following illustration (fig 3.1) depicts the fundamental changes that have occurred during the 1980s and 1990s redefining the traditional core of the Dutch solution, reallocating housing risks amongst different players. First and foremost, we see that the central government is no longer in control of the volume of the loan program for social rental housing. Housing associations must now access the capital market directly. They have improved their access to this market by obtaining a guarantee (WSW), which in the last resort is secured by the central and local government and financial re-organisation (CFV). Secondly, the monopoly position held by municipalities in the land market has been diminished. New players include project developers capable of implementing development plans.

Figure 3.1
Abstraction of the flow of capital via social housing sector, following the withdrawal of the state from issuing loans (1979-2000).



The government is no longer in a position to use the social sector as a counter cyclical tool during times of low production and high housing need. It has lost considerable control of the nature and level of housing outcomes produced. Overall, housing production levels are alarmingly low, and scarcity has kept prices high. Further, a number of current and potential crises could lead to the demise of the social housing sector itself. Problems include speculative activity in the land market, rising prices above those feasible for social rental exploitation; the slow 'eating away' of housing association reserves during less favourable monetary conditions; increasing residualisation of the tenant base as more wealthy tenants are both pushed and pulled out of the sector and almost total reliance on subject subsidies to achieve housing welfare, whilst other costs are unchecked. Further, increasing entrepreneurial activities may erode the legitimacy of the sector undermining any future government assistance.

Home ownership is fast becoming the dominant form of housing consumption in a package of housing options in the Netherlands. Ownership has been encouraged by low interest rates, inflating housing prices, the discounted sale of social housing stock (albeit not in the numbers demanded by central government), the re-launch and promotion of the *National* Mortgage Guarantee, and generous tax advantages. Within the finance sector, a number of developments have fostered the growth of home purchase: a more permissive lending regime based on two incomes, establishment of a secondary mortgage market and a brokering sector generating markets for new mortgage products.

Political support for home ownership is more difficult to explain, as it is not necessarily a rational choice for many households with generous welfare provisions and future pensions and affordable and secure rental housing options. It can be said that home ownership was an extension of the governments commitment to minimise dependence upon social housing subsidies and reduce post retirement housing costs. Yet in trying to reduce one form of revenue 'dependence' another far more regressive one has taken hold. Generous, untargeted tax provisions have encouraged borrowers to lend more extensively, bolstering house prices and catapulting many new purchasers into the category of Europe's 'most indebted' households. Indeed, today's housing prices are excluding young and single first home buyers and place many outside the eligibility requirements of the National Mortgage Guarantee. For some purchasers, the level of post retirement housing costs are uncertain, given the risks associated with investing in shares using borrowed funds to repay the cost of financing home purchase.

In summary, the Dutch housing market is characterised by scarcity and increasingly subject to inflationary tendencies as non-market players recede and rental options for middle income households become less accessible and attractive. The following chapter will focus on the financial relations that are operating to influence the home ownership sector.

4 Home finance and the circuit of investment and savings

4.1 Introduction

Whilst all the historically defined relations mentioned provide a crucial context for the study of risk and home ownership, this section intends to focus on just one important dimension, that of mortgage finance. A focus on this realm of provision is warranted as it is of primary importance in allocating contemporary housing risks for a new wave of home buyers.

4.2 Key concepts in housing finance and household risk

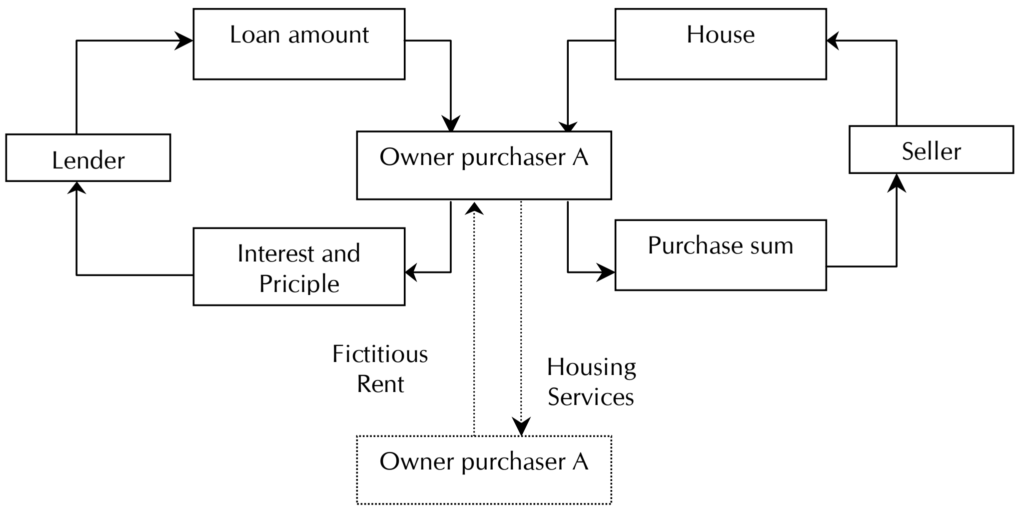
The mortgage instrument plays a key central role in capitalist housing relations. Houses are expensive to produce and thus relatively costly to consume. Yet a house is generally bought from a vender in a *one off cash payment*. This swift transaction requires the arrangement of credit by the purchaser, through which loan repayments can be spread over time. In most circumstances, when an owner occupant purchases a dwelling, they do so with borrowed investment capital. Repayments are made according to a schedule of payments of principle and interest and there are many variations in the form, terms and conditions of a mortgage. These variations are important for the distribution of risk and are discussed in subsequent sections of this report.

4.2.1 Abstract circuits of investment and purchase

As mentioned above, homeowners finance their purchase with home loan mortgage capital. In the diagram below (figure 4.1), ownership and the consumption of housing services have been teased from each other. In this way, we can see that homeowners are both investors and consumers. This is often a surprise to many owners unconscious of this division. Nevertheless, rental 'income' is the subject of much debate amongst housing economists. Is housing a capital or consumption good, and thus, how should it be taxed? Fictitious income from the rent of the dwelling, as distinct from outgoings associated with mortgage payments and maintenance, may be treated as income and thus liable for taxation. As these 'imputed rents' are fictitious, the taxes they attract are often unpopular and tend to be set at a low level. For this reason, home ownership is often found to be more affordable than renting in the long term.

As mentioned, the purchase of the home occurs in one swift transaction, most commonly funded by mortgage finance. Yet few purchasers have the ready cash for such a large transaction and therefore must enter a mortgage contract with a lending institution, to repay borrowed funds over a maximum period of 20 to 30 years. Long-term loans are necessary as the amount of the loan is often several times the annual income of the borrower. In this way payments of principle and interest can be spread over time (Boleat, 1986). Unlike rental investment, the term of the loan for individual ownership must be limited to the life and income expectations of the *owner occupant*.[29]

Figure 4.1
Abstraction of capital flows in owner occupied housing.



adapted from Terhorst and Van de Ven, 1983:25

Following initial purchase, there is no relationship between the amount of credit borrowed and the fluctuating value of the property. If the value of the house increases payments remain the same. Payments can be fixed according to the schedule agreed with the lender for a period up to 30 years. This schedule provides certainty to the owner occupant regarding their long term, often declining housing costs – especially where interest rates are fixed for longer periods. By the end of the loan term, housing costs are minimal. In contrast, a tenant does not have this certainty as their housing costs may fluctuate according to rental market conditions (be it cost rent or market rent) and rarely reduce over time.

4.2.2 Subsidies affecting supply and demand

As with rental housing, a range of subsidies may be provided affecting both the supply and demand of owner occupied dwellings. On the supply side, various subsidies and regulations may affect production costs by influencing the cost of land, materials, building methods and quality standards. Further, intervention may also occur in the financing of dwellings via regulation of mortgages, interest rates, interest rate subsidies, and the securitisation of loans. Purchase may be assisted via the supporting wage levels and conditions, favourable income tax rules permitting deduction of interest paid and minimal imputed rent taxes and simple 'starters' grants.

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[29] Kemeny (1981:20, 1983) has much to say about the desirability of traditional mortgage schemes, which may concentrate costs in the early phases of the family cycle yet relieves mature households capable of paying higher costs.

4.2.3 Housing finance and the capital market

Figure 4.1 is very abstract and does not situate flows of housing capital within the wider context of saving and investments or the capital markets. Indeed, the housing sub-circuit is one of many that exist in the capital markets and is an important link in the chain of housing provision. The home finance sector is implanted in the broader financial, fiscal and legal infrastructure of specific banking laws, contracts, regulations, subsidy and accounting systems. In turn these are also linked to conditions in the world economy, and the nation's (now Europe's) exchange rate, interest rate and credit policy.

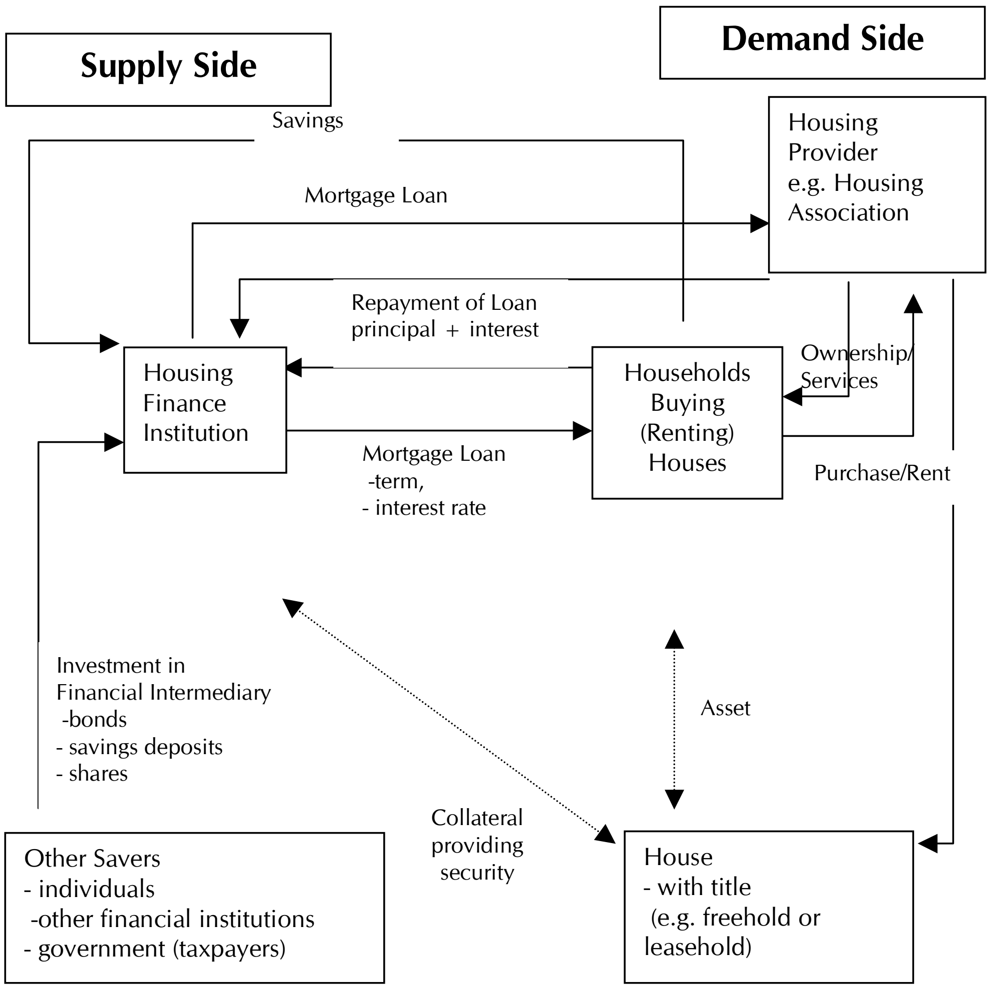
4.2.4 Housing finance system and the circulation of savings

Moving 'down' from the level of abstraction of tenure related capital circuits, outlined in figure 4.1, we can consider the interplay between institutions involved in financing housing provision. Most importantly, the housing finance system is influenced by the capacity of people to save, to deposit these savings and express effective demand. This process of linking savers to borrowers is called 'intermediation'.

Figure 4.2 addresses this link and portrays the housing finance system as an intermediary between a wide variety of savers and specific borrowers of housing finance (Boleat,1985, Lindfield and Baharoglu, 2000). Typically, savers place their money in bank accounts or mutual funds (unit trusts) and those institutions either provide long term loans to house buyers directly (eg building societies) or lend to, buy bonds of, or buy shares in specialist mortgage providers that in turn provide mortgages.

Finance for housing production may be issued in a variety of forms: as a grant, subordinated loan, mortgage or equity share holding. For loans, the level of principal and interest may be fixed or vary for a defined term (Haffner, Turner and Whitehead, 1997). The conditions of credit may require a down payment or collateral for security, payment for insurance against defaults and a reliable guarantor (Boelhouwer, 1993). The investor may demand particular forms of marketable development, building processes and standards, or the minimum the rent level and even specify the desired profile of eligible tenants.

Figure 4.2
Intermediation and links within the housing finance system



(Lindfield and Baragalho,2000)

4.2.5 Channelling savings through various institutions

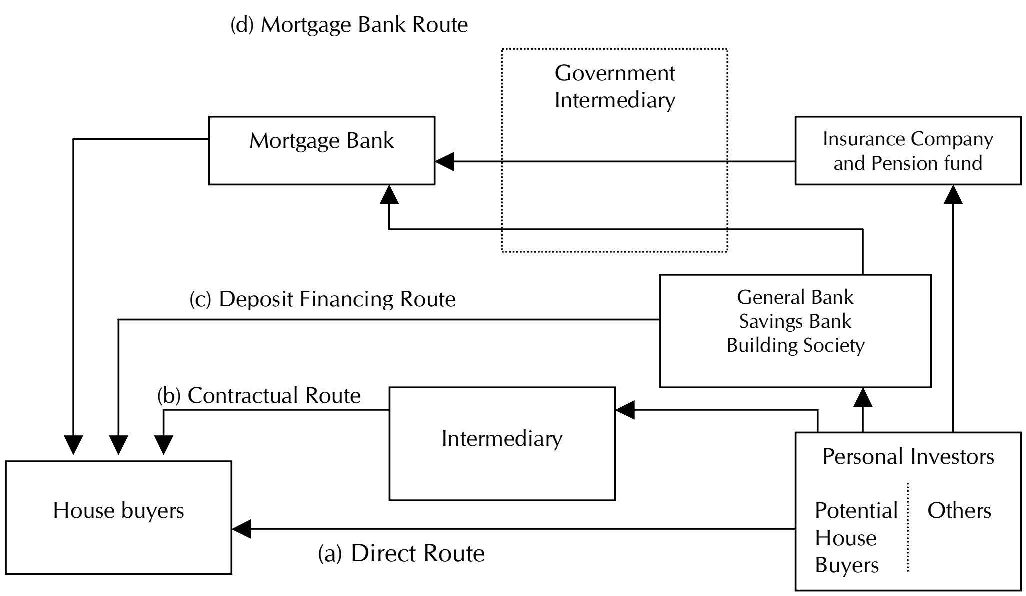
The illustration above (fig 4.2) is merely one conceptualisation demonstrating the link between savings, investors, property rights and housing purchase. In section 5 we will examine the actual situation in The Netherlands. In most countries, intermediation occurs via many different institutional routes, linking different types of savers to different types of purchasers. Savings, for housing purposes, may be channelled through various types of financial institutions (in the organizational sense) that concentrate on different fields and interests. These institutions include investors, commercial and savings banks, pension funds and insurance companies, building societies, mortgage banks and government agencies (Boelhouwer, 1997, Lomax, 1991, Boléat, 1985).

Some institutions seek long-term, risk free, low return investments, whilst others pursue flexible, short-term, high return opportunities. This is because the financial institution's own source of investment may cause it to be vulnerable to a range of *non*-housing concerns. Their immediate environment may also influence investment behaviour. This environment may comprise competing investors or pricing cartels (sf. Bengs and Rönkä, 1994); stimulate or impede product innovation (Haffner, Turner and Whitehead, 1997); and or promote trust in contractual arrangements (Buckely, 1994). Alternatively, institutions may be very exposed to housing issues such as housing shortages and quality.

Specifically, housing investors may rely on a financial return via the developments in rental revenue, improved land value, the sale of mortgages and related insurance products. Alternatively, non-economic, societal objectives may play a role. For these reasons, the observable behaviour and underlying interests of the investor must be critically analysed to explain their contribution difference and change in various systems of housing provision.

According to Ball the type of institutional arrangements, which exist for channelling savings for home purchase and rental are also crucial to the development of housing provision (Ball, 1983:25). The following figure (fig. 4.3) illustrates the various routes for channelling savings into mortgages. Savings may be channelled directly via personal or business relations (a), contractually via special purpose savings banks (b), via commercial banks from retail deposits (c) or mortgage banks funded by funded bond issues purchased by institutional investors (d) (Boleat, 1985).

Figure 4.3
Routes for channelling savings into home finance.



(Boleat, 1985)

4.2.6 Mortgages as social contracts

Mortgages not only flow via different institutions to housing purchasers who in turn make repayments. They are also subject to very different types of contracts for these repayments. In the Netherlands, for example, the development of new mortgage products has been rapid; each posing different obligations on both borrower and lender and offering different types of subjective and objective risks for both parties. The same long-term schedule of payments remains, but the use of borrowed funds and instalments differs considerably. Traditionally, annuity mortgages were repaid on a defined schedule of declining instalments of principle and interest over the term of the loan.[30] Today, a wide range of different mortgages exist offering fixed or variable interest rates, invest instalments in stocks and shares, involve interest only payments that are tax deductible with separate arrangements for saving for the principle, or double as life insurance policies. Again, the situation in the Netherlands will be discussed in the following section.

4.2.7 Regulation of mortgage provision

Governments may influence the housing finance system for a range of reasons: to increase access to housing for low income households, reduce housing cost related wage demands or enhance economic growth by facilitating housing construction and related consumption. In particular, the state may influence the security and profitability of investment in certain forms housing provision, specifying standards for lending such as loan to value ratios, subsidising market interest rates, providing certain tax provisions and prudential norms, thereby encouraging or discouraging flows of investment via specific channels into different parts of the housing market. Via financial policy, national banking institutions and publicly owned banks, the state may regulate the volume of credit entering the mortgage market, specify 'safe' loan to income and value ratios, cap interest rates and set a low threshold for savings interest. In an effort to promote affordability, the state may establish special purpose vehicles to allocate loans or provide a mortgage guarantee to eligible borrowers and specify allocation criteria for mortgage applicants. To encourage particular forms of housing, it may intervene in the realm of production, in the form of grants to reduce the capital and maintenance costs, tax breaks on certain materials, schemes to mechanise and save time in construction processes.

Nevertheless, many aspects of housing provision such as finance, construction, management, exchange and consumption, are well beyond the total or even partial control of the state and often rest largely hands of self governing private bodies and markets operating under a limited degree of state regulation. Further, mortgages, being the long term financing method for both rental and ownership tenures, are subject to important contingent circumstances, such as rising interest rates, conditions in the housing market, and the fluctuating capacity to pay for housing services.

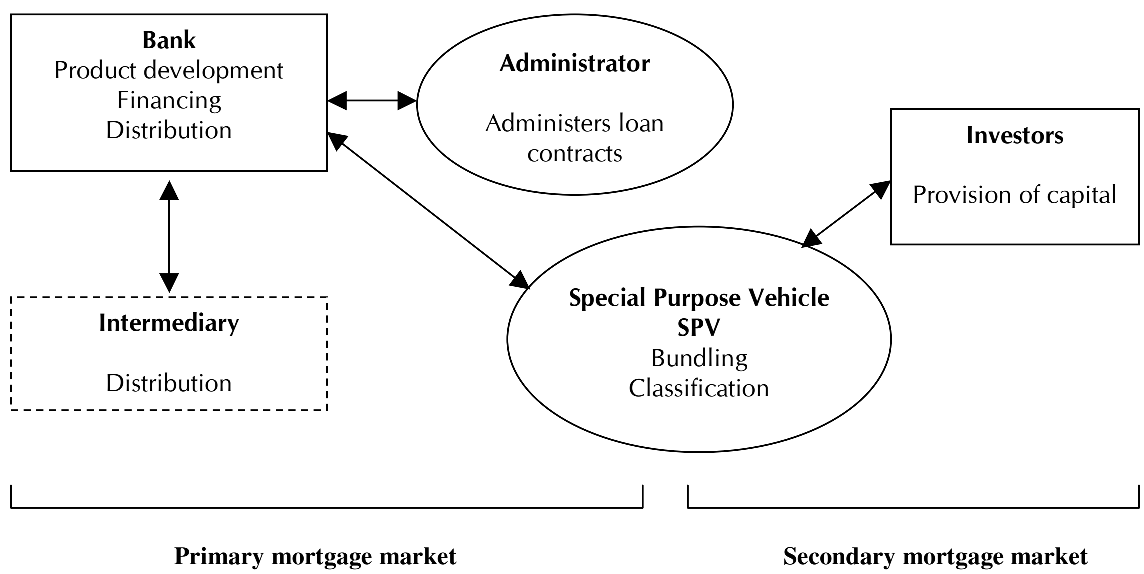
Unlike rental contracts, which outline the tenants right to housing services and obligation to the landlord, mortgages provide residents with the ready cash to pay for both the house and housing services and involve obligations by the purchasing resident to banks and financial institutions. To reduce the risk of non-payment affecting the lender, the borrower is encouraged or required to purchase and insurance policy which guarantees a flow of payments to the bank. These institutions promote the purchase of mortgage and related products of greatest financial advantage and least risk to them.

[30] Kemeny (1981) criticizes this type of mortgage contract for its mismatch with the family life cycle, housing needs and spending power.

4.2.8 Secondary mortgage market

The secondary mortgage market is an increasingly important component of the capital market with implications for the volume of funds released onto the home loans market. This market permits the originator of mortgages to hand over legal responsibility to a special purpose vehicle (SPV). A SPV can issue mortgage-backed securities (MBS) that are rated by assessment agencies and openly traded. This process improves the balance sheet and cash flow of the mortgage originators and allows them to issue more loans (Lindfield and Baharoglu, 2000, DNB, 2000a, Mersmann, 2002). Originators can go on to accept more risks from clients such as fixed interest rates and devaluation of property prices, which have been passed on to investors as MBS (Assenbergh, 1999:63). To illustrate this process, Brounen (2001) provides the following figure (fig.4.4) illustrating the relationships between the primary and secondary mortgage market and the role of different players in both.

Figure 4.4
The Securtisation process.



(Brounen, 2001)

With this understanding of financial relations of home purchase, we now turn to examine how these institutions are organised in The Netherlands, and later how they are contributing towards a new allocation of risk across Dutch society and in particular households buying their own homes.

5 The housing finance circuit in the Netherlands

5.1 Introduction

This section focuses upon the developments in the Dutch finance sector to explain the shifting pattern of risk between mortgage providers, housing consumers and the state. Very little has been written on the structure of the mortgage market in the Netherlands, the players, their position, conditions and developments. This section pulls together diverse local research, complimented by a number of expert interviews undertaken for this report.

In recent years, as rates of ownership in the Netherlands have steadily climbed, the finance market enabling home ownership has undergone a revolution (Brounen, 2001). There have been fundamental structural changes affecting many different aspects of the mortgage sector. These changes concern lending norms, such as the loan to income and loan to value ratios, and the mechanisms for distributing and re-circulating housing investment.

5.2 The Underlying structure of the Dutch Mortgage Market

The Dutch home loan market is just one component of an increasingly Europeanised credit market, which in turn forms part of the global capital market. It is therefore subject to all the exogenous shifts influencing the circulation of savings and investment, such as national and international monetary policy and broader institutional, political and economic developments.

As mentioned in section 4, the mortgage market typically comprises a number of sub sectors. These include the new mortgage market where purchasers enter the housing market for the first time. During this 1990s in the Netherlands this market grew under favourable employment conditions, the growth of two income households, the promotion of newer higher quality housing forms under conditions of market scarcity and consequently rapidly rising house prices. Another important component of the housing market involves supply and demand for existing dwellings. It is also known as the over value or capital gains market.

Every country has lending norms such as collateral requirements, loan to income and loan to value ratios. In the Netherlands, these norms have become suppler in recent years.

In brief, The Netherlands does not require households to accumulate a considerable deposit before entering home mortgage contract. Indeed, those with savings are encouraged to set them aside for furnishing the house or invest these savings in parallel investment schemes.

The house provides the financial institution with security and can be sold in the case of loan default. Commonly, the anticipated price at forced sale known as the execution value is cautiously set, given the inevitable boom and bust in market prices, and is expressed as a percentage of the going market price. However, in the Netherlands under buoyant market conditions this percentage was raised from 75 to 86 percent of the market price. Borrowing above this figure attracted a higher interest rate.

Nevertheless, those with secure incomes were encouraged to borrow as much as 120 percent of the purchase price of the dwelling, providing additional funds for financing fixed-semi permanent furnishings such as a more expensive kitchen and bathroom. Indeed, international research has found that the Netherlands has a relatively loose and generous set of mortgage conditions. Loan to value ratios are comparatively high in the Netherlands and mortgaged purchase does not demand a deposit. In contrast, Italian banks will only finance 60 percent of the purchase price of the dwelling and consequently require a substantial down payment prior to purchase (Neuteboom, 2002).

Typically, the second often female income is discounted when calculating permissible borrowing limits. This is because women have tended to be engaged in part time, casual and temporary paid employment matching the traditional patterns of responsibility for child care and household duties. During the 1990s in the Netherlands, with the economic boom, many more women entered the paid labour force as full time permanent employees. Lending norms were revised to incorporate the second income more fully when calculating permissible loan to income ratios.

Alongside this trend has been the casualisation of the workforce. As employment conditions became more flexible, short term and contract based, lending norms began to accept income generated from less permanent forms of employment.

The test interest rate used by financial institutions to assess vulnerability to changing monetary conditions has been reduced by 1.3 per cent to 6 percent. Further the living quota, which designates an acceptable level of expenditure on housing costs, has been raised by two percentage points to 33 percent.

A very important aspect of mortgage lending in the Netherlands concerns the fiscal regime affecting mortgage lending. Mortgage interest is tax deductible for up to 30 years. Tax refunds can be installed directly on a monthly basis or used as an annual or bi-annual savings mechanism. These tax arrangements can reduce the overall level of mortgage payments one has to pay by a considerable amount. It has been found that these rules encourage highly geared purchases, as the buyer has no incentive to use their own funds. The deductibility rules also encourage mortgage arrangements which maximise the interest component in monthly payments, such as interest only mortgages where the principle is not reduced for 30 years.

Last but by no means least, the municipal guarantee system was revised in the early 1990s and a new private institution, the National Mortgage Guarantee (NHG) established to protect lenders from mortgage default and promote home purchase amongst lower income groups by offering cheaper interest for those with a guarantee.

5.3 The growth of mortgage provision

Mentioned above are some of the institutional norms influencing the provision of mortgage credit in the Netherlands. As can be seen they have become more flexible and generous, as monetary, labour and housing market conditions have presented fewer risks. Combined, these changes have increased the volume of lending at an aggregated and individual level. Indeed, the Dutch housing finance market grew by a mammoth 11 percent per annum between 1993 and 1999.

Over the past five years, the Netherlands Bank (DNB) has made a significant contribution towards examining the nature of the home mortgage market and the reasons for growth (see DNB, various years). The DNB reports that the volume of mortgage lending doubled between 1994 and mid 1999 and home mortgages comprised the lions' share of rising household debt. This was partly due to the favourable conditions of low mortgage interest rates and strong economic growth, which together stimulated new home buyers to purchase and encouraged a considerable number of existing owners to extend their credit and capitalise on inflating house prices.

Alongside these dynamic and contingent causal factors were more structural ones which began to play a role in the mid 1990s. As outlined above, borrowing conditions were relaxed by the central organisation setting norms for lending (Stichting Gezamenlijke Bemiddelende Organen).

Until 1993, loans covered by the municipal guarantee could only consider 35 percent of the second (typically female) income and thus could borrow less than a single earner with the same household income. Later it became the norm for banks to fully include the second income when calculating the maximum loan amount. Relaxing the income constraints dramatically increased the potential debt for dual income households applying for a guarantee. Further, permitted loan ratios for new dwellings were considerably higher – far above the purchase price and providing sufficient funds for new owners to 'finish off' their new dwelling (up to 130 percent of purchase price). Together, the inclusion of the second and temporary household income in the loan to income ratio calculation and more generous loan to execution value ratio increased permissible loan capacity for the average double income family by a considerable 86 percent between 1994 and1998.

The financial institutions were well prepared for the surge in demand by the mid 1990s. They were rapidly developing a new range of products (savings loans, investment loans, lease lending) and retailing strategies (commissions for retailers, direct marketing, internet) to maximise lending and utilise existing fiscal conditions (income tax deductibility of interest on home loans).

New mortgage products, requiring lower monthly repayments but providing greater long term risks, tend to be purchased by new purchasers or starters. Two important developments were the less risky but deduction maximising savings mortgage and the second the investment mortgage. Investment mortgages involve the purchase of a portfolio and rely on cumulating dividends to repay mortgage debt (Haas et al, 2000:41-42).

Over this period of rising indebtedness, house prices rose rapidly, partly and temporarily cushioning existing borrowers and lenders from the risk of negative equity upon (forced) sale. Consequently, these price developments forced new purchasers or 'starters', typically with limited assets, to the maximum limits of their loan capacity, increasing their vulnerability in less favourable times.

5.4 Reasons behind the growth in mortgage lending

As mentioned above, during the prosperous 1990s, the housing market in the Netherlands boomed, the volume of home lending grew exponentially and dual income household were able to take on far more debt.

We know that psychological variables play a key role in lending behaviour of home purchasers (Van den Brink and Van Raaij, EIB, 1988:179-186). During the late 1990s, consumer confidence in economic growth, house price inflation and employment security contributed towards the purchasing 'climate' that influenced the demand for credit. Firstly, more confident consumers were stimulated to borrow as house prices were rapidly rising and borrowing to purchase was broadly perceived as a sound investment. Many mature home owners also borrowed on the basis of capital gains and invested this money in non-housing assets and consumption goods (DNB, 2001 and Assenbergh, 1999). Secondly, growing female participation in the workforce has increased household incomes significantly and this total income has been included to calculate the loan capacity (Assenbergh, 1999).

The DNB (DNB, 2000:15-21) cites a third related reason for the growth in mortgage credit: the rising credit space available to consumers. Rising incomes and the inclusion of second incomes in calculating loan capacity, raising the permitted living quota to 33 percent from 31 percent, the reduction in *test* interest rate from 7.3 percent to 6 percent, and overall declining rates of loan interest. As mentioned, these changes increased permissible loan capacity by 86 percent between 1994 and 1999.

Fourthly, a number of demographic and socio-cultural trends have increased demand for mortgage credit. Dutch households are getting smaller, with young people establishing their own homes and the elderly living independently. Overall this growing number of smaller households placed pressure on the tight housing market, further stimulating price growth. The DNB gives a fifth reason for the growth in mortgage credit: scarcity of quality houses in the housing market, further forcing up the prices of those available (DNB, 2000:15-21).

Beyond demand factors, it is also important to consider developments occurring on the supply side of mortgage provision. Firstly, low interest rates which plunged from around 10 percent in 1991 to 5 percent early 1999 making borrowing far more attractive for consumers, who were able to capture these rates over long periods (5,10 even 15 years with an average of 8 years in 2000) making them less vulnerable sudden increases in interest. The low rate and fixed term reduced and stabilised repayment obligations. Under these conditions many new purchasers and those with existing mortgages were tempted to take on new loans or extend and renegotiate existing ones.

Secondly, the establishment of the National Mortgage Guarantee (NHG) has enabled mortgage providers to lend to low and middle income purchasers at access discounted interest rates. Whilst its market share has fluctuated due to borrowing limits in a rapidly inflating market, the NHG remains an important institution for promoting home ownership amongst middle income households. Thirdly, the drive to cross sell more profitable related products such as mortgage insurance promoted the growth of a mortgage retailing sector. Mortgage advisors selling a range of products have become more important than banks for the distribution of mortgage credit. Innovative and intensive marketing strategies have also stimulated home lending, utilising shop front, internet, telephone and direct sales techniques. Further, the establishment of a secondary mortgage market and the sale of mortgage backed securities has enabled the release of more credit into the mortgage sector.

Finally, the DNB points to the government's policy affecting both the demand for and supply of housing. Mortgage providers have completely exploited the government's tax provisions permitting the deductibility of mortgage interest from household incomes for the first home loans for a maximum of 30 years. Before the tightening of provisions in 2001, rising house prices encouraged existing owners to convert capital gains into cheap credit for paying off more expensive loans, purchasing shares, home improvement and other non-housing goods and services. Further, the supply of housing has been influenced by the government's social housing and spatial planning policies which have actively shifted demand from renting to home purchase. The government actively constrained housing production to defined VINEX areas around major cities, causing market scarcity and pushing up prices. Given these market conditions, financial planners encouraged existing home owners to capitalise on their rapidly rising housing values ('overwaarde'). With reduced subsidies and rising rents, tenants have faced increasing housing costs, whilst the costs to home owners – despite rising house prices, remained stable until late 1990s. Planning policies restricted developable areas and constrained the role of local government in land development thereby increasing land scarcity and thus the cost of new housing (Lawson, 2003, DNB, 2001 and Assenbergh, 1999).

5.5 The providers of mortgages

Mortgages are provided to generate income for the issuer and not merely as a means to achieve the goal of home ownership. Nevertheless, not all providers of home loans in the Netherlands derive profit from mortgages in the same way. For some, the core business is generating income from the difference between the issued mortgage interest rates and that which can be obtained on the capital market. For others, the main goal is to sell mortgage related products which are actually more lucrative than a basic mortgage itself. Other more cautious investors aim to invest in long term low risk obligations such as home mortgages.

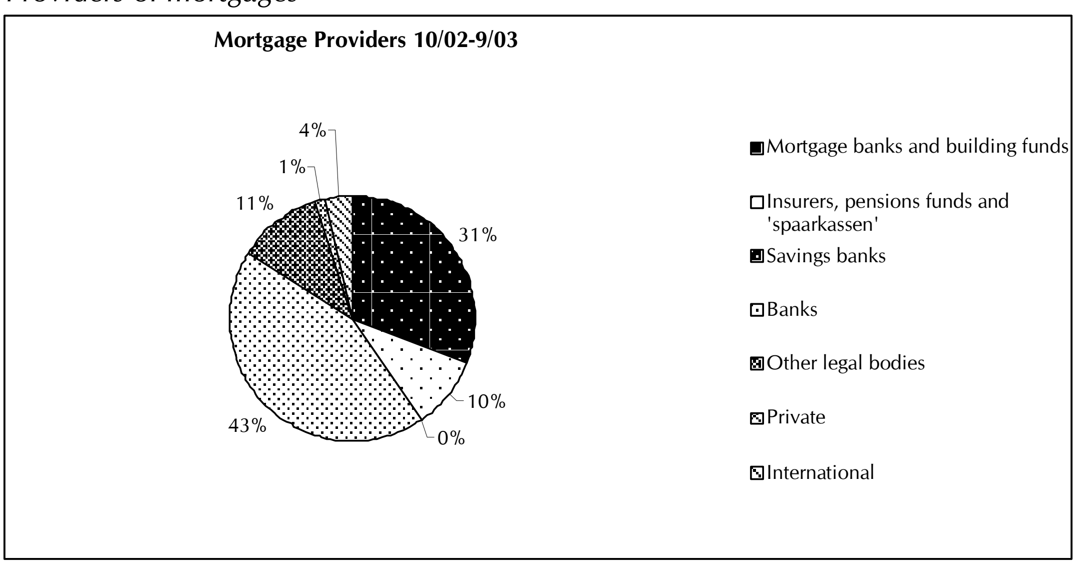
The main providers of home loans in the Netherlands include banks (mortgage banks, savings banks and general banks), building funds, insurance companies and pensions funds as well as other legal or social bodies such as housing corporations. General Banks not only sell mortgages in a variety of forms, but also insurance products. Recently, these products, which involve long term obligations, have become more lucrative than the sale of actual mortgages. For this reason, mortgages have merely become the anchor upon which other products can be sold at the same time. Indeed, clients are often first sold a favourable mortgage on the condition that 'in-house' insurance products are also purchased. This method of retailing is known as '*cross-selling*'.

For many financial institutions, 'cross selling' is an integral part of sales strategy. The home mortgage is market as just one of many financial products, albeit the centre piece in a suite which includes life insurance, house and content insurance, unemployment insurance, personal credit and so on. According to one financial analyst, the profit margins for mortgages may be so small that 'cross selling' is necessary to ensure profitability (Haarhuis Van der Hoop in Financial Telegraph. 4/8/01).

Mortgage banks do not issue a range of insurance products but generate their income by the profits (or losses) made by investing mortgage obligations on the capital market. In contrast savings banks transform the invested savings of their clients into mortgages, whilst conforming to prudential standards affecting the volume of reserves, outgoing credit and incoming obligations.

Some mortgage providers have specific interests and expertise in the housing market. For example, building funds are not only investors in and builders of houses, they also find it lucrative to offer finance to housing purchasers. Insurance funds offer policies for mortgages initially purchased without insurance, from which profits are made by investing insurance premiums. Dutch pension funds are long term risk adverse investors. They can choose to invest pension contributions in mortgages, albeit under stricter conditions than other providers. Other large investors in the housing mortgage market include players such as housing corporations, unions and other social organisations who wish to benefit their members and promote home ownership (ECROYS-NEI, 2004).

Figure 5.1
Providers of mortgages



(CBS, 2003)

The general banks continue to be the most significant providers (43 percent) of home loans, followed by mortgage banks and building funds (31 percent), other legal bodies (11 percent) and insurance and pension funds (10 percent). The market share of banks and insurance companies fluctuated in the late 1990s until 2001 (DNB, 2000 in ECORIS-NEI, 2004), yet over the past two years is considered by one sector expert to be stable (NVB, 2004). One recent trend is the gradually increasing role of other legal bodies from 8.3 percent in October 2002 to 11.4 percent in September 2003 (CBS, Voorburg/Heerlen October 2002 to September 2003).

According to a review of research by consultants ECORIS with NEI (2004:15-16) there are conflicting reports over the level of competition between providers of home loans. Some financial authorities are satisfied with the level of competition. The DNB has suggested that the market share of different banks (forming 63 percent of the market) regularly fluctuates, promoting competition. Despite the concentration of banks as providers, the European Mortgage Federation has compared European rates with the Dutch and found little difference, concluding that the dominance of the banks has mot induced market insensitivity and thus uncompetitive rates. On the contrary argues Van Leuvensteijn (2004), the Dutch mortgage market is quite uncompetitive and some lenders possess a certain degree of monopolistic power. Insurance and similar companies (such as pension funds), which have less stringent collateral requirements and offer higher interest rates, actually have more market power than banks. Whilst banks tend to react more quickly to changes in the bond rate, insurance and similar companies do not. This is derived from imperfect market information, specialisation of products and difficulty and cost in transferring from one to another mortgage contract once committed.

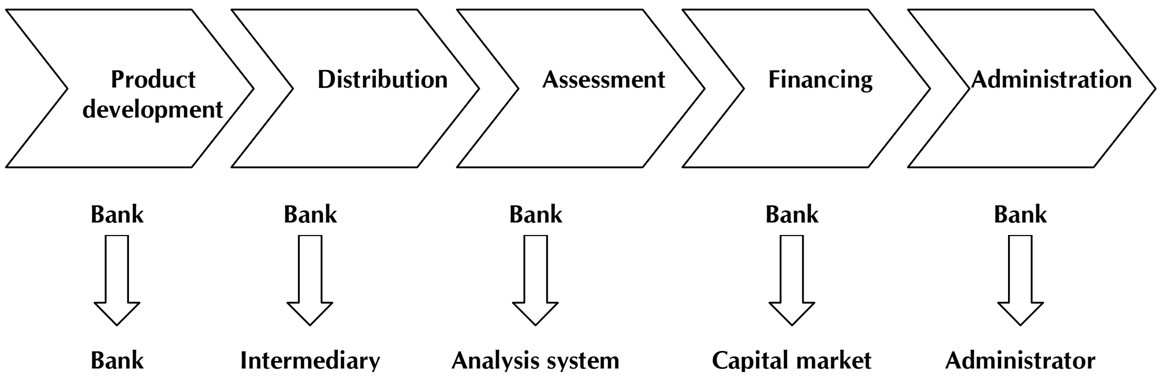
Actual figures regarding the market share of specific banks within this segment of the market are closely guarded and almost impossible to independently obtain without costly and laborious research of cadastre records indicating the nature of mortgage contract for each land title. Nevertheless, different estimates have been made by experts and some do exist in published reports (NVB, 2004). One estimate places the RABO bank, with its traditional, extensive small town network of retail outlets in the lead with 20-25 percent, followed by ABN AMRO and ING both on 10 percent and Post Bank and Fortis with less than 10 percent. Published estimates by the NEI differ considerably, placing ING in the lead with 25 percent, followed by RABO at 22 percent, ABN AMRO at 20 percent, Fortis 12 percent and SNS Reaal Groep at 14 percent. Whatever the actual balance, the banks truly dominate the sector with four banks playing a major role in a market worth more than 167 billion euros in 2001.

5.6 The process of mortgage provision

Beyond descriptive statistics concerning the type and dominance of aggregated categories of mortgage players, it is useful to tease apart the different components of the process of mortgage provision. In order to understand the shifting role of the finance sector influencing the concentration of risk amongst specific housing purchasers it is helpful to understand how these different components relate to one another and the wider housing and capital markets.

According to Brounen (2001), components are dedicated towards a specific tasks such as product development, distribution of credit related products, risk assessment of credit applicants, the financing of these products and administration of loan contracts.

Figure 5.2
The 'revolution' in the mortgage sector.



(Brounen, 2001)

Traditionally, most of these tasks have been undertaken by banks. However, during the late 1990s many of these tasks were contracted out as separate businesses to be undertaken by competing institutions outside the banks themselves. One researcher has gone so far as to suggest that there has been a complete revolution in mortgage lending affecting every component of business, which has been caused by a change in the level of profits derived different financial products. Brounen (2001) argues that the source of profit has shifted from the difference between interest rates of mortgages and savings, to the sale of insurance and investment products. Clients, 'anchored' with a mortgage product are thus increasingly sold other more profitable products, in the aforementioned process of cross selling (Hass et al, 2000:18). Motivated by this trend, banks sell their mortgage obligations to third parties, thereby improving their own balance sheets. This enables more capital to be dedicated to more profit making activities.

As a consequence of shifting profit centres, labour intensive activities related to the sale and administration of mortgages have been standardized and outsourced. For example, mortgage products are increasingly and some times exclusively sold via mortgage brokers offering a range of products. Only the RABO Bank stands alone with its own branch network of distributors. The time required to analyze and evaluate mortgage requests has been reduced with standardized risk assessment programs. The Dutch Association of Banks (NVM) is constantly promoting the standardisation of risk assessment processes and minimisation of administrative obligations such as record keeping. Even the administration of mortgages is increasingly being passed on to larger, specialized third parties such as Nederlandse Bouwfonds subsidury company Stater B.V. (Brounen, 2001).

As mentioned, another important development involves the sale of mortgage obligations to increase lending volumes at the retail end. The process of securitisation of home mortgages began to develop in 1996 and today a secondary mortgage market has become firmly established. Nevertheless, it covers only a small proportion of the market.

Examples of mortgage backed securities include Hoog Huys Hypotheek fonds, Fortis Investments Mortgage Securities (FIMS) and European Mortgage Securities 1 originated by ABN AMRO (EMS 1) (Assenbergh, 1999:64).

5.7 The Dutch Guarantee System

An important innovation in the mortgage sector has been the revision and launch of a mortgage guarantee system which reduces the cost of lending for prescribed borrowers and protects lenders from outstanding debts in the case of mortgage default.

Since 1995, borrowers fulfilling certain conditions (price limit, loan to income ratio) could be secured by a *national*[31] mortgage guarantee (NHG). This institution took over all previous obligations under the former municipal guarantee system. The NHG is backed by the Stichting Waarborgfonds Eigen Woningen (Trust for Securing Homeownership or WEW), a fund from which payments can ultimately be drawn upon to cover outstanding debts in cases where the proceeds from the sale of the home is insufficient. NHG certificate holders contribute 0.3 percent of the total mortgage amount to the WEW and receive up to 0.5 percent cheaper interest than the relevant rate.

The norms attached to the NHG are revised on an annual basis, in consultation with mortgage providers and the National Institution for Budget Provisions (NIBUD), generating annual agreements. In a rapidly inflating market, fewer and fewer households could purchase under the maximum set by the NHG and the institution began to secure a declining proportion of the market by 2002. Consequently the purchase price limit has been under pressure. In recent years the maximum permitted loan coverable by the NHG was dramatically increased. In 2003 this maximum was €150,000 and in 2004 the limit was increased to €230,000. The current deflationary market conditions have meant that more purchasers are eligible, and the number households with a mortgage with NHG coverage has climbed to approximately 50% of the market, from 27,454 to 40,880 in the first half of 2004 compared with the same period in 2003.

Boelhouwer (2003) provides a useful account of developments in the housing market over the past decade in the Netherlands, with particular reference to purchases made under the national mortgage guarantee (NHG) and related accessibility and affordability issues. In recent times the eligibility criteria for NHG approval has been watered down: flexible incomes can be included in calculating loan capacity, the ceiling for permitted housing costs has been raised and the maximum interest only portion of the mortgage has been increased to 50% (Boelhouwer, 2003).

Households with NHG secured loans are increasingly likely to have a high loan to value ratios and substantial interest only debt in their mortgage package. When analysing the NHG data, Boelhouwer found that repayment problems commonly arose in the first two years amongst low income borrowers in larger cities, with higher loan to value ratios and substantial interest only mortgages. Fortunately, substantial capital gains have enabled

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[31] The NHG is a national body. Prior to 1995 different municipalities operated their own guarantee.

borrowers with payment problems to walk away debt free, after the sale of their home. However, these same rapid price rises have worsened affordability and reduced accessibility for new home buyers (Boelhouwer, 2003).

Yet as the rate of house price inflation declines, the risk increases that NHG reserves must be used to repay the lender in the first instance. In such cases the NHG must negotiate with the debtor to establish a regime of repayments to restore its own WEW reserves. According to the NHG (NHG website August, 2004) the number of clients with arrears climbed from 956 in 2002, to 1246 in 2003 and had reached 835 by the first half of 2004. The number of claimants forced to sell their homes who generated a loss to be covered by the WEW also rose sharply in the first half of 2004. Rising form a very low base, the number of forced sales was 80 in 2002 and 152 in the first half of 2004 and is expected to reach 300 by the end of the year (ibid, 2004).

Concerns have been raised by public finance economists about the adequacy of the Guarantee fund to withstand a recession (Huizinga and Goderis, 1998:153) and the obligations of the state (interest free loans, not included in state budget) as guarantor of last resort. Further, a spokesperson for the NHG predicted a rapid rise in claims over the next five years (De Financiele Telegraph, 2/8/01). However, tn more recent reports (VEH 23/08/03), the NHG states that forced sales continue to rise and have more than doubled, but remain manageable in absolute terms.

5.8 Promoted mortgage products

In the housing market of the late 1990s, soaring house prices could have closed out first home buyers. However, new mortgage products and more flexible lending norms enabled even this young group to enter the market. As lending institutions moved away from traditional mortgages they created loan products which could be packaged together and sold to home buyers. Today, mortgage contracts typically involve a combination of different types products, including interest only mortgages, investment mortgages and savings mortgages - all designed to minimize monthly instalments.

It is important to appreciate the different forms of mortgage credit available to home purchasers in The Netherlands. Some loans do not repay the principle at all, merely the interest which is tax deductible. Whilst all involve the risk of non-payment by the consumer, some products present significant risks of non-performance by originators of products. In some cases the accumulation of a certain percentage of dividends is partially guaranteed, yet this may not be sufficient to cover the varying levels of interest on borrowed capital.

The following paragraphs define each product and clarify the differences which present different risks to Dutch home purchasers.

5.8.1 Linear Mortgage

With this mortgage the borrower repays a fixed amount of principle throughout the loan term. As the interest is paid monthly over a declining principle, the total amount of interest and principle gradually declines. Over the whole loan term the total costs are lower but the initial payments are relatively high.

5.8.2 Annuity Mortgage

An annuity mortgage contract requires a fixed amount of interest and principle to be paid monthly, known as an annuity. This fixed amount is paid until the principle is covered, for the entire term of the loan. The proportion of interest and principle paid with each annuity varies; in the beginning it comprises mainly interest and towards the end mainly principle. For this reason, under the current fiscal rules in the Netherlands, the tax deductible advantage is the greatest early in the mortgage term and least towards the end. For this reason, total payments (including the tax benefit) can be considered low in the beginning and rising towards the end, as the tax advantage declines.

5.8.3 Interest Only Mortgage

The interest only mortgage takes the greatest advantage of current fiscal provisions. Commonly this type of mortgage is combined with others or offered to borrowers with considerable equity of their own. Monthly payments of interest are tax deductible and thus the monthly cost is low. However, the principle is only ever repaid with the sale of the dwelling or death of the owner. Alongside the investment mortgage, the interest only mortgage carries considerable risks for the home buyer.

5.8.4 Savings Mortgage

With a savings mortgage or *Spaarhypotheek*, borrowers deposit payments into a savings fund up to thirty years. Interest from these savings pays for the interest on the outstanding debt. The interest earned is the same as the interest paid. In this way borrowers are less sensitive to changes in interest rates. Further, borrowers can also fix the amount of interest paid and earned over defined periods to secure consistent payments. In the Netherlands, interest paid on home loans is tax deductible. With the *Spaarhypotheek*, interest deductions are maximised, as the loan sum is not reduced until the very end of the loan term. In one final transaction, after thirty years, the accumulated savings are finally used to repay the mortgage debt.

5.8.5 Endowment, Beleggings or, Investment Mortgage

The endowment, investment or *Beleggingshypotheek* is similar but different in one important way. The borrower purchases a portfolio of shares to be invested over a period of 30 years. At the end of the loan term, the profits from these shares are used to close the mortgage – with the hope that sufficient profits have been generated to do so. Of course, such borrowers are quite dependent on developments in the share market, unlike home purchasers with more traditional mortgages or a savings mortgage.

The investment or 'Beleggingshypotheek' is an important innovation in the Dutch mortgage market and carries with it the greatest risk for recent new home purchasers in a weak capital, housing and labour market. This is because the principle is paid at one final moment from accumulated dividends which must be derived from pre-purchased investments on the share market. These investments are either purchased via one transaction or periodically.

In addition to first home buyers, mortgage retailers targeted existing owners with a low outstanding debt relative to high value housing assets. These 'mature' home owners were encouraged to borrow on the basis of the inflated value of their homes, for housing related improvements and other aspirations.

It has been estimated the more than half of all households (52 percent) with an investment mortgage run the risk of insufficient end capital (AFM, 2003). Despite this significant risk, many borrowers were attracted to this form of mortgage by the low net costs, ability to invest their own money and the taxation advantages. For this reason it remains a very important product in the mortgage market (AFM, 2004).

5.8.6 Life Interest Mortgage

This mortgage involves the payment of interest throughout the loan as well as a life insurance premium. The life insurance premium is split between a life insurance policy and life interest insurance. At the end of the term, part of the accumulated life insurance premiums contributes towards repayment of the mortgage principle. If with the payout of this policy a debt still remains, additional policies must be purchased.

5.8.7 Living Mortgage

This mortgage is based on purchased life insurance policy, where mortgage interest and an insurance premium must be paid. This premium is invested and the value of the investments at the end of the term of the mortgage can partly or entirely repay the principle. Where death occurs before the end of the term of the loan, the life insurance premium can be used by the spouse to repay the loan gradually or in one payment.

This form of mortgage also makes use of the tax provisions permitting the deduction of interest. To a limited yearly amount, the profits from investing life insurance premiums are not taxable. The life insurance policy can move from home to home.

5.8.8 Top-up Mortgage

Over the past decade, mortgage providers have also developed and promoted the Top Mortgage. Top up loans were common amongst people with low incomes attempting to purchase, but unable to find a dwelling cheap enough to match the loan to income ratio specified by the NHG. These loans were offered to those borrowers who did not did not have sufficient means of their own to 'top up' the loan and address the 'price – loan gap' Given the additional risk to the lender, such loans attracted a substantially higher interest rate over the entire loan sum, sometimes for the duration of the loan (even where the principle declines to permissible ratios over time).

5.9 Distinguishing between types of mortgages

It is important to make the distinction between mortgages which involve regular repayments of the mortgage principle and those which do not, as they present different scenarios for the build up of capital and the types of long and short term risks. The Association of Homen Owners (VEH website, 2004) provides a useful series of tables categorising the mortgages mentioned above. The different risks are further discussed in chapter 6.

Firstly, there are mortgages which *do not* involve the repayment the loan principle, which have the characteristics described in the table below:

Table 5.1
Mortgages which do not involve the repayment the loan principle.

Mortgages which do not involve the repayment the loan principle	
Repayment free mortgage	payment of interest only delayed repayment of principle periodic revaluation eventually requires repayment of principle loan limited to 75% execution value
Credit mortgage	payment of interest only delayed repayment of principle periodic revaluation, eventually requires repayment of principle loan limited to 75% execution value free uptake to credit limit mostly variable interest

Secondly, there are a wider variety of mortgages which do involve the repayment the loan principle with the characteristics summarised below.

Table 5.2
Mortgages involving the repayment of loan principle.

Mortgage involving the repayment of loan principle	Type	Characteristics
With a repayment guarantee	Savings mortgage or savings variant of savings investment mortgage	repayment of principle at the end of the loan term interest from savings equals interest from mortgage debt clear delineation of accumulated savings depot interest dampening
	Annuity mortgage	monthly repayments contribute to principle regular reduction of principle increasing costs as deductible interest payment declines
	Linear mortgage	stable monthly repayments pf principle contribute directly to loan continuous reduction of principle very high initial combined repayments of interest and principle overall declining repayments
Without a repayment guarantee	Endowment mortgage or endowment variant of a savings mortgage	repayment at the end of the loan term build up of capital via or without a life insurance product continuous and accumulating administrative costs reduce final payout uncertain return on investments
	Traditional life insurance mortgage	mostly 3% guarantee uncertain generation of profits continuous and accumulating administrative costs reduce final payout

Obviously, a mortgage which does not repay any principle leaves the consumer with a considerable debt at the end of the mortgage – to be repaid with proceeds from the sale of the home, dividends from invested capital or additional reserves and policies. For most households, this situation arises after 30 years, coinciding with a post employment, pension based income scenario.

5.10 Escaping from an existing mortgage contract

As mentioned, new mortgage products are constantly being developed or can be tailored by providers and their intermediaries. Over the term of the mortgage, as life circumstances change and new mortgage products are offered, a consumer may wish to establish alternative mortgage arrangements. However, it is often difficult and costly to close an existing contract and transfer to another mortgage once committed. There may be fines, valuation costs and legal fees that diminish any potential savings offered by an alternative more competitive product.

5.11 Intergenerational debt

As the price of purchase has risen, the affordability of ownership for young starters has declined. In this context, inter generational mortgages have become increasingly acceptable amongst loan providers and consumers. There are a variety of ways in which parents can assist their children to borrow beyond their core capacity. Firstly, parents can contribute towards the monthly costs of the mortgage by the annual (tax free) transfer of their own housing assets; secondly, they can also loan funds on behalf of their children and finally, they can provide the security of their own home and co-sign the mortgage contract. All these mechanisms produce intergenerational obligations which involve risks for both parties. Parents can choose to cease the transferral of assets any year, thereby placing children at risk of unaffordable housing costs. If the income of parents declines, they may not be able to afford repayments of loaned sums of behalf of their children. Parents who have signed the mortgage contract are ultimately responsible for any non-payment of mortgage instalments and any outstanding debts following forced sale of the dwelling (interview DNB, 2004, VEHwebsite, 2004).

5.12 Distribution of mortgages

An important development in the Dutch mortgage market concerns the distribution of the loan products mentioned above. Mortgages are distributed directly by banks or via an intermediary. There are around 7000 mortgage brokers offering different types of mortgages. Collectively, they have become an integral link in the chain of mortgage provision. Indeed, 52 percent of the total volume of home loans were issued by brokers in 2001 (ESI-VU, 2001 in ECORIS, 2004). As mentioned, only the Rabo Bank, with its' extensive network of branches, exclusively continues distribute its own banking products. In addition to the branch network, banks also make use of direct mail and tele-marketing and the internet to sell their mortgage products.

The Ministry of Finance recently commissioned research on the role of mortgage brokers, undertaken by Rotterdam consulting firm ECORIS with assistance from The Netherlands Economics Institute (ECORIS-NEI, 2004). Their report differentiates between three types of brokers: real estate agents concerned with the sale of the subject property, insurance advisors often working in association with a number of life insurance providers of which mortgage sales are a sideline and independent mortgage advisors for whom mortgage sales are their core business.

According to ECORIS (2004, based on work by RTF, 2001) and confirmed by recent interviews with experts in the sector (Appendix 1), banks are only able to offer 'promotional advice' regarding their own products. Conversely the brokers' wide array of products and notion of independence promotes consumer trust and loyalty. This unique relationship has led to riskier forms of mortgage lending by brokers.

One important part of mortgage retailing involves establishing the clients' pre-disposition to risk. Preliminary questioning aims to confirm a client's propensity before promoting the sale of particular products such as the riskier investment products. Debate concerns the recording of this process, with the banking sector reluctant to administer and retain records. Further, it is contentious whether ones *propensity* for risk provides a responsible bench mark for targeting more risky products. Indeed, risk propensity may not be logical, informed or stable. Many 'bullish' borrowers may be unable (or even unwilling) to evaluate complex and unfamiliar mortgage products rationally; amidst the pressure and sentiments attached to buying ones first 'dream' home.
Brokers generate their income from provisions and bonuses associated with particular products. Generally, commission income is generated for each client brought to a particular provider, often attracting a bonus when negotiated targets are reached. Further, the broker typically receives a provision comprising 0.75 percent of the loan amount and an amount based on the type of mortgage from the provider. Certain mortgage forms deliver higher amounts than others. ECORIS lays bare these provisions according to different forms of mortgages in their recent report.

Table 5.3
Mortgage bonuses and provisions by type and form of mortgage.

Annual mortgage production	0-2.5 million Euros	2.5 -5 million Euros	5-10 million Euros
Bonus provision	0.00%	0.20%	0.25%
Linear mortgage	0.75%	0.95%	1.00%
Savings mortgage*	2.50%	2.50%	2.50%
Endowment mortgage	2.25%	2.45%	2.50%
Life insurance mortgage	2.25%	2.45%	2.50%

(ECORIS-NEI, 2004)
*Savings mortgages do not attract an additional bonus

Notably, sales of linear mortgages generate lower percentage provisions and savings mortgages attract no additional bonus. In contrast, more complex forms of mortgages such as endowment and life insurance based contracts generate uniformly greater income for the broker. According to ECORIS the bonus and provision structure discourages brokers from offering a wide range of products to their clients. It encourages them to focus on a limited number of products attracting higher bonus percentage rates and reach volume targets more rapidly. Indeed, their research found that clients were far more likely to purchase an endowment mortgage if they were advised by a broker.

Increasingly brokers have been playing an important role in shaping actual product provision. Expert interviews conducted for this report suggest that the market power of brokers, mediating between mortgage providers and their clients, is increasing. Chains of brokers now hold a dominant retailing position and are successfully able to negotiate bonuses from providers. These brokers are the gatekeepers of the lending industry. Indeed, interviewed experts agreed that such chains actively block client access of particular lending products, where the provision incentives are considered inadequate.

5.13 Mortgage take up

With its concern for economic stability, the Netherlands Bank (DNB) has focused attention on the mortgage sector, commissioning various surveys, undertaking research and issuing cautioning memoranda. In 1999, the DNB analyzed the risks associated with the housing and mortgage market at a time when many mature households were capitalizing on the improved value of their homes by taking out new mortgages – often for non-housing purposes. Later, in 2000 the DNB commissioned a sample survey amongst 1180 mortgage owners. The table below concerns the type of first and second mortgages purchased by survey respondents

Table 5.4

Type of first and second mortgage purchased by DNB survey respondents.

Type of Mortgage	First Mortgage %	Second Mortgage %
Linear and Annuity mortgages	14	16
Savings Mortgages	36	15
Life insurance, investment, effects	24	16
Interest Only	26	53

(DNB Survey, March 2000)

Almost a quarter of those surveyed had purchased more risky mortgages with an uncertain value by the end of their term. These mortgages are commonly known as 'belegging' or 'effecten' mortgages. Indeed, about 400, 000 households in the Netherlands have financed their homes by purchasing an investment mortgage. As mentioned, these mortgages are repaid by increasing value or profits from purchased shares. If these households are forced to sell their homes during an unfavourable climate for investors, the proceeds from the sale of their shares may be insufficient to cover the loaned sum and thus additional funds must be found. The Financial Markets Authority is concerned that many purchasers are not aware of the conditions attached to such mortgages or the risks attached when investing borrowed money (AFM, 2003).

5.14 Supervision

Self regulation is the primary vehicle for managing the quality of conduct amongst players in the mortgage sector. In the 2003, a new Code of Conduct for Mortgage Finance was prepared by the Contact Organ for Mortgage Organisations. This organisation was established in 1990 by the Dutch Association of Banks, Union of Insurance Companies, Association of Company Pension Funds and Building Funds. The Code came into affect in January 2003, regulating the provision of information and requiring the provision of standardised financial information concerning the interest rate, amount and term of the loan, the yearly costs and repayments of the principle required and enabling the comparison of Dutch products with those offered across Europe (NVB, 2003). However, this comparative information is rarely tailored to the specific circumstances of the consumer or the product actually being purchased.

Officially, the providers of mortgages are supervised by three parties. The Financial Markets Authority (FMA) is concerned with the behaviour of mortgage retailers, the Netherlands Bank (DNB) is concerned with the credit worthiness and stability of banking institutions, and the Pensions and Insurance Office is concerned with fund managers and insurance companies can meet their obligations (Nijeboer, W, 2002:28 in Vastgoed).

To date, the FMA has issued warnings about the sale and promotion of investment mortgages, by publishing and distributing two reports warning of and illustrating the risk with worked examples. The DNB has issued warnings about the promotion of credit, calling for more stringent lending criteria to reduce institutional exposure to debt. The Ministry of Finance has commissioned research on the role of intermediaries, which in turn has raised concerns regarding the role of bonuses and provisions in shaping client advice and promoting more risky lending strategies. New legislation, the 'Wet financiële dienstverleining' has been drafted concerning the expertise, trustworthiness, financial security and careful treatment of consumers. It will probably require brokers to respond to the demands of their clients for specific requests, such as to find products with the lowest interest rate or lowest monthly payments, but will not require a broader obligation or duty of care.

Moving on from the volume, institutional structure and processes influencing the home lending sector, the following section of this report focuses upon the notion of risk and home ownership in the Netherlands.

6 Risk and home ownership in the Netherlands

"As a result of economic downturn, the financial position of Dutch households has deteriorated…..This has not stopped households from borrowing more. These past few years, Dutch households' indebtedness, incurred by mortgage loans in particular, has continuously increased.' (Van Els, Van den End and Van Rooij, 2003:1)

6.1 Introduction

There is an increasing body of research raising and combating concerns about risky home ownership in the Netherlands. Whilst the actual number of purchasers experiencing repayment problems is apparently small, the evidence is limited to those with possessing the national mortgage guarantee (NHG). Indeed, those not eligible for a guarantee are by definition, borrowing beyond the 'safe' conditions set by the NHG. Thus, a much larger community of home purchasers may be experiencing or on the cusp of arrears. Indeed, research by the DNB confirms that minor changes in interest rates could place many of these existing borrowers in the red.

So far, this report has placed the risks associated with ownership in the historical context of tenurial shifts in the housing sector from social renting to purchase and specifically developments in the home lending sectors. These include the increasing range and complexity of mortgage products, the risks associated with interest only and investment mortgages, the increasing role of brokers and their provision systems and the delayed repayment of principle to post retirement age.

This section focuses on why these issues are concentrating risks amongst specific types of home owners and potentially contributing towards a new regime as emergent from the system of home finance in Dutch society.

6.2 Home ownership and the notion of risk in the Netherlands

Following our examination of the mortgage market we can elaborate the concept of risk in relation to the system of housing provision in The Netherlands and it's broader socio-economic context. As we know, home purchase is reliant upon access to very long term financing arrangements. Time exposes mortgage providers and takers to the risk of non-payment due to a range of circumstances such as rising interest rates, declining property values, rising living expenses and loss of income due to unemployment, sickness or divorce. Indeed, the risk of non-payment is constantly shifting over and between households.

In the Netherlands of 2004, consumer confidence has declined, the stock market is underperforming, the rate of housing price inflation has dropped considerably and employment prospects have worsened. The labour force must work longer hours and retire later, partly to accumulate sufficient reserves in their pension funds. There are many home owners who not only face the risk of unemployment and inadequate income to pay mortgage obligations, but also the real and considerable risk of insufficient capital at the termination of their home loan.

As we know, risks may heighten and fall at specific moments in one's housing career, subject to contingent non-structural circumstances such as changes in interest rates and deflating housing prices. Yet in the Netherlands, unlike other countries, additional structural risks will emerge in decades to come. A unique aspect of the Dutch housing market is the proliferation of principle free and investment mortgages. These products are shifting the risk of repayment problems to a period in the housing career when income tends to be limited to fixed pension entitlements and when paid employment opportunities are extremely limited.

This is not a scenario which is at the forefront of deliberations between mortgage brokers and today's younger purchasers seeking low monthly obligations, amongst whom the take up of repayment free and investment mortgages is strong. Whilst these young bullish investors may not perceive the risks as great, it is likely that they are not making rational, well informed judgements on the basis of experience. The only requirement of the broker is that the client's *attitude* towards risk taking has been assessed and is positive. Informed, rational and experienced judgment is not a pre-requisite. Indeed, even experience is inadequate to predict the future as many pundits of the stock market will reflect. Whilst mortgage retailers, posing as investment experts, often present charts demonstrating 30 years of growth in stock market performance and amongst selected portfolios, they are often referring to general trends, whilst neglecting the worrying down turn of specific and relevant portfolios in recent years.

Indeed, the ability to control the risks presented by such mortgages are miniscule. Unlike some causes of repayment problems, such as relationship breakdown and the additional expense of children, no one has yet mastered the whims the stock exchange. The home purchaser has little room for manoeuvre in the matter. Investment strategies rest squarely in the hands of portfolio managers serving a range of additional interests. There are no boards for investors to raise their concerns, no routes of recourse when investors get it wrong. There are no regulatory requirements governing the design of investment mortgages (DNB, 2004) and certainly no guarantee securing the accumulation of adequate dividends to repay owed interest, principle and administration costs.

Thus, it can be said that the allocation of risk rests squarely with the purchaser and is timed to ripen when he or she is least able to address resultant problems. Further, it can be said that the distribution of risk amongst key players in the housing system and organisation of trust to protect players against excessive risk are out of balance. Risks are indeed accumulating amongst certain home purchasers, uncovered by mortgage protection schemes, subject to varying interest rates, declining house prices, unemployment, limited pension prospects and poor performance on the stock market. Using Perri 6 analysis, the risk is acute and individual and the power to secure oneself against this risk is negligible. Indeed, with the prediction that 52 percent of investment mortgages will fail to generate sufficient end capital to payoff the housing loan (AFM, 2003), it can be argued that such purchasers are actually eroding their own long term financial security rather than building up an affordable post retirement 'nest'. Of course, for the traditional borrower, with an annuity or linear mortgage, such a risk is simply irrelevant.

6.3 Home ownership and risk in the context of shifting tenure patterns

Section 3 concerned the shift that has been taking place in the system of housing provision in the Netherlands. This shift has implications for the distribution of risk between tenures, regions and different types of households emerging from the new Dutch housing solution.

The shift was explained by the changing definition of the property, financial and labour relations underpinning the Dutch housing solution over the past thirty years. This revealed the withdrawal of central government from any direct role in the finance of social housing provision, whilst subsidies to the individual renter continue. The question remains: what are the long-term consequences of such a shift? What will the current solution offer households in the 21st century?

The government is no longer in a position to use the social sector as a counter cyclical tool during times of low production and high housing need. It has lost considerable control of the nature and level of housing outcomes produced. Production levels are alarmingly low, and the land market appears stymied by complex negotiations. Projects are delayed and with continuing scarcity housing prices are extremely high in major cities. Further, a number of current and potential crises could lead to the diminution of the social housing sector itself.

Firstly, contingent conditions in the land market are greatly affecting the position of housing associations in new urban areas. These include new market players, with far greater resources, operating in the land markets surrounding cities and speculating on rising land prices. Housing associations are not merely passive operators in this game. Yet, more risky for profit orientated developments and inflated land prices could easily 'eat away' housing association reserves during less favourable times.

Secondly, in the shift from government secured loans to more open capital market arrangements, associations may become more vulnerable to unfavourable market circumstances (interest rate rises) without the capacity to renegotiate government secured loans or top up repayment shortfalls with additional government contributions. For the moment they remain subject to central government rent policy, protecting tenants and setting rent increases. In this sense their room for manoeuvre is limited, but the current level of rental assistance is neither guaranteed nor set in stone.

Thirdly, to date housing associations have been favoured in the politics of rent setting and tenants have absorbed rent increases above the rate of inflation in the 1990s. Whilst rental assistance has continued to be targeted to lower income households via the individual rental subsidy, lower real thresholds have pushed higher income tenants out, especially those lured by low interest rates on mortgages and advantageous fiscal benefits into home purchase. Associations may become heavily reliant upon a more residual tenant profile, reliant upon rental allowances to keep the revenue flowing, as in the UK, and these cannot be guaranteed in a dynamic and open economy where other sectors may capture the government's priorities.[32]

Fourthly, increasing entrepreneurial activities of some housing associations may erode the social legitimacy of the sector, as defined by it social task, undermining any future government assistance or favourable regulatory changes.

Turning to the increasingly important home purchase sector, the house is now an integral part of household financial planning (Assenbergh, 1999). Household debt in the Netherlands is considerably higher than many other European countries (Neuteboom, RICS) There is the strong potential that ones position on the home owners market strongly influences ones position socially, economically and culturally.

Ownership has been encouraged by low interest rates, inflating housing prices, the discounted sale of social housing stock (albeit not in the numbers demanded by central government), the re-launch and promotion of the *National* Mortgage Guarantee, as well as continuing generous tax advantages. Important developments have occurred in the mortgage sector which have greatly increased the volume of credit available and greatly fostered the growth of home purchase. These include a more permissive lending regime based on the inclusion of two and sometimes less secure household incomes, lower test interest rates and more generous execution value limits. Further, innovative mortgage products have been developed, such as interest only and investment mortgages, which permit low monthly repayments and maximize fiscal benefits. Finally, the mortgage sector has transformed with the expansion of the brokering sector and establishment of a secondary mortgage market, to further increase the distribution and volume of mortgage credit available.

Dutch lending norms do not require the build up of a deposit by home purchasers. Fiscal rules encourage highly geared mortgage arrangements and land and housing policy has encouraged the scarcity of housing for purchase. Consequently high housing prices demand high levels of indebtedness amongst recent purchasers and encouraging intergenerational debt.

The difference between the level of debt and the value of the house has eroded as new purchasers borrow to the maximum permitted and price rises have not increased as rapidly whilst the proportion of debt has. Unlike those who purchased in the early 1990s, recent borrowers have paid a high price for property at the peak of the market, which is no longer inflating in value so rapidly. Thus, they are unlikely to accumulate sufficient capital gains early in the mortgage and could face major difficulties if forced to sell. This is particularly an issue for those tied to interest only mortgages and investment mortgages.

Related to these developments are those in the Dutch labour market. Following recession, wage constraint and labour market restructuring, there has been substantial employment

[32] Consider the swiftness of radical changes to the Australian home loans sector which took place as part of much wider reforms of the financial system during the 1980s. These changes completely removed the protected circuit of home loan credit in 1986, ending its role after four decades as the cornerstone of Australian home ownership policy (Lawson, 2003).

and wage growth from the mid to late 1990s, especially amongst the financial services, technology and construction sectors. In this much-publicised context, the social task of the housing associations has been less pressing (apart from the need to house a declining number of asylum seekers, low income earners and the long term unemployed). Further, after the welfare ‘excesses’ of the 1970s and 1980s, the central government has tried to promote a culture of self-reliance, targeting welfare benefits and individual rent subsidies more closely. Home ownership, once the preserve of wealthy and non-city dwellers, is now promoted at the mainstream housing solution for all ‘able’ Dutch households. Yet there are already emerging signs that this scenario cannot be sustained. Young dual income couples increasingly have difficulty entering the home ownership market. As the economic down turn takes hold and jobs are shed at the lower end of the market, many more recent purchasers reliant upon strong dual income employment could be exposed to mortgage default, as in Germany, the United Kingdom and Australia.

Further, mortgage lending has increasingly come to depend on a number of important contingent conditions: the continuing existing of tax provisions permitting the deduction of interest, rising housing prices and profitable share markets. Today the housing related welfare of purchasing Dutch households is subject to a more liberalised and less favourable labour market, varying interest rates, a variety of mortgage schemes – some more risky than others, limited access to a national guarantee fund and continuing housing market scarcity. In an economy approaching recession, some housing commentators suggest we are resting on the cusp of yet another crisis, this time affecting indebted homeowners dependent on two incomes.

Indeed, the investment mortgage offers a new set of risks. The Financial Markets Authority (Autoriteit – FM) is currently researching these risks and is concerned about the lack of knowledge of the consequences and conditions amongst such borrowers. With such an investment – loan arrangement, purchased shares may not rise in sufficient value to cover the principle and financing costs. Divorce or unemployment may necessitate the early sale of the dwelling during an unfavourable period in the housing market, thereby delivering a lower return and exacerbating outstanding debt.

6.4 Preventing the accumulation of risk

There are of course various ways in which the risk of repayment problems and mortgage default can be reduced. Naturally these include prevention: reduce the permissible loan to value ratios and the loan to income ratios, carefully assess of the costs of refurbishment and major maintenance, limit the use of top up mortgages, discount the inclusion of the second income, limit the exploitation of interest only mortgages and promote savings through home purchase. In addition to prevention, insuring against the risk of repayment problems is also an option: employment, life and mortgage insurance are all ways to ensure continuing payment to lenders in the event of payment problems. Of course the National Mortgage Guarantee is one such product available to modest borrowers of moderate incomes, protecting the banking industry and enabling cheaper credit to this group.

Van Assenbergh and the DNB have compared developments in average rents, consumer prices index, housing prices and the financial costs of home purchase since 1975 (Van Assenbergh, 1999, DNB, 2000:12). Following a relatively stable period during the 1990s, the cost of financing home purchase rose dramatically in 1999. In this year, the Netherlands was only surpassed by Denmark in hosting the greatest debt per resident in the European Union, which had more than doubled over that decade. According to the DNB, increasing household debt is not only riskier for individual households but can endanger the stability of the national economy (DNB, 2000:14). In line with its' role as the promoter of a stable financial system by balancing solvability and risk, the DNB is concerned about the quality of process management within lending institutions and desires to promote improvement via the development of *stress tests* to sensitize portfolio managers to risks. It is also concerned about the *competitive position* between national and international lenders, and suggests a review of the different *tests for loan capacity* (execution value, loan to value, loan to income, expenditure to income) arguing that more stringent loan to value ratios should be established. In anticipation of rising house prices, home loans of more than 100 percent execution value – *top-up mortgages*- are being offered for those who can pay, promoting overheated market conditions and further exposing these institutions to unsecured debt in less favourable times (Haas et al, 2000, 43-47).

The DNB's own researchers suggest that loan to value ratios should be *more closely supervised* to improve solvability and that the top up component should fulfil the risk demands of personal credit rather than home loan. This requires sharpening of the information for assessing the risk of lending at a micro level and the limited *widening of reporting by lenders* to the Dutch Bank to cover long and short term fixed interest loans, form of mortages, distribution channels and division by loan to value ratio, to be required by the Law Supervising Bank Practices (1992) (Haas et al, 2000, 43-47).

The increasing role of mortgage brokers or *intermediaries* also caught the attention of the DNB, Authority of Financial Markets and the Ministry of Finance, concerned about their role in *distributing transparent information* about various financial products and the promotion of interest only loans. The DNB wants to prevent the promotion of undesirable market developments via intermediaries. It is concerned about the use of mortgage credit for the purchase of non-housing assets such as shares. To address the lack of information on this issue, the Bank has commissioned survey research to establish how credit is actually spent. Further, it wishes to examine the process and regularity of valuations which may exacerbate market developments.

In comparison to other countries the tax regime affecting home purchase in the Netherlands is very generous. Comparative international research has found that the Netherlands (Neuteboom, 2002), along with Ireland and Denmark, have taxation systems which encourage highly geared mortgage purchases by permitting the deductibility of home loan interest. As mentioned in section 5, mortgage providers have developed a number of products which fully exploit the government's tax provisions for interest deduction.

Nevertheless, the DNB suggests that any change to mortgage deduction regulations must be slow and gradual in order to maintain mortgage and housing market stability. Any major changes could dry up demand for mortgages, lead to payment problems and cause a collapse in the housing market. Such implications effect not only for the financial industry and national economy but hold acute consequences for individual home owners. With home ownership assuming an increasingly important role in personal investment strategies, any politically induced threat to house price inflation could evolve into a potent electoral issue.

6.5 Issues for discussion

The following issues have arisen from this report. They are intended to provoke public discussion, the development of new public policy initiatives and best private practices.

6.5.1 The system of provision

In recent years the proportion of home owners has surpassed those in rental tenancy. The mainstream housing solution for Dutch families is now ownership. Land policies no longer promote the development of social housing in significant proportions in new areas and social housing remains concentrated in the inner areas of larger cities. Tenants with a stronger income base are being encouraged and assisted to purchase their own homes. Whilst low income households are becoming concentrated in the social rental sector, this too has become less affordable in recent years as rent rise faster than inflation. On the other hand, existing owners benefit from rising housing prices but purchase becomes less affordable for starters, single income households and young dual income couples. The current housing system has the potential to further divide social groups. Is this desirable?

- Should everyone own except the social and economically less well off?
- Does home ownership imply continuing reliance upon an inflationary housing market conditions?
- What balance of tenures is desirable?

6.5.2 Housing careers and home ownership

The cost of buying a home does not always fit comfortably with real life ambitions and changing family situations, often clashing with the cost and time required to have and care for children and other life goals. The cost of purchase increasingly requires two full time incomes and where this is insufficient additional parental assistance. Intergenerational mortgages are a mechanism for redistributing dormant family assets but there are risks. Divorce is one of the most significant threats to the capacity to pay for the family home, often leaving one or both partners and their children substantially worse off in housing terms. Further, in the long term, under certain mortgage forms such as the investment mortgage, there is a significant risk that post retirement housing expenses will increase significant as a proportion of living expenses, rather than fall, necessitating carefully accumulated pension funds.

- How adequate are the choices for new middle income households entering the housing market, which are not eligible for social rental housing?

- Are intergenerational mortgage schemes a useful way of recycling family wealth or too risky?
- Are we building sufficient post retirement incomes to adequately cover continuing mortgage obligations?

6.5.3 Lending conditions and Borrowing behaviour

The rules affecting mortgage lending in the Netherlands generously support home ownership, via tax deductibility of mortgage interest, more supple lending norms and non-necessity of a deposit. It is quite probable that this institutional context promotes indebtedness and actually inflates housing prices.

- Does the current tax regime promote inflation and foster over indebtedness?
- What amount of foregone tax revenue is due to mortgage interest tax deductions and is this cost to the state fair, acceptable and sustainable?
- Are there more targeted ways to promote housing outcomes without substantially eroding the tax base?

6.5.4 Product development and promotion

It has been argued by experts in the sector (DNB, FMA) that a diverse range of mortgages have proliferated and many schemes have become too complex for the lay person to fully understand and make meaningful comparisons. Indeed, some products may well be too risky for inexperienced investors. Most mortgages are sold via a mortgage broker, who must assist clients to find an appropriate mortgage, whilst being reliant upon commissions for income. Brokers play an important gate keeping function with providers of mortgages and can block those which do not provide competitive provisions. Indeed, there is considerable potential for a conflict of interest. What is the appropriate balance between the duty of care by brokers and consumer responsibility?

- What level and type of experience is necessary to understand the risk associated with investment mortgages?
- Should there be rules governing the development and promotion of more risky products?
- Is the market power of mortgage brokers desirable?
- Does the bonus and provision system for mortgage brokers encourage the provision of adequate independent advice?

6.5.5 Supervision and security

The Financial Markets Authority is responsible for protecting the interest of mortgage consumers and the Netherlands Bank tries to ensure that financial institutions are prudently run. A revised Financial Services Law attempts to ensure that financial consumers, advised by mortgage brokers, are protected in law. At present the NHG guarantees the mortgages of around 50 percent of home buyers. There is a system of consumer and provider protection in place but is it adequate and working well? Is there room for improvement?

- Are our supervising authorities sufficiently resourced to regulate more than 7000 brokering agents in order to protect homebuyers from poor advice and misconduct?
- Who represents the investment interests of home buyers reliant upon investment policy returns?
- Are liquidation auctions the best 'final' solution to resolve difficult payment problems?
- Are the funds backing the NHG sufficient to survive a recession?
- Who should be covered when a recession hits?

6.6 Summary of the report and issues raised

What follows below is a brief summary of each major section of this report as well as the issues raised for discussion in section 6.5.

Home ownership and marginal home purchase

The introductory section outlines the concept of marginality in home ownership and discusses various causes of marginality. An historical comparison of marginal home ownership in the Netherlands contrasts the contemporary situation with the housing crisis in the early 1980s. One important difference, between the two time periods, is the mortgage market. This differs enormously in terms of the promoted products and their profit margins, selling practices and commission structures, the administration of mortgages, guarantee and securitisation structures and most importantly interest rates. For this reason, the system of mortgage provision underlying home purchase, rather than consumer characteristics is the focus of this report.

The concept of risk

The second section examines the concept of risk in housing studies. A preferred concept is outlined, for application to the Dutch housing system and an explanation of contemporary marginality. This concept emphasises the temporal nature of risk and its' connectedness to emergent relations underpinning systems of housing provision. Key relations influencing the housing system are the property relations, financial and savings relations and labour and welfare relations. The interrelation and contingent definition of these key relationships in the housing system are integral when examining crisis and marginality in the sector.

The dynamic relations of housing provision

Section three strategically re-examines housing history towards an explanation for the shifting of risk across tenures and between players in the Dutch housing system. Rather than recount a chronology of events and policy interventions, this section analyses housing history focusing upon the property, finance and labour relations. Special attention is given to the decline of the social rental sector in the provision of low cost rental accommodation, as rising rents and eligibility requirements have pushed many from renting dwellings into owner occupation. On the pull side, low interest rates, a buoyant economy and more flexible lending criteria have recently enticed many to purchase rather rent housing services. The Dutch housing market is characterised by scarcity and increasingly subject to inflationary tendencies as non-market players recede and rental options for middle income households become less accessible and attractive.

Home finance and the circuit of investment and savings

Section four provides a more conceptual discussion concerning the nature of the home finance market, as a sub component of a much larger financial system and capital market. A focus on the financial realm of housing provision is crucial, being of primary importance allocating contemporary housing risks for a new wave of home buyers. Abstract notions of capital flows via the home ownership and the rental market are outlined and how subsidies can affect them. The notion of circulation of savings and credit and role of different types of intermediaries are outlined. Finally, the definition and regulation of mortgages and the role of the secondary mortgage market is also provided.

The home finance circuit in the Netherlands

Armed with this conceptual understanding, the situation in the Netherlands is examined in section five. A number of key characteristics are outlined: the lending norms, growth in mortgage provision, types of mortgages and their associated risks, reasons for expansion and the key players active in the mortgage market. Importantly the process of mortgage provision is explained, with reference to the ‘revolution’ in mortgage lending which has lead to a large number of traditional ‘in house’ tasks being contracted out, including the retailing, assessment and administration of mortgage contracts. Special attention is given to the characteristics or particular types of mortgages, the dynamic role of the national mortgage guarantee and increasing role of the secondary mortgage market.

Risk and home ownership in the Netherlands

The final section six confronts the issue of risk and home ownership in the Netherlands and raises concerns about the concentration of risk amongst recent young purchasers tied to investment mortgages, the problem of postponed repayments and the diminished role of the social sector in providing broad based long term housing solution. It outlines a number of ways to reduce risk in the home ownership sector and raises a number of issues for broader public discussion. These issues concern the best tenure package for housing Dutch families, the ideal housing careers and their obligations over time, the type of lending norms and regulations encouraging home lending, the development of mortgage products and their regulation, and finally the management of arrears and solution of payment problems.

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Appendix 1 Acknowledgements

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Appendix 2 Samenvatting

In Nederland lijken steeds meer mensen met een eigenhuis in de problemen te komen. Dikwijls waren zij niet op de hoogte van de risico's van de afgesloten hypotheekvorm. Marginaal huisbezit of in sommige gevallen verkoop en sanering van schulden valt steeds meer mensen ten deel. Dit rapport onderzoekt de grenzen van het kopen van een woning.

De marginale huiseigenaar

Hoofdstuk 1 van dit rapport gaat in op het concept van de "marginale huiseigenaar". Er worden verschillende oorzaken van dit concept besproken. Historisch onderzoek naar de oorzaken van marginaal huiseigenaarschap in Nederland leert de lezer dat er in tegenstelling tot de begin jaren 80 (toen er ook sprake was van een crisis met betrekking tot marginaal huiseigenaarschap) er thans een zeer complexe hypotheekmarkt met telkens weer verschillende voorwaarden en condities bestaat, hetgeen marginaal huiseigenaarschap verder in de hand kan werken. Er is een (te) grote diversiteit in producten, winstmarges, tussenpersonen, garantiesystemen en niet te vergeten rentetarieven. In plaats van normaal consumentengedrag ligt er in Nederland op dit moment dus een complex systeem van hypotheekverlening aan de basis van de huidige (overspannen) huizenmarkt. Het komt voor dat de consument op de Nederlandse hypotheekmarkt niet meer in staat is om rationele keuzes te maken. Op de hypotheekmarkt is het veelal het geval dat consumenten "door de bomen het bos niet meer kunnen zien".

Het risico concept

Hoofdstuk 2 onderzoekt de toepasbaarheid van het risico concept bij een analyse van de Nederlandse huizenmarkt. Er wordt uiteindelijk gekozen voor een concept dat met behulp van de tijdelijke aard van risico en de verbondenheid van risico met de onderliggende relaties binnen een (in dit geval huisvestings)systeem, het marginale huiseigenaarschap in Nederland kan verklaren. De sleutelrelaties die hierbij onderzocht worden zijn eigenaarsrelaties, financiële en spaar-relaties en arbeids- en sociale zekerheidsrelaties. De interrelatie tussen deze relaties is van cruciaal belang ten einde de oorzaken van het ontstaan van marginaliteit op de huizenmarkt te kunnen verklaren.

De dynamische relaties binnen het huisvestingssysteem

De historische ontwikkeling van de Nederlandse huisvestingsmarkt wordt in hoofdstuk 3 onderzocht. Doel is het vinden van een verklaring voor het verschuivende risico binnen het systeem van consumptie en tussen de verschillende spelers op de markt. Er wordt geen chronologie van gebeurtenissen gegeven, maar er wordt geconcentreerd op eigenaarsrelaties, financiële en spaar-relaties en arbeids- en sociale zekerheidsrelaties. Wanneer het gaat om het aanbieden van huurwoningen met een lage prijs, verdient de inkrimping van de sociale huisvestingssector speciale aandacht. Veel mensen zijn door deze inkrimping verplicht geworden om te gaan kopen, met alle gevolgen van dien. Deze kopers en potentiële (marginale) huiseigenaren worden door de hypotheekverstrekkers met open armen ontvangen. Lage rentetarieven, een (in het verleden) bloeiende economie en flexibele mogelijkheden tot lenen trekken en trokken hen dikwijls verder over de streep dan ze zelf wilden. Het gevolg is een huizenmarkt die wordt gekarakteriseerd door schaarste en toenemende inflatie, terwijl huuropties voor de middeninkomens minder toegankelijk worden.

Het financieringscircuit

Deel 4 behelst een conceptuele bespreking van de aard van de huisvestingsmarkt als een subsysteem van de financiële systeem en de kapitaalmarkt. Door middel van een focus op het financiële deelgebied van huisvesting kunnen de risico's voor een nieuwe golf van huizenbezitters worden ingeschat. Abstracte aannames van financiële stromen via de huizen- en huurmarkt dienen hiertoe te worden blootgelegd. Daarnaast verdient de manier waarop subsidies deze stromen kunnen beïnvloeden aandacht. De aanname dat schulden altijd weer afbetaald kunnen worden met spaartegoeden en de soms dubieuze rol hierbij van intermediairs wordt omschreven. Tenslotte wordt er ingegaan op de verschillende soorten hypotheken en de rol van de secondaire hypotheekmarkt.

De wijze van financiering in Nederland

In hoofdstuk 5 wordt de Nederlandse situatie (verder) onder de loep genomen. In de eerste plaats passeren een aantal algemene kenmerken van de hypotheekmarkt de revue. Besproken worden: de voorwaarden voor de een lening, de toename van het totaal aantal hypotheken, de verschillende hypotheekvormen en hun risico's en de sleutelspelers op de Nederlandse hypotheekmarkt. Het proces van hypotheekverlening wordt vervolgens uitgelegd. Er wordt hierbij aandacht gegeven aan de zeg maar 'revolutie' die op de hypotheekmarkt heeft plaatsgevonden, met als gevolg dat een groot aantal traditionele werkzaamheden (administratie, beoordeling) van financiële instellingen en banken thans "doorverkocht" of uitbesteed worden. Speciale aandacht wordt hierbij gegeven aan verschillende hypotheekvormen, de dynamische rol van de nationale hypotheekgarantie en de toenemende rol van de secondaire hypotheekmarkt.

Risico en huiseigenaarschap in Nederland

In het laatste hoofdstuk van dit rapport wordt het risico van de huiseigenaar in Nederland besproken. Zorg wordt uitgesproken over de concentratie van risico bij recente jonge nieuwe spelers op de huizenmarkt. Het probleem van uitgestelde terugbetalingen en het langzaam verdwijnende vangnet van de sociale woningsector spelen hierbij een rol. Er worden een aantal oplossingen aangegeven ten einde het risico in de koopsector te reduceren. Dit rapport komt daarnaast in dit hoofdstuk met een aantal onderwerpen voor een verdere en wellicht bredere discussie. Wat is de beste oplossing voor huisvesting van families in Nederland? Wat is de ideale huisvestingscarrière en wat zijn de meest ideale verplichtingen over de jaren? Wat zijn correcte voorwaarden voor een hypotheek? Wat te doen met wettelijke kaders en (de)regulering? Moet de ontwikkeling van inventieve hypotheekproducten verder doorgaan? Hoe gaan kredietverstrekkers om met consumenten die hun lasten niet kunnen opbrengen? Nogmaals, het betreft hier enkele vragen om de discussie over het marginale huiseigenaarschap in Nederland verder van de grond te krijgen.

Appendix 3 Recommended reading

AFM, 2003a, Beleggingshypotheek en risico [includes worked examples], Autoriteit Financiële Markten, Amsterdam

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