

Are Mortgage Lenders Indeed Guilty of the Housing Bubble - A UK perspective

Qin Xiao (Hull University Business School, University of Hull, United Kingdom)

This study aims to establish a proportional perspective of the contribution of UK mortgage lenders to the domestic housing bubble and the ensuing financial crisis, based on a carefully built theoretical framework. The theory captures credit constraint as a transmission mechanism for speculative forces in housing market; it also explicitly models the nonlinear responses of economic agents in off-steady-state. Results of the empirical examination imply that mortgage lenders are perhaps as much a villain as are a victim of some larger market forces: Household portfolio rebalancing and speculative international capital flow, the latter perhaps driven by the all-powerful institutional investors.

Key words: Imperfect information, credit constraint, housing bubble, financial crisis

JEL code: G01, G12, G17, R20, R51