Growth in mortgage lending has slowed from eye-popping annual rates of nearly 30 per cent during the boom years to 10 per cent in June.

The monthly increase in mortgages that month was about €1 billion, compared with €2.3 billion in June 2006.

Is this moderation a sign that the mortgage market is failing, or a natural part of the adjustment process?

Writing in the *Irish Independent* last week, Davy economist Rossa White argues that the key to a housing recovery is "to increase the supply of credit" and calls on the Government to play a role "by expanding mortgage lending to first-time buyers."

This call echoes recent proposals from the Construction Industry Federation for the Government "to put liquidity into the banking system" to boost lending.

The arguments for such proposals seem unconvincing.

For starters, proponents appear to believe that the stock of unsold houses can be cleared at current prices, if only lenders would loosen credit standards.

Yet surveys of banks indicate that the demand for mortgages has softened significantly.

In addition, banks do not face liquidity problems. As Bank of England Governor Mervyn King explained recently, the challenge for banks is to move away from the high-risk banking practices that promoted excessive mortgage lending in recent years to more prudent models.

This adjustment will not be painless, but it must happen.

The poor banking practices that lead to financial turmoil include loans with high loan-to-value ratios, excessive securitisation, and a heavy reliance on wholesale funding. Another flaw was government guarantees of mortgages.

The debacle at Fannie Mae and Freddie Mac reminds us that it's lenders who should bear the risk of mortgage lending--not taxpayers.

Calls for the Government to become involved in funding mortgage lending are a throwback to a failed model. Haven't we learned anything?