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# SOME COMMENTS ON THE PAPER: "LTV LIMIT AND BORROWER RISK" (N. Tzur-Ilan)

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FINANCIAL STABILITY, REGULATION AND RESOLUTION

# THE USE OF BORROWER BASED MEASURES AS A MACROPRUDENTIAL TOOL

- **In my view, this paper contains very relevant issues for macroprudential policymakers:**
  - First, it uses individual information, so the impact of the measure implemented can be analyzed at that level
    - *Risks are more related to the extremes of the distribution than to the average*
  - Second, it merges credit with fiscal information
    - *Fiscal data are a very relevant source of information for macropru purposes*
  - Third, the paper studies the direct effects of the policy not only on the credit market but also on the real estate sector
    - *The impact assessment analysis that should always accompany the activation of these tools should take into account that they can distort the choices of the population*
  - Fourth, apart from the direct effects, the paper also studies the potential side effects
    - *Our own research shows that when applying borrower based tools it is necessary to adopt a holistic approach, acting on different dimensions of the loan, to avoid being circumvented or having unintended effects*

# THE LOAN TO VALUE RATIO

- **The lending standards of mortgages have various dimensions of which the LTV is just one of them**
- **In which circumstances is recommended to limit only LTVs?**
  - When housing prices are accelerating
    - *To contain the risk of self-reinforcing credit and house price spirals*
  - When there is an overvaluation in the housing market
    - *Increase the resilience of banks to a house price correction*
- **On the contrary, when the credit standards are deteriorating or there is an excessive credit growth, it could be not very effective,…**
  - As the both the numerator and the denominator of the ratio depend on housing prices
- **…and should be complemented with other tools, such as:**
  - LTI, LSTI, limits to maturity
- **In my view, the paper would benefit of a more extensive discussion of the appropriateness of the chosen tool to tame the identified risks**
  - How does these other dimensions of lending standards change after the measure?

## THE DETERMINANTS OF THE INTEREST RATES

- **A conjecture of the paper is that by establishing limits on LTVs, mortgage credit is partially replaced by credit for consumption purposes,…**
  - …which is more risky
- **This conclusion is (partially) based in the increase in the interest rates that is estimated when analyzing the choices of the households affected by the measure**
  - This is surprising, as for these households the LTVs are lower
- **However, the interest rates charged show a somewhat strange behavior in the sample**
  - Comparing the different types of borrowers, for the whole sample, interest rates are higher for investors (table 2)
  - However, they are lower when we restrict the comparison to those affected by the LTV limit (table 3)
- **It would be advisable to estimate an equation on the determinants of the interest rates**
  - This would allow to evaluate if the banks are adequately pricing the risks of borrowers
  - And also incorporate the interest rates established by monetary policy

# DIFFERENT TYPES OF BUYERS

- **A very relevant element of the measure was that it imposed different LTV limits to the three types of buyers**
- **The question here is if a borrower can, to some extent, choose the type of buyer she/he is**
- **It is notorious in figure 4 how in the distribution of upgraders appears a new mode after the measure at 50%...**
  - …which is the LTV limit for investors
- **As the estimations of the effects of the policy are made separately for each group, can this affect the results?**

- **Furthermore, the mode at 60% in the first-time buyers and upgraders still exists after the hard limit policy, implying that the soft LTV limit continue to be present**
  - How both measures interact?
  - And with the 800,000 maximum loan exception? Are there households whose mortgage diminished below it after imposing the hard LTV limit?

# THE IMPACT ON BANKS

- **Finally, I think that it would be informative to include a section in the paper analyzing the impact on banks of these policies**

- **In general, there is the view that hard LTV limit are less costly for banks than soft limits or capital surcharges**
    - In that respect, I think that a prospective exercise of the profitability of the mortgages before and after the implementation of the measure could add value to the paper
    - Especially if it is compared with the same analysis for the soft LTV limit

# THANKS FOR YOUR ATTENTION

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