Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Bc. Dominika Šubáková
Advisor:	PhDr. Martina Jašová
Title of the thesis:	Caps on Loan-to-Value ratio: Can they reduce housing bubble and credit growth?

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

The thesis attempts to evaluate the effectiveness of caps on LTV (loan-to-value) ratio in terms of their impact on household credit growth, mortgage credit-to-GDP ratio and growth of property prices. The author first introduced macroprudential policy instruments in general, later focusing on LTV ratio caps, their benefits, limitations and differences in their implementation across countries. The work is well structured but several issues arise:

1. Construction of LTV index for cross-country analysis:
   For each of the 6 countries in the sample, the author assigns scoring for strength of the LTV limit; the values assigned range from 120 to 0. For another aspect, the distance from average LTV ratio, values assigned range from 60 to 0. The maximum score obtainable is thus 180, the minimum 0 if a country does not use LTV caps in a given year. The assigned scores, however, seem arbitrary. The author should explain why this scoring is used, as opposed to e.g. using 0-100 scale. Do the scores come from existing literature? If so, this should be clearly stated.
   As for controlling for different types of borrowers and loans on which LTV caps are imposed, the author uses a weighting scheme, i.e. 0,4 and 0,6 for different borrower types and 0,33 and 0,67 for loan types. The choice of weighting is not justified in the thesis. Does it come from some best practice in the literature? The author explains that these scores and weights fit the data best but no alternative scoring and weighting is provided as a robustness check, nor are the effects of alternative weighting and scoring investigated on the results.

2. As for the methodology in chapter 5, the starting point is the model specification from the literature that author also extends in 2 specifications Model A ad1 and Model A ad2. However, not enough discussion is dedicated to the modifications of the original Model A from the literature. Why is it important to include DSTI ratio into Model A ad1? The coefficient for DSTI ratio does not turn out significant in any specification in capter 6. Model A ad2 uses dummy IME, immediate effect after implementation of an LTV cap. Why is the immediate effect set up to 1,5 years after LTV cap implementation and not for instance 1 year or 0,5 year? The set-up seems a bit arbitrary and it is not explained if this is taken from the literature or just set by the author. How would the results differ if some other horizon was set instead of 1,5 years?
   As for Model B specification, the author uses LTV index, a cross-country measure of strength of LTV limit, as an independent variable whose effect is observed. The author mentions at some point in the thesis that this is the main value added. Does this mean there are no other studies estimating the effect of LTV index in the literature? This should be clarified.

3. Overall, the author should clearly state which parts of the thesis are derived from the literature and which are extended/modified. Are there alternative LTV indices in the literature? What scoring + weighting schemes do they use and how does the LTV index construction in this thesis differ? The author uses 6 EU countries in the analysis. Why are only these 6 countries used? Is the use of only EU countries the value added as opposed to Asian countries that were already investigated in the literature? Aswering these questions would make the thesis clearer as to its research objectives and methods used, as well as more interesting.

4. The work also suffers from several language problems. Proofreading the work before submitting it would have prevented many of the problems emerging repeatedly, i.e. straight of the LTV index.

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All in all, the thesis is logically structured and performs estimation of the results by 2 methods as a robustness check. However, the work has several drawbacks as outlined above and at the same time might be hard to follow because of language issues. Moreover, formulas numbering is missing in section 5.2. At this point, I recommend this thesis for defense with the suggested grade "good". In case of a successful defense of the highlighted issues, the evaluation could be upgraded to "excellent".

SUMMARY OF POINTS AWARDED *(for details, see below):*

CATEGORY		POINTS
Literature	*(max. 20 points)*	12
Methods	*(max. 30 points)*	27
Contribution	*(max. 30 points)*	25
Manuscript Form	*(max. 20 points)*	15
TOTAL POINTS	*(max. 100 points)*	**79**
GRADE	**(1 – 2 – 3 – 4)**	**2**

NAME OF THE REFEREE: *Mgr. Diana Žigraiová*

DATE OF EVALUATION: **15.9.2015**

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Referee Signature