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Credit conditions, macroprudential policy and house prices

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Abstract

We provide a micro-empirical link between the large literature on credit and house prices and the burgeoning literature on macroprudential policy. Using loan-level data on Irish mortgages originated between 2003 and 2010, we construct a measure of credit availability which varies at the borrower level as a function of income, wealth, age, interest rates and prevailing market conditions around Loan to Value ratios (LTV), Loan to Income ratios (LTI) and monthly Debt Service Ratios (DSR). We deploy a property-level house price model which shows that a ten per cent increase in credit available leads to an 1.5 per cent increase in the value of property purchased. Coefficients from this model are then used to fit values under scenarios of macroprudential restrictions on LTV, LTI and DSR on credit availability and house prices in Ireland during the 2003 to 2010 period. Our results suggest that macroprudential limits would have had substantial impacts on house prices, and that both the level at which they are set and the timing of their introduction is a crucial determinant of their impact on housing values.
Keywords: Mortgages, credit availability, macroprudential policy, house prices.