

Should mortgage lenders be nationalised?

Following recent disturbances in the world economy some governments came to a conclusion that it is in their duty to intervene and solve the growing problem. In this case – the problem of mortgage lenders. As with every action from government, it is important to assess whether there truly is a market failure or not. To begin with, a closer look at how this situation arose would be essential.

Over recent years, the housing market not only in UK but around the world as well had been enjoying a period of prosperity. House prices were ridiculously high, though no one seemed to be bothered by that. Residential Mortgage Backed Securities (RMBS) played a key role in that, as this security type let a vast number of homebuyers to take loans. Investors thought that might just be a perfect opportunity to make some profit, so they also joined this house of madness by lending money to mortgagors through the banking system. However, nothing lasts forever. Investors realised that there is a risk of their money not being returned either on condition that banks and/or lenders fail, therefore they immediately left the market causing dry up of mortgage finances. So, there it is. This is where government ought to, in mortgage lenders' opinion, step in, pump money and let the vicious cycle continue. Indeed, there is a market failure. A failure that only government can solve. Should it though? Isn't the true idea standing behind the capitalism to reward the hard-working, the smart and punish the lazy, the reckless? Why should the latter ones be protected? Why should tax payers money be spent in such a wasteful way? Nationalising UK's Bradford & Bingley alone has already cost £150bn. In fact, only a small number of banks is to be blamed for this state of affairs to have taken place. Their irresponsible high stake risk taking actions led to a disaster that, now, they want all of us to bear the cost of. How unreasonable that must sound to a person who doesn't even have a mortgage?

'We've had ten years of allowing banks to do what they wish really, to give them absolute freedom to lend.'

Alex Brummer, City editor, Mail on Sunday

However, with nationalising it would be assured that Bank of England's base rate is reinforced and has a real life implications, as it has been recently revealed that some mortgage providers do not cut their interest rates in line with the one set up by BoE. Moreover, it has been stated by government authorities and banks' representatives on numerous occasions that improving access to capital is crucial to get the economy working again. That might actually be the case with a reduced borrower exploitation. Nationalised industries are supposed to be in the best interest of society, therefore hopefully there will no longer be banks trying to unfairly 'steal' peoples' possessions by taking a use of their lack of knowledge, charging enormous rates, making it harder for those who already find it difficult to keep up with repayments .

Government would be able to offer competitive deals for everyone, and with market forces coming in, other lenders would have to follow the trend as well.

It is the period of nationalising that needs to be taken into consideration, too. United Kingdom Chancellor of the Exchequer, Alistair Darling, emphasised that this process in regards of Northern Rock is only on a temporary basis, yet still it would be more realistic to count in years rather than months instead. That is how long it is expected for NR to repay the loan from taxpayers. That situation is extremely rare these days, so an accurate estimation of when the government will loosen its grip on the bank is hard to predict. Worth mentioning is the fact that it was only after 16 years of Rolls-Royce emergent nationalisation in 1971, that all its shares were sold to private owner. What would happen if the mortgage defaults continued to rise though? What if the plan would fail? And more money would be needed in attempts to solve the problem? Taxpayers would be left with a very large bill to pay for financial bailout. And this leaves us with the question – how would the government fund further bailouts? Increase taxation? Cannot, this would cause a slowdown of an economy. Income tax – lower income, lower consumption. Indirect taxes – higher taxes, lower consumption. Doesn't sound good. Borrowing? Cannot. The so-called Golden Rule of fiscal policy is that the government should not borrow in order to finance current spending, and that any borrowing the government does undertake is for investment. I wouldn't consider rescuing awfully managed mortgage lending banks as a form of investment. I have no doubt that Mrs Thatcher would more than happily get rid of collapsing institutions. In her opinion, what doesn't work, shouldn't be allowed to work at all. Bailing banks out is a wrong idea in terms of externalities, moral hazard in particular. If they [banks] would know that there is the Government standing behind, fully prepared to save them in case of failure, they would feel more secure about themselves, with a higher willingness to take risk. They wouldn't bear all the consequences. Northern Rock and Bradford & Bingley did not. Where is the capitalistic ideology of laissez-faire? Just leave it alone. Events should take their own courses, whereas government generally ought not to intervene in the marketplace. Looking at the situation in a more positive light though, financial conditions will improve in few years time, and by then the Government will be able to sell banks for much more attractive prices (e.g. Virgin trying to buy Northern Rock, but the offer was too low in Government's opinion) in order to compensate and benefit taxpayers.

Still, I am not really convinced with the view of governments nationalising mortgage lenders. As a free market economy supporter, I strongly believe that the market should be free of any governments intervention nor regulation, besides the minimum function of maintaining the legal system and protecting property rights. To finalise, I would like to quote a man, whose words cannot summarise my essay better,

'The nationalisation of Northern Rock is a disaster for the taxpayer, a disaster for this government and a disaster for our country.'

David Cameron, Conservative leader