The United States: progress in household deleveraging and a change in house prices

From 1997 to 2006, in parallel with the steady increases in house prices in the United States, mortgage debt held by households also increased significantly, fuelled by the booming securitization of mortgages and lax regulations. From 2000 to mid-2006, when house prices peaked, prices increased by about 100 per cent, as did the amount of outstanding residential mortgage debt (figure 1). The accumulation of mortgage debt continued even after house prices started to decline, but eventually peaked in the second quarter of 2008. The spike in mortgage debt has imposed a heavy burden on households. For the homeowners, the ratio of financial obligation to disposable income increased by 2.6 percentage points from 2000 to 2007 (figure 2).

![Figure 1: House prices and outstanding residential mortgage debt](image)

Source: UN/DESA, based on data from United States Federal Reserve and S&P Dow Jones Indices.
After the housing bubble burst, house prices declined by 35 per cent from mid-2006 to early 2012, with a more pronounced fall during 2008 and 2009. The recession triggered by the collapse of the housing market caused more than 8 million people to lose their jobs. The surge in unemployment and the plunge in house prices drove the mortgage delinquency ratio up from the pre-crisis level of less than 2 per cent to around 10 per cent in early 2010. All stakeholders involved in the housing market were forced to deleverage. Households deleveraged through default, paying off mortgages, taking out fewer new mortgages, and refinancing.

As of mid-2013, the situation in the housing market has improved. Although the delinquency ratio was still 7.1 per cent in the first quarter of 2013, the mortgage financial burden ratio for homeowners has reverted to the pre-crisis level (figure 2). In addition to the reduced level of outstanding mortgage debt (which is now 11 per cent lower than the peak value), another feature of this adjustment is a switch to multifamily residential structures from single-family structures. Outstanding mortgages for the former category have increased in six of the last eight quarters to the first quarter of 2013; the level is now higher than the previous peak reached in 2009.