RESEARCH PROPOSAL

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Mortgage, Rationality and Visions of the Future

Overview

In their analysis of the mortgage market of Hungary, Péter Dobák and Judit Sági, economists of the Hungarian National Bank, pointed out the lack of "financial culture" of Hungarian borrowers and expressed hopes that the population's "financial awareness" will increase as "society grows more mature" (Dobák and Sági 2005:19). The highly normative concept of "financial culture" refers to the skills associated with the homo oeconomicus: rational calculation and foresight to maximize future as well as present costs and benefits. The homo oeconomicus, as it seems, is not inherent human nature: it is developed by historically specific institutions, practices and discourses (Callon 1998). As Dobák and Sági inadvertently put it, the proper working of the new financial instruments requires a specific cultural not merely a financial environment.

How does this new "financial culture" develop? How do new financial products, institutions and discourses bring about – or fail to do so – new subjectivities, values and practices at the level of everyday life? This research aims to answer these questions through the in-depth analysis of the Hungarian mortgage market. In particular, the project focuses on three interrelated areas. First, it explores the emergence of rational subjects: the process by which mortgage borrowers adopt – or fail to adopt – features of rationality, calculation and risk-management that they are assumed to possess by borrowers. Second, it looks at way mortgages bring about the development of new conceptions of time, planning and visions of the future. Finally, the project aims to understand the broader consequences of the penetration of financial products – and potentially a financial logic – into fields of private life, the home and the family.

Theoretical Context

Financial markets and consumers' financial decisions have traditionally formed the terrain of economics. In economics the homo oeconomicus – the rational, sovereign decision-maker, perpetually weighting costs and benefits – serves as a universal model of humans. Sociologists have always been critical of this characterisation of human behaviour, yet a sustained critique of this economic conceptualization only appeared in recent years, as part of a new wave of studies in economic sociology and the cultural economy. These arguments form part of a larger criticism of the way economics treated the laws of the market as universal, natural phenomena that exist independently of human interpretation. Callon (1998) argued that the working of economics as described by economics textbooks depend on actors that understand and perform economic actions in similar ways. From this point of view, he suggested, economics as a discipline does not merely describe the working of the market, but it contributes to its "performance" by providing a script that economic actors can follow (see also Miller and Rose 1990; Slater 1993; Miller 2002; 2002; Mackenzie and Millo 2003).

Within this line of theory, Callon (ibid) argued that the rational, calculating homo oeconomicus of economic theory is far from being universal human nature; it is rather product of specific historical, social, and political and material processes. Applying this approach - together with Foucault's notion of govermentality- to the mortgage market, Langley showed how neoliberal policy makers and institutions did not only take for granted but actively encouraged the emergence of the new 'investor subject', who is willing to take risks and invest (Langley 2007; 2008; 2009; 2009). A similar point has been developed by Smith (2005a; 2005b), pointing out that politics and regulation played a constitutive rather than a merely descriptive role in the formation of the housing markets and economic subjects.

Most research in the field look at the way policy-makers and supply-side actors - bankers, traders, financial intermediaries – understand and enact economics. Consumers and the cultural changes that these processes involve at the level of everyday life are a relatively neglected topic. Our research in contrast focuses precisely on this area and explores the way new financial and ownership structures and related policies are appropriated at the level of everyday life. We would like to understand through what processes calculating agents and new ways of understanding time emerge; or if "financial culture" fails to develop, what are the cultural causes of that failure. Beyond this theoretical contribution, the research provides essential insights for policy-makers and regulators of the financial market. By showing how and why "financial culture" develops and what the obstacles of its formation are, we hope to contribute to a more efficient and more democratic regulation: one that takes into account people's actual behaviour and understandings rather than the idealized working of the liberal market.

Existing Research

The research's primary theoretical context is the literature on the development of calculating and long-term planning subjects. In this section we summarize previous research on the mortgage market that was conducted along different questions, yet provide useful insights into our subject matter as well.

The sociological literature on mortgage can be classified into two broad categories: one focusing on the borrowers, the other on lenders. The literature focusing on **borrowers** includes firstly quantitative studies looking at effects of socio-economic variables – gender, class, ethnicity - on investment decisions and the risk of foreclosure (Immergluck and Smith 2006a; Immergluck and Smith 2006b). Secondly, social psychology approaches link investment decisions and risk perception to personal characteristics, such as addictiveness and temporal orientation (Lunt and Livingstone 1991; Mendoza and Pracejus 1997).Whereas these studies concentrate on the causes of indebtedness, a thirds set of literature explores its consequences, in particular the economic, psychological, criminal and health effects of foreclosures and payment delays (Fields and Saegert 2009; Heidhues and Koszegi 2010; Ross and Squires 2011). Finally, a number of qualitative studies look at how people make sense of their mortgage (Cook, Smith et al. 2009) and the way they combine economic calculation with emotional attachment to the home (Christie, Munro et al. 2008; Munro and Smith 2008; Wallace 2008).

The Hungarian sociological literature on the topic falls largely into the first group, consisting of studies on the socio-economic profile and composition of borrowers (Medgyesi 2008; Tóth and Medgyesi 2010), using databases of the Hungarian Central Statistical Office (KSH) and TÁRKI Social Research Institute. The majority of the Hungarian studies, however, are carried out from an economics perspective. These apply microeconomic models to understand saving decisions or analyse the composition of borrowers in order to assess financial stability (Hegedűs 1999; Tóth and Árvai 2001; Dobák and Sági 2005; Bethlendi 2007; Holló 2007; Magyar Nemzeti Bank 2010), based on KSH databases or GfK market research company's research commissioned by the Hungarian National Bank. The qualitative study of mortgage in Hungary has been limited to an action research carried out by the Hungarian Maltese Charity Service (Magyar Máltai Szeretetszolgálat 2009) and an investigative reporting book by Ervin Takács (2010). The research carried out by the Hungarian Maltese Charity Service builds on ten case studies to develop effective counselling service for people in financial difficulties.

Takács's book provides an in-depth analysis of seven case studies of families experiencing the foreclosure of their homes.

The literature on **lenders** in turn focuses on the role of institutional actors, such as the state, banks, and real estate agents in the development of the mortgage market. Most of these studies draw on the developments in economic sociology outlined in the previous section. Within this literature, studies looked at the role of the state (Smith 2005a; Smith 2005b; Langley 2009; Langley 2009), real estate agents (Bridge 2001; Wallace 2008), mortgage evaluators and solicitors (Smith, Munro et al. 2006) as well as the media (Greenfield and Williams 2007) in the making of the housing market. Susan J. Smith and Moira Munro studied the housing market of New Castle and analysed home owners, real-estate agents, solicitors and evaluators in order to understand the way housing markets are shaped and performed by different actors. In a smaller-scale interview-based research Levy, Murphy and Lee compared the interpretations of estate agents and families in the home purchase process to see how they mutually shaped the outcome of the decision (Levy, Murphy et al. 2008). In the Hungarian literature the study of the role of lenders in the mortgage market is limited to economics research. These studies apply macro models to understand the development of savings, debt and credit risk (cf. Bethlendi 2007), largely based on the analysis of statistics collected by the Hungarian Financial Supervisory Authority (KSH 2010; Pénzügyi Szervezetek Állami Felügyelete 2010) on housing, debt and foreclosures and the GfK market research company's research commissioned by the Hungarian National Bank.

The studies summed up in this section provide important insights into the sociological understanding of borrowers and lenders. Yet both have their limitations: the analysis of borrowers fail to take full account of the changing policy and institutional efforts, in the context of which people take and deal with their mortgage; whereas the analysis of policy and market actors may miss the way regulation and financial products are appropriated at the level of everyday life and culture. We conceive of the way by which mortgage transforms everyday culture as a process shaped by these different actors. Each of these actors brings into play various sets of beliefs and normative views about how the market does or should work and about how people do or should plan and calculate. This means that the development of new conceptions of time and the emergence of calculative, rational agents is a result of often contradictory normative and descriptive frameworks. In order to understand this process in full, the research therefore combines the study of home owners with the analysis of institutional actors, legislation and property agents.

Methodology

Through the analysis of the Hungarian mortgage market the research seeks to understand the way a new "financial culture" is developed by different actors and the cultural barriers to its development. "Financial culture" is a term widely used, yet rarely defined. As a working definition we distinguished three aspects of it, rationality, time-frames and financialization.

Our research questions are:

Q1 [rationality]: How does mortgage shape people's ability and willingness to rational calculation and risk-management?

Q2 [time-frames]: How does mortgage ownership affect conceptions of time, time frames of planning, and visions of the future?

Q3 [financialization]: What are the consequences of the penetration of a financial logic into fields of private life, in particular, the home and the family?

Q4: How do different agents involved in the practice, regulation and representation of mortgage-lending – the government, banks, and real estate agents – have contributed to the development of “financial culture”?

Q5: To what extent can we talk about the development of a new financial culture: How wide-spread are new conceptions of time and rationality among borrowers?

The first four questions can be answered by qualitative research. The last question, building on the findings of the first four, requires a quantitative study in order to assess how widely our findings apply. The qualitative and the quantitative phases of the research therefore follow each other in succession.

The qualitative phase of the research consists on the one hand of interviews with home owners (Q1, 2 and 3) property agents, policy-makers and bank employees (Q4), on the other hand of a discourse analysis of policy documents (Q4).

1.1. Interviews with home-owners

The project includes fifty semi-structured interview with home owners. The aim of our sampling strategy is to acquire a wide variety of cases from the point of view of our research question. As no previous research has been conducted on the topic, we relied on existing secondary data to design the sample.

According to secondary data, in 2010 every fifth household held a mortgage (Tóth and Medgyesi 2010). The trend of indebtedness started in 1998-99, with the mortgage market booming in 2002 and experiencing a steady growth up until the recent crisis (Dobák and Sági 2005). The prime determining feature of how people are affected by debt seems to be socio-economic status, including income, education, employment status and living location. Although each income bracket is almost equally affected by debt - with a slightly higher proportion of indebtedness in the high and the low income bracket (40% respectively) and lower proportion in mid-income households - , lower income households spend a much higher proportion of their income on repayment than high income household (29% and 14% respectively) (Tóth and Medgyesi 2010). This is probably the reason why foreclosures and delayed repayment is higher in low income households (Holló 2007; Magyar Máltai Szeretetszolgálat 2009; Tóth and Medgyesi 2010). The second important factor is the type of mortgage: people with state-supported mortgages – and therefore a relatively more stable interest rate - are much less likely to default (Magyar Nemzeti Bank 2010). Finally, age seems to be an important factor: households with a main income earner below fifty have more difficulties repaying their mortgage than those above; although it is unclear from the data whether this is due to the higher socio-economic position or the lower mortgage burden of these households.

Based on these data, we have devised the following preliminary sampling plan. We will interview 16 people of low, middle, and high socio-economic status respectively, defined in terms of education, occupation and income. Within each group, we will include families from Budapest and Békéscsaba, in order to understand regional variation; as well as people with state-supported vs. market-based mortgage (four plus four in each category). We plan to include people at different stages of their mortgage trajectory: people just about to take a mortgage, exiting mortgage borrowers without payment difficulties as well as debtors in payment delay or already in the foreclosure process. This amounts to 48 interviews, with two more interviews reserved for cases where one occasion fails to provide sufficient data.

	Low	Middle	High
Budapest	4+4	4+4	4+4
Békéscsaba	4+4	4+4	4+4

We plan to recruit people who are about to take out mortgage via real estate agencies, as they are likely to be among their clients. People with financial difficulties can be reached via charities, such as the Hungarian Maltese Charity Service with which we already established connections. The recruitment of existing mortgage owners without repayment difficulties is probably the most difficult part of the project; we have planned snowball method to reach them.

1.2. Expert interviews with policy-makers, financial advisors of banks and property agents

We will carry out 20 expert interviews with policy-makers involved in devising mortgage-related housing and lending policy, financial advisors of banks and property agents, with 6-7 interviews in each category.

1.3. Discourse analysis of policy documents

Government legislation on mortgage and foreclosure will be analysed in order to understand the way policy-makers conceptualized people in terms of rationality and planning abilities. The analysis will start in 2001, the year before the mortgage boom.

2. Quantitative phase

The first, qualitative phase will result in a set of findings regarding how people's everyday life, rationality, conceptions of time and planning are affected by mortgages. The aim of the last, quantitative phase is to understand first, how wide-spread these changes are: to what extent a new "financial culture" has developed in Hungary. Secondly, in order to establish whether the phenomena identified can actually be linked to mortgages, we need to know if they are more frequent among mortgage owners than among people without mortgage. To answer these questions, we will buy twenty questions in a nationally representative omnibus survey of 1200 people. As 20% of households own a mortgage this will result in a sufficient amount of cases to analyse group differences and to ascertain how widely our findings apply.

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