

CHAPTER TWO

2. LITERATURE REVIEW

The prepayment behaviour of home mortgage borrowers has been widely observed to be inconsistent with behaviour implied by classical theory. A substantial literature has emerged examining the problem focusing on the characteristics of the mortgage and on the historic path of interest rate in attempting to explain the anomaly. Wayne R. Archer, David C. Ling and Gary A. Mc Gill (1995) offers contributions to the literature in three respects.

First, it explores the influence of household - level characteristics upon prepayment behaviour, using both householder characteristics and collateral (house) value.

Secondly, it empirically recognises important interaction between the status of the prepayment option and the influence of income and collateral constraints upon prepayment behaviour.

Thirdly, among the findings were, when the household is either collateral constrained or income constrained or the option is likely to be out of money, the influence of the option value upon prepayment behaviour is

less by half. When the status of the option and the influence of the potential household constraints are more appropriately recognised, these factors account for nearly all explanatory power otherwise attributable to household demographic characteristic.

2.1 Homeownership

The factors affecting the aggregate homeownership rate are numerous. At the individual household level, the cost of owning relative to renting, affordability and taste matter. At the aggregate level, the age and household structure of the population matter.

Richard K. Green (1994) presents a careful state - by - state analysis of the change in affordability and funds for the typical first-time homeowner. The house price/income ratio fell in 42 states and the payment/ income ratio fell in 47 states. On the other hand, the ex ante user cost of housing rose in 49 states owing to low house price appreciation and marginal tax rates in the late 1980s. Given the combination of a decline in the attractiveness of owning housing and an increase in its affordability, call for zero down-payment loan and relaxed qualification standard seem especially surprising / inappropriate. Green concludes that concern about the stagnant aggregate homeownership rate is misguided.

Green then estimates models of household choice and of tenure choice for each household type using data from 1980 and 1990 censuses. The shift in household composition during the 1980s toward single and unmarried households with children is estimated to have lowered the aggregate homeownership rate by 2.7 percentage point. The decrease was roughly offset by the increase in the taste for ownership within household types (more ownership-favourable regression coefficients from the 1990 data than the 1980 data). Demographic changes had little net impact.

As Hendershott (1988) notes, the homeownership rate varies significantly with marital status. Henderson established that household type is an important determinant of homeownership. His paper focused specifically on marital status and suggested that demographic and social changes have led to an increasing number of households headed by single and such households are far more likely to rent than households headed by married couples.

The changing demographic and social values produce changes in household arrangements, which in turn produce changes in the likelihood of owning, we may conclude that the flat homeownership rate does not reflect a paucity of economic opportunity. However changing household arrangements could in

part reflect changing economic conditions. If this is true, then these less desirable conditions are partly responsible for the flat homeownership rate.

Becker (1991) suggest that marrying, divorcing and having children are very much economic as well as demographic decisions. Thus to determine how the economy has affected the homeownership rate, we must first look at how demographic condition alone have affected the choice of household type and then how tenure choice decisions are made within each household type, we must consider the impact of changing taste

Local studies in the field of public housing are not many and were done on diverse aspects of public housing. However, most of the studies were mainly to find a formula to solve shelter problem for the poor.

Khor Kok Peng (1989) in his paper, "Are the government and private sectors sufficiently committed ?", examined the country's housing problem, as to why the formal housing industry is unable to meet housing needs of the poor, malpractices in the housing industry and factors contributed to the high cost of housing.

Khor argued that a new approach is needed if the masses are to be adequately housed. By giving a piece of land (or at least access to secure land tenancy) the poor can build their own houses. Khor concluded that government intervention should be made to increase the access of the people to housing finance and resources like land, tools, services and technical advice. The role of the government thus is as a facilitator and not a builder of finished housing units for the poor.

In a socio-economic survey of 2200 squatter households in the Klang Valley conducted by Wegelin has shown that only 2 out of 6 housing schemes in the Klang Valley area were financially profitable to the government. From the national-economic point of view the return for all schemes were considerably high. The welfare benefits (factor which gave rise to significant redistributive benefits) were higher than rental or payments made for the housing. In the light of the finding, Wegelin concluded that increased government investment in the public housing would be justified.

Abraham in his study of the impact of low - cost housing on the employment and social structure of the communities in the Rifle Range and Kampung Melayu Flats in Penang, found that the low -

cost housing did not provide for the needs of low income groups. It was because at the existing income levels, the rent paid was a large proportion of income for most of the families. The relationship between low - cost housing and the employment structure of the urban communities was negligible, whilst living in low-cost housing was shown to have had negative impact on the social structure of the communities.