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Jingle Mail, Jingle Mail [1]

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Paul Krugman makes a point about the US mortgage market [3] :

> The WSJ [4] reports that homeowners whose mortgages are bigger than their houses are worth are starting to walk away from their houses, even if they could afford the mortgage payments.

This will have some Brits, those with memories of the early 90s and negative equity, rather scratching their heads, for you can't walk away here. If you owe more than the house is worth and it is sold, or foreclosed upon, you still owe the bank that gap. This is something that is generally not true in the US: most mortgages are non-recourse (and thus Jingle Mail: posting the keys back to the bank and loading up the pick up truck). That is, they are secured against solely the property, there is no recourse to the general income of the borrower nor other of their assets (this is subject to a number of qualifications, it depends State by State and usually is only true for primary mortgages).

What this means in the grander scheme of things is that what happened to consumer spending in the UK in those 90s is not a good guide to what might happen to it in the US in the coming year or two as the bubble unravels. Similarly, given that it is the lender that has to eat such losses in the US, nor is what happened to the banks here. We can also take this a stage further and point out that whatever happens in the US in the coming year or two will not be a good guide to what might happen here if there is a large fall in house prices.

I agree this is a slightly geeky point but watch out for those commentators who fail to grasp it: the differences in the mortgage contracts are sufficiently large that the effects of negative equity upon consumer spending (and thus the wider economy) could be wildly different.

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