Italian Sociological Review
University of Verona, Italy
ISSN 2239-8589 | Editor in Chief Paola Di Nicola
Managing Editor Debora Viviani

Consuming the Home. Walking the Thin Line between Welfare and Catastrophe

Elling Borgeraas, Christian Poppe, Randi Lavik

How to cite

Borgeraas E., Poppe C., Lavik L. (2016), Consuming the Home. Walking the Thin Line between Welfare and catastrophe, [Italian Sociological Review, 6 (1), 87-111]
Retrieved from http://dx.doi.org/10.13136/isr.v6i1.124

[DOI: 10.13136/isr.v6i1.124]

1. Authors' information

Elling Borgeraas, Christian Poppe and Randi Lavik, National Institute for Consumer Research, Oslo, Norway

2. Contact authors' email addresses

Elling Borgeraas elling.borgeraas@sifo.no
Christian Poppe christian.poppe@sifo.no
Randi Lavik randi.lavik@sifo.no

3. Article accepted for publication

November 2015

Additional information about
Italian Sociological Review
can be found at:

About ISR-Editorial Board-Manuscript submission

Consuming the Home. Walking the Thin Line between Welfare and catastrophe[1]

Elling Borgeraas[**], Christian Poppe[**], Randi Lavik[***]

Corresponding author:
Elling Borgeraas
E-mail: elling.borgeraas@sifo.no

Abstract

The financialisation of the world economy has enabled households to build welfare and accumulate assets with borrowed money. But it has also led to a more unstable economy and recurrent financial crises. Norway is one of the few European countries being only lightly affected by the current one. Instead, the country is marked by more than two decades of economic upturn. However, during times when "everybody" is getting rich, people are also moving into risk positions that may prove difficult to tackle over time. Based on recent survey data, this paper explores how severe potentials for crisis are building up among Norwegian households through extensive 'equity borrowing' whereby homeowners spend their housing wealth by rolling back the costs of consumption into an existing mortgage. The practice means that households, encouraged by a favourable system with low interest rates and sales-oriented lenders, speculate with their future incomes against expectations for rising property prices. As a result, both mortgage volumes and home prices have risen to unprecedented levels. Economists generally expect the "market" to "fix" any imbalances through so-called "corrections" where "unnatural" housing prices are brought down to reasonable proportions. This may be unproblematic as long as such corrections are done at a point in time when the system is still "sound". The paper argues that this is no longer the case for Norway as the level of borrowing is too high.

Keywords: Equity Borrowing, Financialization, Risk Exposition

[1] This work was supported by the Norwegian Research Council under Grant number 202522: "The financialisation of social welfare. The role of credit and financial counseling for social inclusion and exclusion".
* National Institute for Consumer Research, Oslo, Norway.
** National Institute for Consumer Research, Oslo, Norway.
*** National Institute for Consumer Research, Oslo, Norway.

1. Introduction

During the late 1970s, 1980s and into the 1990s, the global and national economies were financialised, making credit a constitutive force in the economic system (Harvey, 2005; Steger & Roy, 2010). Obviously, whether focussing on the production of goods, their demand and consumption, or the system as a whole, there would be no economic growth without credit-based investments. A specific feature of the financialisation process was the increased profitability of canalising capital into financial products (Krippner, 2012). For households, this meant general access to an ever-widening range of mortgages, consumer loans and fund-related forms of saving. A particularly important aspect of these innovations was the increased scope for mortgage equity withdrawal.

From a general point of view, investing in property and fund-related forms of saving offers opportunities for households to build welfare with borrowed money. Unfortunately, as welfare mechanisms, financial products work differently during economic upturns and downturns. In good times, the combination of rising home prices and wages typically produces growing overall levels of welfare and well-being for most people - especially the homeowners. But the imminent instability of financialised systems also tends to turn homes into houses of cards. Exactly how economic downturns and crises affect homeowners depends on a number of factors related to the characteristics of the general economy, the nature of the crises and the degree of financialisation of given household economies. As shown below for Norway, financial crises may even improve the scope for mortgage equity withdrawal.

This article analyses the risks associated with the institutionalisation of equity borrowing as a source of welfare. It looks at its theoretical basis and asks for the mechanisms making people ready to consume their homes. It is argued that the form and extent of equity borrowing are context-dependent, and thus a variable. The empirical analysis uses Norway as a unique case in contemporary, crisis-ridden Europe. It is demonstrated that the effects of the financial crisis have encouraged equity borrowing beyond the scope of most European countries. So how risky is it to consume the home? Is there a point of no return?

2. The theoretical foundations for equity borrowing

By definition, equity borrowing refers to the use of secured loans for purposes of discretionary consumption (Smith, 2012). As pointed out by Wood et al. (2013), the phenomenon has received little interest in

microeconomics, since standard models of saving and consumption seldom include housing equity. Still, scholars in a number of academic disciplines recognise it as a key welfare mechanism. Since mortgages are typically charged at lower interest rates than most other loan products, they offer a relatively cheap way of financing extended consumption (e.g. Cook, Smith, & Searle, 2013; Elliot & Wadley, 2013; Ford, 1988; Sjørslev, 2012). As such, home equity appears as a piggy bank that can be broken by borrowing (Benjamin & Chinloy, 2008).

In a wider perspective, the financialisation of the economy established a system for asset-based welfare where households were given the opportunity to take care of their futures by borrowing and investing in property and financial products. Beyond the piggy bank function, equity borrowing appears as a buffer for a number of welfare needs associated with income fluctuations, children's education, unforeseen expenditures and life-changing events such as loss of employment, health problems and retirement. By establishing housing as a main route to asset-based welfare, governments have been able to institutionalise equity borrowing as a safety net that in part may fill the gaps left by the retreat of - in the words of Krugman (2007) -the '*big state'*. It has led several writers to speak about a welfare-switching effect whereby privately owned housing wealth substitutes for collectively funded provisions (Wood et al., 2013; Lowe, Searle, & Smith, 2011; Searle, 2011).

Both the piggy bank and safety net perspectives are closely related to the theoretical foundations for financialisation. Inspired by ideas rooted in the *Mont Pelerin Society* — in particular, the theories of two of its founding members, Friedrich Hayek and Milton Friedman — a network of interrelated money markets emerged as the centrepiece of a reformed, global economic system. Here, finance was given considerably freer rein than under the post-war Keynesian regime (Mirowsky & Plehwe, 2009; Harvey, 2005). The ground-breaking concept underlying it was '*freedom of the individual*' — a kind of freedom on markets that soon was linked to homeownership. This was not random. Households cannot become full-fledged market actors without having something to offer. What makes them attractive to the financial industry is precisely marketable housing wealth. From a philosophical point of view, property investments on a large scale would allow households to become financially free as well as independent from the state. Hence, pioneering politicians at the time such as Margaret Thatcher and Ronald Reagan, rhetorically argued the '*right to buy'* and that a growing proportion of homeowners would most likely revitalise the economy simply because they behave differently; they have a personal interest in investing, saving and spending money rationally (Kiewe and Houck, 1991; Evans, 2004).

Establishing households as a new drive in the economy was also motivated by economic theory. According to a class of assumptions based on Freidman's (1957) 'P*ermanent Income Hypothesis*', people prefer to spread their consumption smoothly over the lifespan based on their expected lifetime earnings. The implied premise is that households plan strategically, and that they consider long-term perspectives such as future rises in wages and anticipated pensions in old age when they make everyday financial decisions. Therefore, unlike Keynes, Friedman argued that consumption is relatively stable as long as one's expected lifetime earnings change moderately. Short-term income fluctuations are instead levelled out by saving in times when one's current earnings are higher than the permanent income, and by preying on saved-up funds when it is lower. It follows that the only way to make people increase their consumption is to facilitate a system for - ideally: continuously - rising lifetime incomes. This is precisely what access to homeownership through mortgaging and re-mortgaging promise to do.

To make people spend money differently - in this case to invest and consume on markets rather than operating a cash economy - the new system must be normatively acceptable. In as much as returns on marketable property are included in the permanent income assessments, Friedman's theory comes close to anticipating that people, more or less by nature, think and behave like financial speculators — provided they are given the freedom to do so. This is sometimes rhetorically used to justify the turn to a *'free market'* system. As a social force operating on the household level, however, such assumptions are only valid in contexts where a calculating rationality is socially acceptable. The market for mortgages and housing may come close.

Widespread embracement of the system further requires that it delivers what is promised. In as much as housing markets are local, development obviously rests on local conditions. But the financialisation of the economy has also linked them to national and global processes. Despite upturns and downturns, innovative mortgage markets tend to make homeownership more accessible to more people. On the one hand, this means that admission to owner-occupation becomes more expensive over time. As demand and prices go up, homebuyers will typically have to borrow more. On the other hand, growing property values also means that the income potentials of owning a home increase, which not only encourages property investments even more but also affects people's permanent income assessments.

Moreover, the transformation of homes to objects of investment is a commodification process. Just as Polanyi (1957) argued when analysing the marketization of labour, social life around the home has become subordinated to market mechanisms. It also implies that most households are forced to become investors to access homeownership and the lifestyles it enables. The

element of coercion is likely to be stronger in social environments where the proportions of homeowners are high, and the investor rationality is broadly accepted. In addition, governments around the world typically fortify the drive towards market-based ownership by establishing tax incentives and other advantages for homeowners. Commodification of the home introduces a cultural code where calculation is the rule and market participation the only route to homeownership.

In as much as the system works as prescribed by theory, equity borrowing would be in line with the permanent income hypothesis. Expected future returns on home investments would lead to upward adjustments of overall lifetime earnings, which in turn would permit increased consumption through mortgaging or re-mortgaging the property. This would be to the benefit to all parties - for society because money that otherwise would not be there is circulated, for the banks because they get a share of the rise in property values, and for homeowners because returns on investments are made readily available for personal and social well-being. However, it may not be that straightforward. For instance, a recent study of the 16-day US federal government shutdown in 2013 due to budget disagreements between Senate Democrats and House Republicans, shows that the temporarily unpaid employees reduced their spending instead of maintaining it by using savings (Gelman et al., 2015). It suggests that the Permanent Income Hypothesis may be more valid in good times than in bad times, even in cases like this where people knew they would be paid retroactively.

More generally, the study suggests that the validity of Friedman's hypothesis is context-dependent. Besides the upturn/downturn distinction, certain features of the households' socio-economic environments may affect equity borrowing. For a start, their liquidity situation must allow the extra mortgage. Secondly, the banking system must work properly, and there must be enough money available and incentives in place for lending it to homeowners. Thirdly, equity borrowing is likely to be constrained by class- and status-specific norms and values. For instance, a Danish study indicates that middle-class homeowners in Copenhagen do not use equity withdrawals on conspicuous consumption alone but believe that a share of it should be ploughed back into the property as refurbishment (Poppe & Jakobsen, 2009). Finally, households are not one-dimensional. Operating across a number of social contexts, expected returns on property investments are, therefore, likely to be allocated to multiple ends besides consumption such as new investments, savings, and buffers.

With this, equity borrowing is treated as a multifaceted phenomenon and studied empirically using Norway as a country-specific context.

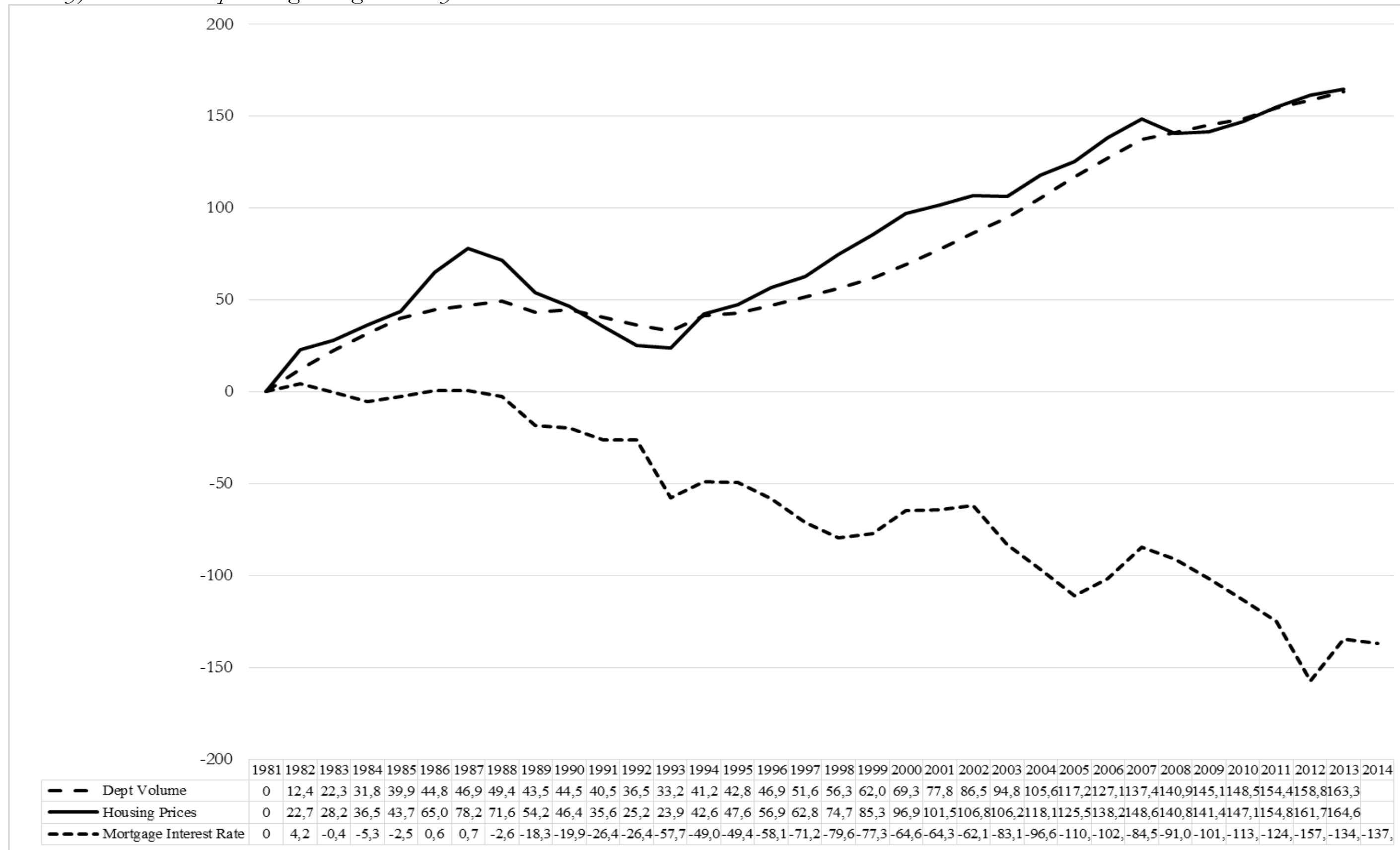
3. Features of the Norwegian economic upturn

The Norwegian economy was financialised over a 10-year period (NOU 1989). The first important deregulating step came in 1978 when the exchange controls were lifted, allowing Norwegian banks to access freely funding abroad. In 1984, the primary reserve requirements were terminated, leaving it up to financial institutions - and not political authorities - to decide how much they would lend to consumers. A year later, in 1985, the government abandoned its low-interest policy, leaving it for the market to settle the price of money. Meanwhile, during 1982-83 new regulations also allowed housing cooperatives to dissolve and convert their housing stock to freehold units (e.g. Knutsen & Ecklund, 2000; Lie & Venneslan, 2010; Steigum, 1990; Mjøset & Cappelen, 2011). Boosted by favourable circumstances such as 6-10% inflation, tax-deductible interest payments and negative post-tax interest rates for many households well into 1987, the combination of unlimited credit volumes, free competition for borrowers among lenders and growing numbers of homes in the market proved a real fireball. Initial effects included a 243% rise in the total amount of loans given to Norwegian households between 1981 and 1988 (Stortingsmelding nr 9 1989, 9). In the same period, 44% of Norwegian households moved to new homes (Barlindhaug & Skogstad, 1990).

Right from the beginning, banks were willingly offering mortgages beyond the amount needed for the home purchase. To understand better the context of equity borrowing in contemporary Norway, figure 1 shows the long-term economic developments on three indicators: home prices, debt volumes and interest rates. As for the first, the growth rate has been on the rise for over 30 years, only interrupted by the so-called debt crisis in 1988-1993, and the current financial crisis 2008-2010. The growth rate for debt volumes follows the sharp rise in home prices, most of the time at a pace below the price developments in the housing market. There are, however, two exceptions: the debt crisis years when the debt volumes significantly exceeded the home prices and the post-financial crisis when the two growth curves converge. Both property values and debt volumes are about 165% higher today as in 1981 when the financialisation of the Norwegian economy took off.

These developments are well in line with the theoretical and political motivations for financialising the economy. Aalbers (2008) talks about a *'growth machine'*; as property values increase, there is room for mortgage market expansion by granting bigger loans as well as bringing more people into homeownership.

Figure 1. *Debt Volumes (Statistics Norway), Housing Prices (Norwegian Association of Real Estate Agents) and Mortgage Interest Rates (Statistics Norway). Accumulated percentage change. Norway 1981-2014*



	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Dept Volume	0	12,4	22,3	31,8	39,9	44,8	46,9	49,4	43,5	44,5	40,5	36,5	33,2	41,2	42,8	46,9	51,6
Housing Prices	0	22,7	28,2	36,5	43,7	65,0	78,2	71,6	54,2	46,4	35,6	25,2	23,9	42,6	47,6	56,9	62,8
Mortgage Interest Rate	0	4,2	-0,4	-5,3	-2,5	0,6	0,7	-2,6	-18,3	-19,9	-26,4	-26,4	-57,7	-49,0	-49,4	-58,1	-71,2

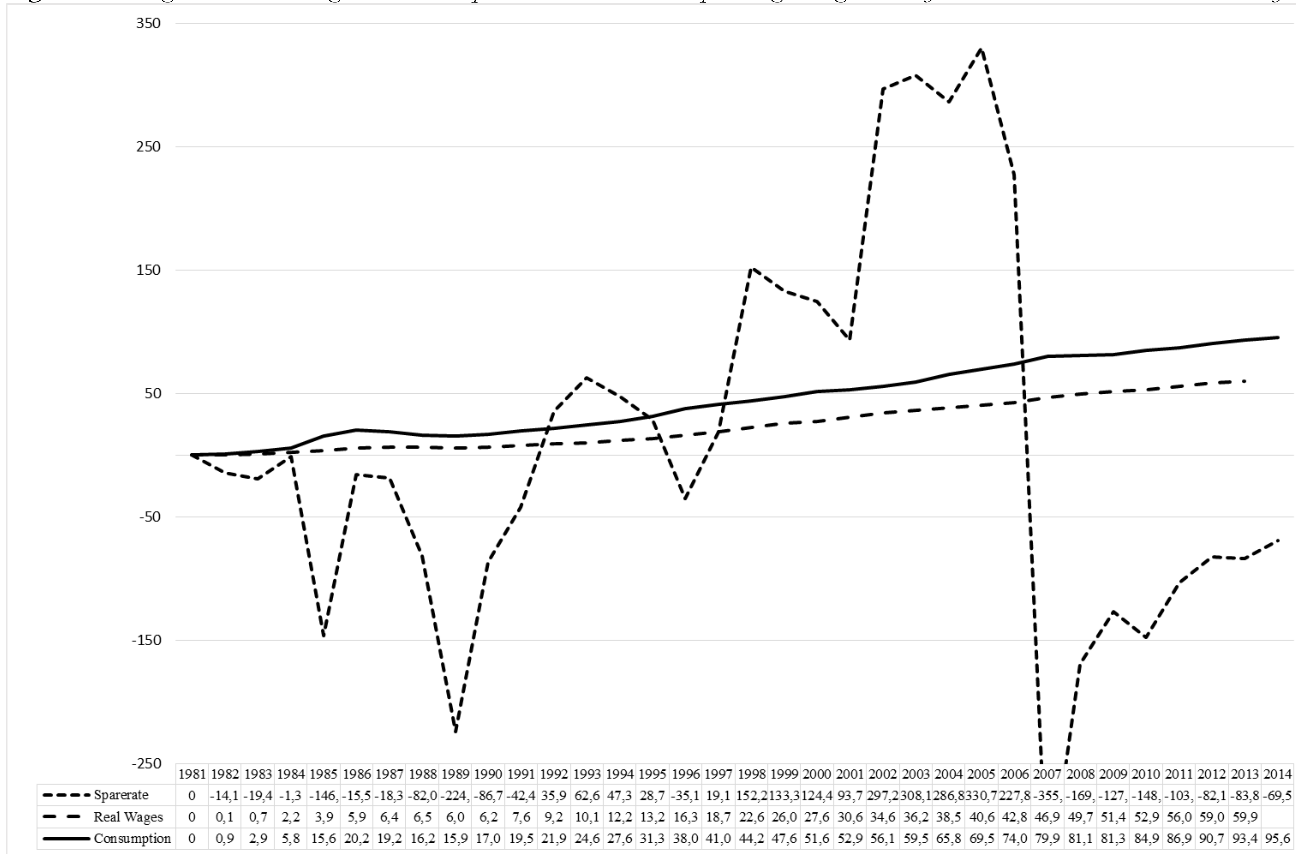
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Dept Volume	56,3	62,0	69,3	77,8	86,5	94,8	105,6	117,2	127,1	137,4	140,9	145,1	148,5	154,4	158,8	163,3	
Housing Prices	74,7	85,3	96,9	101,5	106,8	106,2	118,1	125,5	138,2	148,6	140,8	141,4	147,1	154,8	161,7	164,6	
Mortgage Interest Rate	-79,6	-77,3	-64,6	-64,3	-62,1	-83,1	-96,6	-110,	-102,	-84,5	-91,0	-101,	-113,	-124,	-157,	-134,	-137,

Equally important for the argument in this article, the two curves are typical for economic upturns. In addition, the growth rate for the official bank rate has behaved a-typically. Normally, interest rates rise in good times, as it did well into the 2000s. But then it started to decline. The financial crisis eventually produced negative growth rates. This, in turn, has encouraged continued borrowing, including equity withdrawal. Even though similar trends are found in several other countries, the extraordinary feature of the Norwegian case is that the good times have lasted uninterruptedly for more than two decades. It has offered stable conditions for planning and deciding financial matters that can be matched by few, if any, other countries.

The impression of continuous growth is further underlined by the economic developments displayed in figure 2. Firstly, the curve for real wages shows that the purchasing power of Norwegian households has increased steadily for more than 30 years. The arrival of the financial crisis did not affect this favourable trend. Secondly, consumption has grown at a similar rate. But it should be noticed that the curve for consumption is above the curve for real wages during the entire period considered here. Thirdly, Norwegian households not only borrow and consume; they save. However, the savings rate behaves differently, as it has been negatively affected by the restructuring of the housing and mortgage markets in 1984-1987, and by the debt crisis around the turn of the decade. Shifting tax regimes was responsible for the positive, as well as the negative shifts in the following years. Especially the 2006 reform, which introduced taxes on stock returns, had dramatic effects on the savings rate (Halvorsen, 2011). Despite on the rise since 2008, it is still relatively low. Finally, it should be noticed that unemployment levels have been modest and stable, broadly varying between 2.5% and 3.5% throughout the 2000s. In late 2014, it rose above the 4% mark (Statistics Norway).

Figures 1 and 2 also indicate how the current financial crisis has affected Norway. One obvious effect is the declining interest rates, which Norway shares with the rest of the world. In combination with rising real wages, this has — unlike many other countries — fuelled home prices and contributed to continued growth in debt volumes and debt ratios. Another effect is the renewed rise in savings rates. The unstable economic situation abroad may have made Norwegians more careful with money. However, home price inflation also forces especially young people to save up funds to access the loans they need to become homeowners in the future.

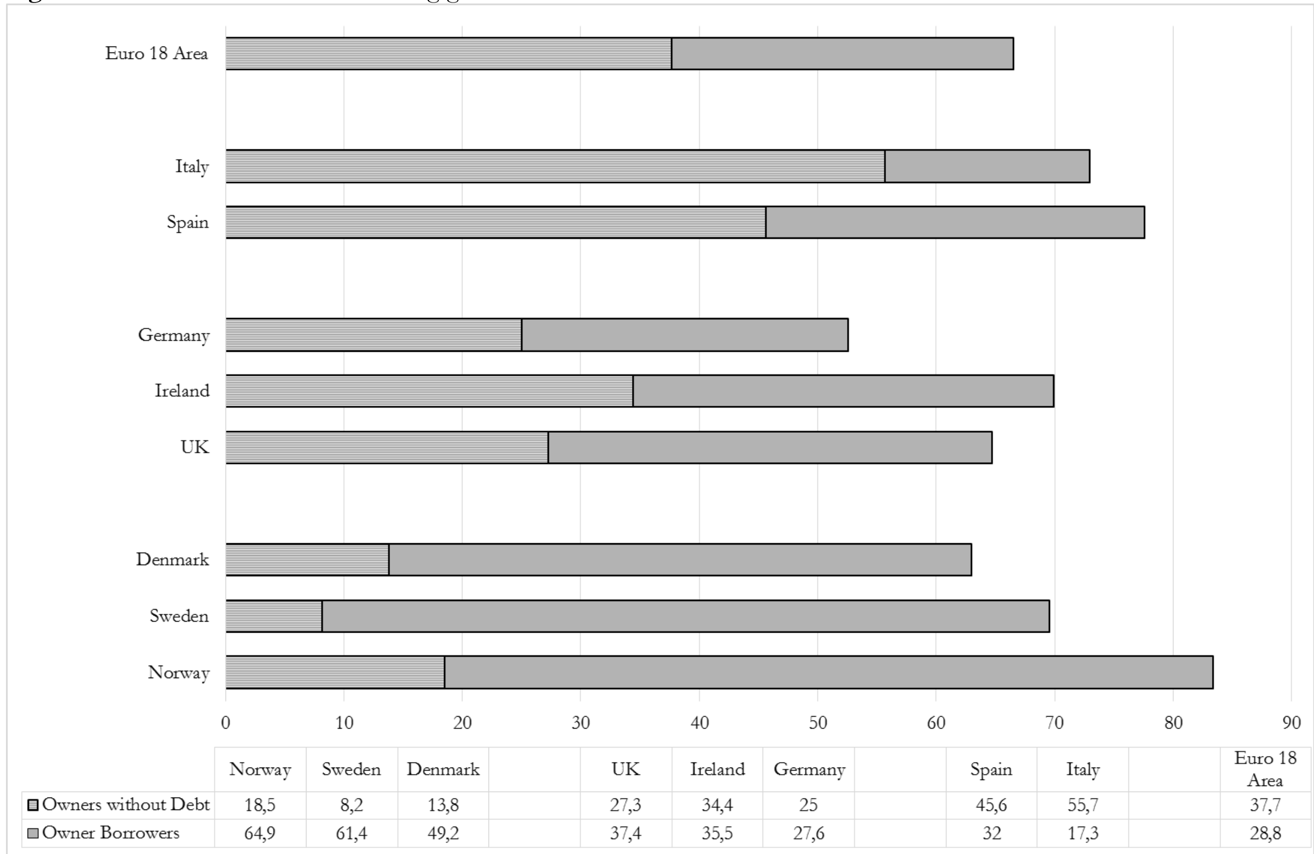
Figure 2. *Savings Ratio, Real Wages and Consumption Rate. Accumulated percentage change. Norway 1981-201. Source: Statistics Norway*



	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Sparerate	0	-14,1	-19,4	-1,3	-146,	-15,5	-18,3	-82,0	-224,	-86,7	-42,4	35,9	62,6	47,3	28,7	-35,1	19,1
Real Wages	0	0,1	0,7	2,2	3,9	5,9	6,4	6,5	6,0	6,2	7,6	9,2	10,1	12,2	13,2	16,3	18,7
Consumption	0	0,9	2,9	5,8	15,6	20,2	19,2	16,2	15,9	17,0	19,5	21,9	24,6	27,6	31,3	38,0	41,0

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sparerate	152,2	133,3	124,4	93,7	297,2	308,1	286,8	330,7	227,8	-355,	-169,	-127,	-148,	-103,	-82,1	-83,8	-69,5
Real Wages	22,6	26,0	27,6	30,6	34,6	36,2	38,5	40,6	42,8	46,9	49,7	51,4	52,9	56,0	59,0	59,9	
Consumption	44,2	47,6	51,6	52,9	56,1	59,5	65,8	69,5	74,0	79,9	81,1	81,3	84,9	86,9	90,7	93,4	95,6

Figure 3. *Homeowners with and without mortgage in selected countries. 2013. Source: Eurostat*



	Norway	Sweden	Denmark		UK	Ireland	Germany		Spain	Italy		Euro 18 Area
Owners without Debt	18,5	8,2	13,8		27,3	34,4	25		45,6	55,7		37,7
Owner Borrowers	64,9	61,4	49,2		37,4	35,5	27,6		32	17,3		28,8

To sum up, and place these developments in a European context, figure 3 compares the proportion of homeowners and homeowners with mortgages in selected countries in 2013. Norway stands out as the country with the biggest proportions of homeowners (83.4%) as well as owner borrowers (64.9%). The corresponding numbers for the Euro 18 area are 66.5% and 28.8%.

A final impact of the financial crisis is the growing import of labour from other countries.[2] In 2014, 13.7% of all wage workers with permanent residence permits were foreigners, most of them from Sweden and Eastern Europe. In addition, there are workers with temporary employment, the proportion of which increased by 9%-points between 2012 and 2013, and by additional 7%-points the following year (Statistics Norway).[3] Many are unskilled and work within the service sector.

4. Data

The empirical approach is based on the annual SIFO (National Institute for Consumer research) survey routine, which dates back to 2003. The data used for this particular study was collected at three points in time: April-May 2015, 2014 and 2013. The samples were drawn from TNS Gallup's web panel, which is made up by more than 40.000 persons randomly recruited through CATI surveys. The survey was distributed to 4.427 respondents in 2015, 3900 in 2014 and 4.000 in 2013. The response rate was 49%, 58% and 54% respectively. Using a stratification routine based on gender, age, education and residence, the final samples are representative of the Norwegian population 18-80 years of age.

The analysis is based on a selection of questions mapping the respondents' debt situation. All types of lending products available to Norwegian households are registered. The respondents were also asked about how, if at all, money borrowed against property was spent over the last five years. In addition, the analysis draws on demographic data and information about a number of aspects of their financial situation.

The three samples are analysed separately to identify any trends and possible changes from 2013-2015. The general impression is that the key distribution of homeowners, proportions of borrowers of the various types of products, and the purposes for which the money was spent, has been

[2]http://www.arbeidslivet.no/Arbeid1/Arbeidsinnvandring/forskning-om-sosial-dumping/
[3]http://ssb.no/arbeid-og-lonn/statistikker/kortsys/aar/2015-06 25?fane=tabell&sort=nummer&tabell=232435

relatively stable throughout the period. Hence, in the final analysis, the three samples were collapsed to identify socio-economic groups with higher propensity to withdraw equity from their properties. To achieve this, a multinomial regression analysis was conducted.

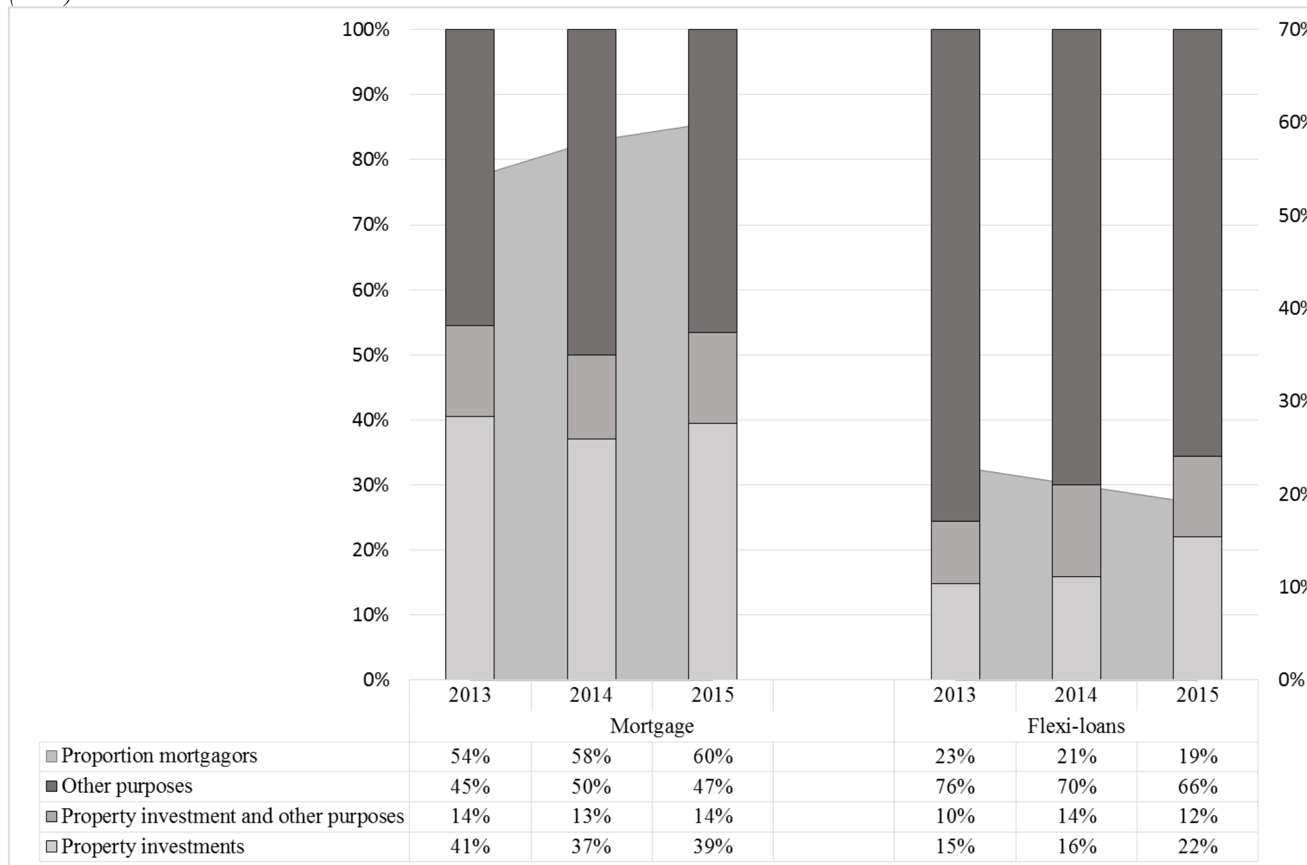
5. Equity borrowing in Norway: Empirical analysis

With over 80% homeowners, favourable long-term economic trends and a well-functioning banking system, the conditions for equity borrowing is optimal in Norway. Indeed, as shown in figure 2, for more than 30 years the growth in consumption has exceeded the increases in real wages. The gap between the two is covered, at least in part, by equity withdrawals.

Norwegian banks mainly sell two types of loans secured by properties. One is the ordinary mortgage repayment loan. New mortgagors are expected to be able to handle a liquidity risk corresponding to the current interest rate plus 5% and repay the loan over a 20- or 30-year period. However, many alternative plans deviate from the standard schedule, involving guarantors, periods of interest-only payments and even 100% LTV loans (loan-to-value) and beyond. The second type of mortgage is the so-called flex-loan, allowing homeowners to borrow as much as they want up to a certain limit, not exceeding 75-80% LTV. Such loans may, at any time, be converted to or combined with ordinary mortgage loans. Flex-loan holders have to pay interest rates on a monthly basis but can pay off the loan as they wish. In that respect, they have become personal bank managers. But flexibility does not come free of charge. Flex-loans are priced higher, and demand financial skills and discipline to be managed wisely. For that reason, the banks typically sell this product to experienced and well-off customers.

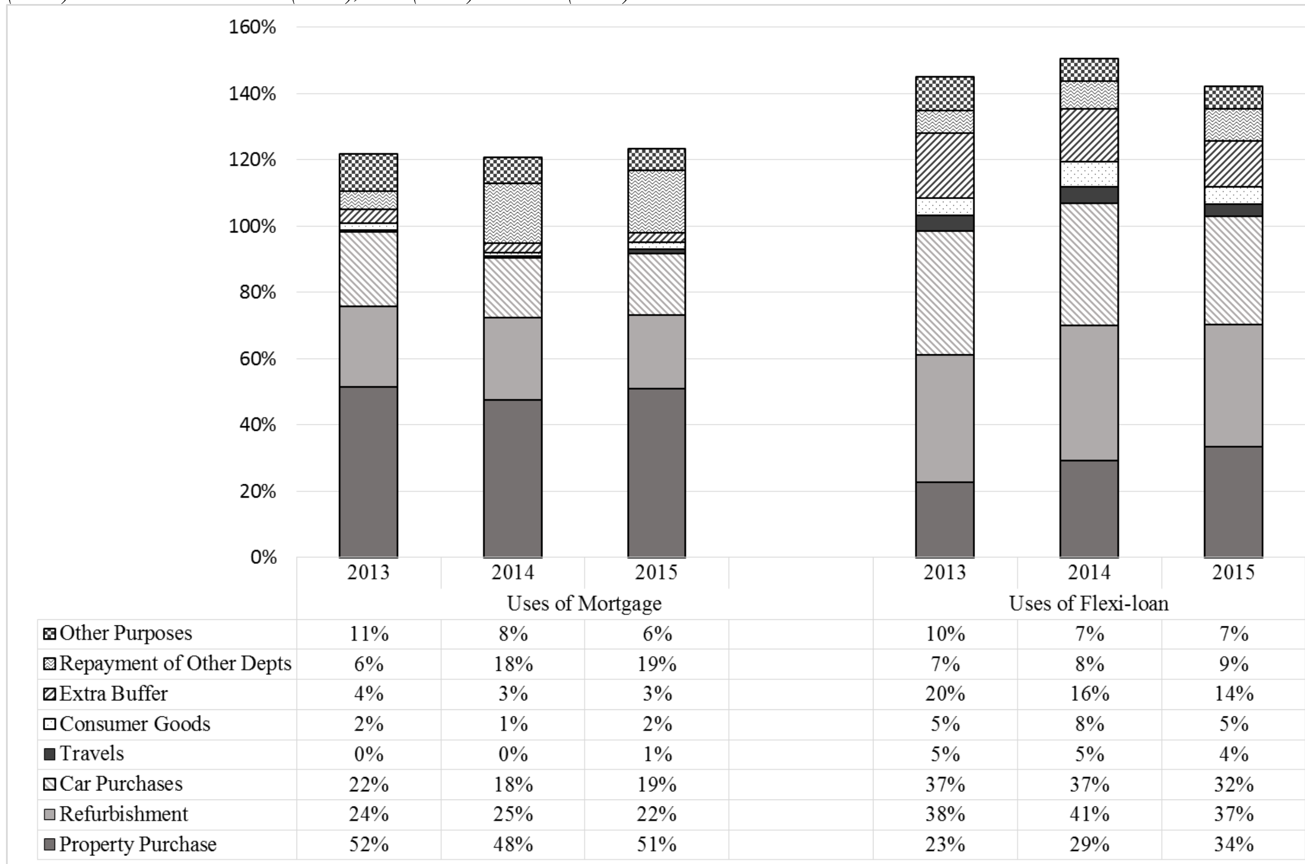
The data used throughout this paper indicate that in 2013-2015, some 54-60% of all households have taken out ordinary repayment mortgages, whereas around 20% are flex loan holders. Among them, the scope for equity borrowing is considerable. As shown in figure 4, during the last five years around 60% of the ordinary mortgage borrowers have used home loans for other purposes than property investments. The corresponding proportion among flex loan holders is in the region of 80%. Unfortunately, the data do not provide insights into what this means in terms of money. However, a recent study has estimated that around 35% of all home loans are used for consumption (Almaas et al., 2015).

Figure 4. *Borrowers with Repayment Mortgage Loans and Flex Loans. Percentages. Norway 2013-2015. Mortgagors: N = 1721 (2013), 1769 (2014) and 1821 (2015). Repayment Mortgage Loans: N = 950 (2013), 1045 (2014) and 1104 (2015). Flex Loans: N= 393 (2013), 304 (2014) and 274 (2015)*



	2013	2014	2015		2013	2014	2015
	Mortgage				Flexi-loans		
Proportion mortgagors	54%	58%	60%		23%	21%	19%
Other purposes	45%	50%	47%		76%	70%	66%
Property investment and other purposes	14%	13%	14%		10%	14%	12%
Property investments	41%	37%	39%		15%	16%	22%

Figure 5. *Usages of loans secured in property. Percentages. Norway 2013-2015. Repayment Mortgage Loans: N = 950 (2013), 1045 (2014) and 1104 (2015). Flex Loans: N= 393 (2013), 304 (2014) and 274 (2015)*



	Uses of Mortgage				Uses of Flexi-loan		
	2013	2014	2015		2013	2014	2015
Other Purposes	11%	8%	6%		10%	7%	7%
Repayment of Other Depts	6%	18%	19%		7%	8%	9%
Extra Buffer	4%	3%	3%		20%	16%	14%
Consumer Goods	2%	1%	2%		5%	8%	5%
Travels	0%	0%	1%		5%	5%	4%
Car Purchases	22%	18%	19%		37%	37%	32%
Refurbishment	24%	25%	22%		38%	41%	37%
Property Purchase	52%	48%	51%		23%	29%	34%

)

Figure 5 shows how borrowers of the two types of loans have spent the money over the last five years. Starting out with ordinary mortgage repayment loans, the first thing to notice is that only around 50% used it for property investments. The proportion is stable across the three measurement points. In fact, underlying data suggests that less than 40% spent the money exclusively on investments. Hence, during the last five years more than half of the mortgage borrowers have taken out loans against their property to cover other needs as well. The most popular purposes are refurbishment and car purchases, each involving around 20% of the mortgagors. Whereas the first may qualify as investment-oriented equity withdrawals since they may maintain or even increase the property's value, the latter is pure consumption. The remaining consumption areas in the table, such as travels, consumer goods and "other purposes," attract considerably smaller proportions of borrowers. However, it should be noted that over the last five years, some equity has been withdrawn to serve as financial buffers. Also, in 2014 and 2015 nearly 20% of the ordinary mortgage holders report that they have refinanced their home loans to cover other debts. It would typically mean bringing expensive consumer credit into the mortgage.

Designed to maximise equity withdrawals, the expenditure pattern for flex-loans over the last five years is quite different. Even though the use of this type of mortgage for property investments is rising, the proportions are much lower than for repayment loans. The same goes for coverage of other debts, which indicates that flex-loan holders, taken as a group, are better off than people with repayment loans. On the other hand, the proportions having used the money for refurbishment and car purchases are almost twice as big as among ordinary mortgage holders. Similarly, the clear-cut consumption-oriented categories such as travels and consumer goods are two to five times larger. Flex-loans are also more often used as financial buffers. Still, it is worth noticing that the results for 2015 suggest an upward trend for investments at the expense of consumption. The proportions of property purchases have increased whereas those for car buys and consumer goods have somewhat declined.

The multinomial regression analysis in Table 1 asks who have been engaged in equity borrowing in the last five years. The two dependent variables are borrowers who have taken out ordinary repayment mortgages or flex-loans respectively. Each variable distinguishes between those who have used secured loans for investments only (base category), and those who have withdrawn equity — either exclusively (category 3) or in combination with property investments (category 2).

Table 1. *Equity withdrawal in the last 5 years.*[a] *Mortgage and flex loan borrowers in Norway 2013-2015. Multinomial logistic regression. Log likelihood and test statistics. N = 2179 (repayment mortgages) and 718 (flex loans)*

	Repayment Mortgage Loans			Flex-Loans		
	B	Wald	Sig.	B	Wald	Sig.
Category 2: Investment & consumption						
Intercept	-1,318	14,217	***	-1,533	2,812	NS
Income [b]	,0000004	2,952	NS	,00000006	,023	NS
Age	-,010	2,805	NS	,010	,572	NS
Central East (Yes=1) [c]	-,204	1,609	NS	,012	,001	NS
Univ. Educ. (Yes=1)	-,017	,014	NS	,707	4,695	*
Dwelling [d]						
Detached (Yes=1)	,711	18,523	***	,655	3,445	NS
Un-detached (Yes=1)	,559	6,869	**	,741	2,663	NS
Shared house (Yes=1)	-,053	,031	NS	-,534	,333	NS
Household type [e]						
Couples w/Children (Yes=1)	,268	2,801	NS	,410	1,414	NS
Lone Parents (Yes=1)	-,562	2,551	NS	-,987	2,222	NS
Single (Yes=1)	-,202	,707	NS	-,720	1,880	NS
Category 3: Consumption only						
Intercept	-2,870	91,136	***	-,789	1,310	NS
Income [b]	-,0000004	4,111	*	-,0000007	4,568	*
Age	,063	194,670	***	,042	16,850	***
Central East (Yes=1) [c]	-,322	6,820	**	-,377	2,101	NS
Univ. Educ. (Yes=1)	-,416	13,030	***	,588	5,165	*
Dwelling [d]						
Detached (Yes=1)	,757	38,672	***	,737	8,722	**
Terrace house (Yes=1)	,292	3,085	NS	,591	2,999	NS
Shared house (1=yes)	-,335	1,760	NS	,103	,030	NS
Household type [e]						
Couples w/Children (Yes=1)	,547	17,522	***	,688	6,500	*
Lone Parents (Yes=1)	-,343	2,210	NS	-1,367	8,015	**
Single (Yes=1)	-,190	1,204	NS	-,488	2,057	NS
Test statistics:						
Cox & Snell	.202			.097		

[a] Dependent variable: "*What have you used your repayment mortgage/ flex loan for in the last five years?*" 1 = property investments only (baseline category), 2 = property investments and consumption, 3 = consumption only. [b] Yearly household income before taxes in 1000 NOK. [c] Oslo & Akershus counties [d] Reference category: flats [e] Reference category: couples without children.

The analysis identifies the main characteristics that distinguish the two types of equity borrowers from traditional investment borrowers.

Starting out with ordinary repayment mortgages, those who have used such loans for both property investment and consumption are distinguished from investment borrowers by type of dwelling. The likelihood of having used home loans in the last five years for both home purchases and consumption is higher among owners of detached and terrace houses than among people owning flats. It applies irrespective of the borrowers' income, age, education, household type and county of residence. One explanation may be that these are typically larger dwellings with outdoor as well as indoor maintenance responsibilities. The need for owning cars may also be higher, for reasons of social status and lifestyles as well as for convenience since public transport may be less accessible in such neighbourhoods. Besides, in as much as these households manage more complicated budgets, some may have the need to refinance expensive consumer debts. The absence of statistically significant results suggests that mortgagors across the social divisions covered by the model do not differ with respect to equity withdrawal. The decision to do it is either largely random or systematically due to omitted factors.

Those who use repayment mortgage loans exclusively for equity withdrawal is a more distinguished group. For a start, income is statistically significant: the higher the income, the less likely borrowers are to take out a mortgage for consumption purposes only. Obviously, being more affluent — *ceteris paribus* — reduces the need to do so. Moreover, people with university degrees and people living in the eastern central region are less prone to withdraw equity. The geographical factor may reflect that homes are very expensive in this area, which reduces the leeway for borrowers to take out loans beyond what is necessary for investments. On the other hand, couples with children are more likely to engage in equity borrowing than others. The likelihood also increases by age. Clearly, the time factor is important here, as growth in property values over time can be cashed out to enhance the standards of living and the social well-being of long-term homeowners. In particular, villa owners are likely to engage in such practice.

Turning to the last five years' users of flex-loans, the model yields one statistically significant result for investment/consumption borrowers. Compared with investment borrowers, and unlike what was found for holders of mortgage repayment loans, only those with university degrees are more likely to engage in this kind of behaviour using this type of product. The lack of results may follow from the low number of observations in this part of the analysis. The low N also reflects that the flex-loan is a niche product sold to the more affluent households and people who are prepared to include equity

withdrawals as a dynamic component of their financial planning and behaviour.

As for those who have used flex loans exclusively for non-investment purposes in the last five years, income is negatively related to the likelihood of engaging in such practice. Earnings seem to have similar effects among borrowers irrespective of the type of mortgage they have. In addition, lone parents are less prone to withdraw equity. On the other hand, the likelihood of using flex loans only for consumption is positively related to villa owners and aging. Again, these are factors impacting repayment mortgage borrowers, as well. However, higher education is a unique characteristic that increases the probability for equity withdrawals rather than investments among flex loan holders. The freedom offered by such loans seems to fit well into - even promoting - the individualistic lifestyles often coveted by the better educated.

6. Discussion and concluding remarks: Is there a point of no return?

Equity borrowing is an important, yet underrated, phenomenon. The empirical analysis shows that tapping equity is quite common in Norway, engaging large proportions of borrowers in many social layers. Studies from other countries show the same. To illustrate, Greenspan and Kennedy (2007) estimate that discretionary extraction of home equity accounted for as much as 80% of the rise in US home mortgages between 1990 and the mid-2000s. For the UK and Australia, it is calculated that some £381 billion and A$373 billion have been extracted between 2001 and 2008 (Wood et al., 2013). Norway is special for its 25 years of uninterrupted economic upturn, which has institutionalised the practice as self-evident and thoroughly integrated it into the banks' lending policy.

Over the last 2-3 decades, Norway has seen a substantial growth in welfare. The oil-driven, national economy has not only been on a steady rise but is also well managed. At the household level, it comes out as increasing net incomes following positive wage developments as well as favourable tax systems for large groups, including homeowners and families with children. Until the financial crisis, these are trends shared by many countries. But the effects from the crisis were different in Norway. As for equity borrowing, a powerful catalyst ensured its continuity: declining interest rates. At the same time, the rise in real wages and housing prices prevailed. Obviously, the combination of the three is largely responsible for keeping the increase in consumption above the growth in wages. An additional factor is employment immigration from crisis-ridden neighbouring countries, which ensures the

supply of craftsmen necessary for a persistent refurbishment of homes and second homes to take place.

Without a doubt, the financial crisis has facilitated a further rise in welfare through equity withdrawal. There are, however, few signs of a welfare-switching effect. Quite the contrary, during the last 25 years, Norwegian oil revenues have provided the welfare state with sufficient room to expand rather than decline. It is not to preclude that equity has been extracted to finance typical welfare amenities such as private education, health services and care in old age. Nevertheless, home equity has been a 'fair-weather *weather piggy bank*', allowing homeowners to achieve even higher levels of welfare on top of the overall expansion in public provisions.

The risks involved in equity withdrawals are primarily associated with growing debt loads, reduced buffers and prolonged repayment. As long as the curves and distributions resemble those presented above, the hazards are minimal. But everyone knows that markets go up and down. Perhaps the most dangerous aspect of more than 25 years of economic upturn is the obviousness of institutionalised practices. Equity borrowing has become an integral part of everyday life. As pointed out in a qualitative study, older generations of Norwegian borrowers know that the risk has paid off as they can enjoy returns from yesterday's investments, whereas younger mortgagors learn by example and find the risks worthwhile (Poppe, Collard, & Jakobsen, 2013). Under such conditions, debts are taken on with complete naturalness simply because it is the socially acknowledged way to operate household finances.

The functions of equity withdrawals change when income shocks and expenditure inflation occur. In general, financial problems are typically handled by curbing spending. It is one of the few economic parameters that are fully controlled by individual households. Recent studies have shown that homeownership may function as a form of insurance in the short term (e.g. Herkenhoff & Ohanian, 2013; Gelman et al., 2015). For instance, improved liquidity can be achieved through negotiating interest-only periods with the bank. Moreover, in times of rising interest rates, the same will be obtained through tax reductions whereas refinancing the mortgage based on new price valuations of the home can be a solution in times of rising property values. Sometimes people with the capacity to borrow can tap equity, in which case additional loans will enable the continuation of existing consumption levels. However, especially in instances of income shocks, banks are typically reluctant to lend. If so, an alternative strategy is to defer mortgage repayments without consent from the bank. In Norway, loans are not classified as non-performing until 30 days are gone, and it takes another 60 days to enforce debt recovery procedures in full. Within a 90 days' time horizon, deferring

repayments add only moderately to the mortgage - especially if interest rates are low.

In the short term, financial problems turn homes into '*rough weather piggy banks.*' It is characterised by offering a narrow range of valves for temporary liquidity improvements as well as possibilities for perverted equity withdrawals through ignoring existing financial obligations. The previously mentioned study of employees affected by the US Government shutdown in 2013 shows that the homeowners among them could smooth the gap between reduced wages and existing levels of consumption by extended use of financial instruments — especially mortgage repayment deterrence. In contrast, people without mortgages had to use more expensive products, such as credit cards and consumer loans. They also had to defer payments on already existing revolving credit obligations. These households typically came out of the shutdown with a considerable tighter financial situation (Gelman et al., 2015).

Prolonged financial problems bring out additional characteristics of homes as '*rough weather piggy banks.*' For a start, in as much price "correction" takes place in the housing market, the devaluation of property values is not necessarily a problem in itself. As long as the households' liquidity situation remains within manageable boundaries, homeowners can continue their housing consumption. Some may even be able to operate more or less unaffectedly as sellers and buyers in the home market. However, in step with evaporating property values the possibilities for equity borrowing diminish. There will be a point beyond which homeowners must reduce their spending and adjust their level of consumption. In the end, the economy as such could suffer a downturn. It shows the importance of equity borrowing as a mechanism for economic growth. All things equal, its impact is most likely to be greater the higher the proportions of homeowners.

Moreover, in as much as enduring financial problems are related to unemployment and other forms of income shocks that seriously affect the homeowners' liquidity situation, homes cease to function as piggy banks - even as rough weather ones. Mortgages are now a huge threat. Previous equity withdrawals have driven the unmanageable debt loads up, and the possibilities for further tapping are no longer present. It brings out equity borrowing as a double-edged sword: as an instrument for welfare and well-being, and as a destructive power that forces people not only to adjust their consumption levels but also to take substantial steps down the socio-economic ladder - maybe as far as into poverty (Poppe, 2008). Again, the effects are devastating, for households and society alike.

Indeed, enduring income shocks and declining home prices disclose fundamental deficiencies of homes as '*rough weather piggy banks.*' Under such circumstances, the very idea about property as assets and buffers against rainy

days is false. In the long run, banks will not lend to defaulters. Moreover, during economic downturns when the number of households in need to cash out buffers is high, lenders will most likely not have the necessary capital available. One of the first steps taken by the Norwegian Government to counteract the financial crisis was precisely to ensure continued activity in the housing market by securing the banking sector access to cheap capital. It was an important step that modified the effects from the crisis. Still, there is no reason to underestimate the vulnerability inhabited in a system where people's welfare and well-being are based on ownership to marketable assets, mortgages and stable access to loans.

Increasing debt volumes - in Norway powered by declining interest rates and still rising real wages - have triggered a debate on how to tame the growth curve. Since borrowing is so closely related to home prices, any regulation must address housing market as well as credit market mechanisms. In his book on regulatory capitalism, Braithwaite (2008) demonstrates how re-regulation often is triggered by urgent needs for correcting systemic crises. During economic upturns, when everyone gets rich, neither market providers, consumers nor state regulators see a need for new rules. Therefore, when the system collapses, the solutions that are introduced are typically ad-hoc and designed to mend yesterday's problems, not the underlying systemic weaknesses.

The ongoing Norwegian discussion is in many ways an empirical demonstration of Braithwaite's arguments. Only in the wake of the financial crisis, the Financial Supervisory Authority (FSA) fully started to worry about the high and rapidly growing debt volumes. Many home loans were given at more than 100% loan-to-value (LTV). In 2011, FSA introduced "recommended guidelines" for responsible lending aiming at constraining the banks' lending policy (Finanstilsynet, 2011). As it turned out, the rules were bended in 17% of the loans given (Finanstilsynet, 2012), and both debt volumes and housing prices continued to rise. In June 2015, the government sharpened the guidelines and turned them into formal legislation, thereby prohibiting certain lending practices such as LTVs above 85% for mortgages and 65% for flex loans. Also, certain restrictions were put on interest-only plans and liquidity stress assessments. But the legislation also introduced exceptions. The most important one is probably that the 85% LTV threshold can be bended in 10% of the current loan portfolio, intending to provide access to loans to young people who fall below the thresholds because they are early in their professional careers. On the other hand, no such leeway was introduced for interest-only contracts, which would have been important for households with temporary financial problems.

The new legislation intends to curb rising housing prices and debt volumes, thereby preventing high-risk exposure for households and banks alike. The retrenchments are also supported by moral arguments: people should save and wait to buy a home until they can afford it. Still, the main impression is that the new regulation is a system fix rather than a system change. Most likely, it will only marginally affect existing lending practices. In addition, it lacks a pro-active character since it is introduced when both housing prices and debt volumes are already sky-high. Hence, the new regulation is designed to fix yesterday's problems, not to challenge the system for welfare accumulation through homeownership in any fundamental way.

After 30 years of economic upturn in Norway, two overshadowing, systemic problems have still not found good solutions. One is that the current home prices have reached a level that is too high for two ordinary life incomes to repay the mortgages needed to buy a home in pressure areas. The other is that many households are already too exposed to risk to sustain major regulatory changes. These are signals suggesting that the Norwegian system is probably about to hit the ceiling. In as much as that is the case, it is not only a challenge for regulation. It also underlines the dangers involved in leaving it to the "market" to "fix" any imbalances through so-called "corrections" where "unnatural" housing prices and borrowing needs are brought down to reasonable levels. It may be unproblematic as long as such corrections are done at a point in time when the system is still "sound." However, Norway is way beyond that point. Certainly, in the current situation, both the economy and many households will suffer severely from such "corrections."

So is there a point of no return? Can the development be reversed? These are difficult questions. Obviously, the processes described in this paper are fundamental to the households' welfare as well as to the working of the economic system. Obviously, new regulation is to be preferred over future market "corrections." But so far, the steps taken by the Norwegian government seem slim.

References

Aalbers, M. B. (2008), "The Financialization of Home and the Mortgage Market Crisis", *Competition and Change*, 12, 2, 148–66.

Almaas, S., Bystrøm, L., Carlsen, F., Su, X (2015), *Home Equity-Based Refinancing and Household Financial Difficulties: The Case of Norway*, Bergen, Department of Finance, Norwegian School of Economics.

Barlindhaug, R., Skogstad, H. P. (1990), *Boligøkonomi På 80-Tallet. Rapport Fra Boforholdsundersøkelsen 1988*. Prosjektrapport Nr. 66. Oslo: Norsk Byggforskningsinstitutt.

Benjamin, J. D, Chinloy, P. (2008), "Home Equity, Household Savings and Consumption", *Journal of Real Estate Finance and Economics,* 37, 21–32.

Braithwaite, J. (2008), *Regulatory Capitalism. How It Works, Ideas for Making It Work Better*, Cheltenham, UK, Edward Elgar.

Cook, N., Smith, S. J., Searle B. A. (2013), "Debted Objects: Homemaking in an Era of Mortgage-Enabled Consumption", *Housing, Theory and Society*, February, 1–19. doi:10.1080/14036096.2013.767280

Elliot, P., Wadley, D. (2013), "Residents Speak out: Re-Appraising Home Ownership, Property Rights and Place Attachment in a Risk Society", *Housing, Theory and Society*, 30, 2, 131–55.

Evans, E. (2004), *Thatcher and Thatcherism*. 2nd ed. London: Routeledge.

Finanstilsynet (2011), "Retningslinjer for Forsvarlig Utlånspraksis for Lån Til Boligformål." Rundskriv 29/2011. Rundskriv 29/2011, Oslo, Finanstilsynet.

Finanstilsynet (2012), *Etterlevelse Av Finanstilsynets Retningslinjer for Forsvarlig Boligfinansiering. Oppsummering Av Tematilsyn Våren 2011*, Oslo, Finanstilsynet.

Ford, J. (1988), *The Indebted Society. Credit and Default in the 1980s*, London & New York, Routledge.

Friedman, M. (1957), *A Theory of the Consumption Function*, Princeton, Princeton University Press.

Gelman, M., Shachar, K., Shapiro, M. D., Silverman, D., Tadelis, S. (2015), "How Individuals Smooth Spending: Evindence from the 2013 Government Shutdown Using Account Data", Working paper. NBER Working Paper Series. Massachusetts: National Bureau of Economic Research.

Greenspan, A., Kennedy, J. (2007), *Sources and Uses of Equity Extracted from Homes*. Finance and Economics Discussion Series 2007-20, Washington D.C.: Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board.

Halvorsen, E. (2011), "Norske Husholdningers Sparing", *Økonomiske Analyser* 3: 31–35.

Harvey, D. (2005), *A Brief History of Neoliberalism*, Oxford, Oxford University Press.

Herkenhoff, K., Ohanian, L. E. (2013), "Foreclosure Delay and U.S. Unemployment." Working Paper. Minnesota: University of Minnesota, Department of Economics.

Kiewe, A, Houck, D. W. (1991), *A Shining City on a Hill: Ronald Reagan's Economic Rhetoric, 1951-1989*, Praeger Series in Political Communication, New York, Praeger Publishers.

Knutsen, S., Ecklund, G. J. (2000), *Vern Mot Kriser? Norsk Finanstilsyn Gjennom 100 år*, Bergen, Fagbokforlaget.

Krippner, G. R. (2012), *Capitalizing On Crisis: The Political Origins of the Rise of Finance*, Cambridge, Mass., Harvard University Press.

Krugman, P. (2007), *The Conscience of a Liberal. Reclaiming America From the Right*, London & New York, Penguin Books.

Lie, E., Venneslan, C. (2010), *Over Evne. Finansdeprtementet 1965-1992*, Oslo, Pax Forlag A/S.

Lowe, S., Searle, B. A., Smith, S. J. (2011), "From Housing Wealth to Mortgage Debt; The Emergance of Britain's Assed-Shaped Welfare State", *Social Policy and Society*, 11, 1, 105–116.

Mirowsky, P, Plehwe, D. (Eds.) (2009), *The Road from Mont Pelerin. The Making of the Neoliberal Thought Collective*, Cambridge M. A. and London, Harvard University Press.

Mjøset, L., Cappelen, A. (2011), *The Integration of the Norwegian Oil Economy into the World Economy*, in Mjøset, L. (Ed.), "The Nordic Varieties of Capitalism", Comparative Social Research. Bingley UK, Emerald.

NOU (1989), *Penger Og Kreditt I En Omstillingstid*. NOU 1989:1, Oslo, Norges Offentlige Utredninger.

Polanyi, K. (1957), *The Great Transformation. The Political and Economic Origins of Our Time*, Boston, Beakon Press.

Poppe, C. (2008), "Into the Debt Quagmire. How Defaulters Cope With Severe Debt Problems." University of Oslo.

Poppe, C., Collard, S., Jakobsen, T. B. (2013), *The Role of Homeownership in the Financing of Everyday Life*. Project Note 18-2013. Oslo.

Poppe, C., Jakobsen, T. B. (2009), *Lånefest? Betydningen Af Kreditfinansieret Forbrug Blandt Udvalgte Grupper I Den Danske Middelklasse*. Edited by L. L. Andersen. Kredit- Og Kapitalmarkedsretsserien 7. København: Thomson Reuters.

Searle, B. A. (2011), "Housing Wealth and Recession", *Journal of Financial Economic Policy*, 33, 1, 33–48.

Sjørslev, I. (2012), "'Cash the Equity and Realize Yourself': An Anthropological Approach to House Values", *Housing, Theory and Society*, 29, 4, 382–400.

Smith, Susan J. (2012), *Crisis and Innovation in the Housing Economy: A Tale of Three Markets,* in Haliossis M. (Ed.), "Financial Innovation and Economic Crisis: An Introduction", Cambridge M.A., MIT Press.

Steger, M. B., Roy, R. K. (2010), *Neoliberalism. A Very Short Introduction*, Oxford, Oxford University Press.

Steigum, E. (1990), "Deregulering Og Bankkrise", *Aftenposten 18.04.90*.

Stortingsmelding nr 9. (1989), *Om Forbrukerpolitikken*. Stortingsmelding Nr. 9 (1989-90) 9 (1989-90). Oslo.

Wood, G., Parkinson, S., Searle, B., Smith S. J. (2013), "Motivations for Equity Borrowing: A Welfare-Switching Effect", *Urban Studies,* 50, 12, 2588–2607.