

# LTV and housing prices

The Dutch case

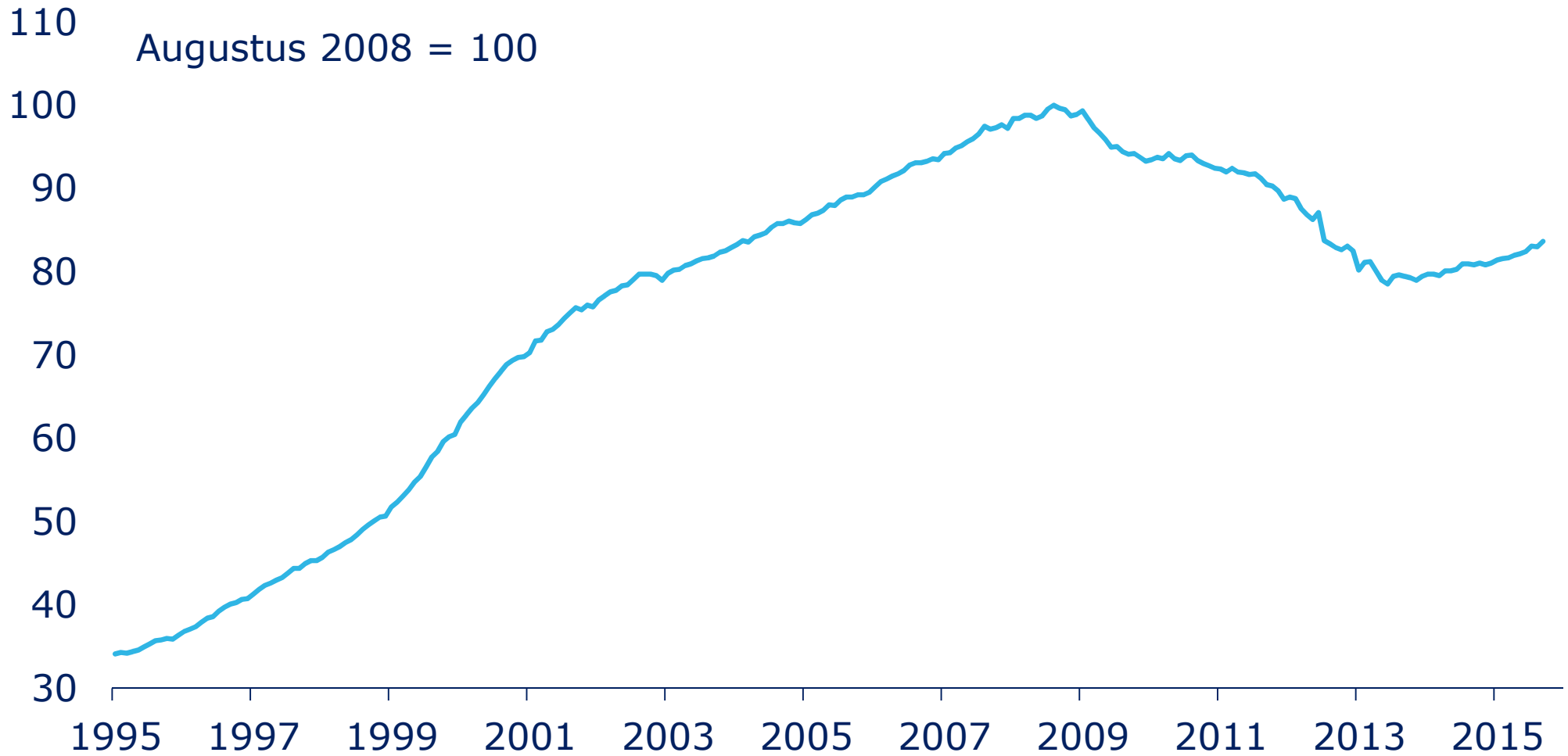
Jakob de Haan

20 Sept. 2016

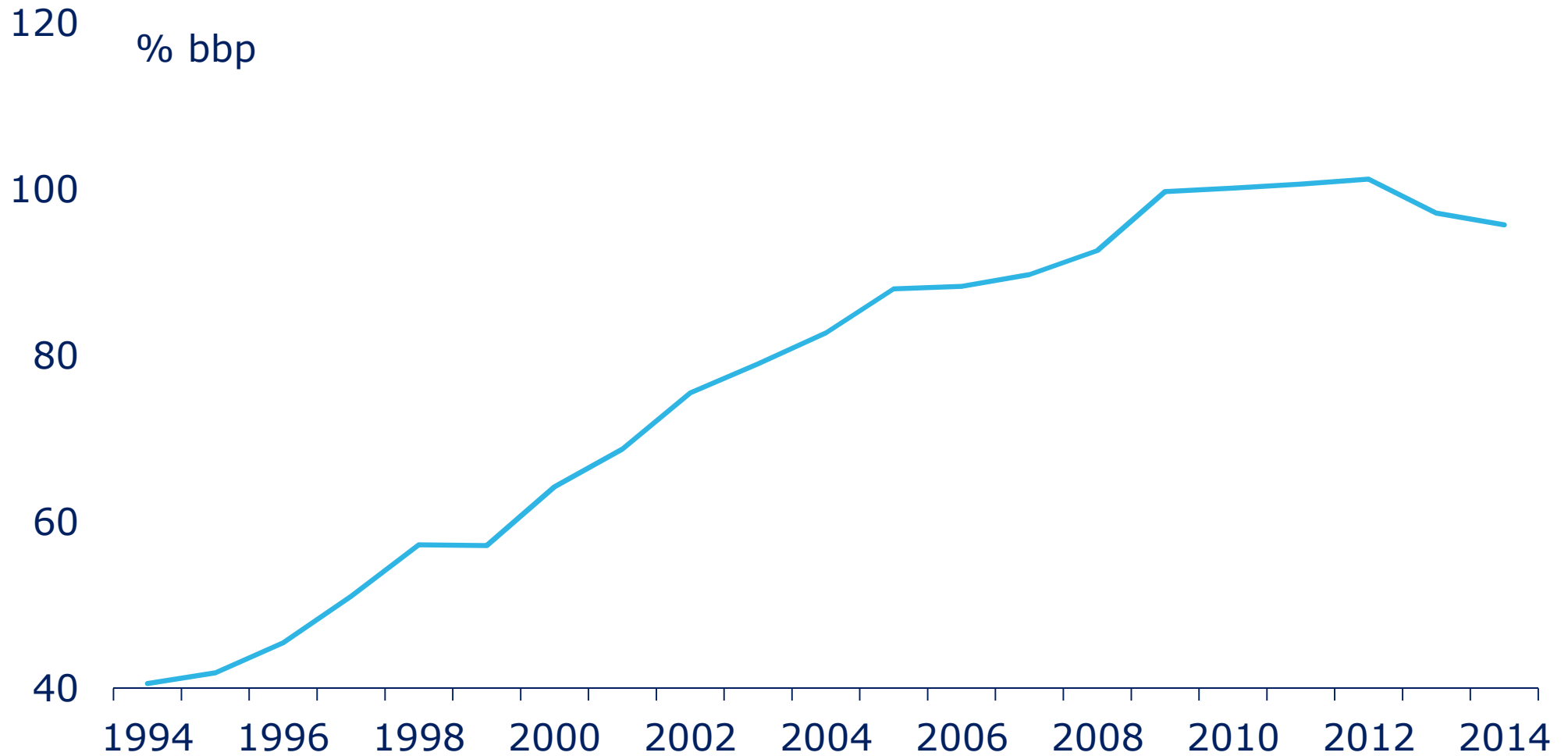
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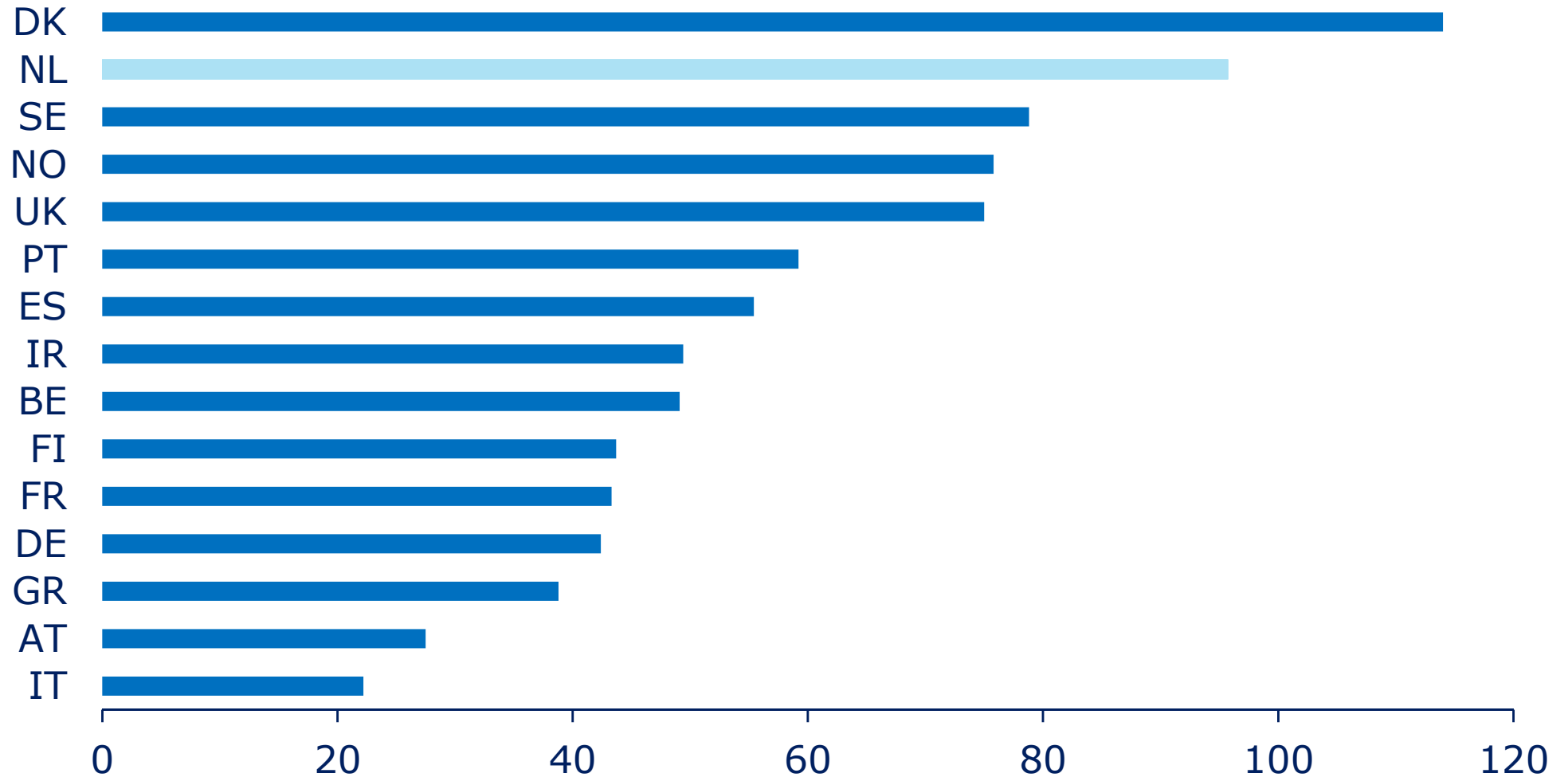
# Housing prices exploded



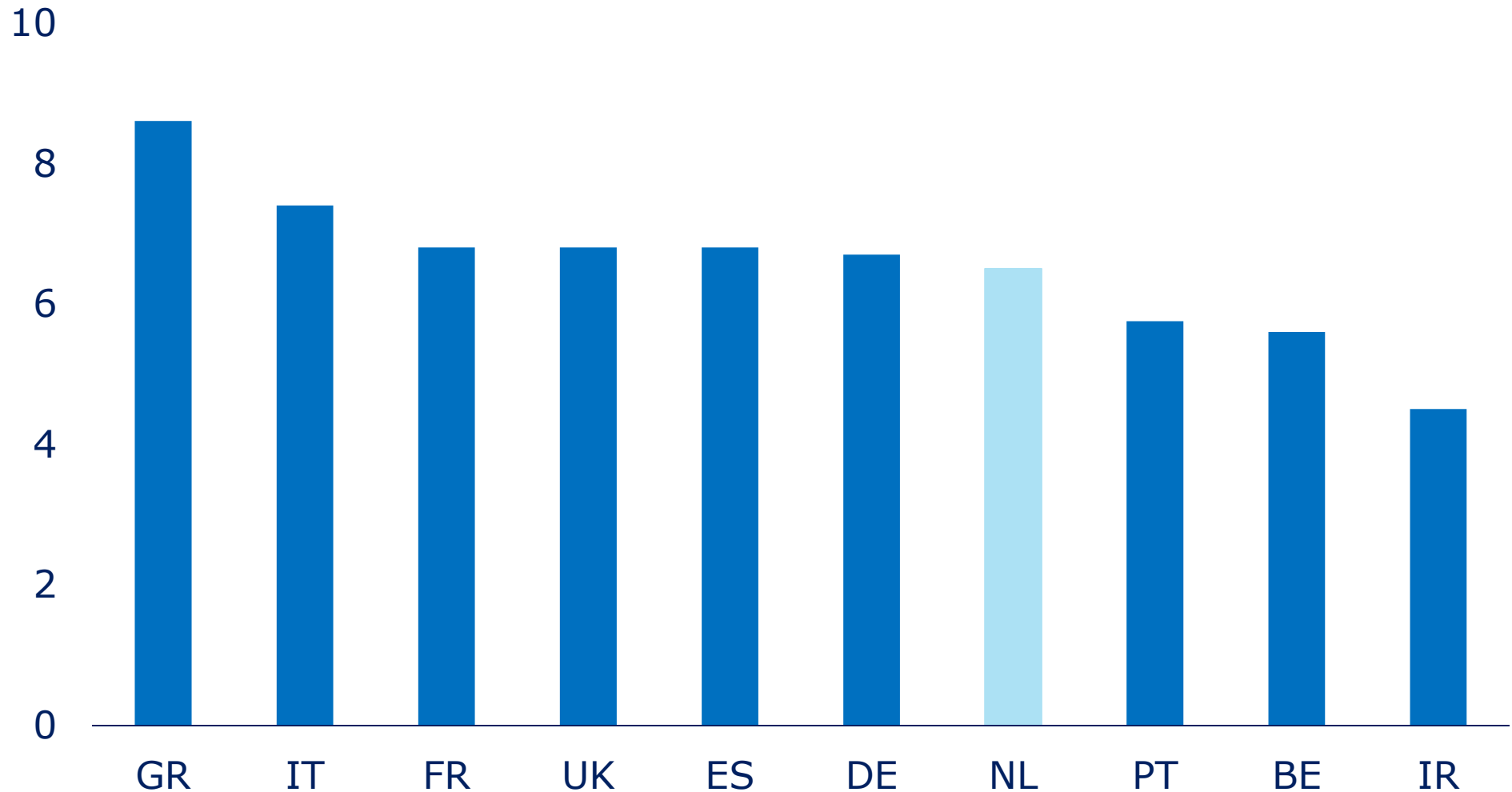
# ... and so did mortgage debt



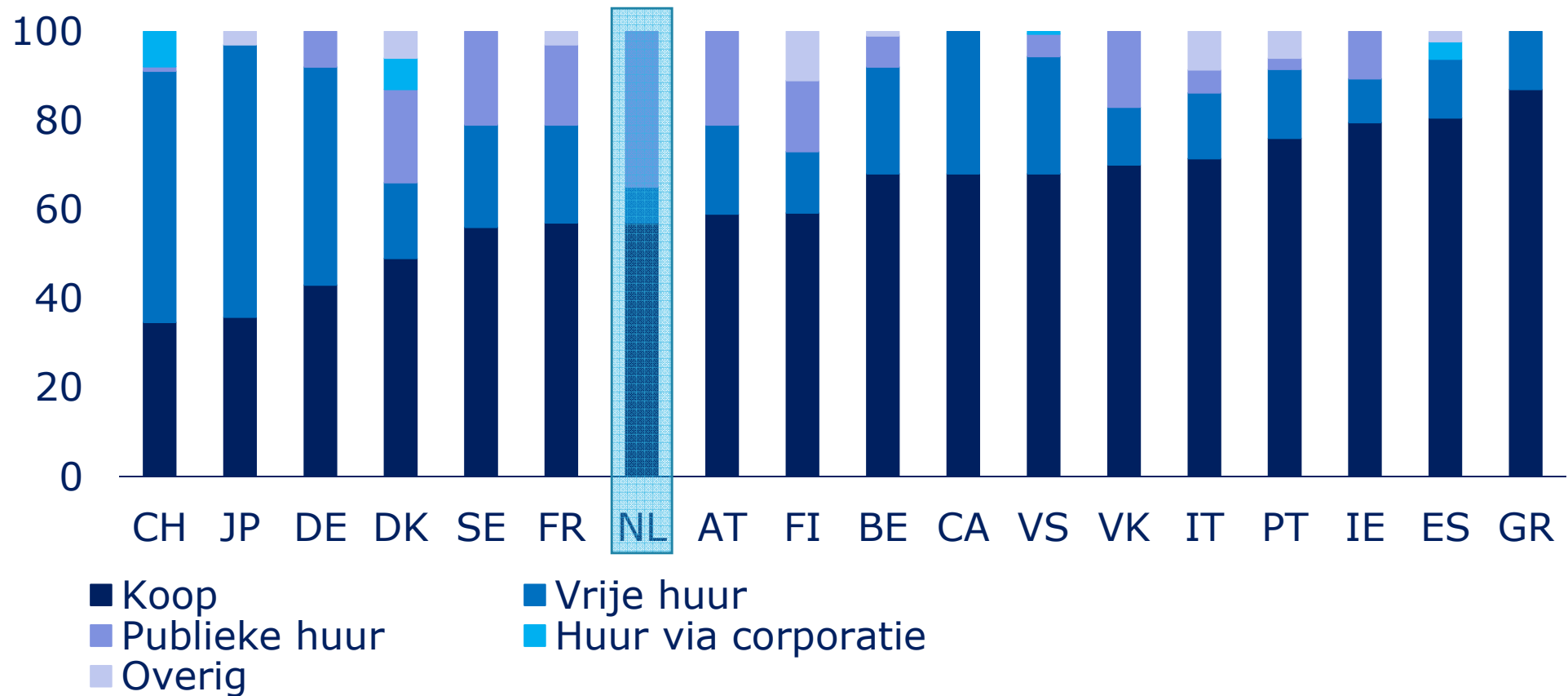
# Mortgage debt as % GDP



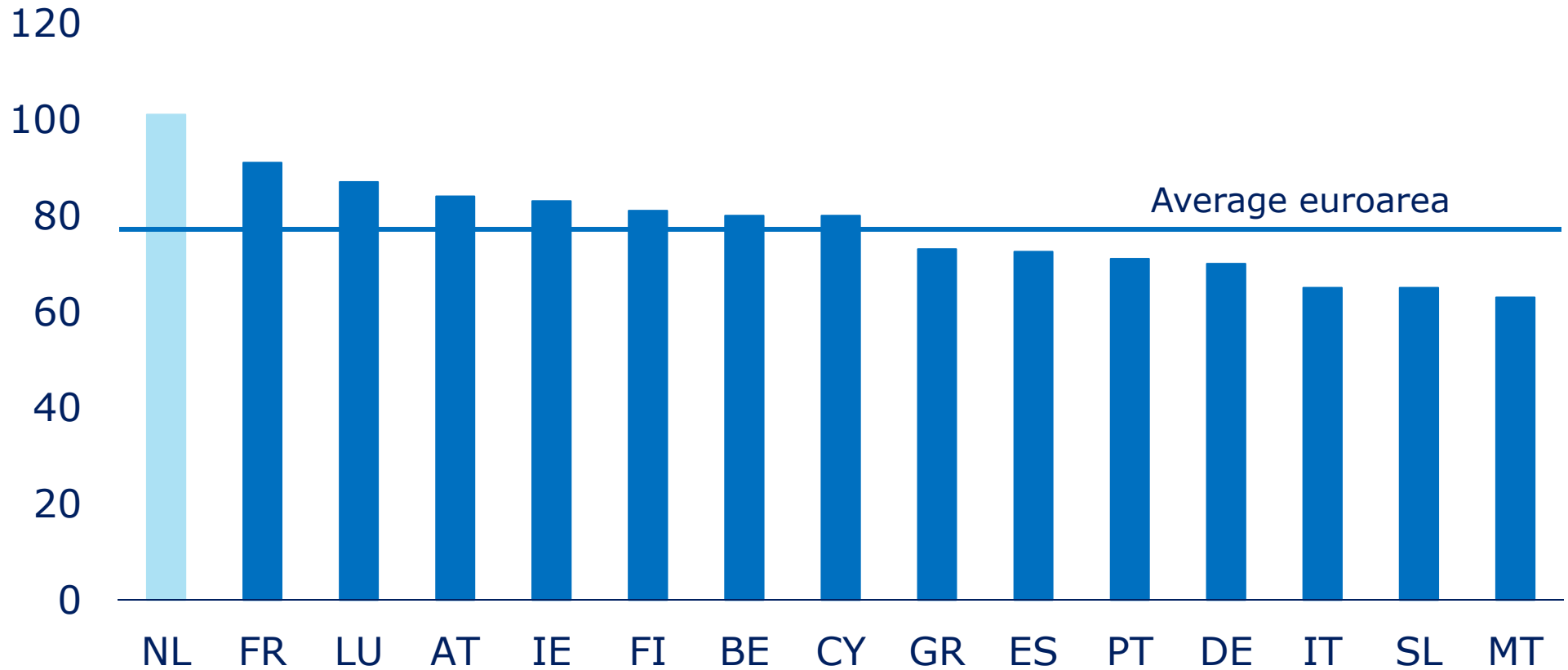
# House price as % GDP pc 2013



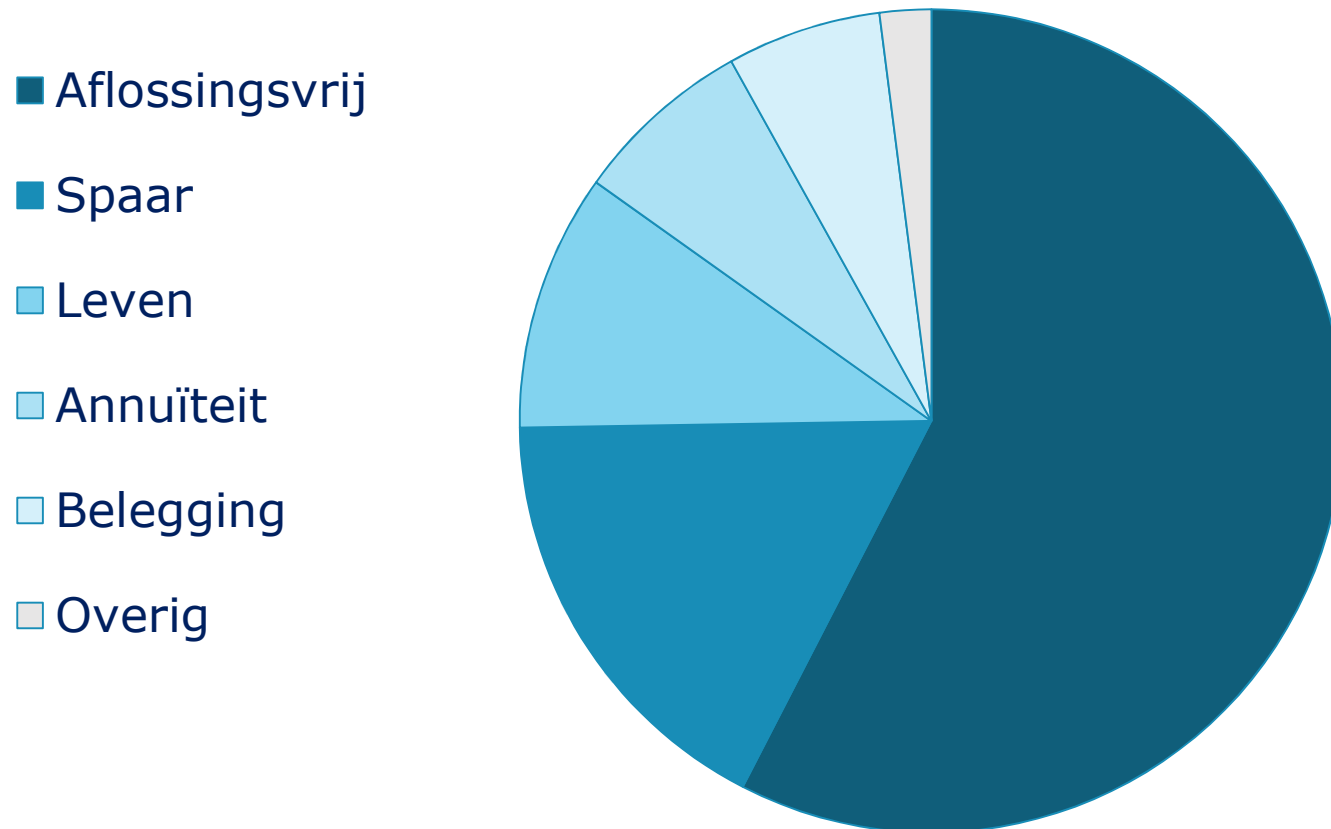
# Home ownership (%), 2009



# LTV ratios when buying first house, 2007



# Interest only mortgages (% , 2014Q4)





# Measures taken

- The statutory loan-to-value (LTV) limit for residential mortgage loans was introduced in the Netherlands in 2012. This LTV limit is being reduced by one percentage point per year to 100% in 2018.
- The annuity-based amortisation is required since 2013 to qualify for mortgage interest deduction.
- Mortgage interest deduction has been restricted: maximum marginal rate is reduced from 52% each year by 0.5%-points to 38%.

# Further reduction LTV (1)

- A lower LTV limit would enhance the ability of first-time home buyers in particular to absorb shocks. In 2013, two-thirds of first-time buyers who bought their home since 2004 were underwater with their mortgages.
- A lower LTV limit reduces the risk of boom-and-bust cycles in the housing market. Empirical evidence shows that structurally lower LTV ratios are associated with less volatility in housing prices. A reduced LTV limit is a supplement to the loan-to-income (LTI) standard, the application of which failed to prevent a housing bubble from developing in the Netherlands.

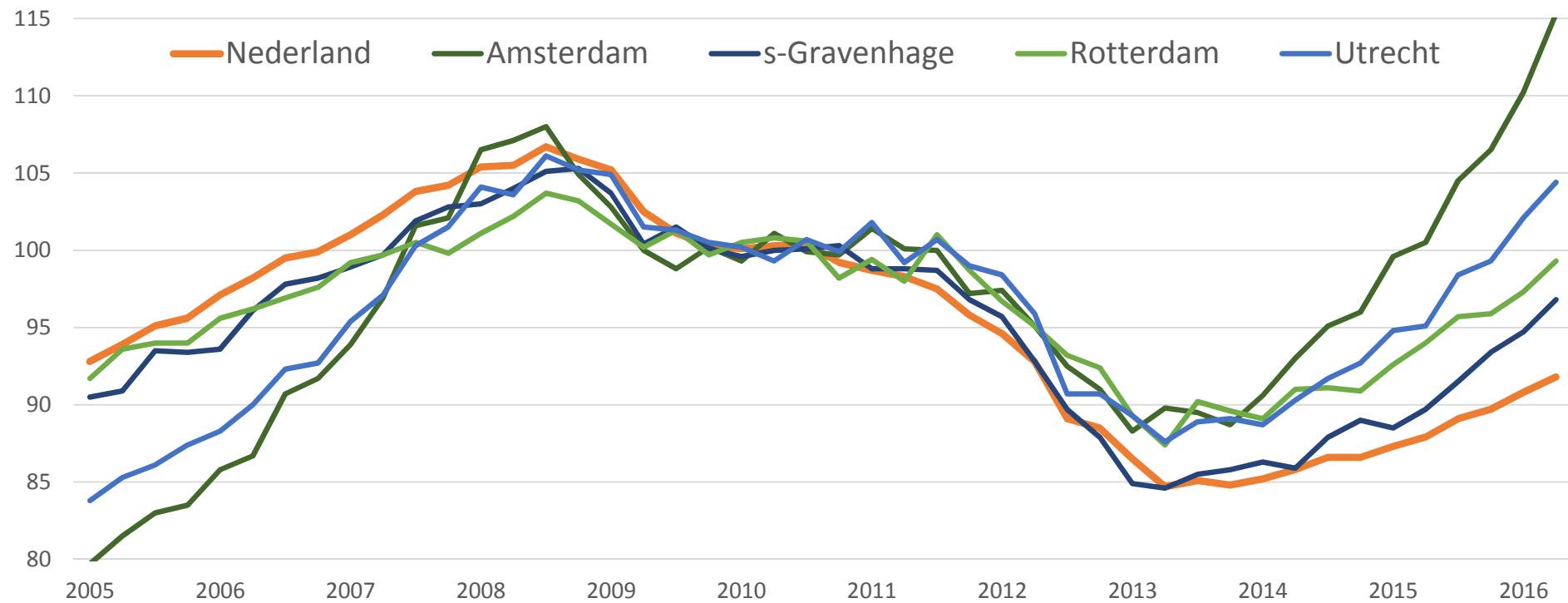
# Further reduction LTV (2)

- Lower LTV ratios mitigate banks' credit risk and reduce the dependence of banks on market funding. A lower LTV limit can also promote competition in the mortgage market, due to the entry of foreign mortgage providers. With its high LTV ratios, the Netherlands currently is an outlier.
- In addition, a lower LTV ratio helps dampen the type of cyclical movements that have affected the Dutch economy over the past few decades. Whereas the releasing of home equity boosted Dutch spending in the 1990s, the downturn in the housing market after 2008 deepened the recession.

# Further reduction LTV (3)

- The macroeconomic costs of a lower LTV limit will be seen mostly in the transitional phase. Since some potential first-time buyers will not have the private means needed to buy a home, lowering the LTV limit will reduce demand for owner-occupied housing. The fall in the number of housing transactions will lead to a drop in house prices and residential investment.
- If the LTV limit is gradually reduced to 90%, house prices will be 3.5-4% lower after five years than would have been the case if there were no change in policy, and in the long term this difference will be 4-5%.

# Local differences



Bron: CBS  
2010=100

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