

Discussion of Tracey & van Horen (2021) The Consumption Response to Borrowing Constraints in the Mortgage Market

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One-Slide Paper Summary - Cool Paper!

- **Research Question:** Effects ↓ down-payment requirement (↑ 95% LTV availability) on (i) housing market (ii) hh consumption.
- **Methodology:** Geographic variation in exposure to Help-to-Buy (HTB)
- **Data:** UK admin. mortgage data (FCA PSD), gov admin. on auto car registration, survey measures of consumption (ONS LCFS)
- **Key Findings:**
 - ↑ home sales concentrated in 5% downpayment, younger & 1st time buyers
 - ↑ house price growth (esp. London)
 - ↑ consumption (total, home, non-durable exc. home, autos)
 - ↑ Employment (esp. non-tradeable) and income

Very nice results: My discussion focused on (i) HTB (ii) Framing/Interpretation.

What is Help To Buy (HTB)?

1. **SAVINGS:** Help to Buy ISAs - cash savings for potential first time buyers offering 25% government bonus up to £3,000 (replaced by LISAs £1k p.a. bonus cap). (no studies?)
2. **EQUITY LOAN:** 5% downpayment, 20% gov loan (0% for 5 years) for new builds.
(e.g. Carozzi, Hilber & Yu, 2020; Benetton, Bracke, Cocco, Garbarino, 2021 RFS)
3. **MORTGAGE GUARANTEE:** 5% downpayment, 20% gov guarantee.

“Mortgage Madness...HTB is an unashamed housing-market stimulant.”

- The Economist, 2013.



Backed by
HM Government



What was Help To Buy Mortgage Guarantee (MG) trying to do?

How it started (HMT, 2013)...

1.1 The Government is committed to supporting people who aspire to become homeowners. In recent years, increased deposit requirements and falling equity values have left many hardworking households unable to get onto the housing ladder or trapped in homes unsuited to their aspirations and needs. In today's Budget the Government has therefore announced the Help to Buy package to support a new generation in realising the dream of homeownership. This package includes the introduction of a new mortgage guarantee to enable more households to access mortgages on both new build and existing homes, without the need for prohibitively large deposits.

1.2 Help to Buy: mortgage guarantee will be designed to increase the appetite of mortgage lenders for high loan-to-value lending to creditworthy customers. It will provide lenders with the option to purchase a Government guarantee that compensates them for a portion of their losses in the event of foreclosure. The Government will charge a commercial fee for the provision of this guarantee.

...how it's going (HMT, 2021)

3.1 The mortgage guarantee scheme will be significantly based on the successful version launched in 2013. As well as being a tried and tested approach to reinvigorating the high LTV mortgage market, the scheme design will be familiar to lenders, enabling them to quickly begin offering new 91-95% mortgage products.

95% LTV mortgage products grew 2012-2014, disappeared in 2020 now coming back with government intervention

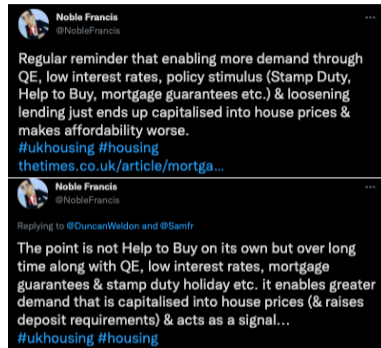
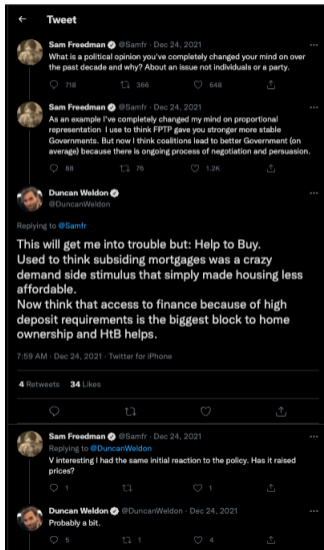
Chart 2.A: Availability of high LTV products (monthly)



Source: Moneyfacts Treasury report

(Her Majesty's Treasury, [March 2013](#); [March 2021](#))

What are effects of help to buy? Contentious, public debate continues in 2021/22



A public economics/finance paper to be written evaluating these mortgage subsidies!

- National Audit Office reviews (2014,2019).
- MVPF Hendren & Sprung-Keyser (2020 QJE)

How to estimate real effects of 95% LTV mortgage provision?

- Experimental ideal?
 - Randomly make 95% LTV mortgages available.
 - Observe take-up and outcomes.
 - But GE effects are missed here - not ideal!
- Quasi-experimental approaches exploit institutional features varying eligibility:
 - Capacity constraints (e.g. Fuster, Hizmo, Lambie-Hanson, Vickery & Willen, 2021)
 - Performance targets (e.g. Giacoletti, Heimer & Yu, 2021)
 - Government / regulatory changes (e.g. DeFusco, Johnson & Mondragon, 2021)

THIS PAPER: Timing - government change (HTB introduction) +

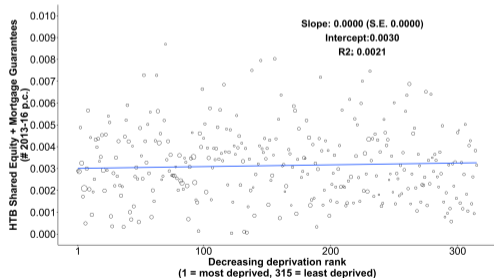
Geographical 'exposure': Ex-ante geographical variation in 95+ LTV mortgage usage

(\leq 5% downpayment, 05-07)

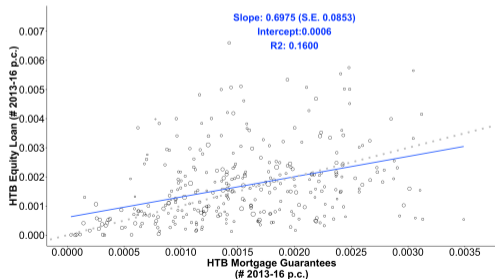
HTB a bundle of things: Feature rather than bug!

- Explore heterogeneity in both MG and EL.
- Which does your exposure measure better predict?
- What can we learn from varying take-up?
- Well targeted?

No relationship HTB usage vs. deprivation



EL & MG +ve relation but
(i) lots of variation (ii) EL > MG



What is estimated parameter?

Not sure is *only* relaxation of downpayment constraint.

Alternative framing: Estimating real effects of government subsidies of high LTV loans (mortgage guarantee + shared equity) as a “new” form of post-crisis stimulus.

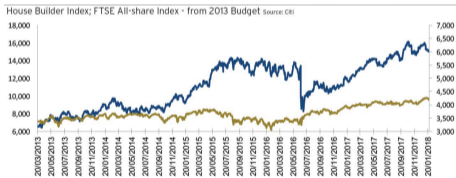
- HTB *not* only relaxing downpayment constraint:
 - HTB is a **government subsidy** changing costs of private provision.
 - HTB provides housebuilders, mortgage lenders (& consumers) with **confidence**.
 - If market voluntarily provides high LTV mortgages would not expect same result.
- HTB EL and MG quite different from both borrower and lender perspectives:
 - **HTB EL also eases *payment* constraint: interest-free for 5 years.**
 - Borrower actively chooses HTB EL.
 - Lender actively chooses HTB MG.
 - HTB EL only new builds. HTB MG includes remortgages.
- Empirically borrower characteristics very different (e.g. Bennetton et al., 2021 RFS)

Construction results (small +ve on # constructed, insignificant -ve on # starts) interesting + important to explore further

HTB is “The crack cocaine of the building industry” - BBC News, Feb 2019.

Homebuilder share prices & profits
increased massively.

(Reports could charge 5% extra on HTB)



Blue = house builder index.

Brown = all share index.

For some large lenders half of sales on HTB.



Thanks!

