World Academy of Science, Engineering and Technology
International Journal of Economics and Management Engineering
Vol:11, No:01, 2017

Effects of Macroprudential Policies on BankLending and Risks

Authors : Stefanie Behncke

Abstract : This paper analyses the effects of different macroprudential policy measures that have recently been implemented in Switzerland. Among them is the activation and the increase of the countercyclical capital buffer (CCB) and a tightening of loan-to-value (LTV) requirements. These measures were introduced to limit systemic risks in the Swiss mortgage and real estate markets. They were meant to affect mortgage growth, mortgage risks, and banks' capital buffers. Evaluation of their quantitative effects provides insights for Swiss policymakers when reassessing their policy. It is also informative for policymakers in other countries who plan to introduce macroprudential instruments. We estimate the effects of the different macroprudential measures with a Differences-in-Differences estimator. Banks differ with respect to the relative importance of mortgages in their portfolio, their riskiness, and their capital buffers. Thus, some of the banks were more affected than others by the CCB, while others were more affected by the LTV requirements. Our analysis is made possible by an unusually informative bank panel data set. It combines data on newly issued mortgage loans and quantitative risk indicators such as LTV and loan-to-income (LTI) ratios with supervisory information on banks' capital and liquidity situation and balance sheets. Our results suggest that the LTV cap of 90% was most effective. The proportion of new mortgages with a high LTV ratio was significantly reduced. This result does not only apply to the 90% LTV, but also to other threshold values (e.g. 80%, 75%) suggesting that the entire upper part of the LTV distribution was affected. Other outcomes such as the LTI distribution, the growth rates of mortgages and other credits, however, were not significantly affected. Regarding the activation and the increase of the CCB, we do not find any significant effects: neither LTV/LTI risk parameters nor mortgage and other credit growth rates were significantly reduced. This result may reflect that the size of the CCB (1% of relevant residential real estate risk-weighted assets at activation, respectively 2% at the increase) was not sufficiently high enough to trigger a distinct reaction between the banks most likely to be affected by the CCB and those serving as controls. Still, it might be have been effective in increasing the resilience in the overall banking system. From a policy perspective, these results suggest that targeted macroprudential policy measures can contribute to financial stability. In line with findings by others, caps on LTV reduced risk taking in Switzerland. To fully assess the effectiveness of the CCB, further experience is needed.

Keywords : banks, financial stability, macroprudential policy, mortgages
Conference Title : ICRFSB 2017 : International Conference on Risk, Financial Stability and Banking
Conference Location : Zurich, Switzerland
Conference Dates : January 13-14, 2017