

Accepted Manuscript

House Price, Loan-To-Value Ratio and Credit Risk

Xun Bian, Zhenguo Lin, Yingchun Liu

PII: S0378-4266(18)30072-4
DOI: [10.1016/j.jbankfin.2018.04.006](https://doi.org/10.1016/j.jbankfin.2018.04.006)
Reference: JBF 5327

To appear in: *Journal of Banking and Finance*

Received date: 13 December 2017
Revised date: 17 March 2018
Accepted date: 5 April 2018

Please cite this article as: Xun Bian, Zhenguo Lin, Yingchun Liu, House Price, Loan-To-Value Ratio and Credit Risk, *Journal of Banking and Finance* (2018), doi: [10.1016/j.jbankfin.2018.04.006](https://doi.org/10.1016/j.jbankfin.2018.04.006)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



House Price, Loan-To-Value Ratio and Credit Risk

Xun Bian

Department of Accounting, Economics,
Finance and Real Estate
College of Business and Economics
Longwood University
bianx@longwood.edu

Zhenguo Lin

Hollo School of Real Estate
College of Business
Florida International University
zlin@fiu.edu

Yingchun Liu

Department of Finance, Insurance, Real Estate and Law
College of Business
University of North Texas
yingchun.liu@unt.edu

April 12, 2018

Abstract

Real estate transactions are often established through financing. We study the effect of financing on property prices. We show that properties can transact at prices well above their collateral values. Therefore, the commonly used loan-to-value (LTV) ratio suffers a bias that can significantly understate credit risk. This bias is exacerbated when mortgages are originated with longer terms, at higher LTV ratios, or when sellers possess stronger bargaining power. Furthermore, this bias is larger under aggressive lending products, e.g. interest-only loans and mortgages allowing negative amortization. Our simulation results suggest that many mortgages originated at the peak of the housing bubble are, in fact, “under water” at origination. In particular, the loan amount of a 30-year mortgage at a 95% LTV can be 15% greater than the collateral value of the property, suggesting the mortgage is already deep “under water” at origination. These findings call into questions underwriting and risk control practices in mortgages and

Download English Version:

<https://daneshyari.com/en/article/7356494>

Download Persian Version:

<https://daneshyari.com/article/7356494>

[Daneshyari.com](https://daneshyari.com)