Available online at www.sciencedirect.com
SCIENCE DIRECT®
Journal of Housing Economics 14 (2005) 242–270
JOURNAL OF HOUSING ECONOMICS
www.elsevier.com/locate/jhe

The impact of the 2001 financial crisis and the economic policy responses on the Argentine mortgage market ☆

Sumit Agarwal [a,*], Souphala Chomsisengphet [b], Olivier Hassler [c]

[a] *Bank of America, Mail Stop MD9-978-03-02, 1101 Wootton Parkway, Rockville, MD 20814 301-517-3227, USA*
[b] *Risk Analysis Division, Office of the Comptroller of the Currency, 250 E Street, SW Washington, DC 20219 202-874-5386, USA*
[c] *Financial Sector/Housing Finance Group, The World Bank, 1818 H Street, NW Washington, DC 20433 202-458-7579, USA*

Received 6 July 2005
Available online 1 September 2005

Abstract

Following the 2001 financial crisis, the government of Argentina instituted economic policies to soften the adverse impact of the crisis on the economy. In this paper, we use loan-level data to empirically assess the impact of the currency devaluation and the economic response

☆ We are grateful to Fern Silva for her support of this research project and Pedro Llambias and Patricio Limardo for answering numerous questions about mortgage banking and the financial crisis in Argentina. We would also like to thank Linda Allen, Brent Ambrose, Maite Bertolini, Leonard Nakamura, Jim Papadonis, Bertrand Renaud, Tony Sanders (editor), Calvin Schnure, Mariano Selvaggi, Nick Souleles, Steve Sumner, two anonymous referees, and seminar participants at the American Real Estate and Urban Economics Association and the Midwest Economics Association meetings for helpful discussions and comments. The views expressed in this research are those of the authors and do not represent the policies or positions of the Office of the Comptroller of the Currency, of any offices, agencies, or instrumentalities of the United States Government, the Bank of America, the World Bank, its Executive Directors or the countries they represent.

* Corresponding author.
E-mail addresses: sumit.agarwal@bankofamerica.com (S. Agarwal), souphala.chomsisengphet@occ.treas.gov (S. Chomsisengphet), ohassler@worldbank.org (O. Hassler).

doi:10.1016/j.jhe.2005.07.001

policies on prepayment and default patterns of residential mortgages in Argentina. On the one hand, our results reveal a significant higher prepayment rate of borrowers who are relatively wealthy or have a US$-denominated mortgage. On the other hand, we observe a significantly higher default rate of borrowers who are less wealthy or have Peso-denominated mortgage.

JEL Classification: C41; F31; G21; R20

Keywords: Argentine mortgage market; Prepayment and default; Financial crisis; Currency devaluation

1. Introduction

During the 1990's, Argentina experienced an economic boom.[1] Most observers attribute the Argentine success to the currency peg, control of the inflation rate and the broad market-oriented economic reforms (e.g., privatization, economic liberalization, and deregulation). The reforms encouraged the development of credit markets that facilitated the allocation of capital to the private sector. Capital flow into the residential housing market was especially significant—the unprecedented 16.2% average annual growth rate of mortgage credit subsequently led to the creation of a secondary market in 1996.[2] By 1998, the Argentine economy showed early signs of contraction, partly afflicted by the economic turmoil and currency devaluation of neighboring Brazil. By November 2001, the Argentine economic recession evolved into a full-fledged financial crisis.[3] The government defaulted on its debt, repealed the convertibility regime of the Peso and devalued its currency to 1.4 Peso per US$.[4]

To soften the impact of the crisis and to spread its burden between a large spectrum of economic actors, the Argentine government responded in January 2002 with a series of economic policies that significantly affected the financial situation of many households. The government converted US$-denominated bank loans into Argentine Pesos (ARP) at parity. At the same time, in a move designed to limit the loss incurred by savers but that had paradoxical effects, the government converted US$-denominated deposits into Pesos at the official exchange rate of 1.4 Pesos per

[1] The GDP growth rates increasing by over 50% and inflation rates declined from 23,000 to 0% between 1990 and 1997.

[2] Between 1991 and 2000 the market grew from $3.3 billion to $10.8 billion.

[3] De La Torre et al. (2003) document that by November 2001, 47 of the top 50 banks had suffered major withdrawals ($15 billion was withdrawn between July and November 2001, $1.3 billion was withdrawn on November 30, 2001 alone).

[4] Subsequently, inflation surged 46% between 2002 and 2003, house prices in Pesos jumped dramatically, real levels of household income declined by more than 40% between 1999 and 2002, and unemployment peaked at 23% in 2002. The Argentine economy pre- and post-crisis is discussed at length in Section 3.