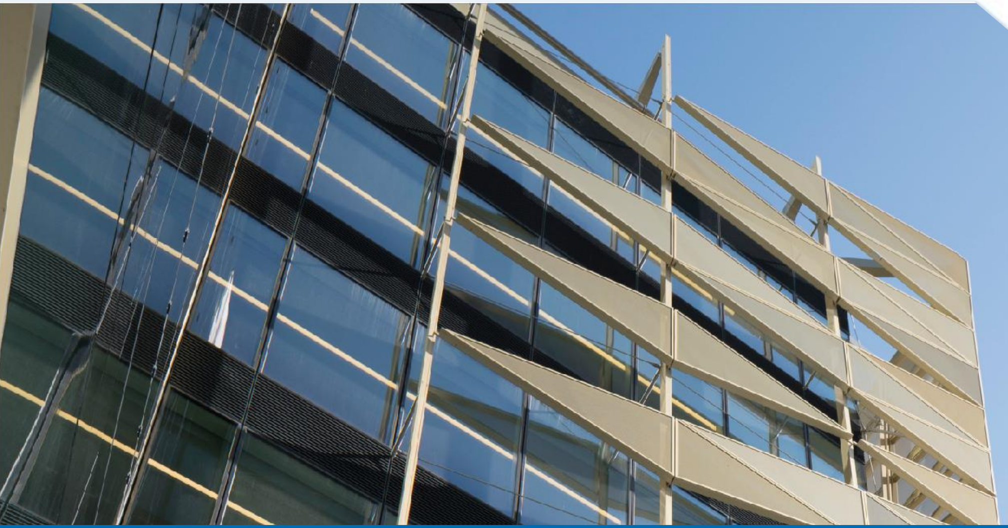
Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem



Discussion of "LTV Limit and Borrower Risk" – Nitzan Tzur-Ilan

Robert Kelly

Recap……

Important Policy Question

How has introduction of a “Hard” LTV Limit changed the housing outcomes for impacted borrowers.

Novel Dataset

Loan-level dataset of Israeli mortgages merged with authority tax data on housing characteristics.

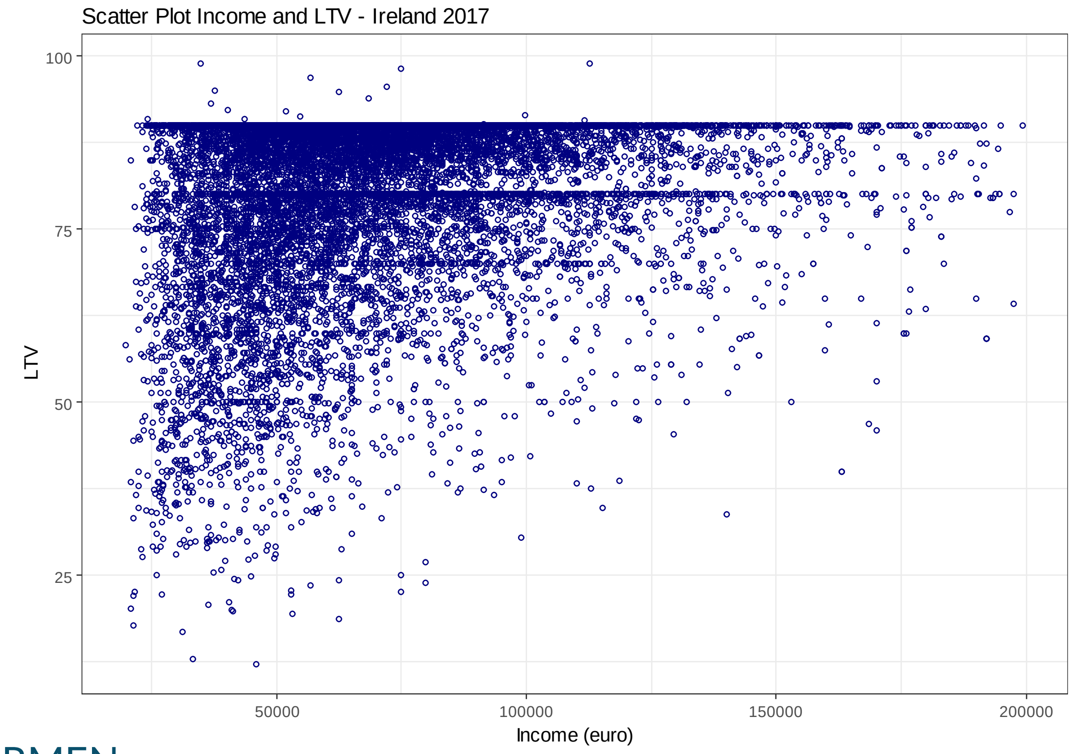
Main Findings

- Limit increased interest rates and term to maturity
- No impact on borrowers leaving credit and housing markets
- Borrowers bought cheaper, lower quality neighbourhoods, located further from the centre (Tel-Aviv)

Estimation…..

- Very difficult to have causal inference…

- DiD Framework Issues
  - No FE panel (Auer & Ongena, 2016)
  - Unobserved treatment – measurement error?
  - Treatment spill-overs on lower LTV



- Data
  - 104,000 mortgages w/ 34,021 merging with CARMEN
  - How random is the matching? – propensity score matching required?

Discussion of Main Findings….

No impact on borrowers leaving credit and housing markets

- Three outcomes to policy
  - Excluded from the housing market
  - Change housing type
  - Accumulate larger deposit
- An LTV limit provides a likely *temporary* demand reduction.
- No impact - Is this due to demand – supply imbalance?

Limit increased interest rates and term to maturity

- How are loans priced in Israel?
- Risk Shifting to generate demand?

Further Policy Questions….

Many BBM policies have dual affordability and resilience (LTV) measures.

- Income based limits mortgage credit (and resulting house price pressures) to income developments.

Trade-off against social considerations – access to housing, especially for the marginal borrower.

LTI already very high (average FTB 6.29 [Table 2])

- But less so for higher LTV (5.47 [Table 3]) – banks already trading off risk?

How the LTV rules (both hard and soft) bound across the income distribution?

- Are the changed the housing outcomes different?
- Does LTI shift pre and post – for whom?