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Abstract: Housing-market macroprudential measures are among the most commonly used by policymakers, but there remain a number of unresolved issues arising from their use. For example, there is some ambiguity concerning the objective of housing-market macroprudential policy, which may in turn lead to issues inter alia in terms of accountability; some issues arise from standard practice in macroprudential policy modelling, including consistent measurement of policies in cross-country datasets; and we contend that a wider range of effects of LTV/DSTI policy should be considered beyond their immediate effect on mortgage lending and house prices. Based on our own research, we suggest that there is some indication that banks may respond to housing market controls with greater balance sheet risk. This may require consideration of what additional regulatory policies are needed to ensure overall financial stability when housing-market macroprudential policies are applied.

Keywords: Housing market, macroprudential policy, bank risk, bank profitability

JEL Classification: E44, E58, G17, G28

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extensive analysis of the effectiveness of these instruments in the housing market, and also among other macroprudential tools in respect of individual policy targets (notably house prices and credit expansion). We suggest however that some general issues remain to be addressed in empirical practice.

What is less common is an assessment of the broader effects of these borrower-related tools not only on housing but also financial institutions and the wider economy. This is a gap that we seek to fill in this paper, using mainly our own work but also citing some relevant recent studies. The suggestion is that further work in these areas is warranted, not least to give an assessment of comparative advantage of the different tools available as well as appropriate combinations.

The paper is structured as follows; in the first section we give some broad considerations on macroprudential policy and housing, the second highlights some modelling issues in extant empirical macroprudential studies

interested direction of policy. One might also question whether borrower-based policies are sufficient alone – is the complementary use of the countercyclical buffer essential to ensure resilience (Fell 2022)? And does policy focus too much on banks and not institutional investors that are becoming increasingly active in housing? (Munoz and Smets 2022)

Some further questions arise from consideration of the way macroprudential restraint relates to the highly tax-favoured status of housing compared with holding most financial assets, which encourages borrowing. Tax measures have a macroprudential impact but are usually under control of fiscal and not monetary/regulatory authorities – it is not clear that they are well-coordinated.

Note also that control via macroprudential tools is largely limited to housing demand – supply is more related to interest rates and government limits on land use (although demand-driven price changes may also affect supply). One might consider whether an LTV/DSTI rule creates new benchmarks, potentially undermining the risk management of the lenders. Furthermore, by restricting access to mortgages for the most leveraged clients who are typically first time buyers, LTV/DSTI policies have a distributional impact in terms of wealth across age cohorts (Georgescu and Martin 2021). Taxation might be used to help offset such an effect.

These overall issues are of particular importance in the current conjuncture where the issue arises as to how the housing markets will handle the current tightening of monetary policy and rise in long rates, and how macroprudential policies should respond.

We now go on to highlight some of the results of our own research, which highlight some key points in both effects of macroprudential policy and research practice. Note that all the studies cited below have an appropriate set of control variables to limit omitted variables bias, as well as looking at effects of a range of policy measures. We focus solely on the significant housing-market policy effects (marked with asterisks) for brevity. For further

LTV	-0.032 (0.9)	-0.033 (1.5)		
DSTI	0.003 (0.1)	-0.084** (2.1)		
LTV	-0.038 (0.9)	-0.072** (2.8)	-0.001 (0.1)	0.032** (2.1)
DSTI	-0.042 (0.6)	-0.132*** (3.0)	0.034 (0.7)	0.05** (2.5)

Complementing these results

Meuleman and Vander Venet (2020) found that overall systemic risks and risks for individual banks are reduced by lending standards policies such as LTV and DSTI, but they increase systemic linkage risk. The latter is seen as linked to risk-shifting from restricted classes of asset such as household mortgage lending to risky corporate borrowers

Nakatani (2020) found that a higher LTV reduces the possibility of a banking crisis, although they did not test with other macroprudential policies.

Alam et al (2019) found that LTV restrains house prices but not credit in advanced economies but DSTI did not affect either. They found no wider effect of these policies on consumption or GDP.

Fendoglu (2017) and Davis et al (2017) found that borrower-based measures such as LTV and DSTI are more effective than financial-institution based measures in controlling the BIS aggregate credit/GDP gap

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Munoz, M. A. and Smets, F., (2022), "Macroprudential policy and the role of institutional investors in housing markets", *ESRB Working Paper No. 137*

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