

Creating a Legal Basis for Macroprudential Instruments for RRE Loans: Experiences from Germany

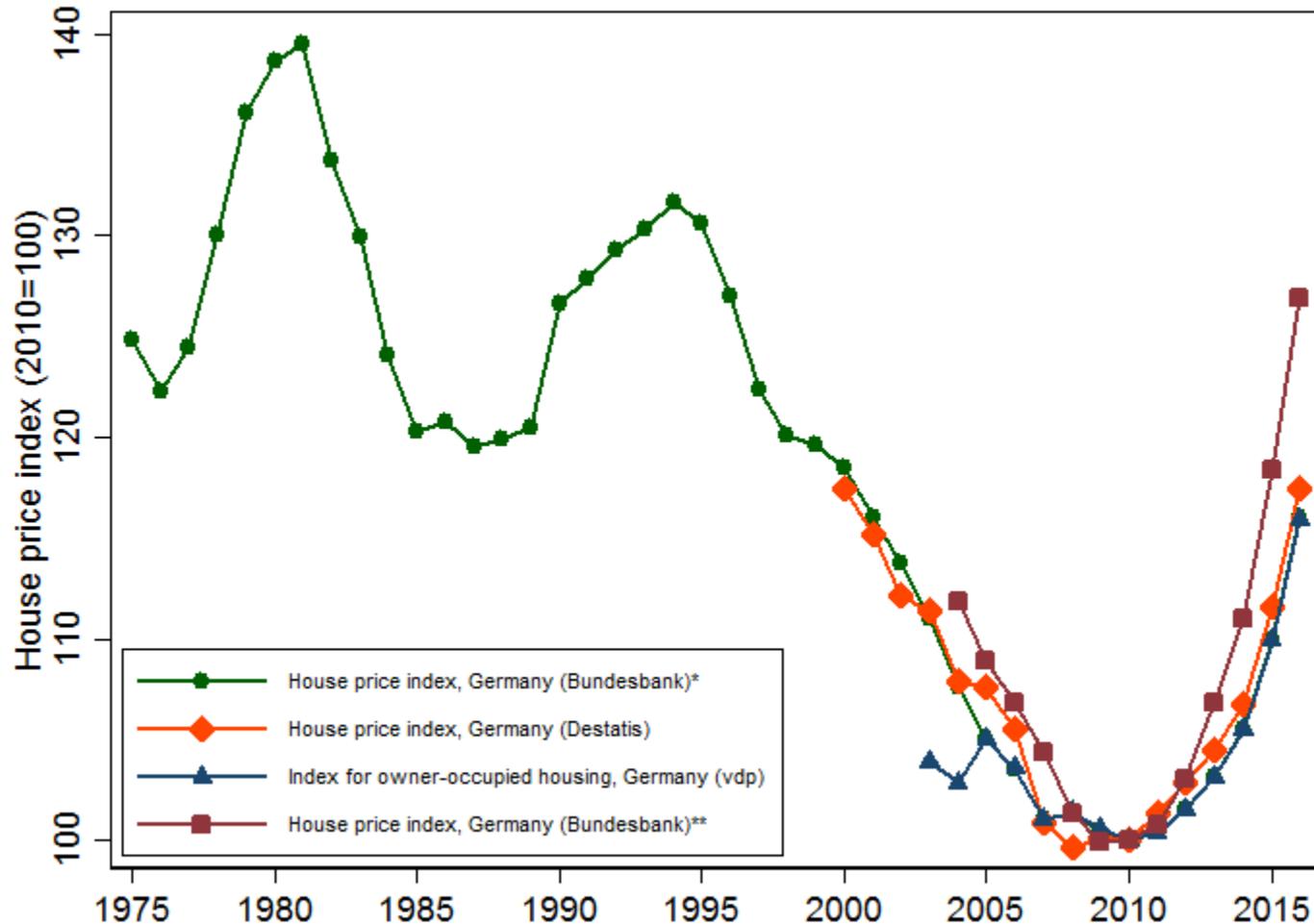
Benjamin Weigert

Bank of Lithuania Conference “Should macroprudential policy target real estate prices?”

11-12 May 2017

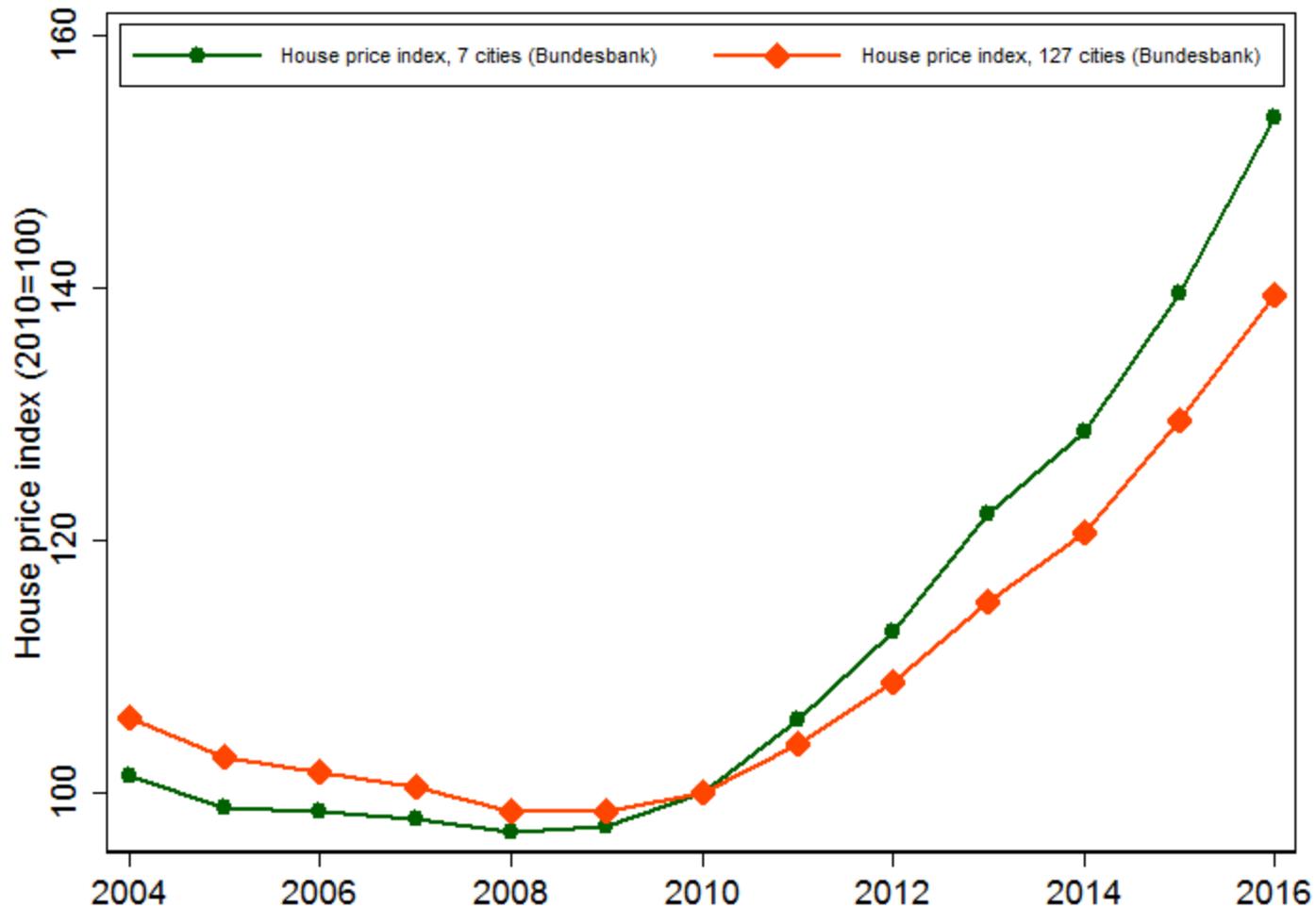
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Aggregate house prices have been rising since 2010...



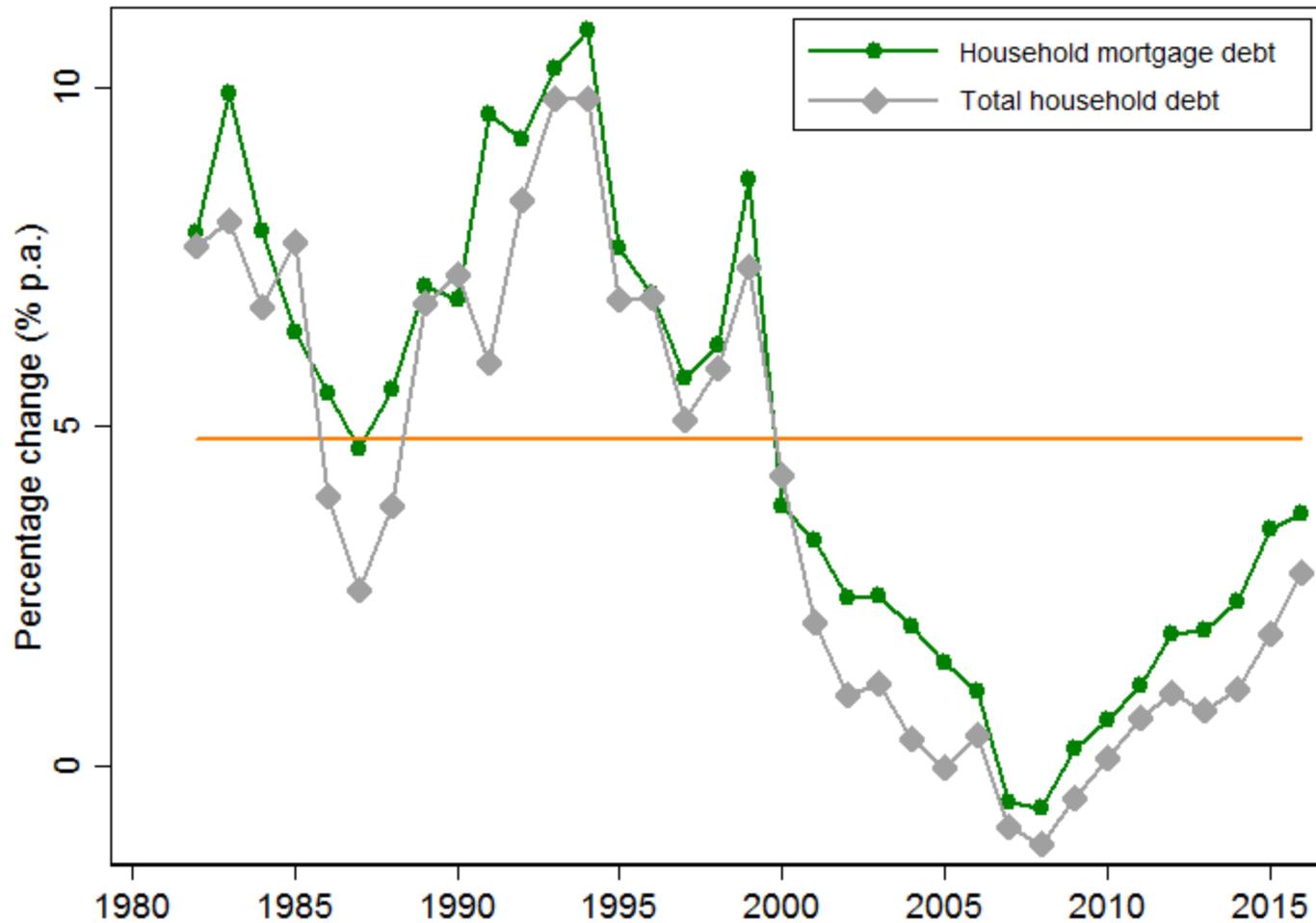
Note: House prices adjusted for inflation: Index (2010=100). *The exact type of dwelling covered by the long-run house price index (since 1975, green line) changes over time. **Bundesbank calculations based on price data provided by bulwiengesa AG, weighted by transaction. Sources: bulwiengesa AG, Association of German Pfandbrief Banks (vdp), Federal Statistical Office (Destatis) and Bundesbank calculations.

... particularly pronounced in urban areas but rural areas and smaller cities catching up lately



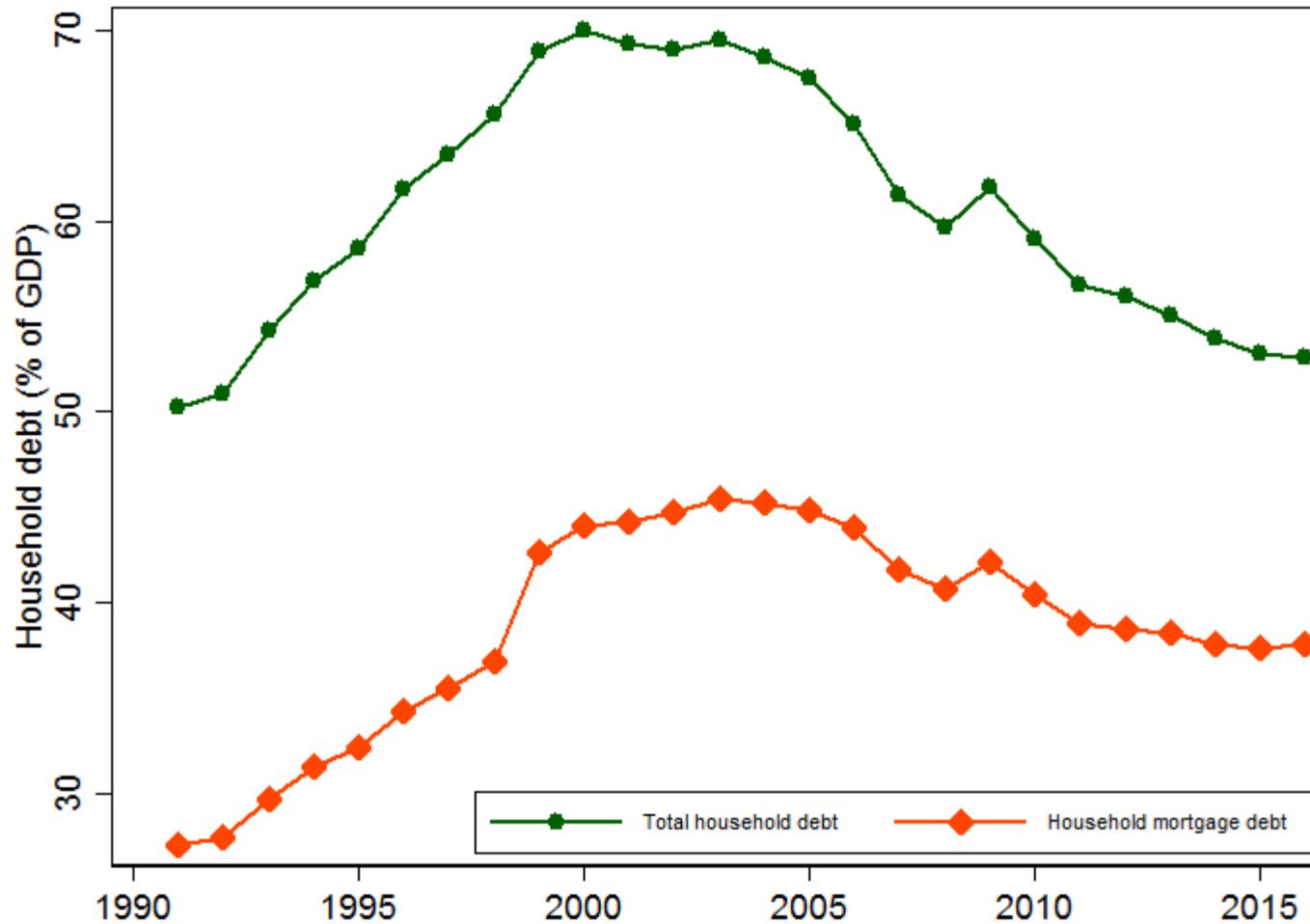
Note: House prices adjusted for inflation: Index (2010=100). Bundesbank calculations based on price data provided by bulwiengesa AG, weighted by transaction. The 7-city index covers Berlin, Cologne, Düsseldorf, Frankfurt a.M., Hamburg, Munich, and Stuttgart. *Sources:* bulwiengesa AG and Bundesbank calculations.

But mortgage credit growth has been moderate...



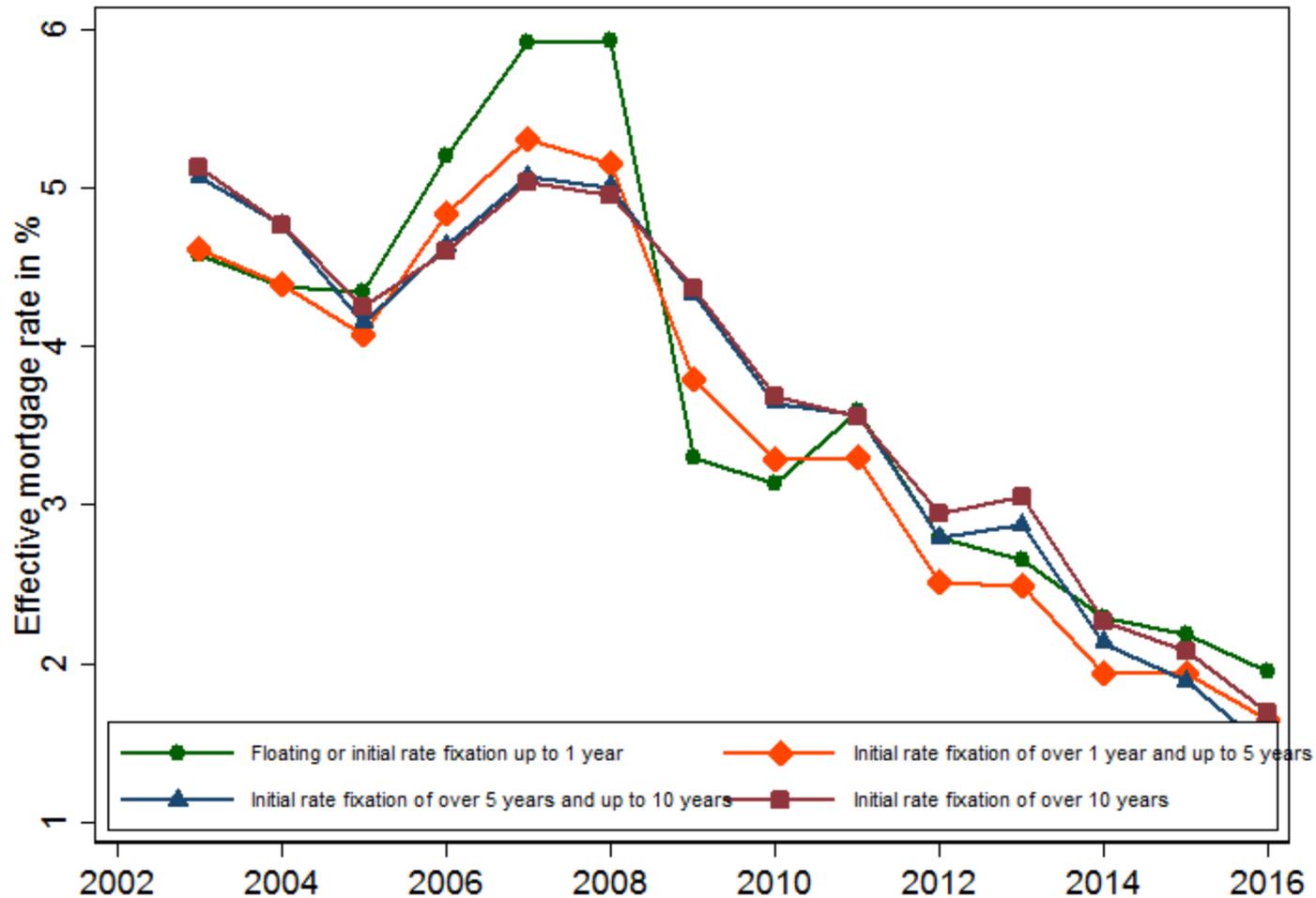
Note: Orange line denotes long-run average mortgage debt growth (mean for 1981—2016). Total household debt calculated based on BIS data. *Sources:* BIS , Bundesbank (borrowers statistics), own calculations.

...and indebtedness of the household sector has declined in recent years.



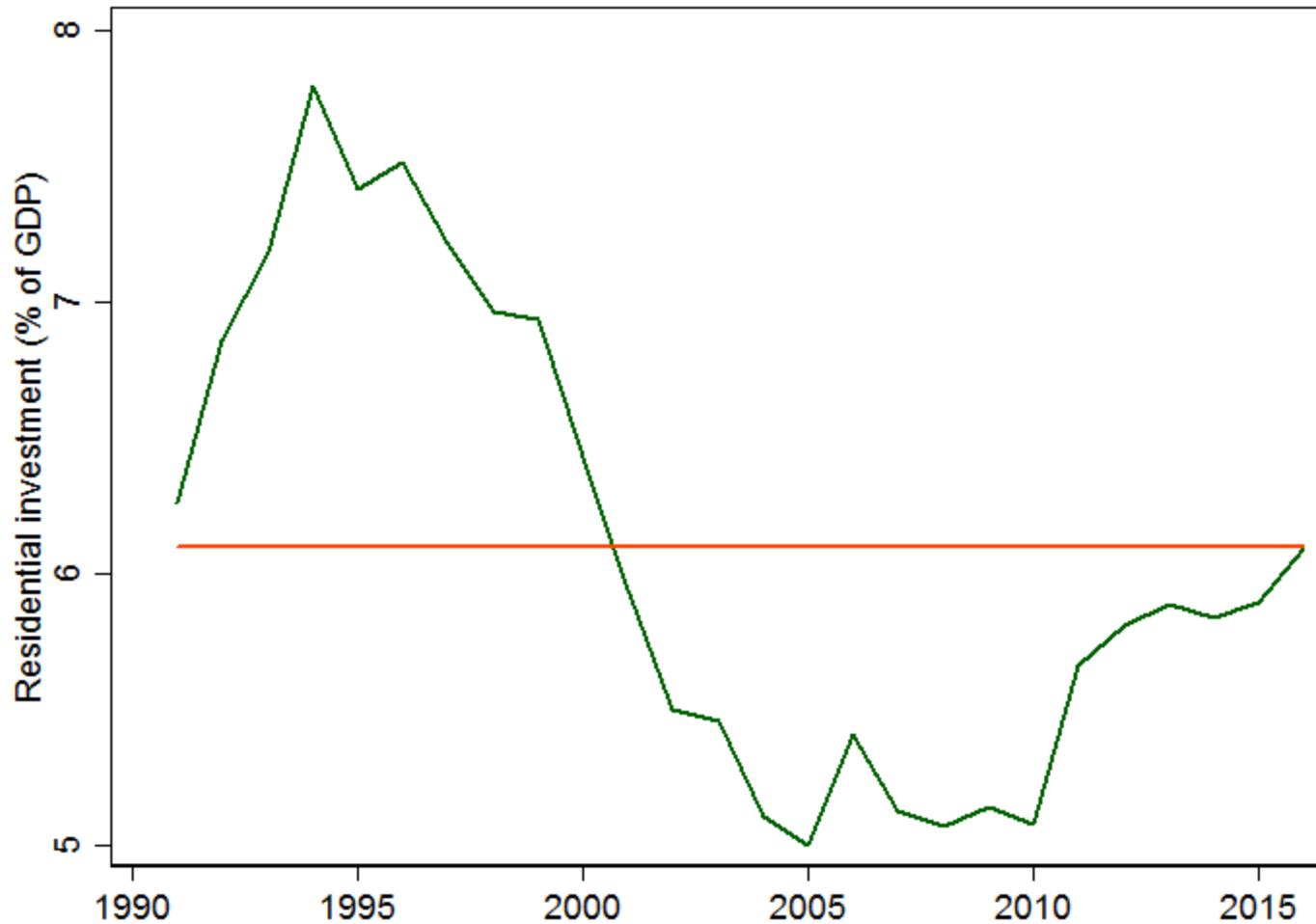
Sources: Bundesbank and BIS.

Effective mortgage rates have fallen, lowering debt servicing costs for households at given house prices



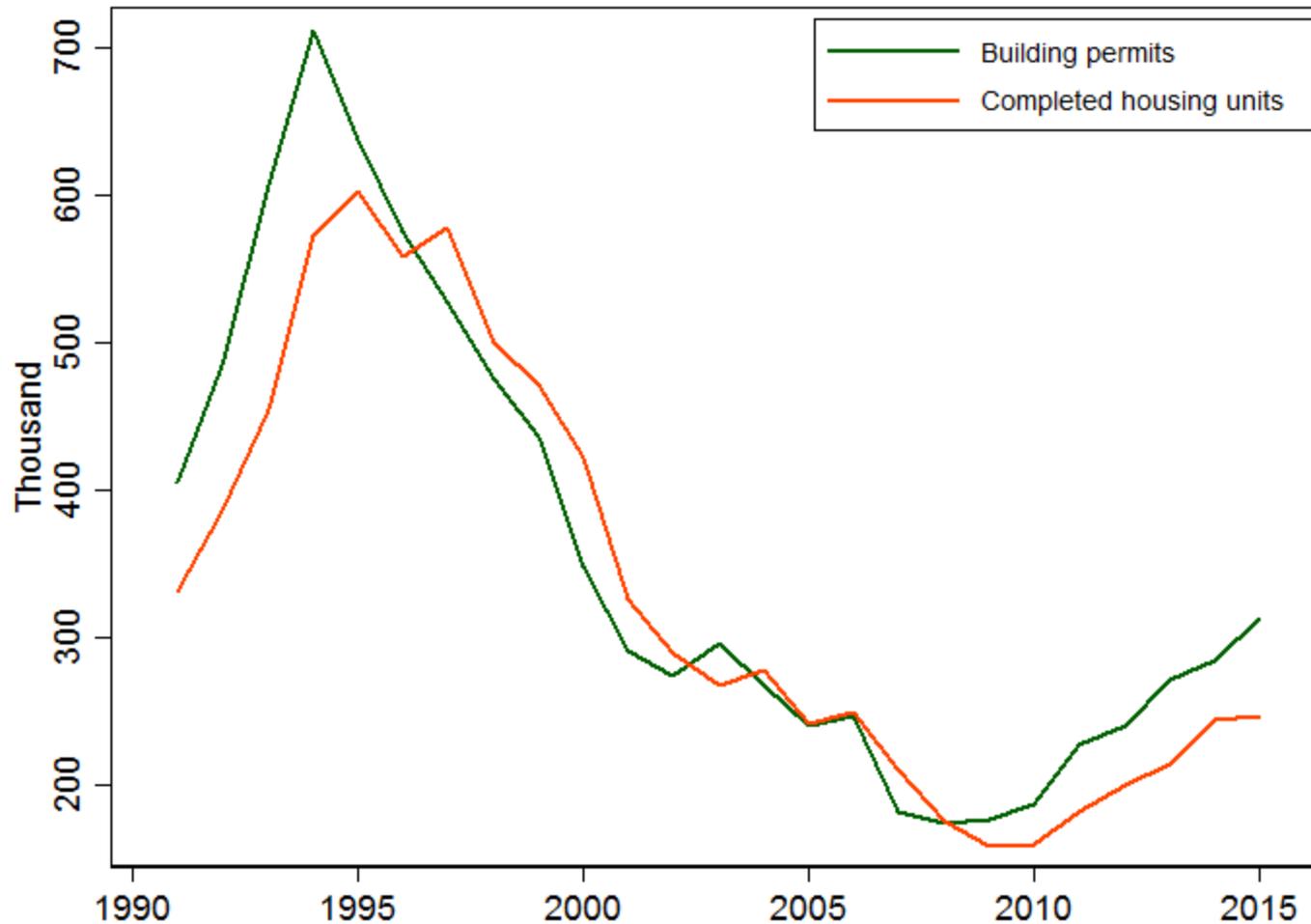
Sources: Bundesbank (MFI interest statistics).

Residential investment remains at long-run average...



Sources: Federal Statistical Office (Destatis). Orange horizontal line denotes long-run average residential investment (as % of GDP, mean for 1991—2016).

...and building activity relatively low given the surge in housing demand.



Sources: Federal Statistical Office (Destatis). Building permits and completed housing units for housing units in residential and non-residential buildings. Includes construction work on existing buildings.

Macroprudential Instruments for RRE Loans in Germany: Current situation

- Up to now there are no borrower based macroprudential instruments for RRE loans
 - This is about to change presumably today
- The macroprudential toolbox so far only entails instruments that aim at increasing the “resilience” of the banking sector (CRR/CRD IV)
- In 2015, discussion in the German FSC to fill this gap in the macroprudential toolbox
 - Decision to issue a recommendation to the German government for the precautionary creation of these instruments
- Current macro-financial environment in the Euro area does not optimally reflect Germany’s position in the economic cycle and may promote the build up of system risks in the German financial system

Macroprudential Instruments for RRE Loans in Germany: Current situation

Recommendation of the German FSC: Create a legal basis for

- borrower-based RRE instruments (recommendation A) and
- the regular collection of relevant data (recommendation B)

Draft bill of federal government (Dec 21, 2016):

- Recommendation A: provisions for all four borrower-based instruments: LTV, amortisation requirement, DSTI/DSCR, DTI
- No provisions regarding recommendation B:
 - reference to EU regulations, AnaCredit, and to using existing legal basis in national law for data collection (as necessary)

Macroprudential Instruments for RRE Loans in Germany: Current situation

Intense political debate on

- **the need of borrower based instruments**
- **the potential interference with other political objectives**
- **how to ensure democratic legitimacy**
- **optimal perimeter of these instruments**

Legal Basis for Borrower-Based Macroprudential Instruments for RRE Loans in Germany

Draft bill as adopted by Bundestag (March 30, 2017)

- Provisions for LTV and amortisation requirements (*de minimis* threshold of 50.000 EUR loan amount)
- Instruments do not apply in the case of secured loans if
 - Collateral value < 200.000 EUR AND loan / collateral value \leq 80%
 - Collateral value < 400.000 EUR AND loan / collateral value \leq 60%
- Draft bill will most likely enter into force autumn 2017
 - Presumably passes the Deutsche Bundesrat today

Germany will thus likely have borrower-based RRE instruments in its macroprudential toolbox. However, the toolbox will not contain income-related instruments (DSTI/DSCR, DTI).

- The framework to be developed for activation and calibration of these instruments will take these restrictions/limitations into account