

## **Interest and Non-Interest Terms in the Process of Mortgage Market Clearing: A Rejoinder**

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**I**n his reply to my comment Browne claims that the failure of variations in the downpayment ratio to shift market demand “is no more than a mere hypothesis which does not, . . . , possess much *a priori* appeal.” The bases of my argument is twofold. First, market demand is simply the horizontal aggregation of individual demands. Second, when individuals cannot secure their desired demand at the prevailing price there is no reason to assume that they will automatically exit from the market. If these are unappealing hypotheses then we require a drastic rewriting of basic microeconomic texts.

Browne complicates the position by claiming that unsatisfied mortgage applicants “will clearly cease to actively search for a mortgage” and that “it is the behaviour of mortgage applicants in such circumstances . . . which is relevant”. Does this mean that applicants “enlisted” in a mortgage queue should not be considered as demanding mortgages? My definition of excess demand is a situation in which some individuals are willing to pay the prevailing price but cannot secure a supply. Does this not describe the position of those applicants in a mortgage queue? To use an analogy, if there is an excess demand for hip replacements and hospitals ration by favouring applicants on, say, age criteria does this imply that those placed in the queue for treatment next year should not be considered as part of this year’s “market” demand?

Finally, Browne correctly states that I interpret the loan to value ratio as real mortgage demand. Given that he specifies the market demand (aggregation of individual loan demands?) as nominal demand deflated by average house price it is his interpretation also. Hence his claim that the loan to value ratio may be independent of the mortgage rate is equivalent to claiming that real mortgage demand is unrelated to the user cost of housing capital – an hypothesis which is clearly refuted by Browne’s results.