VoxEU: Pockets of risk in European housing markets

There is clear evidence of laxer credit standards in countries that experienced a real estate boom-bust, and a tightening after the bust.

By Jane Kelly, Julia Le Blanc, Reamonn Lydon from VoxEU

Houses in Dublin, Ireland

Macroprudential policy has been widely adopted in advanced economies in response to the financial crisis. Cerruti et al. (2018) show that loan-to-value (LTV) limits on property lending are now used in two-thirds of advanced economies, up from a fifth a decade before. While aggregate household indebtedness (Almenberg et al. 2018)and the role of credit availability and speculative property bubbles (Mian and Sufi 2018) have received considerable attention, the evidence on euro area mortgage lending standards before and after the crisis has been limited.

This column documents looser mortgage credit standards among those European countries that experienced a property boom-bust, relative to those that did not. On the wider effects of credit boom-busts, we find a strong correlation between credit constraints and household indebtedness. We also link property bubbles and credit tightening to changes in borrower composition.

You can read the full article here. Below is a key quote:

"As Cecchetti and Schoenholtz (2018) and others point out, housing leverage is considered a key source of financial stability risk for the economy because it affects both financial institutions and households' spending decisions. Other VoxEU columns have explored these effects for individual countries, such as Bunn and Rostem (2015) for the UK, and Gerlach-Kristen et al. (2013) for Ireland. In the HFCS, there is a positive correlation between credit constraints and household indebtedness. Households in high-debt countries, such as Ireland, Latvia, and the Netherlands are more likely to be credit constrained."