Asymmetric effects of borrower-based measures on household access to finance and default

Radu Popa, Simona Ichim and Florian Neagu

Discussion by

Alberto Zazzaro

University of Naples Federico II
CSEF and MoFiR

IARIW-Bank of Italy
Central Banks, Financial Markets and Inequality

Naples, 31 March 2023

PIN's paper

The issue

Are borrower-based (sectoral) measures effective macroprudential tools to limit an excessive build-up of risks by banks and increase resilience of banks in turbulent times?

The research question

Has the introduction of strict limits on the LTV ratio for mortgages and the maturity for consumer loans in Romania had the desired effect in terms of reducing banks' exposure to risks in these loan sectors?

The answer: Yes and No!!!

In the new macroprudential regime:

1. the share of debtors taking out a new mortgage or a consumer loan has decreased
   - the reduction of new loans is statistically and economically significant only for debtors above the 75th percentile of the income distribution
2. the probability of default has increased (especially for mortgages)
   - this increase is lower compared to a hypothetical default probability if the new LTV limit would have not been introduced

PIN's paper

- An important research question
- Very detailed loan level dataset
- Very well written and executed

Comments: methodology

1. Mortgages provided under the "First-Home" government program were unaffected by the new macroprudential regime
   - Why not use a diff-in-diffs approach?
2. Debtors can choose among different types of mortgages
   - It could be interesting and appropriate to estimate a multinomial model
3. The dataset is at the loan level
   - It could be interesting to exploit this dimension by estimating the probability that the LTV and maturity caps are binding as well as the distribution of LTV ratios and consumer loan maturity before and after the new regulation

Comments: results

1. Why only (or primarily) "high-income" debtors are affected by the new macroprudential regime?
   - Does this increase increase or decrease the risk exposure of banks?
2. Banks may have responded to the new macroprudential regime
   - There is evidence in the literature – e.g. Montalvo and Raja (OEP, 2018) – that when LTV ratios are stricter banks respond by increasing the self-appraisals of houses ... estimating the effect of the new regulation on the probability that LTV is at its maximum value could shed light on this
3. The actual probability of default of First-House (untreated) mortgages did not not increase in the new macroprudential regime, and the difference with the counterfactual probability of default is for these mortgages higher than for standard mortgages

Comments: the issue

- It is very difficult to assess empirically the effectiveness of macroprudential tools from real data and this is especially true for sectoral tools
- (Asymmetric) changes in the share of borrowers taking out new loans and changes in the probability of default in quiet times may provide some interesting insights into the immediate impact of sectoral regulation, but what they say about bank risk and resilience in turbulent times?