90% Mortgage Ceiling Won't Do Much

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To boast residential prices or even sales (for a significant period), that is. Having said this, it does not follow that there will be no impact at all, for it is likely to have some, especially sentiment-wise, though it is not expected to be strong. Some of the reasons are as follows:

a) **Residential investors or homebuyers are UNLIKELY to mortgage up to 90% just because it is allowed or made available**: especially given the current higher (real) interest rate. Granted that most people would only go for a residential unit which they could reasonably afford i.e. within their income capabilities, this 90% ceiling is unlikely to be of much help as these people / families simply cannot afford to pay off such a mortgage. The analogy is simple, say a family is able to afford a $2M home at 60% mortgage level. Going for 90% on this $2M home means the family has done the equivalent of going for a $3M home at 60% mortgage level instead. Normally, this is unlikely to occur. Finding the extra equity ($1,200,000 instead of $800,000 = $400,000) is one thing, whether the financing institution feels comfortable with the family going from a $1.2M mortgage to a $1.8M mortgage is another. Hence, this 90% ceiling is perhaps most helpful to a purchaser who can afford a $3M home at 60% mortgage level but instead goes for a $2M unit at 90% mortgage level (saving him/herself $1M in cash equity in the process as only $200K equity is required. Earlier, this same purchaser would still have to come up with $600K [70% mortgage ceiling] of his/her own equity for the $2M home leaving him/her only another $600K in cash).

b) **Most investors and buyers are UNLIKELY to have the same "affection" for real estate**: as in 1997 or prior, that is. People were then willing to spend less on food or clothing in order to acquire a residential unit because the economy was more vibrant, and the thinking was that prices would go up even further in time. It was not uncommon to have families spending 50% or more of their monthly earnings on housing related items including mortgages. With the current economic restructuring and the increased job vulnerability, saving money may have become more important.

c) **The typical (effective) range of mortgage levels actually adopted by the market**: let us assume for the time being that most purchasers would require a mortgage level between 40% and 60%. Increasing the current 70% to 90% will have little influence as few buyers are prevented from buying due to difficulty in getting the mortgage level they want. Conversely, if the buyers generally have generally applied for the ceiling of 70%, this might be a signal that the increase to 90% will help some more families. Technically speaking, and using the 40-60% range as example, if the new ceiling is contracted to 50%, then the impact would be much greater, negatively in this instance. This is because some buyers would have been prevented from entering the market (or at least be forced to trade down or buy a smaller unit).

Naturally, the 90% ceiling may be adopted not only due to market conditions alone, but may include financial concerns and the general difficulty in finding viable lending opportunities. In any event, price levels in the long run are more dependent on the earning power of an economy. The level of mortgage (real or nominal) takes perhaps a secondary role.
