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The Impact of the Regulation of LTV and DTI of Korean Policy Mortgage Loans on the Loans for Household in Commercial Banks

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ABSTRACT

This study examined the effects of reinforcing the regulation of policy mortgage loans on household loans provided by Korean commercial banks when the interest rate went up alongside the climbing U.S. federal rate. The main results of this study are as follows: First, regarding the soundness of the policy of tightly regulating loans, lowering the loan-to-value (LTV) and the debt-to-income (DTI) ratios may increase the supply of loans for households. The current study infers that the reduction of policy loans results in expanding the housing loan supply in commercial banks. Second, the tight regulation of mortgage policy led to a rapid increase in household loans. This evidence is related

to the theoretical underpinning that adjustment of loan portfolios in commercial banks is made flexible according to external shocks. Third, an increase in the capital buffer in commercial banks has a negative effect on the expanding supply of housing loans. Therefore, activity above the capital buffer level is associated with the growth of risky loans. In conclusion, the tight regulation of policy mortgage loans may increase the supply of mortgage loans within the household credit segment of commercial banks.

KEYWORDS:

policy mortgage loan | loan-to-value | debt-to-income | housing loan | loan portfolio

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Additional information

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