**Fixed vs. Variable rate mortgage product market shares: international comparisons**

Behavioural factors (people experienced high rates in the past in the US, are suspicious of certain banks, etc.)

Price (rate level, rate spread between ARM and FRM, house prices, etc.)

Historical inflation (volatility, levels)

Historical rates (volatility, levels)

Which feed into expectations (rates, inflation)

Expectations (future income security)

In particular we find that the share of new loans with a fixed rate is larger when: (1) the historical volatility of inflation is lower, (2) the correlation between unemployment and the short-term interest rate is higher, (3) households’ financial literacy is lower, and (4) the use of local mortgages to back covered bonds and mortgage-backed securities is more widespread.

Fixed rate mortgages (FRMs) are dominant in Belgium, France, Germany and the Netherlands, while adjustable rate mortgages (ARMs) are prevailing in Austria, Greece, Italy, Portugal and Spain.

two major implications. First, the transmission of monetary policy is heterogeneous across countries. Second, the allocation of interest-rate risk between the banking sector and the real sector differs across countries, with direct consequences for financial stability.

The analysis considers factors both on the demand side, related to the preferences and characteristics of the borrowers requesting such loans, and on the supply side, related to the ability of banks to issue a certain type of loan. Our identification strategy disentangles the influence of borrower demand factors from bank supply factors by comparing, on the one hand, the lending patterns observed for the same cross-border banking group in different economies and, on the other hand, the lending patterns observed across different cross-border banking groups operating in the same economy.

**OECD working paper No 2322 (2019)  
(Cross-country study on fixed vs. flexible in 12 Euro countries)**

Designs that raise mortgage payments in booms and lower them in recessions do better than designs with fixed mortgage payments. The benefits are quantitatively substantial: In a simulated crisis under a monetary regime in which the central bank lowers real interest rates in a bust, house prices fall 2.24 percentage points less, 23 percent fewer households default, and consumption falls by 0.79 percentage points less with ARMs relative to FRMs… Under these two contracts, the present value of a lender's loan falls by roughly an equal amount, but the FRM that can be converted to an ARM, which front loads payment reductions, reduces the declines in prices and consumption six times as much, and reduces default three times as much.

**Mortgage Design in an Equilibrium Model of the Housing Market**

A screenshot of a computer

Description automatically generated