Implementing Limits on LTVs and DTIs: A Cross Country View

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Agenda

- LTV and DTI limits around the globe
- Country experiences in implementing limits on LTV and DTI ratios
- Distilling lessons

LTV and DTI limits around the globe

Why are LTVs and DTIs becoming popular?

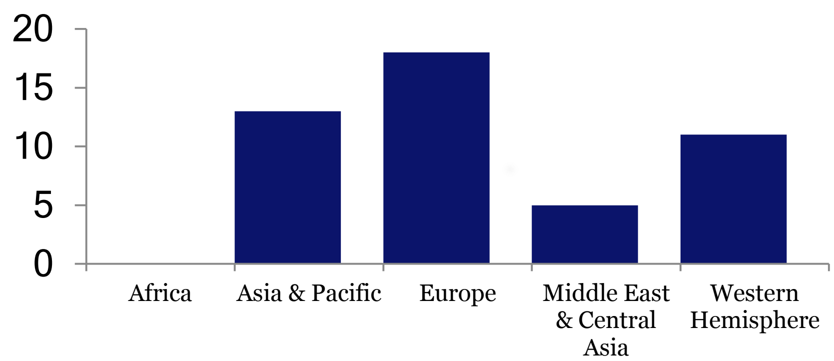
- First, the global financial crisis

- Today, several countries are going through a new wave of surging housing prices (IMF, 2014)

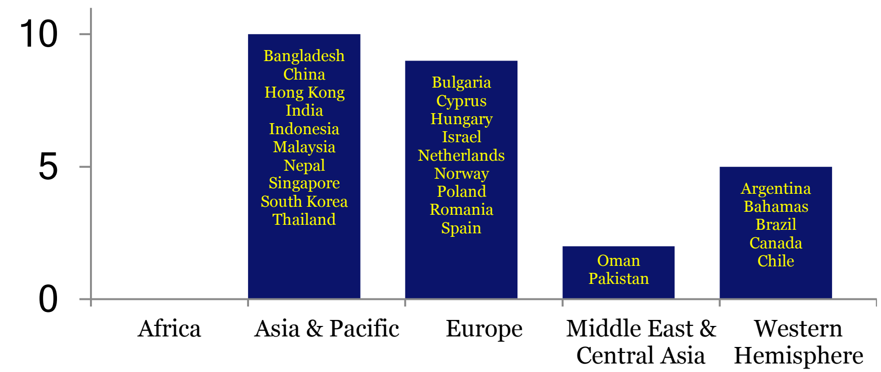
- Limits on LTVs and DTIs ➔ the gold standard to cope with rising housing prices

A global snapshot: who uses these tools?

Countries with limits on Loan-to-Value ratios



Countries that changed Loan-to-Value ratios since 2000



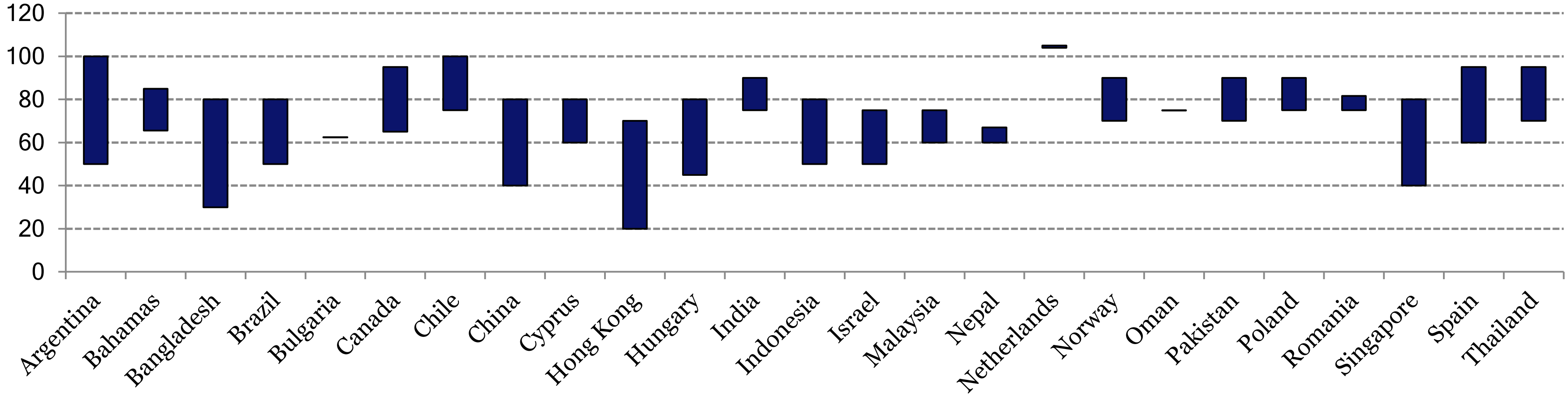
Country with limits on Debt-to-Income ratios

Countries that changed Debt-to-Income ratios since 2000

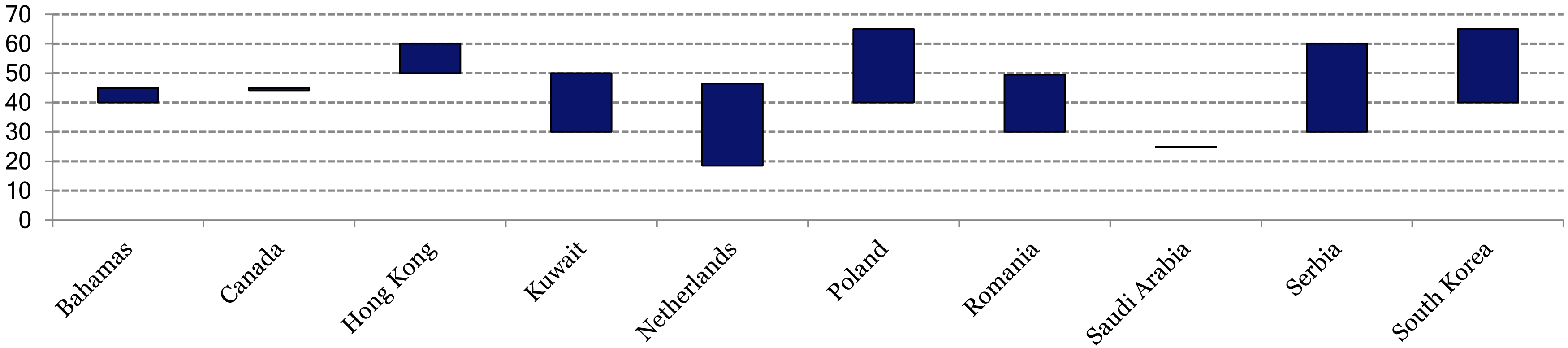
Source: IMF, Global Macroprudential Policy Instrument database

Most LTVs ➔ 60% to 90%
Most DTIs ➔ 30% to 50%

Limits on Loan-to-Value ratios



Limits on Debt-to-Income ratios



Source: IMF, Global Macroprudential Policy Instrument database

Yet, little is known about implementation

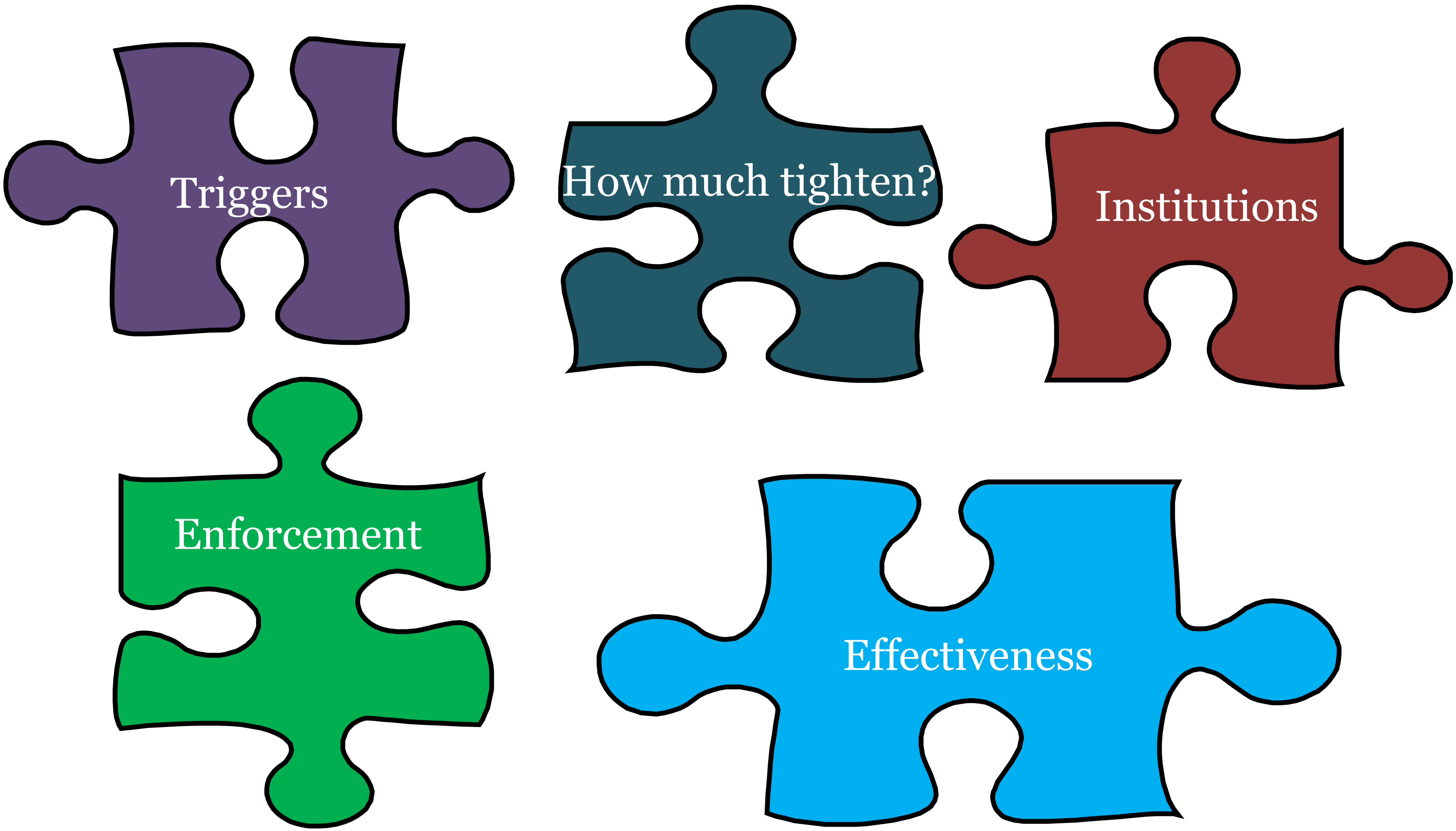
- This presentation helps to fill this gap

- Summarizes the experience of six countries

	Asia	Europe	Latin America
Advanced countries	Hong Kong SAR Korea		
Emerging economies	Malaysia	Poland Romania	Brazil

Country experiences in implementing limits on LTV and DTI ratios

Five key elements



Triggers

- Countries look at the property sector, banks, nonbanks, households, speculative activities and more
- They creatively combine micro information with macro data to see if systemic risks are rising
- With a strong eye on whether there could be debt-servicing difficulties in the future
- Various vintages of NPLs are observed
- Mortgage loan growth with rising number of multiple mortgage loans send out an alert

How much to tighten?

- No magic number
  - LTVs: 60–85%, DTIs: 30–50%
  - Varies by type of loan (forex, overseas income, maturity, speculative prone area)
- Changes (mostly discretionary, chasing leakages)
- Numerator of LTV changes (some countries add other debts)
- Numerator of DTI changes (debt service on mortgage loans vs. debt service on all loans)

No single institutional arrangement

	Twin peaks				Multi-agency	
	Brazil	Hong Kong	Malaysia	Romania	Korea	Poland
Hard powers		●	●	●		
Semi-hard/ intermediate powers	● */				● */	
Soft powers						●

*/ In Brazil, the National Monetary Council has final decision, although it often delegates to the Central Bank of Brazil, whereas in Korea the final decision rests on a high level committee chaired by the President of the Republic

Enforcement worked well

- But coped with diverse sources of leakages
  - Non-regulated entities
  - Modifying loans to meet standards
  - Cross-border mortgage lending
  - Foreign bank branches
- Various policies to deal with leakages
  - Apply right after the announcement
  - Complement with other policies

Mixed results on effectiveness

- Measures were effective in reducing loan-growth and improving debt-servicing performances

- Measures were not effective in curbing house price growth

  - When countries faced strong capital flows into banks
  - Or high demand for houses from cross-border sources
  - Better results when measures were targeted (speculative)

- To analyze effectiveness ➔ use of rich micro data

Distilling lessons

What did we learn?

- In measuring systemic risk → creative use of both macro and micro data
- Be alert when high LTV loans, long maturities, speculation
- Most changes in LTV/DTI are discretionary
- Looking at LTV-specific loan vintages is useful for calibration
- Introducing simultaneously prudential and/or fiscal measures helps

What did we learn?

- Better to execute immediately after the announcement, no prior discussion
- Various institutions involved, but central banks monitor risks
- Expect leakages and prepare in advance to act
- More effectiveness on credit growth and loan servicing
- Targeting measures at mortgages most at risk works better

Further research

- How much to tighten, when to loosen?
- Benefits of being more rules-based
- How do LTV/DTI measures interact of monetary policy?
- How to enhance the effectiveness of LTV/DTI measures when
  - strong bank-based capital inflows exist? or
  - strong cross-border demand is important?

Thanks!

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