

Giving up on the Home? How Down Payment Requirements Shape Consumption and Saving

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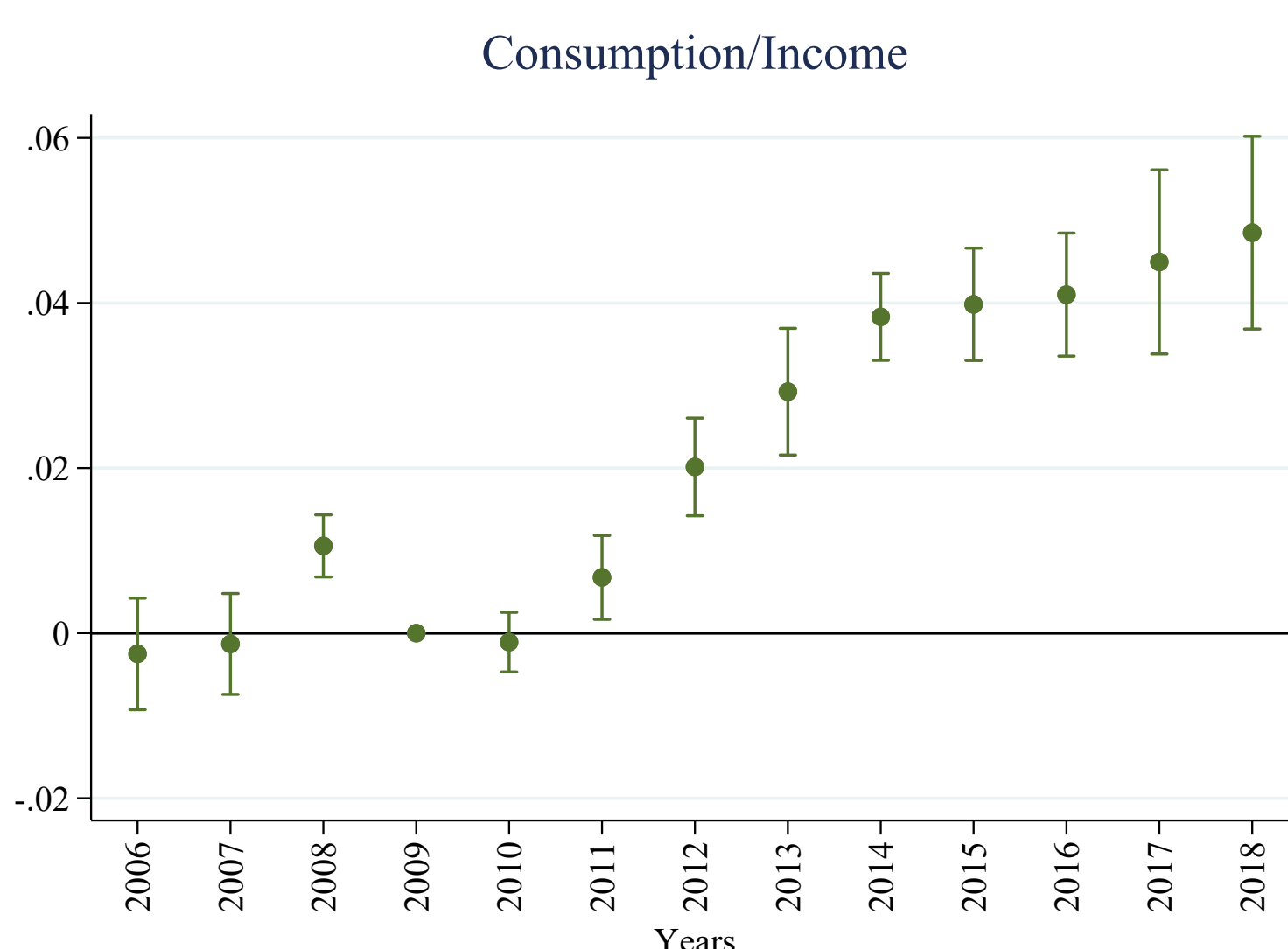
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- We study the nonhousing consumption of renters when a macroprudential policy is introduced.
- In economic downturns, households (HH) with higher leverage reduce their consumption more, amplifying the downturn.
- Restricting HH leverage may prevent this channel—justification for macroprudential policies.
- Yet, these policies tighten the borrowing constraints of HH who would like to be homeowners.
- Such households may adjust their nonhousing consumption against tighter borrowing constraints
→ Unintended effects for the whole economy!
- Setting: LTV ratio restriction implemented in Norway in 2010
→ Population-level detailed data

• Empirical model

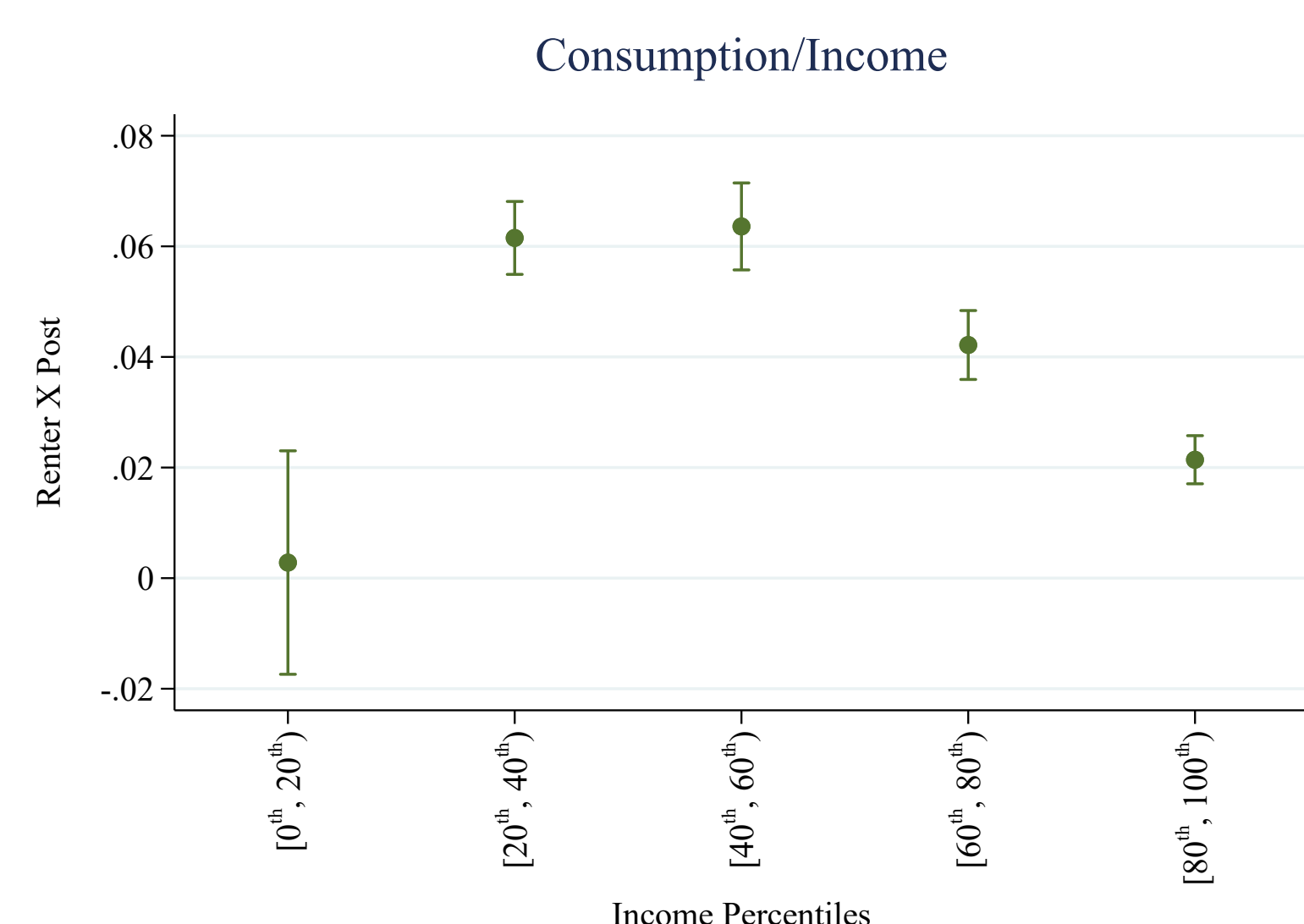
$$y_{it} = \beta Renter_i \times Post_t + \gamma_1 HH_i + \gamma_2 year_t + \epsilon_{it}$$

- Nonhousing consumption: cons. via credit cards
- Treated: Renters before the restriction
Control: Existing Homeowners (HO)

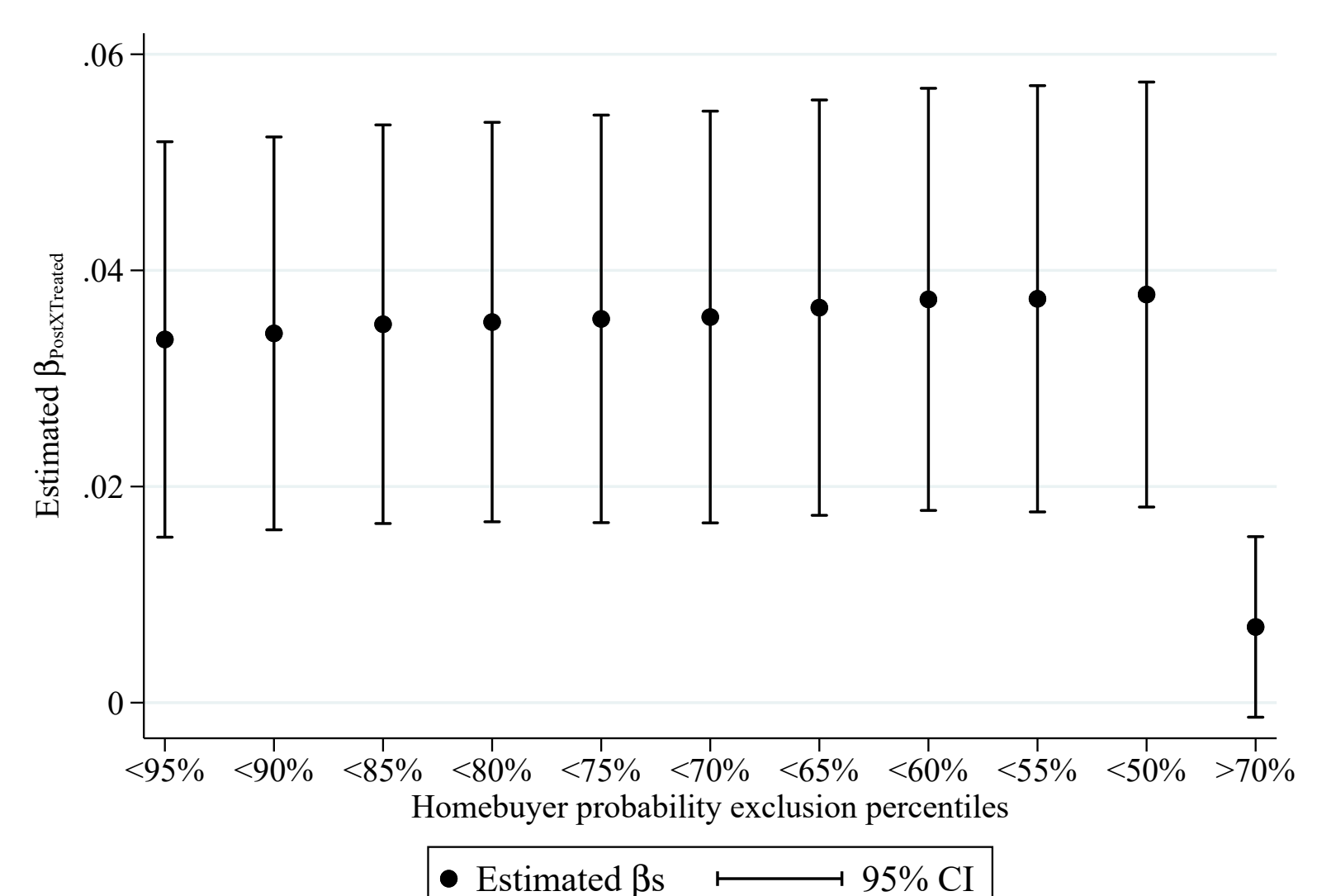


- **Renters increase their consumption!**
- Challenges related to using HO as control
→ HO and renters are different: Parallel trends and granular FEs
→ Restriction can limit HO's borrowing: Heterogeneity in HO's current LTV ratios
→ Housing wealth effect: Municipality × Year FEs and municipality-level home prices

- Due to restriction, renters either delay the purchase or don't purchase at all
→ They also delay the saving due to consumption smoothing
- Evidence: Deviating from smoothing is costlier for low-income HHs
→ Effect must be higher for lower income HHs



- Renters who never considered to be a HO shouldn't change their consumption
→ Use ML to predict the probability of being a HO



- HHs who purchase a home after restriction in 2013 reduce consumption pre-home purchase to afford down payment. (13% of income over 3 years)
- But, they don't bring their consumption to previous levels after home purchase! → Habit formation

