



A.C.P.Z. – ZARAGOZA HOMEBUILDER'S FEDERATION

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THE BASEL COMMITTEE ON BANKING SUPERVISION PUBLIC CONSULTATION ON REVISIONS TO THE STANDARDISED APPROACH FOR CREDIT RISK RELATED TO THE REAL ESTATE SECTOR AS AN OPPORTUNITY TO ANALYZE FROM THE POINT OF VIEW OF ACPZ THE CORE ROLE OF THE REAL ESTATE SECTOR IN THE MONETARY POLICY AND ITS FUTURE INFLUENCE IN THE TRADITIONAL ACTIVITY OF THE EUROPEAN HOMEBUILDERS

FACTS

A) Standardised approach for credit risk related to the real estate sector

The proposal for the standardised approach (SA) for the credit risk published by the Basel Committee in December 2012 set out an approach that removed all references to external credit rating and assigned risk weights for exposures and assigned risk weights based on a limited number of alternative risk drivers.

Now the Committee has decided reintroduce the use of rating in a new mechanistic manner for exposures of banks and corporate in order to calculate their capital requirements.

Furthermore the proposed risk weighting of real estate loans has also been modified with the loan to value ratio as the main driver. The Committee has decided not to use a debt service ratio as a risk driver given the challenges of defining and calibrating a global measure that can be consistently applied across jurisdictions. The Committee instead proposes requiring the assessment of a borrower ability to pay as a key underwriting criteria. It also proposes to categorise all exposures related to real estate including specialized lending exposures under the same asset class and apply higher risk weights to real estate exposures when repayment is materially dependent on the cash flows generated by the property securing the exposure.

The Committee proposes for exposures secured by real estate to use the loan-to-valuation ratio as the main risk driver for risk weighting purposes and to use a three-category (from less to more risky) classification:

1. general treatment for exposures secured by real estate where repayment is not materially dependent on rent/sale of the property



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2. a more conservative treatment for exposures secured by real estate where repayment is materially dependent on cash flows (i.e rent/sale) generated by property. Specialised lending corporate exposures assigned to income producing real estate (IPRE) under the IRB approach would be classified under this category.

3. a conservative flat risk weight for specialized lending real estate exposures defined as land acquisition, development and construction (ADC) (i.e loans to companies or SPV unfinished meeting the definition of specialized lending).

Under the current SA, exposures secured by residential or commercial real estate are the only exposure categories that are risk-weighted based on the collateral securing the relevant exposure, as opposed to the counterparty. Currently, residential real estate exposures receive a risk weight of 35% where the loans are granted in accordance with strict prudential criteria, such as the existence of substantial margin of additional security over the amount of the loan based on strict valuation rules. Commercial real estate exposures receive a 100% risk, with national discretion to allow a preferential risk weight under certain strict conditions.

The 2014 consultative document maintained the distinction between residential and commercial real estate exposures within the real estate exposure class and introduced two specialised lending subcategories related to the real estate:

1. income-producing real estate (IPRE)

2. and acquisition, development and construction (ADC); the financing of ADC received in the 2014 consultative document a 150% risk weight.

Some respondents were of the view that there could be potential gaps in the assignment of exposures to IPRE and ADC and sought clarification on the distinction between these subcategories and the real estate exposure class.

In the new consultative document the Committee proposes to categorise all exposures related to real estate under the same exposure class, including IPRE and ADC.

Under this new taxonomy, exposures secured by either residential or commercial real estate would receive differing risk-weight treatments depending on whether repayment of the loan is materially dependent on the cash flows generated by the property. This is the main



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characteristic used to define specialized lending. Risk weights applied to exposures where there is material dependence would be relatively higher than risk weights applied when there is no material dependence.

Residential real estate exposures

The current SA applies a 35% risk weight to all exposures secured by mortgages on residential property, provided that there is a substantial margin of additional security over the amount of the loan based on strict valuation rules.

In order to increase risk sensitivity and harmonize global standards in this exposure category, the Committee proposed, in its 2014 consultative document to assign risk weights (ranging from 25% to 100%) based on the following risk drivers:

1. loan-to-value ratio (LTV)
2. debt servicing coverage (DSC) ratio a proxy of the borrower's ability to service the mortgage

Respondents generally supported the use of the LTV ratio as a risk driver, but raised significant concerns on the DSC ratio using a standardized definition and a fixed threshold, given the material differences in underwriting practices, regulations, tax regimes and average incomes across jurisdictions.

The Committee has decided to retain the LTV ratio as the principal risk driver for this exposure class because of QIS data show that the loss incurred in the event of a default and the likelihood of a borrower's default are lower when the outstanding loan amount relative to the value of the residential real estate collateral is lower.

Given the challenges of defining and calibrating a DSC ratio that can be equitably applied across jurisdictions, the Committee has decided not to use this ratio as a risk driver. However, since evidence still supports a metric such as the DSC ratio as a meaningful predictor of the loan performance, the Committee proposes to require the assessment of the borrower's ability to pay as a key underwriting criterion.

In order to apply the preferential risk weight based on the LTV ratio, banks would need to satisfy other requirements in addition to the assessment of the borrower's ability to pay. These additional requirements would focus on the quality of the collateral (eg adequate



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valuation, finished property), the collateral's effectiveness and other procedural aspects. A bank would assign a higher risk weight to the exposure, irrespective of the LTV ratio, if the above requirements are not met.

Moreover, the Committee proposes to differentiate risk weights based on whether loan repayment is materially dependent on cash flows generated by the real estate collateral. While risk weights would still vary based on the exposure's LTV ratio, a bank would assign a higher risk weight to the exposure if repayment of the loan is materially dependent on the cash flows generated by the real estate collateral

ADC exposures

ADC exposures would be risk-weighted at 150% consistent with the 2014 consultative document. This category would include loans to companies or SPVs financing any of the land acquisition, development and construction of any residential or commercial properties where the source of repayment at origination of the exposure is either the future uncertain sale of the property or cash flows whose source of repayment is substantially uncertain. ADC exposures would also include loans to companies or individuals to finance the acquisition of finished properties where the repayment of the loan depends on the future uncertain sale of property.

B) Linkage among monetary policy, macroprudential policies, real estate sector and the fear by the increase of the real debt burden related to the real estate sector

It can analyze the position of the European Central Bank and in overall the National Central Banks (NCBs) among them the Bank for International Settlements related to the link among monetary policy, macroprudential policies and real estate sector through several statements of its President, members of its Executive Board and the General Manager of the Bank for International Settlements (BIS):

1 .

15 June 2015 President ECB at Hearing at the European Parliament

“As regards possible financial stability risks, we assess these risks as rather contained for now looking, in particular at housing markets in the euro area we don't see any signal of general



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overvaluation. Important indicator for increasing financial imbalances are real estate prices and credit growth, but so far we have witnessed low growth rates of both. Nevertheless we monitor developments closely. If needed macroprudential policy tools should be used to safeguard financial stability”

2.

3 June 2015 Introductory statement President ECB to press conference with Q&A

“A long period a protected period of very low interest rates causes a series of problems. First of all it may increase the financial stability risk, but also it causes problems for insurance, companies and for other important financial market actor. Is this a good reason to change our monetary policy? The answer is no. The answers that when we see a financial stability risk, this should be addressed by the proper instruments, which are macroprudential instruments. And we don't see so far the emergence of these risks, even in one of the sector, that is most often quoted, like the housing market. You don't look only at a price increased but you also want to see whether these increases in prices have to be accompanied by increase in leverage.

And we don't see that at least in bank leverage. But having said that, I repeat what I said before. If there were to be financial stability risks in the stock market for example, they would have to be addressed by the proper instruments (in the real estate market the macroprudential tools) which is not a change in our monetary policy”

3.

4 February 2016 President ECB at the SUERF Conference organized by the Deutsche Bundesbank

“However since there is always a back-ward looking component in inflation developments, the longer the inflation stays too low, the greater the risk that the inflation does not restore automatically to target. Specifically I agents star to look at the track record of recent inflation, rather than the inflation objective it affects their benchmarks for wage and price setting decision. What happens then is that low inflation feeds into inflation expectation and creates second-round effects. And the unexpected low inflation raises real debt burdens which have a negative effect on aggregate demand due to the different propensities to consume and invest of borrowers and lenders. Output and inflation, then move again in the same direction but this



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time downwards. Countries can improve their financial regulation and supervision to make their financial systems more resilient to external shocks. They can adopt macroprudential measures. We also have some anecdotal evidence that macroprudential measures are working in Asian economies, especially in cooling off the real estate sector. Still they can be no doubt that if we needed to adopt a more expansionary policy, the risk of the effects would not stand in our way. We always aim to limit the distortions caused by our policy, but the price stability objective comes first. There are forces in the global economy today that are conspiring to hold inflation down.”

4.

25 January 2016 Speech at the Deutsche Borse Group New Year Reception by the ECB President

“Some may wonder why we go to such lengths to meet our price stability objective. Isn't it good for people, if inflation is low and things are cheaper? Certainly, in the short run, a fall in inflation helps consumers. But if inflation stays too low for too long it actually harms them. And that's particularly the case in a post-debt crisis environment like the one we face in the euro area today. Very low inflation complicates the adjustment process within countries leading to higher unemployment; it delays the rebalancing process across countries, hindering those that lost competitiveness prior to the crisis from regaining it. And if low inflation is unexpected, it raises real debt burdens making it harder for the economy to grow out of debt. For example, if euro area inflation were to undershoot our baseline by just 1 percentage point each year for the next five years, it would increase the private debt ratio around 6 %. That might not sound like a big figure. But over five years, it's equivalent to € 700 billion in extra debt for firms and households at a time when we should be aiming to reduce debt.

Though low interest rates can encourage risk-taking, there are no warning signs of serious financial instability. Financial crises are typically associated with strong credit growth and rising leverage in the banking system. What we see at the moment, however, is a nascent credit recovery and deleveraging among banks. That's not to say we don't see pockets of exuberance for example in some housing markets. But euro area interest rates are set to achieve macroeconomic objectives, not to prick local bubbles. In fact, we have established a whole new macroprudential toolkit since the crisis precisely for that purpose and if necessary countries should use it.”



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5.

3 July 2015 Speech Vice-President of the ECB in Vilnius

“At the ECB we include equity, interest rate, housing and credit markets in our preferred measure of the financial cycle and aim to account for correlation between sectors. The key finding from our work, however, is in line with that of other studies: the most important driver of the financial cycle is credit flows into real estate. The correlation between mortgage credit flows and house prices I strongly sell-reinforcing. Therefore, if macroprudential policy is to effectively curb the financial cycle having the tools to address this credit-real estate nexus is fundamental. In principle, there are two ways this can be achieved. The first is on the bank side by imposing restrictions on lending institutions –so called capital based measures. It also includes large exposure limits and sectorial risk weights which can be applied to banks exposures to the residential and commercial property sectors. The second way in which the boom-bust cycles can be tempered is on the borrower side-that is, by limiting households’ or non financial corporations’ leverage. Borrower-based instruments, such as loan-to-value (LTV), loan-to-income (LTI) or debt service-to –income (DSTI) limits, are on the whole thought to be among the most effective macroprudential instruments in curtailing excessive credit growth. It should be highlighted that using indicators related to income is preferable to taking housing values in the denominator of such indicators. In an undesirable boom, the value of houses goes up and the LTV may provide a misleading indication of what is happening. In any case, an increasing number of euro area countries are introducing such measures to address the impact of low interest rates on housing market developments.

To effectively temper the financial cycle, however, a time varying dimension is crucial in the design of such instruments. Otherwise, especially in the case of LTV, there is a risk of pro-cyclicality due to the fact that leverage constraints decrease as asset prices rise in order to adjust the LTV or DSTI ratios in this way, borrower stress test either against future changes in interest rates or in house prices should in my view become a common standard.

Heterogeneity also extends to the competent authorities for implementing the measures. In some countries it is the central government, in others is the central bank, and in still others authority is in the hands of a committee that involves different national bodies. This requires coordination among different types of institutions with different mandates and time horizons



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and given the high political and social sensitivity of implementing borrower-based measures, can lead to an inaction bias. We see this today in several European countries.”

6.

10 October 2015 Speech of General Manager BIS in Lima

“In fact, I would go further and argue that even using both macroprudential and monetary policies may still be insufficient in some situations because the endogenous buildup of financial imbalances can be very powerful. In such cases policymakers will also need other policies—not only prudential/macroprudential and monetary, but also fiscal policy or even structural reforms to address the imbalances. Part of the problem in discussing the costs and benefits of alternative policies is that current models and traditional analytical approaches take a little or no account of the endogenous cumulative effects of interest rates being too low for too long. They tend to assume that monetary policy has limited influence on the financial cycle and hence on the costs of financial booms and busts. For example, in a situation where policy rates are lowered for business cycle reasons and macroprudential tools are tightened to address credit booms and rising asset prices, economic agents face incentives to borrow more and to borrow less at the same time. One consequence of this observation is that the two sets of tools are most effective when used as complements, pulling in the same direction. To be clear, macroprudential policy can be helpful in increasing the resilience of the financial system, i.e. in building buffers that will protect it when a boom turns to bust. Research also shows that some tools, such as requirements on the loan-to-value ratio (LTV) or debt-to-income ratio, can be effective in influencing credit and property price developments, i.e. in constraining the buildup of financial imbalances in the first place. That being said, estimates of such effects generally imply that these instruments would need to be tightened by quite a lot in order to be able to contain the typical dynamics during a boom. In particular, if the price of leverage has been too low for a long time, allowing financial risk-taking to take hold and spread across the system, it would then be much more difficult for macroprudential policy tools to address the excessive credit growth and asset price increases.

This point is consistent with the experience of some economies that have made extensive use of macroprudential measures in recent years against the backdrop of very accommodative monetary policy conditions. I can cite, for instance, Hong Kong and Switzerland, among others. Despite the tightening of macroprudential tools such as LTV requirements and countercyclical



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capital buffers or dynamic provisions, these economies have not been able to fully avert the build up of financial imbalances. This challenge is also reminiscent of Spain's experience in the 2.000s, when it found out that dynamic provisions could not be sustained at levels sufficient to contain the credit boom. Moreover being in a monetary union, Spain could not have independently used monetary policy to deal with the boom.

Most of our experience so far with macroprudential tools has come from banking. But now, imbalances are building not so much in the banking sector but in capital markets which are not within the direct reach of traditional macroprudential tools. In this situation, monetary policy again has an advantage. By changing the universal price of leverage in a given currency, it affects all financing denominated in that currency and is much better positioned to work in a world in which capital markets are vast and macroprudential tools are narrowly directed at banks.

What I would conclude from all this is that exclusive reliance on macroprudential tools to deal with financial stability risks is insufficient and ill advised. Macroprudential tools can increase resilience. They can address localised issues, such as the overheating of specific markets. And they provide policymakers with additional options to lean against the build-up of financial imbalances. But they cannot get in all the cracks in the system. Arbitrage can move the build-up of financial imbalances from one place to another, finding the inevitable cracks that exist in any prudential regulatory regime. For this reason, there is a case for using monetary policy."

C) Core importance of the housing market in the transmission of monetary policy

Under the point of view of the **International Monetary Found (IMF)** (Global Housing Watch) housing is an important component of investment and in many countries housing makes up the largest component of wealth. The majority of households tend to hold wealth in the form of their homes rather than in financial assets. Housing also plays other key roles; for instance, mortgage markets are important in the transmission of monetary policy. At the same time housing booms and busts have quite often been detrimental to both financial stability and the real economy. Many episodes of banking distress have been associated with boom-bust cycles in property prices. Of the nearly fifty systemic banking crises in recent decades, more than two thirds were preceded by boom-bust patterns in housing prices. In sum, there is abundant evidence that housing cycles can be threat to financial and macroeconomic stability. Regulation of the housing sector involves a complex set of policies:



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MiP stands for microprudential policies which aim to ensure the resilience of individual financial institutions; such policies are necessary for a sound financial system but may not be sufficient

MaP stands for macroprudential policies aim at increasing the resilience of the system as a whole. The main MaP tools that have been used to contain housing booms are:

1. limits on loan-to-value (LTV) ratios, that cap the size of a mortgage loan relative to the value of a property, in essence imposing a minimum down payment.

2. debt-service-to-income (DSTI) ratios that restrict the size of a mortgage loan to a fixed multiple of household income. The hope is to thereby contain unaffordable increases in household debt

3. stricter capital requirements on loans to specific sector such as real estate. This forces banks to hold more capital against these loans, discouraging heavy exposure to the sector. With regard this tool evidence suggests while the same increases resilience from additional buffers, its ability to curb credit growth is mixed. Some IMF research demonstrate that there are several reasons why higher capital requirements may be less effective in containing credit growth:

- when banks hold capital well above the regulatory minimum, lenders may not need to make any change in response to increases in risk weights

- when lenders compete intensely for market share, they may internalize the cost of higher capital requirements rather than impose higher lending rates

MoP stands for monetary policies; using policy interest rates is usually considered a blunt tool for containing house price booms. This suggests that monetary policy could be an important tool in many cases in support of MaP. However, at the moment policy interest rates in many countries have to remain low to support economic recovery.

Furthermore, the **European Central Bank (ECB)** in its Economic Bulletin, Issue 6/2015 page 14 maintains that the prevailing low interest rate environment could also further sustain housing demand and stimulate house prices from an investment portfolio perspective; housing can be viewed not only as a consumption good, but also as an investment good, the return on which



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can be assessed and compared with alternative investments. In the current prevailing low interest rate environment, housing could become comparatively more appealing as an investment for households and/or investors if it promises higher expected returns compared with, for example, bank deposits, securities, such as government bonds, or equity investments. Estimates of the return on residential housing are only available for selected euro area countries (Germany, Austria, The Netherlands and France) and are surrounded by considerable uncertainty. Broad as such a comparison naturally is, it indicates that annual returns on residential housing in these countries have generally been higher in recent years (such as 2011 and 2014) than the prevailing nominal long-term yields on government bonds, nominal yields on bank deposits and the dividend yield of the corresponding national equity markets and that these differentials widened further between 2011 and 2014. Overall, the relative return on housing in recent years compares favourably with 2008, when returns on housing were lower than deposit yields and government bond yields"

At last the **Federal Reserve of USA** through its President maintain in a speech on 24 September 2015 in the University of Massachusetts that "inflation that is persistently very low can also be costly, and it is such costs that have been particularly relevant to monetary policymakers in recent years. The most important cost is that very low inflation constrains a central bank's ability to combat recessions. Normally, the FOMC fights economic downturn by reducing the nominal federal funds rate, the rate charged by banks to lend to each other overnight. These reductions, currently and expected, stimulate spending and hiring by lowering longer-term real interest rates-that is nominal rates adjusted for inflation-and improving financial conditions more broadly. But the federal funds rate and other nominal interest rates cannot go much below zero, since holding cash is always an alternative to investing in securities. Thus, the lowest FOMC can feasibly push the real federal funds rates is essentially the negative value of the inflation rate. As a result, the Federal Reserve has less room to ease monetary policy when inflation is very low. This limitation is a potentially serious problem because server downturns suchs as the Great Recession may require pushing real interest rates far below zero for an extended period to restores full employment at a satisfactory pace. An unexpected decline in inflation that is sizable and persistent can also be costly because it increases the debt burdens of borrowers. Consider homeowners who take out a conventional fixed-rate mortgage, with the expectation that inflation will remain close to 2 percent and their nominal incomes will rise about 4 percent per year. If the economy were instead to experience chronic mild deflation accompanied by flat or declining nominal incomes, then after a few years the homeowners



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might find it noticeably more difficult to cover their monthly mortgage payments than they had originally anticipated. Moreover, if house prices fall in line with consumer prices rather than rising as expected, the equity in their home will be lower than they had anticipated. This situation, which sometimes is referred as debt deflation, would also confront all households with outstanding student loans, auto loans, or credit card debt, as well as business that had taken out of bank loans or issued bonds. Of course, in this situation, lenders would be receiving more real income. But the net effect on the economy is likely to be negative, in large parte because borrowers typically have only limited ability to absorb losses. And if the increased debt-service burdens and declines in collateral values are severe enough to force borrowers into bankruptcy, then the resultant hardship imposed on families, small business owners and laid-off workers may be very severe”

D) Examples of recent Macprudential Policies related to sectorial housing within Member States of the European Union against a backdrop of low interest.

United Kingdom: at the meeting of the Bank of England's Financial Policy Committee on 26 September 2014 adopted the outcome consisted in requiring regulated lenders to place limits on residential mortgage lending by reference to:

Loan to value ratios

Debt to income ratios

Therefore the Prudential Regulation Authority launch a consultation paper introducing that mortgage lenders limit the number of mortgage loans made at or greater than 4,5 times LTI no more than 15% of their total number of new mortgage loans.

Ireland: on 27 January the Central Bank of Ireland announced the introduction of new regulations which would apply proportionate limits to mortgage lending by regulated financial servicers providers in the Irish market. The key objective of these regulations was to increase the resilience of the banking and household sectors to the property market and to reduce the risk of bank credit and house price spirals from developing in the future.

The measures introduced proportionate limits for loan to value and loan to income measurements both for primary dwelling houses and buy to let mortgages.



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Loan To Income for PDH mortgages

PDH mortgage loans are subject to a limit of 3,5 times loan to gross income

The limit should not be exceeded by more than 20 per cent of the euro value of all housing loans for PDH purposes during an annual period

Furthermore on 12 November 2015 the Central bank proposed a range of increased protections for variable mortgage holders consisted on preparing and publishing by the lenders a summary statement of the factor that impact on the calculation of their variable rate and their criteria and procedures applicable to the setting of such rates.

Given the introduction of revised macroprudential mortgage lending policies by the Central Bank of Ireland, the Irish Government has considered that matching housing construction costs to prices that people can afford is a key objective, without which, increased housing construction activity to occur, hence the new guidelines for planning in relation to apartment development that has undertaken by the Irish Government in November 2015. By this way parallel the macroprudential policies the Irish Government in the framework of structural reforms and measures to increase the potential of growth has adopted supply policies for the homebuilder sector.

Germany: The Bundesbank rates the current risks to financial stability emanating from the housing market as low; there are no indications of excessive property price developments in Germany. In spite of dynamic price developments in a number of regions the growth in mortgage lending is still moderate in the longer term maturity segment but while the risk of a price correction accompanied by mass mortgage defaults is fairly small at present, developments still need to be monitored intensively. In this context the German Financial Stability Committee recommended in June 2015 that the Federal Government create the legal basis to equip policymakers with macroprudential instruments capable of regulating housing loans. These recommendations include a cap on credit volume relative to property value and a cap on property buyers' debt servicing capacity relative to their income.

The four new instruments to be established would be as follows:

1. a cap on borrower's total debt in a residential real estate loan as a share of the market value of the property used as collateral (LTV ratio)



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2. the setting of a final deadline for the amortization of a certain fraction of a loan or the setting of a maximum maturity
3. a cap on borrower's capacity to service debt as a share of their income (debt-service-to-income ratio DST)
4. a cap on the borrower's total debt relative to their income (debt-to-income ratio DTI)

Spain: the European Commission in its post programme surveillance report issued on autumn 2015 about Spain remarked that Spain is in the process of fully completing its macroprudential framework in the light of the European Systemic Risk Board recommendation on the macroprudential mandate of national authorities. The BdE (Central Bank of Spain) set up a dedicated unit dealing with macro-prudential policy within the DG Financial Stability and Resolution. It is currently working on the design of the monitoring indicators and policy measures that could be used by the BdE, based on the available macro-prudential tools envisaged in the current EU legislation. However, the interplay and relations between the BdE and the so-called Financial Stability Council as a true macroprudential authority are not yet clarified.

ACPZ (ZARAGOZA HOMEBUILDER'S FEDERATION) FINDINGS AND PROPOSALS
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1. The current monetary policy of the NCB (National Central Banks) has launched a policy of low interest rate environment that sustains housing demand and stimulate house prices from an investment portfolio perspective. In the current prevailing low interest rate environment, housing could become comparatively more appealing as an investment for household and/or investors if it promises higher expected returns compared with, for example, bank deposits, securities, such as government bonds or equity investments. Paralell to this movement the unexpected low inflation raises real debt burdens which has a negative effect on aggregate demand due to the different propensities to consume and invest of borrowers and lenders. According to many NCB, among them the ECB, unexpected low inflation raises real debt burdens making it harder for the economy to grow out of debt and a great part of the worldwide indebtedness is related to the housing sector. If house prices fall in line with consumer prices rather than rising as expected, then the equity in their home will be lower



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than the nominal amount of the mortgage. This situation sometimes is referred as debt deflation.

Therefore mortgage market as an expression of the leverage linked to the real estate market is important in the transmission of the monetary policy and in the current context for the NCB the most important driver of the financial cycle is credit flows into real estate but always based in the over-indebtedness that presents the real estate sector.

In this context the Bank for International Settlements (BIS) through its Head of the Monetary and Economic Department sustained on 10 February 2016 that:

1. it is needed to abandon debt-fuelled growth model
2. rebalance the policy mix towards structural measures and balance-sheet repair
3. address the financial cycle through all policies (MP, MaP, structural reforms) more symmetry is key
4. credit booms damage the productivity

The same ideas are reproduced in the media briefing of the BIS Quarterly Review March 2016.

All these ideas are supported by the Zaragoza Homebuilder's Federation (ACPZ) in Spain and it calls the NCB on their application to the mortgage and real estate market instead of a solely monetary policy based on a low interest rate environment. Above all structural reforms in the product market, notably in the non-tradable product of housing, are required to increase the potential of growth and regain productivity.

2. Against this backdrop of the Great Recession and an economical crisis of over-indebtedness, balance sheet recession and lack of productivity to develop the future activity of homebuilder, notably to adopt decisions of investment, it would be necessary to take into account the outlook of the monetary policy, as well as the macroprudential tools regard with the housing and mortgage market. A new type of homebuilder with knowledges of monetary and macroprudential policies will be required.



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In this scene for an hypothetical economical recovery in the long term, it should be taken into account the wide weight of the homebuilder sector in the fixed investment, as well as its bias as a sector intensive in employment.

3. For the ECB euro area interest rates are set to achieve macroeconomic objectives, not to pick local bubbles because for this latter purpose the ECB considers that it has established a whole new macroprudential toolkit since the crisis precisely for that purpose and it is necessary that countries should use it.

However, the BIS considers that exclusive reliance on macroprudential tools to deal with financial stability risks is insufficient and ill advised because macroprudential tools can increase resilience but they cannot get in all the cracks in the system, being necessary the use of monetary policy to reduce the risks through an increase of the interest rates as the Federal Reserve outcome on 16th December.

Furthermore the BIS highlights that in a situation where policy rates are lowered for business cycle reasons and macroprudential tools are tightened to address credit booms and rising assets prices, economic agents face incentives to borrow more and to borrow less at the same time and one aftermath of this observation is that two sets of tools are most effective when used as complements, pulling in the same direction. By this context would be affected the homebuilder sector and its ability to obtain loans for its development: on one hand the ECB lowering the interest rates to reach the inflation of the real estate assets in order to combat the debt deflation and in the other hand the macroprudential authorities establishing tools related drivers as debt-to-income in order to combat the excessive taking risk in the real estate and mortgage market.

4. The main MaP tools to contain housing booms are:

1. limits on loan-to-value (LTV) ratios
2. debt-service-to income (DSTI) ratios

3. stricter capital requirements on loans to specific sector such as real estate that forces banks to hold more capital against these loans, discouraging heavy exposure to the sector. As regards with these stricter capital requirements and in the proposal for the standardized approach for the credit risk that is subject to the current public consultation, the



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Basel Committee has proposed risk weighting of real estate with the loan to value ratio as the main driver, not using a debt service ratio as a risk driver. In addition, risk weight for specialized lending real estate exposures defined as land, acquisition, development and construction (ADC) receives a 150% risk weight in order to restrict the homebuilder activity.

The Zaragoza Homebuilder's Federation (ACPZ) proposes instead to establish stricter capital requirements on loans to real estate sector, specially ADC loans with a 150% risk weight, to use the monetary policy, increasing the interest rates as the Federal Reserve has implemented and as the BIS has suggested and by this way eliminates the 150% risk weight for ADC loans. In parallel to this set of policies, MaP related to real estate sector could be implemented establishing as the main driver the ratio of debt-service-to income (DSTI) instead of the ratio loan to value. MaP with debt-service-to-income ratios are being introducing in UK, Ireland and Germany and in fact the introduction of this type of ratio supposes to use in the MaP a driver that hasn't been considered by the Basel Committee to use in the proposal for the standardized approach for the credit risk, in a clear contradiction according to the point of view of the Zaragoza Homebuilder's Federation and far from the position of the BIS.

In addition, the Zaragoza Homebuilder's Federation highlights that MaP relative to the real estate sector that they use the ratio DSTI as the main driver, should be accompanied with supply policies to reduce the housing production's cost as recently has been approved by the Irish government as a consequence of the approval of MaP by the Central Bank of Ireland.

The purpose of the Zaragoza Homebuilder's Federation in order to launch a sustainable cycle of the homebuilder sector is to create the necessary atmosphere to produce from the for profit side affordable homes (with efforts of the First Time Buyers by the 30% of the families annual incomes) in the European Union that they can satisfy the greater demand for this kind of housings that are at the several waiting lists around Europe. To reach this objective supply policies to reduce the productions costs of houses are essential, above all in a scene where MaP are being implemented to monitor the housing and credit booms.