Accepted Manuscript

Title: Regulating Consumer Credit

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PII: S0148-6195(16)30001-7
DOI: http://dx.doi.org/doi:10.1016/j.jeconbus.2016.02.008
Reference: JEB 5743

To appear in: *Journal of Economics and Business*

Please cite this article as: Calem, P., Jagtiani, J., and Lang, W. W.,Regulating Consumer Credit, *Journal of Economics and Business* (2016), http://dx.doi.org/10.1016/j.jeconbus.2016.02.008

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ACCEPTED MANUSCRIPT

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Regulating Consumer Credit

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Keywords: Consumer credits, regulations, mortgages, consumer protection, financial crisis
JEL Classification Code: G21, G28, G18

Accepted Manuscript

Introduction

Problems arising from the consumer credit market were at the heart of the financial crisis generating the Great Recession. The housing market boom was accompanied by a rapid expansion of easy mortgage credit, and the strong period of economic growth after 2002 through 2006 was characterized by credit expansion in virtually all other forms of consumer credit: home equity loans and lines of credit, credit cards, auto loans and student loans. This expansion of mortgage and consumer credit contributed to bubble conditions in housing markets and raised household ratios of debt payment-to-income to levels that proved unsustainable. When home prices reversed direction and credit tightened, the foreclosure crisis ensued and consumers began a prolonged process of deleveraging. The combination of collapsing home prices, a severe reduction in household wealth and spending, and contraction of bank credit supply and other financing channels generated the Great Recession and the subsequent period of sluggish economic growth.[1]

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