

Aastveit, Juelsrud and Getz Wold: The Leverage-Liquidity Trade-Off Of Mortgage Regulation

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Motivation

- **Macroeconomic policy evaluation**
 - Monetary policy → price stability (+ employment mandate)
 - Macroprudential policy → financial stability

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- ... in other words: **“taking mortgages away from poor people”**

→ **Difficult mandate!** Costs and benefits?

→ Distributional consequences, additional welfare margins (e.g. home ownership)

This Paper

- Study introduction of LTV caps in Norway (max. 90% in 2010, then 85% in 2012)
- Use administrative data on household balance sheet to evaluate household response (leverage vs. liquidity)
- **Key findings:**
 - LTV restriction reduces home purchases and first-time home-buyers, debt and interest expense
 - Also reduces liquid assets, impedes ability to smooth consumption (unemployment)
 - Overall: negative effect on consumption volatility

Empirical Approach, Parallel Trends?

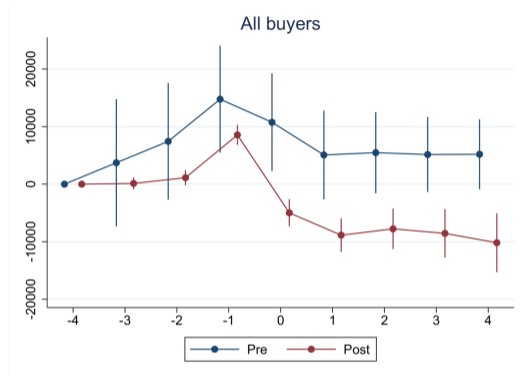


Figure 3: Liquid assets event study around house purchase, pre- and post-regulation.

- Difference at t-1 of 5000USD. Households able to save more prior to home purchase? Picking up business-cycle (2003-2011) effects?

Aggregate Demand Externalities vs. Home Ownership

- Approach here: evaluate consumption volatility using MPCs across liquidity and leverage
- By definition, does not fully reflect aggregate demand externalities?
- How to evaluate effect of home ownership?

Other comments

- Why are the effects (on home ownership and liquidity) so large? Compare to Tzur-Ilan (2020): studies LTV limits in Israel - alternative adjustment channels: borrowers choose more affordable housing units in less popular locations. Do households in Norway have stronger locational preferences? Or picking up something else?
- Was the LTV regulation binding? Any way to show that in data on new mortgage originations?
- LTV restrictions are not exogenous (Table 9), difficult to draw causal conclusions on consumption volatility
- Any changes after the LTI regulation in 2016? (Greenwald 2021)
- Imputed consumption: trimming 15% of the tails seems large - show robustness using 10, 5%?

Leverage Strengths of the Setup?

- Build a model to quantify the trade-off of households and get at counterfactuals?
- Can use empirical estimates (liquidity reduction, housing decision, consumption volatility), MPC results from other papers and crisis period to calibrate
- Counterfactual with ex ante leverage reduction - welfare-improving? Who is better/worse off?

Conclusion

- Very interesting paper, novel evidence on margins of adjustment
- Sharpness of empirical design, results?
- Augment with model to get closer to the original motivation of preventative debt reduction policies?