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COMMITTEE: **General Assembly 2-Economic and Financial**
ISSUE: **Decreasing the effects of ‘’the housing bubble’’**
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POSITION: **Deputy Chair**

Hi, delegates, my name is Öykü Göktuğ and I will be serving as a deputy chair of the Economic and Finance Committee. Attending to Ted Ankara College, I’m currently 11th grade. This will be my 8th conference and second chairing experience. This year I’ll be serving as the Under-Secretary-General of TEDMUN’20. I’ve been interested in politics since middle school. MUN conferences lead me to discover the ability of debate and even more interest in politics and diplomacy. And I loved it from the very first day. Out of the MUN, I’ve been playing tennis for more than 10 years and trying to keep it up with everything.
Throughout 4 days, never be shy to speak and debate upon for the agenda items even if you’re the first-timer. I’m already sure that you’re well prepared for the conference and ready to debate and discuss your solutions. I can’t wait to meet you all. Hope to ACMUN’20 will be an unforgettable experience for all of us.

INTRODUCTION

The housing bubble which is known as real estate bubble is a run-up in housing prices set up by cretinous spending to the point of collapse, speculation and demand. The beginning of the housing bubble is put forward by an increase in supplementations and high amount of demand. Demand itself further increases when speculators enter the market, making the bubble bigger. As the effect of limited supply and so much demand, prices eventually skyrocket.

Housing bubbles not only have a direct impact on real estate industry, but also homeowners and their personal finances. A bobble can have impact on economy with lending standards,

interest rates and practices which may force people to find ways for keeping up mortgage payments when it's necessary.
Despite housing bubble can last several years, it is normally temporary event. Besides bubbles in the equity market happen much more frequently according to the International Monetary Fund (IMF)

Since the price of housing is driven by supply and demand, change in demand affects the price directly proportional. As the supply of housing decreases, especially in the absence of a natural disaster, prices are expected to rice since demand trends outpace current supply trends. Just as important is that the supply of housing is slow to react to increases in demand because it takes a long time to build a house, and in highly developed areas there simply isn't any more land to build on. As follows, if there is a prolonged or sudden increase in demand, then prices are sure to rise as well.

There are several possibilities which causes the increase in demand; An upturn in general economic activity and prosperity that puts more disposable income in consumers' pockets and encourages home ownership, an increase in the population or the demographic segment of the population entering the housing market, a low, general level of interest rates, particularly short-term interest rates, that makes homes more affordable, easy access to credit, a lowering of underwriting standard, that brings more buyers to market, high-yielding structured mortgage bonds, as demanded by investors, that make more mortgage credit available to borrowers can be demonstrated as pivotal causes for increase in demand while also can combine to cause a housing market bubble. They tend to feed off each other.

DEFINITION OF KEY TERMS

Paradigm Shift:

It is a major change in the concepts and practices of how something works or is accomplished. It can happen within a wide variety of contexts. They very often happen when new technology is introduced that radically alters the production process of a good or service. A paradigm shift can require that entire departments be eliminated or created in some cases, and millions or even billions of dollars of new equipment purchased while the old equipment is sold or recycled. Paradigm shifts have become much more frequent in the past hundred years, as the Industrial Revolution has transformed many social and industrial processes. This process is likely to become even more commonplace in the future as our rate of technological advancement increases.

Credit Cycle:

A credit cycle describes the phases of access to credit by borrowers. Credit cycles first go through periods in which funds are relatively easy to borrow; these periods are characterized by lower interest rates, lowered lending requirements, and an increase in the amount of available credit, which stimulates a general expansion of economic activity. These periods are followed by a contraction in the availability of funds. During the contraction period of the credit cycle, interest rates climb and lending rules become more strict, meaning that less credit is available for business loans, home loans, and other personal loans. The contraction period continues until risks are reduced for the lending institutions, at which point the cycle troughs out and then begins again with renewed credit. The credit cycle is one of several recurrent economic cycles identified by economists.

Economic Cycle:

The economic cycle is the fluctuation of the economy between periods of expansion (growth) and contraction (recession). Factors such as gross domestic product (GDP), interest rates, total employment, and consumer spending, can help to determine the current stage of the economic cycle.

U.S Housing Bubble

A real estate bubble that affected more than half of the United States in the mid-2000s and was partially the result of the dot-com bubble. As the markets began to crash, values in real estate started to rise and the demand for homeownership started to grow, at almost alarming levels. Interest rates started to decline and whatever strict lending requirements banks and lenders had were all but thrown out the window- which meant almost anyone could become a homeowner. In fact, almost 56 percent of people who purchased homes in that time would never have been able to do so under normal circumstances

Gross Domestic Product-GDP

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of the country’s economic health. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well. In the United States, for example, the government releases an annualized GDP estimate for each quarter and also for an entire year. Most of the individual data sets will also be given in real terms, meaning that the data is adjusted for price changes, and is, therefore, net of inflation.

Business Cycle:

The business cycle describes the rise and fall in production output of goods and services in an economy. Business cycles are generally measured using the rise and fall in the real gross domestic product (GDP) or the GDP adjusted for inflation. The business cycle should not be confused with market cycles, which are measured using broad stock market indices. The business cycle is also different from the debt cycle, which refers to the rise and fall. The business cycle is also known as the economic cycle or trade cycle.

Contraction:

Contraction, in economics, refers to a phase of the business cycle in which the economy as a whole is in decline. A contraction generally occurs after the business cycle peaks, but before it becomes a trough. According to most economists, when a country's real gross domestic product (GDP), the most-watched indicator of economic contraction, has declined for two or more consecutive quarters, then a contraction has occurred.

Stock Market Index:

Stock market indexes around the world are powerful indicators for global and country-specific economies. In the United States the S&P 500, Dow Jones Industrial Average, and Nasdaq Composite are the three most broadly followed indexes by both the media and investors. In addition to these three indexes there are approximately 5,000 others that make up the U.S. equity market.

OVERVIEW

As with all types of economic bubbles, disagreement exists over whether or not a real estate bubble can be identified or predicted, then perhaps prevented. Speculative bubbles are persistent, systematic and increasing deviations of actual prices from their fundamental values. Bubbles can often be hard to identify, even after the fact, due to difficulty in accurately estimating intrinsic values.

In real estate, fundamentals can be estimated from rental yields (where real estate is then considered in a similar vein to stocks and other financial assets) or based on a regression of actual prices on a set of demand and/or supply variables.

Within mainstream economics[clarification needed], it can be posed that real estate bubbles cannot be identified as they occur and cannot or should not be prevented, with government and central bank policy rather cleaning up after the bubble bursts.

American economist Robert Shiller of the Case-Shiller Home Price Index of home prices in 20 metro cities across the United States indicated on May 31, 2011 that a "Home Price Double Dip Confirmed" and British magazine The Economist, argue that housing market indicators can be used to identify real estate bubbles. Some[who?] argue further that governments and central banks can and should take action to prevent bubbles from forming, or to deflate existing bubbles.

Within mainstream economics, economic bubbles, and in particular real estate bubbles, are not considered major concerns. Within some schools of heterodox economics, by contrast, real estate bubbles are considered of critical importance and a fundamental cause of financial crises and ensuing economic crises.

The pre-dominating economic perspective is that increases in housing prices result in little or no wealth effect, namely it does not affect the consumption behavior of households not looking to sell. The house price becoming compensation for the higher implicit rent costs for owning. Increasing house prices can have a negative effect on consumption through increased rent inflation and a higher propensity to save given expected rent increase.

In some schools of heterodox economics, notably Austrian economics and Post-Keynesian economics, real estate bubbles are seen as an example of credit bubbles (pejoratively,[clarification needed] speculative bubbles), because property owners generally use borrowed money to purchase property, in the form of mortgages. These are then argued to cause financial and hence economic crises. This is first argued empirically, numerous real estate bubbles have been followed by economic slumps, and it is argued that there is a cause-effect relationship between these.

The Post-Keynesian theory of debt deflation takes a demand-side view, arguing that property owners not only feel richer but borrow to consume against the increased value of their property by taking out a home equity line of credit, for instance; or speculate by buying property with borrowed money in the expectation that it will rise in value. When the bubble bursts, the value of the property decreases but not the level of debt. The burden of repaying or defaulting on the loan depresses aggregate demand, it is argued, and constitutes the proximate cause of the subsequent economic slump.

In attempting to identify bubbles before they burst, economists have developed a number of financial ratios and economic indicators that can be used to evaluate whether homes in a given area are fairly valued. By comparing current levels to previous levels that have proven unsustainable in the past (led to or at least accompanied crashes), one can make an

educated guess as to whether a given real estate market is experiencing a bubble. Indicators describe two interwoven aspects of housing bubble: a valuation component and a debt (or leverage) component. The valuation component measures how expensive houses are relative to what most people can afford, and the debt component measures how indebted households become in buying them for home or profit (and also how much exposure the banks accumulate by lending for them).

Causes and Effects:

When there is a fall in house prices, there tends to be a negative wealth effect and a negative impact on economic growth. Since households see a fall in house prices, their main form of wealth declines, this reduces their confidence to spend. They are more likely to devote a higher % of their income to try to pay off their mortgage early. Falling house prices cause more people to be trapped in negative equity (a situation where your house is worth less than an outstanding mortgage). This causes a fall in spending and precludes any opportunity for equity withdrawal. Falling house prices have a negative impact on the construction of new houses.

If the economy is close to full capacity and already growing strongly, then a rise in consumer spending due to rising house prices could contribute to inflationary pressures. For example, in the late 1980s, the rise in UK house prices and consequent boom in spending was a key factor in causing inflation of 10% by 1989.

There are several factors that affects house marketing which are;

1. Unemployment. Related to economic growth is unemployment. When unemployment is rising, fewer people will be able to afford a house. But, even the fear of unemployment may discourage people from entering the property market.

2. Economic growth. Demand for housing is dependent upon income. With higher economic growth and rising incomes, people will be able to spend more on houses; this will increase demand and push up prices. In fact, demand for housing is often noted to be income elastic (luxury good); rising incomes leading to a bigger % of income being spent on houses. Similarly, in a recession, falling incomes will mean people can't afford to buy and those who lose their job may fall behind on their mortgage payments and end up with their home repossessed.

3. Interest rates. Interest rates affect the cost of monthly mortgage payments. A period of high-interest rates will increase cost of mortgage payments and will cause lower demand for buying a house. High-interest rates make renting relatively more attractive compared to buying. Interest rates have a bigger effect if homeowners have large variable mortgages. For example, in 1990-92, the sharp rise in interest rates caused a very steep fall in UK house prices because many homeowners couldn't afford the rise in interest rates.

4. Consumer confidence. Confidence is important for determining whether people want to take the risk of taking out a mortgage. In particular expectations towards the housing market is important; if people fear house prices could fall, people will defer buying.

5. Mortgage availability. In the boom years of 1996-2006, many banks were very keen to lend mortgages. They allowed people to borrow large income multiples (e.g. five times income). Also, banks required very low deposits (e.g. 100% mortgages). This ease of getting a mortgage meant that demand for housing increased as more people were now able to buy. However, since the credit crunch of 2007, banks and building societies struggled to raise funds for lending on the money markets. Therefore, they have tightened their lending

criteria requiring a bigger deposit to buy a house. This has reduced the availability of mortgages and demand fell.

6. Supply. A shortage of supply pushes up prices. Excess supply will cause prices to fall. For example, in the Irish property boom of 1996-2006, an estimated 700,000 new houses were built. When the property market collapsed, the market was left with a fundamental oversupply. Vacancy rates reached 15%, and with supply greater than demand, prices fell.

7. Affordability/house prices to earnings. The ratio of house prices to earnings influences the demand. As house prices rise relative to income, you would expect fewer people to be able to afford. For example, in the 2007 boom, the ratio of house prices to income rose to five. At this level, house prices were relatively expensive, and we saw a correction with house prices falling.

8.Geographical factors. Many housing markets are highly geographical. For example, national house prices may be falling, but some areas (e.g. London, Oxford) may still see rising prices. Desirable areas can buck market trends as demand is high, and supply limited. For example, houses near good schools or a good rail link may have a significant premium to other areas.

Evaluation of Other Issues:

It's difficult to identify a housing bubble until it pops. The moment comes when an increase of housing supply topples over decreasing demand. After consistent home price growth, there is a drastic drop because buyers aren't willing to pay as much for the homes on the market. Additionally, many owners may have borrowed more than their home is worth, causing more debts and a greater rate of foreclosures. The influx of foreclosures drives home prices even lower and floods the market further. In short, once the extravagant risk-taking becomes too pervasive and the supply of housing continues to increase as demand subsides, prices fall. Housing bubbles affect not only the real estate market, but neighborhoods, personal wealth and the economy at large, too. Bubbles cause a lack of affordability, driving more people to look for unsavory mortgage programs. It may cause homeowners to dig into their retirement plans, meaning they'll have to work longer just to pay the bills. After a housing bubble pops, it isn't uncommon for people to lose their homes and/or their savings.

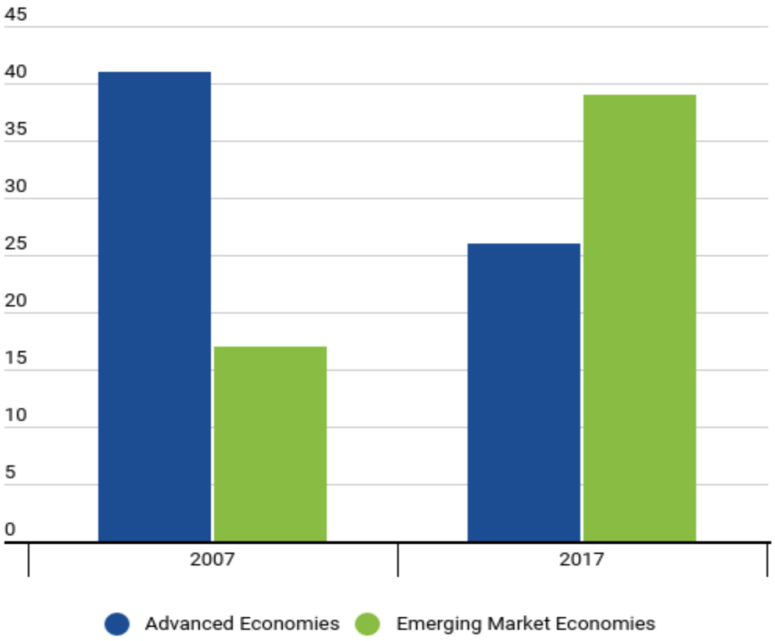
In the mid-2000s, the U.S. economy experienced a housing bubble that had a direct relationship to the Great Recession. Following the dotcom bubble, values in real estate began to creep up, fueling a rise in homeownership among speculative buyers, investors, and other consumers. Low interest rates, relaxed lending standards—including low down payment requirements—allowed people who would normally never have been able to purchase a home to become homeowners. This drove home prices up even more. Yet many speculative investors stopped buying because the risk was getting too high, leading other buyers to get out of the market. This caused prices to drop. Mortgage-backed securities were sold off in massive quantities, while mortgage defaults and foreclosures rose to unprecedented levels.

RELEVANT ACTORS AND BODIES:

IMF

The IMF, which known as the International Monetary Fund, has developed a new tool. The aim of that new investigation is to help policy makers gauge the likelihood of a

future housing downturn and take early steps to help limit the damage. The tool, dubbed House Prices at Risk, feeds into the Fund's growth-at-risk model, which links financial conditions to the danger of an economic downturn.



Source: IMF Staff calculations.
Note: The Figure shows the share of 22 advanced and 10 emerging market economies, weighted by GDP, where the three-year-ahead house price at risk exceeds -10 percent on an annual basis.

IDA

The International Development Association prepared a series of briefing documents for executives after multinational companies raised concerns over "constraints" and "clear market failures" in the residential property market.

IBRD

The International Bank for Reconstruction and Development works together with IDA to make up the World Bank and lends credit which is needed for middle income and y low-income countries.

UNCTAD

United Nations Conference On Trade And Development is known for supporting countries to be able to benefit from a globalized economy more effectively and also more fairly. Besides the cooperation of IMF and UNCTAD for the supportment of the efforts for developing countries to achieve their development goals without creating future debt problems; UNCTAD created a project which aims to assess how financial consumer protection can be strengthened effectively to promote growth, enhance financial stability and increase consumer welfare. According to the UNCTAD, the project will focus on consumer credit regulation and deposit protection, exploring different conceptual models to enhance financial consumer protection: among these, social inclusion of vulnerable consumer, empowerment via the capability concept, and responsible lending.

TREATIES AND INITIATIVES:

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SPECIFIC ANALYSIS ON RELEVANT CONFLICTS AND PROBLEMS:

Major crises usually end up being understood by the public in terms of some simple narrative, which then heavily influences the choices politicians make. Analysis demonstrate that the determinants of real estate and credit bubbles using a unique borrower-lender matched dataset on mortgage loans. The dataset contain real estate credit and price conditions (loan principal and spread, and the appraisal and market price) at the mortgage level, matched with borrower characteristics (such as income, labor status and contract) and the lender identity, over the last credit boom and bust. Lending standards are softer in the boom than in the bust. Moreover, despite some adjustment in lending conditions in the good times depending on borrower risk, the results suggest too soft lending standards and excessive risk-taking in the boom. Despite the importance of concentration of banking risk on the real estate sector, in particular on household mortgage credit, there is scant evidence

identifying the channels that explain the real estate and credit booms. The main reason is the lack of individual or loan borrower-lender matched level data.

TIMELINE OF MAJOR EVENTS

Date	Description of Event
1934	The National Housing Act of 1934, part of the New Deal, makes more affordable housing and home mortgages. It creates the Federal Housing Administration (FHA) .
1938	Fannie Mae is founded by the government under the New Deal. It is a stockholder-owned corporation that purchases and securitizes mortgages in order to ensure that funds are consistently available to the institutions that lend money to home buyers.
1974	Equal Credit Opportunity Act imposes heavy sanctions for financial institutions found guilty of discrimination on the basis of race, color, religion, national origin, sex, marital status, or age.
1975	In January 1975, the Median Home Price was $37,200, while the Average Home Price was $39,500.
1981	Each Federal Reserve bank establishes a Community Affairs Office to ensure compliance with Community Reinvestment Act.
1990	In January 1990, the Median Home Price was $125,000, while the Average Home Price was $151,700.The average cost of a new home in 1990 is $149,800 ($234,841 in 2007 dollars).
1992	Federal Housing Enterprises Financial Safety and Soundness Act of 1992 required Fannie Mae and Freddie Mac to devote a percentage of their lending.
1997	Mortgage denial rate of 29 percent for conventional home purchase loans.
1998	New York Fed brings together consortium of investors to bail out Long-Term Capital Management.
1999	President Clinton's Housing Urban Development (HUD) Secretary, Andrew Cuomo announces on July 29, 1999.
2000	The Median Home Price was $163,500, while the Average Home Price was $200,300.

2002	Annual home price appreciation of 10% or more in California, Florida, and most Northeastern states."Annual home-value growth at highest rate since 1980''.
2003	Federal Reserve Chair Alan Greenspan lowers federal reserve's key interest rate to 1%, the lowest in 45 years.
2004	U.S. homeownership rate peaked with an all-time high of 69.2 percent.
2005	The Federal Deposit Insurance Corporation, Federal Reserve, and the Office of the Comptroller of the Currency allow loosening of Community Reinvestment Act requirements for "small" banks, further cutting subprime loans.
2006	More than 1.25 million foreclosure notices were filed on more than 800,000 properties during the year. One in 92 of all households were in some stage of foreclosure during 2006
2007	A total of 2,203,295 foreclosures were filed on 1,285,873 properties during the year, up 75 percent from 2006. More than 1 percent of all households were in some stage of foreclosure during 2007, up from 0.58 percent in 2006.
2008	A total of 3,157,806 foreclosures were filed on 2,330,483 properties during the year, up 81 percent from 2007. More than 1.84 percent of all households were in some stage of foreclosure during 2008, up from 1.03 percent in 2007.
2009	A total of 3,957,643 foreclosures were filed on 2,824,674 properties during the year, up 21 percent from 2008. More than 2.21 percent of all households were in some stage of foreclosure during 2009, up from 1.84 percent in 2008.
2010	A total of 1,961,894 foreclosures were filed on 1,654,634 properties during the first half of the year, up 5 percent from same period last year. More than 1.28 percent of all households were in some stage of foreclosure during the first half of 2010.
2011	A total of 1,170,402 properties received foreclosure notices during the first half of the year, down 29 percent from the same period in 2010. 0.9 percent of all households were in some stage of foreclosure during the first half of 2011.

POSSIBLE SOLUTIONS

It is important to know and research upon how to overcome the housing crisis. Offering a safe load program for low-income residents that would not pull them to the abyss, providing house consulting services that can guide each individual to the matching system with his income and needs and preventing borrowers from entering the process to make a profit and putting more burden on people would be pivotal solutions for overcoming housing crisis. Besides the importance of overcoming housing crisis, signals for a bubble in real estate

should be considered as well. In Germany it had been rapidly increasing prices for real estate in big cities. The German Central Bank (Deutsche Bundesbank) demonstrated there is no bubble as mortgages not increasing. Yet, it can be a price bubble, since investors are running into real estate. Additionally, it is also pivotal to know the reasons of a real estate bubble. As home prices rise, more and more potential home buyers get priced out of the market. With fewer people able to afford homes, demand drops, and so do prices. That's when the housing bubble bursts. To look up possible solutions for the issue of Decreasing the effects of "the housing bubble", cause and effects questions should be considered as well.

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