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The Role of Forbearance in Sustaining Low-Income Homeownership: Evidence from Norway's Public Starter Mortgage Program

Anna Maria Santiago
Michigan State University

Kristin Aarland
Oslo Metropolitan University

Abstract

In the wake of the Global Financial Crisis of 2008 and, more recently, the COVID-19 pandemic, policymakers in the United States and Europe have been reevaluating how best to respond to unanticipated shocks that destabilize global economies and housing markets, which increase exposure to financial risks that trigger housing instability, evictions, forced short sales, or foreclosures, particularly among the most vulnerable populations in society. Lessons learned from the inadequacy of governmental response during the Global Financial Crisis to stave off foreclosures in the United States, the United Kingdom, and countries across Europe led to the timely implementation of broader national initiatives, such as expanded unemployment benefits, foreclosure moratoria, and the expanded use of mortgage forbearance to respond to the economic uncertainty associated with the COVID-19 pandemic. Early studies of the use of mortgage forbearance during COVID-19 suggest that these policies lessened the precarity of maintaining a foothold on the housing ladder while allaying concerns about widespread moral hazard. In addition, should the use of mortgage forbearance be limited to only global economic disasters or pandemics? An analysis of Norway's national Starter Mortgage Program, especially the

Abstract (continued)

role of local municipalities in the use of discretion, leniency, and forbearance, provides relevant insights for the design of mortgage programs that sustain low-income homeownership both in times of national economic growth, as well as during crises.

This article examines how municipal discretion, leniency, and forbearance in a public starter mortgage program post-mortgage origination help to sustain homeownership among vulnerable families and mitigate mortgage defaults that lead to forced short sales. Offering forbearance to vulnerable homeowners when it is needed post-origination supports the sustainability of low-income homeownership, does not produce widespread moral hazard, and protects both national and municipal financial investments in public mortgage programs.

Introduction

During the past 5 decades, expanding access to homeownership to lower income families has been the foundation of housing policy in many countries throughout North America and Europe (Belsky, Hebert, and Molinsky, 2014; Filandri and Olagnero, 2014; Kemp, 2000; Retsinas and Belsky, 2002). However, sustaining homeownership is less certain when financially vulnerable homeowners with limited financial resources are overexposed to personal setbacks and economic triggers that may lead to default. How to best support financially vulnerable families in sustaining homeownership continues to be heavily debated among scholars and policymakers alike. Recent global crises, such as the Global Financial Crisis in 2008 and the COVID-19 pandemic, further underscore the considerable risks to sustaining homeownership associated with the deteriorating economic positions of low-income families (Dewilde and De Decker, 2016; Farrell, Greig, and Zhao, 2020; Filandri and Bertonlini, 2016; Haffner et al., 2017; McCarthy, 2014; Stanga, Vlahu, and de Haan, 2018). Those crises also highlight the need for alternative approaches to default prevention (Albuquerque and Varadi, 2022; Farrell, Bhagat, and Zhao, 2018; Loewenstein and Njinju, 2022; Perlmeter, 2022).

This article contributes to this current debate by examining a nationwide, yet local municipality-run public mortgage program in Norway whose use of municipal discretion, leniency, and forbearance has enabled vulnerable families to sustain homeownership during periods of economic uncertainty. The article begins with a brief review of the literature on low-income homeownership policies and the extent to which foreclosure moratoria and forbearance mitigate loss and promote sustainability. Then, the context for low-income homeownership in Norway and a detailed description of the Starter Mortgage Program (Startlån) is provided. A summary of key program strategies and outcomes follows, including recent evidence indicative of the use of municipal discretion, leniency, and forbearance. The article concludes with a discussion of implications for housing policy and practice and the extent to which programs like the Starter Mortgage Program in Norway offer viable alternative means for supporting low-income homeownership.

Sustainable Low-Income Homeownership: Where Do We Go from Here?

During the past half century, housing policies promoting homeownership were extended to include ever lower-income families in the United States, the United Kingdom, Australia, and other European countries, underscoring the beliefs that (1) homeownership was the key to wealth generation in vulnerable families, and (2) wealth accumulation was inextricably linked to the continued duration of homeownership tenure (Belsky, Herbert, and Molinsky 2014; Doling and Elsinga, 2005; Filandri and Olagnero, 2014; Kemp, 2000; Jones et al., 2007; Norris, Coates, and Kane, 2007; Poggio, 2006; Retsinas and Belsky, 2002; Wainer and Zabel, 2019; Yates, 2003). However, those beliefs have been tempered by concerns about the sustainability of homeownership among vulnerable families (Bratt, 2008; Haffner et al., 2017; Mallach, 2011).

These concerns prompted numerous studies to identify factors mitigating the long-term sustainability of homeownership among low-income buyers (for reviews, see Gerlach-Kristen and Lyons, 2018; Jones and Sirmans, 2015; LaCour-Little, 2008; Quercia and Stegman, 1992; Tajaddini and Gholipour, 2017). Prior studies underscore the role of negative equity and underwater mortgages and adverse trigger events, such as prolonged spells of unemployment or illness, income loss, residential relocations, or marital disruptions in sparking mortgage arrears and the subsequent use of strategic defaults (Foote, Gerardi, and Willen, 2008, 2009; Goodman et al., 2010; Linn and Lyons, 2018; Ngene et al., 2016; Seiler, 2014). In addition, Elul and colleagues (2010) found that household factors such as high loan-to-value ratios, high credit card debt, and the extraction of any home equity contributed to household insolvency and declining homeownership sustainability. Further, McCann and O'Malley (2021) observed that homebuyers who obtained mortgage products such as low or no downpayment loans, adjustable-rate mortgages with balloon payments, and interest-only financing were more easily distressed by economic crises that, in turn, triggered short-term responses to sustain homeownership, such as interest-only payments, but did not provide sustainable, longer-term solutions.

More recently, attention has focused on the influence of global economic recessions that triggered the collapse of housing markets across North America and Europe in 2008 and a nascent literature examining the effects of the COVID-19 pandemic on the sustainability of homeownership, particularly among vulnerable homeowners (Belsky, Herbert, and Molinsky, 2014; Clark, 2013; Dettling and Lambie-Hanson, 2021; Farrell, Greig, and Zhao, 2020; Haughwout et al., 2020; Loewenstein and Njinju, 2022; Norris, Coates, and Kane, 2007; Perlmeter, 2022; Rohe and Lindblad, 2014; GAO, 2021). Recent policy studies note that the marked difference in mortgage delinquencies during the Global Financial Crisis (which were quite high) and the COVID-19 pandemic (which have been very low) were associated primarily with generous income support to households and the widespread availability of foreclosure moratoria and mortgage loan forbearance during the pandemic (Dettling and Lambie-Hanson, 2021; Loewenstein and Njinju, 2022). Although Farrell, Bhagat, and Zhao (2018) suggest that maintaining post-purchase savings buffers significantly decreased default rates, they note that mortgage payment reductions were important mechanisms to sustain homeownership, although access to and use of such reductions were more restricted. In addition, recent studies report that vulnerable homeowners with the greater financial needs primarily used foreclosure moratoria and forbearance under the Coronavirus Aid, Relief, and Economic Security, or CARES, Act in the United States and offer little evidence suggesting widespread misuse (Farrell, Greig, and Zhao, 2020; Loewenstein and Njinju, 2022; GAO, 2021).

Nonetheless, limited attention has been devoted to how low-income homeowners have fared in other countries during these recent crises (Barbaglia, Manza, and Tosetti, 2021; Stanga, Vlahu, and de Haan, 2018). Most European countries, including Norway, do not forgive outstanding mortgage debt at time of foreclosure or forced sale (Barbaglia, Manzan, and Tosetti, 2021; Ghent and Kudlyak, 2011; Lambrecht, Perraudin, and Satchell, 2003). In countries where recourse laws diminish the likelihood of debt forgiveness for home mortgages, borrowers experiencing negative equity are more likely to go into short- and long-term arrears instead of foreclosure (Gerlach-Kristen and Lyons, 2018). When full-recourse mortgages are coupled with limited availability of social housing or private rental housing, or both, financiers and local governments are actively engaged in keeping vulnerable homeowners in their homes. *However, what strategies do they employ and when are they used?* Although the literature that examines municipal discretion affecting decision-making with social housing is sparse, even less is known about how local-level decision-making and discretion are employed in the development of strategies to sustain low-income homeownership (Aarland and Sørvoll, 2021; Grander, 2018; Krapp and Vaché, 2020).

Given the U.S. focus of most previous studies, Norway provides a new lens through which to examine the role of housing policy in sustaining low-income homeownership (Quercia, Freeman, and Ratcliffe, 2011; Rohe and Watson, 2007; Santiago and Leroux, 2022; Van Zandt and Rohe, 2006). Understanding whether low-income homeownership policy in other contexts improve outcomes for vulnerable families is vital as other countries shift toward market-based reforms of the housing sector that affect the well-being of households and the reproduction of housing inequality (Filandri and Olagnero, 2014; Kemp, 2000; Priemus and Dieleman, 2002; Toussaint et al., 2007). In contrast to countries like the United States and United Kingdom, serious and repeated mortgage arrears did not trigger immediate moves to foreclose or force a short sale by mortgage lenders in Norway in the years after the Global Financial Crisis or the start of the COVID-19 pandemic (NSHB, 2021). Furthermore, unlike the United States and Europe, where larger scale policy attempts at foreclosure mitigation and forbearance were implemented primarily to curtail the tide of mortgage delinquencies and evictions during the Global Financial Crisis and then COVID-19 pandemic, the Norwegian case provides evidence of the benefits of offering such strategies to vulnerable homeowners from the onset of homeownership tenure (Gerlach-Kristen and Lyons, 2018; McCann and O'Malley, 2021; McCarthy, 2014; Reid, Urban, and Collins, 2017; GAO, 2021).

Homeownership and the Housing Market in Norway

Similar to the United States, Norway has maintained a strong policy emphasis on promoting homeownership during the past 70 years and, since the late 1980s, has combined this ethos of homeownership with relatively unregulated housing markets (Aarland and Nordvik, 2010; Nordvik and Sørvoll, 2014; Stamsø, 2008, 2009; Torgersen, 1987). In contrast to other countries in Europe that expanded the social rental housing sector, Norwegian housing policy emphasized the extension of homeownership to low- and moderate-income households (Filandri and Bertolini, 2016; Jones et al., 2007; Stamsø, 2008, 2009). This policy emphasis on homeownership was grounded in the belief among Norwegian policymakers that homeownership confers economic and social benefits far beyond rental housing, especially for children (NSHB, 2016). Unlike the United States, however, the low-income homeownership program in Norway operates within the context of a comprehensive cradle-to-grave welfare state that buffers against extreme economic shocks threatening the sustainability of homeownership among the country's most vulnerable families.

As in other countries touting the homeownership ethos, homeownership in Norway is considered a desirable tenure heralded as a tangible symbol of reaching adulthood and attaining middle-class status. However, the push to make homeownership available to a broad segment of the population in Norway hails from a very different ideological origin than that witnessed in many other countries in Europe (Doling and Ronald, 2010; Rolnik, 2013; Ronald, 2008). Post-World War II dominance of the Labor Party and its emphasis on the dignity of workers generated strong party opposition targeted toward predatory and exploitative landlords who had dominated the rental market during the first half of the 20th century. As Sørvoll (2009: 9) observes, "Every family should own their own home" became a mantra of the Labor Party platform from the mid-1950s onward. As a result of this push toward homeownership, three-fourths of Norwegian households are homeowners,[1] a figure that has remained fairly stable since 1990.[2]

Thus, the rental market plays a secondary and residual role in Norway. Developing a comprehensive rental sector has never been high on the political agenda because renting is regarded as an intermediate step between the parental home and homeownership or between owned homes (Sandlie and Sørvoll, 2017). The rental market is split between a relatively unregulated private rental market dominated by small-scale private landlords and a social housing sector that, at 5 percent of the total housing stock, is quite small compared with other northern European countries' and practices' strict socio-medical selection criteria. Overall, the rental sector does not cater to evolving needs of families during the various stages of a housing career (Bengtsson, Ruonavaara, and Sørvoll, 2017). These characteristics make it particularly challenging for families with children to secure stable and decent rental housing.

Social Policy and the (Lack of) a Right to Housing

Despite Norway's comprehensive cradle-to-grave welfare state, it should be noted that housing is regarded as a private matter and one that most people are expected to resolve on their own without government assistance. Consequently, housing has been labeled "the wobbly pillar" of the welfare state because of its reliance on private transactions in a relatively unregulated market and government assistance targeted only for vulnerable groups (Torgersen, 1987).

However, in accordance with The Law on Social Services (section 3 § 15),[3] the local municipality must aid disadvantaged persons who, for economic, social, health, or other reasons, need assistance

[1] https://www.ssb.no/en/statbank/table/11084.

[2] The homeownership rate was measured at 80 percent in the 1990 census, 77 percent in both 2001 and 2011, and 76 percent in 2021 and includes the roughly 11 percent who own homes through housing cooperatives; see https://www.ssb.no/en/bygg-bolig-og-eiendom/bolig-og-boforhold/statistikk/boforhold-registerbasert.

[3] Rundskriv til Lov om sosiale tjenester i NAV - Lovdata.

in securing adequate housing. Moreover, local social and welfare offices[4] of the Norwegian Labour and Welfare Administration are obliged to provide temporary, emergency shelter to those unable to find it on their own or who are doubling up with others (Law on Social Services, section 4 § 27). Consistent with an overall strong child-centered focus in Norwegian social policy, meeting and safeguarding the needs of dependent children in the household is emphasized (Skevik, 2003).

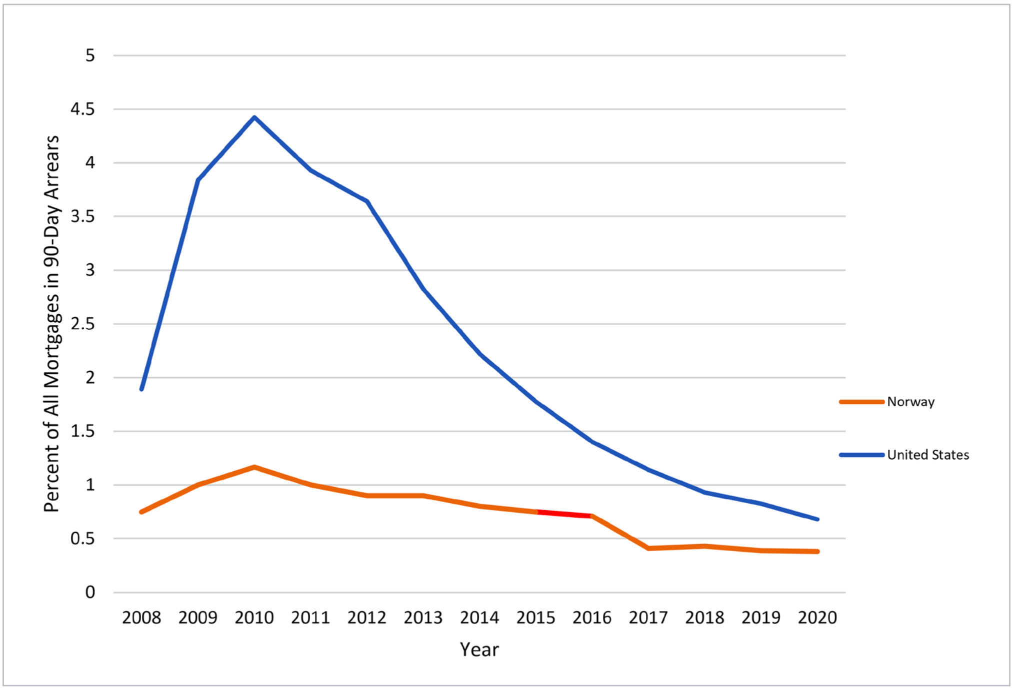
Homeownership Experience in Norway

Connections to social welfare services may not overcome the precarity of homeownership tenure because financial capability remains one of the most important factors for sustaining homeownership over time. Indeed, persistently low levels of income and loose attachment to the labor market have been identified previously as major barriers to sustaining homeownership in Norway (Aarland and Nordvik, 2009). In addition, housing market trends in Norway have raised further concerns about financial stability. Jurgilas and Lansing (2019) suggest that the Norwegian housing market is highly vulnerable to economic shocks, noting the growing debt burdens relative to household income, high loan-to-value ratios, prevailing use of variable interest rates, coupled with expectations among Norwegians that home values will continue to rise and hence, produce high returns to housing investment. Indeed, as exhibit 1 shows, 90-day mortgage arrears in Norway during the period between 2008 and 2020 varied between 0.4 and 1.2 percent, substantially lower than those reported for the United States.

[4] The Norwegian Labour and Welfare Administration (NAV) is the local social and welfare services office. NAV administers all social security and other welfare programs, and every municipality and city borough has a local NAV office that services their local population. In addition, about 100 state-level special NAV offices perform centralized tasks.

Exhibit 1

Percent of All Mortgages in 90-Day Arrears in Norway and the United States, 2008 to 2020



Sources: 2008–15—Financial Supervisory Authority of Norway. 2016. Risk Outlook 2016, figure 2.15; 2016–19—European Banking Authority. 2019. EBA Report on NPLs: Progress Made and Challenges Ahead. NPL ratios by Households in Annex 6—NPL and FBL ratios by segment and country. https://www.eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20Assessment%20Reports/2019/Final%20EBA%20Report%20on%20NPLs-for%20publication_final.pdf; 2020—The Financial Supervisory Authority of Norway. 2022. Tap og mislighold i kredittinstitusjoner. 2021—Losses and nonperforming loans in credit institutions. Quarterly figures for large banks in table 2.4 have been averaged for 2020. https://www.finanstilsynet.no/contentassets/829e13ed2b9c45f3b86beff10654d873/tap_mislighold_kredittinstitusjoner_31mars2021.pdf; U.S. Consumer Finance Protection Bureau. Mortgages 90 or more days delinquent. https://www.consumerfinance.gov/data-research/mortgage-performance-trends/mortgages-90-or-more-days-delinquent/

Unlike other countries that have nonrecourse laws, homeowners in Norway do not lose their debt obligations if they can no longer sustain homeownership and default on their mortgages. Debtors are permanently obligated to repay mortgage debt unless the courts grant a debt settlement. Recent increases in forced sales court filings reflect a growing debt vulnerability among households in Norway. However, sustainability of household debt burden during the longer term remains heavily dependent on the expectations of continued growth in house prices, with lenders more likely to refinance loans than to foreclose (see discussion in Grindaker, 2013). Trends during the period between 2008 and 2021 underscore that optimism, because the percentage of forced residential property sales that the courts executed hovered around 4 percent (exhibit 2).

Exhibit 2

Percent of Forced Sales Among Residential Property Transfers, Norway 2008–21

Year	Total Residential Property Transfers (N)	Forced Sales of Properties Remanded to the Courts (N)	Forced Sales Executed by the Courts (N)	Percent of Total Forced Sales Executed by Courts (%)
2008	101,375	10,602	391	3.7
2009	101,536	12,765	486	3.8
2010	108,476	13,844	704	5.1
2011	115,243	16,717	687	4.1
2012	120,529	15,821	708	4.5
2013	117,909	16,924	609	3.6
2014	122,324	17,466	613	3.5
2015	124,721	17,491	680	3.9
2016	122,958	17,371	626	3.6
2017	123,755	17,054	624	3.7
2018	126,782	17,755	657	3.7
2019	129,793	15,443	725	4.7
2020	137,930	15,949	765	4.8
2021	142,347	15,653	748	4.8
Totals	**1,695,678**	**220,855**	**9,023**	**4.1**

Notes: Figures have been annualized and do not include housing cooperative units. Remanded figures include all properties, residential, commercial and vacation homes, and built and undeveloped plots. Executed figures include only residential built-up properties.

Sources: Statistics Norway Table 08948—Transfers of real property, by type of transfer and type of property 2000K1–2022K1 (https://www.ssb.no/en/statbank/table/08948); Statistics Norway Table 07218—Bankruptcies, forced sales, and registered execution proceedings 1995M01-2022M09 (https://www.ssb.no/en/statbank/table/07218)

Startlån—Norway's Starter Mortgage Program

In 2003, the Norwegian State Housing Bank introduced the Starter Mortgage Program, or Startlån, as a national homeownership program administered at the local municipality level to support disadvantaged households (Sørvoll, 2011). Nearly 2 decades later, local municipalities have originated approximately 149,000 Startlån mortgages,[5] representing about 3 percent of all mortgages originated in Norway annually (NSHB, 2014). Since 2010, roughly one-half of all starter mortgages have been awarded to families with children, consistent with the explicit prioritization of families with children in Norwegian state housing strategies 2014–20 and 2021–24, respectively (Departementene, 2014; Kommunal- og moderniseringsdepartementet, 2020).

Several features define the Starter Mortgage Program. First, starter mortgages are exempt from some underwriting guidelines and mortgage regulations issued by The Financial Supervisory Authority of Norway. This exemption enables program participants to carry higher loan-to-value and debt-to-income ratios than regular mortgagors. Nonetheless, municipalities are still obligated to thoroughly scrutinize applicants' creditworthiness and have a *duty to dissuade* potential homebuyers from taking on excessive financial obligations.[6] Prior to purchase, all applicants are subject to a

[5] https://statistikk.husbanken.no/lan/startlan.

[6] Law on financial agreements, § 47. Note that the applicant may still take out the loan even though they are advised against it.

thorough financial assessment and are informed about the financial risks associated with taking out a starter mortgage. Second, interest rates are set centrally and do not reflect borrowers' elevated risk profiles. Instead, the program has historically offered below-market rate mortgages to all approved applicants.[7] Third, individual municipalities hold starter mortgages, thereby exposing municipalities to considerable housing market risk in the event of an economic downturn.[8] Fourth, considerable variation exists across municipalities in the fraction of the mortgage that is derived from the Starter Mortgage Program. Although the program provides 100 percent of the total mortgage for the most vulnerable borrowers, the loans may serve as second liens for borrowers who qualified for partial financing from other lenders, but the loan amounts were insufficient to originate the mortgage.

Together, these expectations for participants and municipalities imply that the financial incentives for sustaining homeownership over time are closely aligned between the mortgage holder and the municipality as the mortgage issuer. Further, their financial stake and the social profile of the Starter Mortgage Program give municipalities strong incentives to closely screen their applicants and, when appropriate, connect them to other social welfare services aimed at stabilizing borrower finances and ensuring sustainability of their mortgages.[9] Nevertheless, such prepurchase counseling is highly individualized to the borrowers and tailored to their specific needs. Moreover, prepurchase homeownership counseling or other forms of homebuyer readiness preparation activities vary widely across municipalities; 4 out of 10 municipalities do not offer such activities at all (Astrup et al., 2015).

Once borrowers are in the program, municipalities receive regular mortgage servicing reports, particularly about late payments, on a regular basis. Caseworkers and mortgage servicers engage with delinquent mortgagors to resolve payment difficulties and connect them to social welfare services when required (Astrup et al., 2015). Loss mitigation extends to repeated delinquencies during the course of the mortgage, underscoring the ability of the municipality to offer forbearance and use discretion in determining whether and when to remand a delinquent mortgage to foreclosure or forced short sale. Coupled with post-purchase add-on services, such transmission of "soft" information, both during the application process and through ongoing contact between mortgagors and lenders, has been shown to lower the probability of mortgage delinquency and default among lower income homebuyers in the United States (Ergungor and Moulton, 2014; Hembre, Moulton, and Record, 2021; Moulton et al., 2015; Santiago and Leroux, 2022).

As exhibit 3 shows, financial losses in the Starter Mortgage Program have been very low to date, hovering between 0.03 and 0.06 percent of end-of-year outstanding debt from 2013 to 2021 (NSHB, 2019, 2021). However, uninterrupted housing price growth since the start of the program has enabled municipalities to recover outstanding debt even in the case of a forced sale, potentially concealing any repayment problems. Nonetheless, starter loan performance is better than that

[7] The interest rate setting procedure for the State Housing Bank loan programs mimics those of the State Educational Loan Fund (student loans) and The Norwegian Public Service Pension Fund (mortgages for public sector employees). In addition, municipalities are allowed a 0.25 percentage point markup to cover their administrative costs.

[8] Municipalities are fiscally responsible for the first 25 percent of any realized losses, whereas the central government will absorb any additional losses.

[9] See Aarland (2012), Astrup and Aarland (2013), and Astrup et al. (2015) for details.

reported for mortgage loans held during the same period within the larger population. According to the Financial Supervisory Authority of Norway (2022), bank losses on personal loan portfolios ranged from 0.01 to 0.17. Nevertheless, whereas most personal loans are home mortgages, 3 to 4 percent are loans secured against other assets and unsecured loans. During normal times, the losses on consumer loans (that is, unsecured loans) are 10 to 20 times higher than other loans to households, primarily mortgages (Financial Supervisory Authority of Norway, 2022).

Exhibit 3

Municipal and State Losses from the Starter Mortgage Program

Year	Municipal Losses Number of Loans	Municipal Losses (in Millions NOK)	State Housing Bank Losses (in Millions NOK)	Total Losses (in Millions NOK)	Value of Total Stock of Starter Mortgage Program 12/31 (Thousands of NOK)	Combined Municipal and State Losses as Proportion of Total Value	Commercial Banks' Losses on Personal Loans
2013	111	13.9	5.8	19.7	38,397,025	0.051	0.057
2014	99	12.8	6.0	18.8	42,130,293	0.045	0.040
2015	78	10.3	5.7	16.0	45,288,554	0.035	0.001
2016	93	10.9	5.7	16.6	47,972,709	0.035	0.043
2017	76	8.5	5.4	13.9	51,300,000	0.027	0.074
2018*		23.4	6.8	30.2	51,300,000	0.059	0.068
2019	116	15.3	5.9	21.2	62,500,000	0.034	0.154
2020	141	22.4	8.8	31.2	58,312,000	0.054	0.147
2021	123	31.1	8.4	39.9	80,000,000	0.050	0.174

NOK = Norwegian Kroner.

** Number of losses not available for 2018.*

Notes: The value of the kroner relative to the U.S. dollar (USD) has varied considerably during our study period. $1USD = 5.88NOK (2013) to 8.60NOK in 2021. https://www.norges-bank.no/en/topics/Statistics/exchange_rates/?tab=currency&id=USD. The figures from 2020 and 2021 include only the loan portfolio managed by Lindorff, or Intrum (the largest mortgage service provider, servicing about 75 percent of the loan portfolio).

Sources: 2012–19 Norwegian State Housing Bank Annual Report 2019, Appendix 2 Analysis of Starter Mortgages, Table 13, p 108 for losses; Norwegian State Housing Bank Annual Report 2021, Appendix 2 Analysis of Starter Mortgages, Table 15, p 153; Stock of Starter Mortgages as of December 31 from the respective annual reports; Financial Supervisory Authority of Norway (2022) Risk Outlook 2022, Data for figure 5.9

The existence and local operation of the Starter Mortgage Program must be understood in the context of legal obligations municipalities have toward their citizens. In contrast to the United States, municipalities in Norway have a general obligation to assist vulnerable groups in procuring housing and a statutory obligation to provide emergency shelter (Law on Social Services, section 4 § 27).[10] The starter mortgage constitutes an integral part of the municipal toolkit for helping vulnerable families attain stable housing. Similar to public housing authorities in the United States, Norwegian municipalities may provide social housing units, housing allowances, financial advisory services,[11] emergency cash assistance, and other supportive services to vulnerable families at their discretion. When homeownership is successful, it is widely regarded as the most desirable outcome for the families who attain adequate and stable housing, as well as the longer term opportunity for

[10] See https://lovdata.no/nav/rundskriv/r35-00#ref/lov/2009-12-18-131/§15.

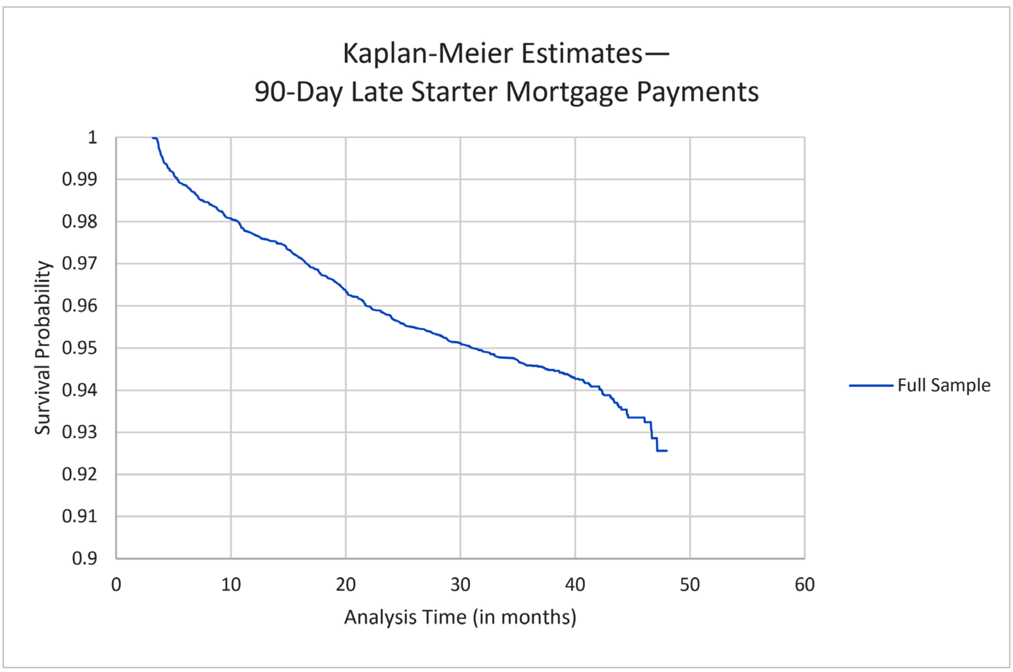
[11] According to the Law on Social Services Ch. 4 § 17, financial advice is one of the services that the municipality is mandated to offer their inhabitants.

accumulating home equity and for the local municipality, which is likely to save money on other and more costly housing services such as social housing and emergency shelter.

Considering these safeguards, approximately 7 percent of Norwegian homeowners in the Starter Mortgage Program experienced a serious mortgage delinquency during the first 48 months of homeownership (exhibit 4). In recent work by Aarland and Santiago (forthcoming), mortgage arrears were greater among Starter Mortgage Program families who were larger and more likely to be headed by borrowers who were younger, male, sole borrowers, were native Norwegian, and had lower levels of education and savings but higher consumer debt. Higher risk of falling into arrears also was associated with higher loan-to-value ratios or interest-only mortgages at the time of origination. They found that, despite repeated delinquencies, borrowers in the study retained homeownership instead of being remanded to the courts to execute forced home sales. At the same time, accrued debt is not forgiven; rather, borrowers are given the chance to repay as evidenced by mortgage payment patterns. Results reinforce earlier survey and qualitative interview findings, suggesting that municipalities intervened and exerted significant discretion and leniency with vulnerable borrowers struggling to meet mortgage payments using forbearance (for example, Astrup et al., 2015).

Exhibit 4

Kaplan-Meier Survival Curve for 90-Day Late Starter Mortgage Program Payments During the First 3 Calendar Years After Mortgage Origination



Source: Author's calculations using unpublished Starter Mortgage Program project data for the period between 2006 and 2016; see Aarland and Santiago (forthcoming)

National data for all Starter Mortgage Program loans support this observation. As exhibit 5 shows, between 2015 and 2020, only 2.2 percent of all Starter Mortgage Program loans originated in Norway were ever sent to collection, 0.5 percent were remanded to the courts in forced sales petitions, and 5.2 percent ever sent to collection were executed as forced sales (NSHB, 2021). The small fraction of delinquent mortgages that were ever adjudicated in the courts as forced sales suggests that municipalities offered leniency or forbearance to program participants who found themselves in financial difficulties. Previous surveys of municipal caseworkers support this assertion, underscoring that municipalities were well informed about who had fallen into mortgage arrears and were actively engaged in working with program participants to stabilize their financial situations (Astrup et al., 2015).

Policy Implications

The Starter Mortgage Program fills an important niche within the Norwegian housing market by offering vulnerable families the opportunity to purchase their homes where other housing options are lacking. Consistent with previous studies of low-income homeownership programs, a small but nontrivial number of program participants encounter difficulty paying their mortgages on time (Hembre, Moulton, and Record, 2021; Santiago and Leroux, 2022). Mortgage arrears were common. Nearly 7 percent of Starter Mortgage Program homeowners were seriously delinquent (90 or more days late) in making their monthly mortgage payments during the early years of homeownership, and among those who were ever late, nearly one-fourth made recurring late payments (Aarland and Santiago, forthcoming). These findings suggest that a fraction of vulnerable households participating in the Starter Mortgage Program may rely on municipal discretion and support to sustain homeownership. The findings also offer a more expansive view of homeownership sustainability because they indicate that vulnerable homeowners can maintain homeownership given the availability of ongoing support post-origination when needed.

Local municipalities yield considerable control regarding the implementation and management of the Starter Mortgage Program. Given the vulnerability and higher risks associated with the target population served by the program, there appears to be recognition that some level of serious mortgage arrears may be inevitable for a small fraction of program participants, and municipalities need to exercise sound judgment in addressing them when they arise. This leniency is evident in the tolerance for recurring late payments, including shifts to serious delinquencies, and the small fractions of these delinquencies that are ever remanded to and executed by the Norwegian courts as forced sales. This practice suggests that forced sales do not have to be the end result of mortgage arrears and that municipal discretion, leniency, and forbearance play important roles in stemming the tide of forced sales. The Norwegian case provides a sharp contrast to other countries, such as the United States, where forbearance (outside of the COVID-19 pandemic) has been used sparingly (Farrell, Greig, and Zhao, 2020; Loewenstein and Njinju, 2022). Moreover, given the small fraction of homebuyers who have repeated delinquencies in the program, it appears that any leniency or forbearance employed by municipal caseworkers tends to serve families in financial need without prompting widespread moral hazard.

Exhibit 5

Description of Startlån Mortgage Portfolio and Incidence of Collections and Forced Sales 2015–21

Year	Number of Municipalities in Portfolio	Active Startlån Mortgages in Portfolio as of December 31	Total Startlån Mortgage Debt as of December 31 (NOK)	Average Repayment Time in Years (Contract)	Startlån Mortgages Sent to Collection (N)	Startlån Mortgages Sent to Collection as Share of Active Loans	Startlån Mortgages Petitioned Forced Sales (N)	Startlån Mortgages Executed Forced Sales (N)	Executed Forced Sales as Share of Loans Sent to Collection (%)
2015	293	51,882	29,839,537,348	23.98	1243	2.4%	256	34	2.7
2016	318	51,681	31,895,850,618	24.63	1260	2.4%	364	57	4.5
2017	318	51,799	35,268,643,487	25.45	1133	2.2%	248	80	7.1
2018	315	52,365	39,476,462,441	26.35	1134	2.2%	282	74	6.5
2019	318	53,798	45,023,825,069	27.22	1078	2.0%	265	44	4.1
2020	278	59,913	56,054,025,455	28.06	1262	2.1%	266	5	0.4
2021	282	60,748	62,981,721,660	28.97	888	1.5%	222	125	14.1
Totals					**7998**	**2.2%**	**1903**	**419**	**5.2**

Notes: The figures are based on data from the main mortgage service provider Intrum (formerly Lindorff) that has a large segment of the market (282 of 356 municipalities, but a much larger share in terms of loans as most of the largest municipalities have outsourced the mortgage servicing to this company). Nearly 75 percent of all Startlån loans are serviced by Intrum.

Source: Norwegian State Housing Bank, Annual Report 2021, Appendix 2, Table 14

Astrup and colleagues (2015) conducted qualitative and survey work that offered reasons as to why this approach may be so in Norway. Given the mandate of the Starter Mortgage Program to facilitate homeownership among financially vulnerable families, local municipalities are obligated to support the national housing policy encouraging homeownership, support disadvantaged homeowners in sustaining homeownership, and fulfill statutory obligations to provide for the safety and well-being of children. This mandate is consistent with national policies and the larger social welfare system in Norway that supports children (Skevik, 2003).

As others have previously emphasized, low-income homeownership programs, like the Starter Mortgage Program, must enable households to make the *transition* to homeownership as well as provide wrap-around services aimed at *sustaining* homeownership (Bratt, 2008; Haffner et al., 2017; Mallach, 2011). Such services typically include pre- and post-purchase counseling and access to emergency cash funds for home repairs or other unexpected expenses (Mallach, 2011; Santiago and Leroux, 2022). Prior qualitative studies from Norway report that Starter Mortgage Program borrowers have access to post-origination counseling and emergency cash assistance (Astrup and Aarland, 2013; Astrup et al., 2015). Nonetheless, considerable discretion is allowed at the municipality level as to the availability of such assistance and to whom these services are offered. Moreover, these studies indicate that there is considerable discretion among municipal caseworkers in the use of leniency or forbearance in deciding when late payments occur and in caseworker willingness to seek alternative solutions to foreclosures when borrowers fall behind on their mortgage payments.

This pragmatic approach to late mortgage payments at the municipality level is likely coupled with the reality that private rental and social housing stock in Norway is quite limited, which has implications for other countries—such as the United States and Europe—that are experiencing decreasing supplies of and increasing demands for affordable housing. In contrast to private lenders, the municipality retains responsibility for providing housing for vulnerable households if they move to foreclose. When confronted with few options to meet the long-term housing needs of vulnerable families, keeping these families in units that they have purchased not only contributes to residential stability important for children's health and well-being, but also reduces municipal costs associated with providing emergency housing and services. Furthermore, the high costs associated with adjudicating mortgage delinquencies, defaults, foreclosures, or short sales in municipal or state courts may foster more cost-effective and efficient alternative solutions. By working with families facing financial difficulties rather than moving to foreclose and force evictions, local governments can stem the long-term and cascading effects associated with housing instability and homelessness, particularly for vulnerable children.

Conclusions

Several powerful lessons can be learned from this example from Norway. First, national programs to promote low-income homeownership with high levels of local control can be successful tools in the provision of housing for the most disadvantaged members of society. The Starter Mortgage Program in Norway has served an important niche of the housing market, which may be applicable to other contexts attempting to serve specific target populations that experience housing insecurity.

Second, municipalities can mitigate the likelihood of converting mortgage delinquencies to defaults and forced sales by preemptively providing financial and social support to those most in need, as well as connecting vulnerable families to other social welfare resources available to them. Keeping vulnerable families stably housed addresses other constraints imposed on municipalities by the limited supply of social housing or private rental housing and the government mandate to mitigate housing precarity. Third, given continued volatility in the macroeconomic climate within countries and within the larger global economy, such as the current crisis associated with the COVID-19 pandemic, more measured responses to mortgage delinquencies that include options like current eviction and foreclosure moratoria, forbearance, loan modifications, or refinancing may be more fruitful policies that not only protect the most vulnerable members of society but lay the foundation for economic recovery.

Acknowledgments

Funding from the Norwegian State Housing Bank and the Norwegian Research Council Grant No. 258923 is gratefully acknowledged.

Authors

Anna Maria Santiago is a Professor of Community Development in the School of Social Work at Michigan State University in East Lansing, Michigan. santia63@msu.edu.

Kristin Aarland is a Senior Researcher in NOVA/Norwegian Social Research at the Oslo Metropolitan University. kraa@oslomet.no.

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