

Does the US housing meltdown offer a preview of what's to come here? The US and Irish housing markets have a lot in common. In both countries, a combination of fast economic growth, favourable demographics, and low interest rates generated a prolonged housing boom. In both cases, the boom morphed into a grotesque speculative bubble that burst when interest rates rose.

Many housing indicators in Ireland—prices, sales, starts, and inventories—are mirroring those in the US, albeit with a lag of about 18 months. Interest rates in the US began to rise 18 months before they did here.

There are, however, two key differences that may yet produce some divergence. The first is the scale of subprime lending. Here, subprime mortgages account for a negligible share of total borrowing. In contrast, nearly two-thirds of all new mortgages issued in the US between 2005 and 2007 were subprime. Many of these loans are defaulting. Worse still, interest rates on these mortgages will soon begin to reset to much higher rates. Millions of Americans could lose their homes.

A second extraordinary feature of the US mortgage market is the recent surge in the number of voluntary defaults. With house prices falling, many Americans are in negative equity. Many are choosing to walk away from their homes and their mortgages, because US mortgage lenders cannot pursue borrowers for the difference between the value of the mortgage and the market value of the home.

Not so in Ireland. Borrowers here cannot post the house keys to the bank and simply walk away. Lenders can go after borrowers for all monies owed. As a result, the destructive sound of “jingle mail” is less likely to be heard on these shores.