



# A CLOSER LOOK AT NEW HOUSING LOANS

UNLOCKING THE POWER OF CREDIT MICRODATA

AGO. 2024

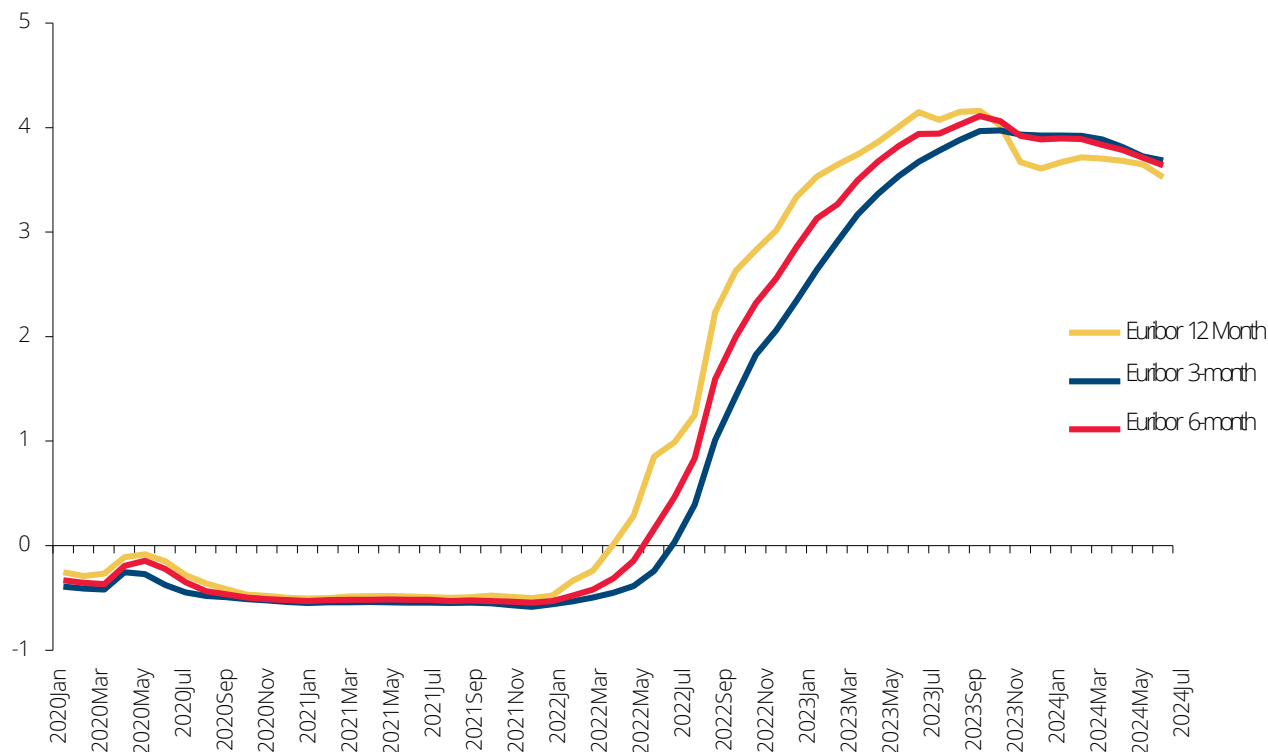
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# INTRODUCTION



Evolution of Euribor



- Since April 2022 there was a fast increase in interest rates.
- In January 2022, Portugal had 91% of its housing loans on a floating rate.
- The government introduced a bill prohibiting credit institutions from charging any fees for early repayments on housing loans, in November 2022.
- There was a need for a more comprehensive analysis beyond the frequently compiled statistics on housing loans.



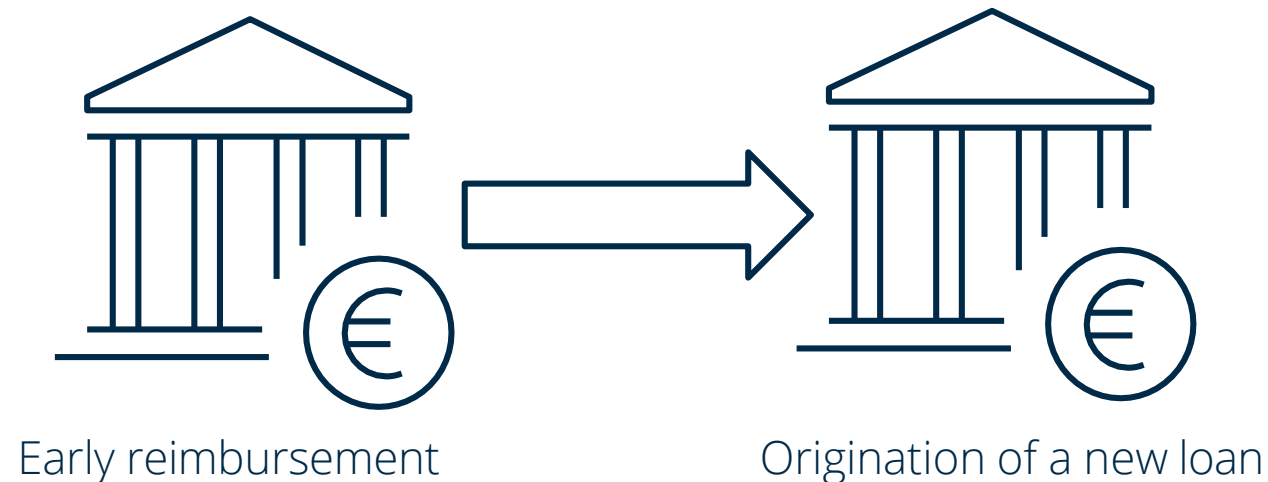
# WHAT IS A CREDIT TRANSFER?

## The conceptual definition

- The set of debtors of both loans of the old and the new contract are the same ✓
- Both loans were secured by the same property !
- The early repayment and the origination of the new loan occurred at the same point in time. !

## What are the challenges ?

- Lack of harmonization of data about collateral across reporting institutions
- Delays in recording of early repayments
- Frequency of our data (monthly)





# HOW DID WE DEFINE A CREDIT TRANSFER?

- The algorithm to match old and new loans was built in two steps:

## Amount Based Algorithm

- The same set of debtors in both loans
- Does not consider any information about collateral
- Early reimbursed amount of the old and initial amount of the new loan differ in less than 5%

## Collateral Based Algorithm

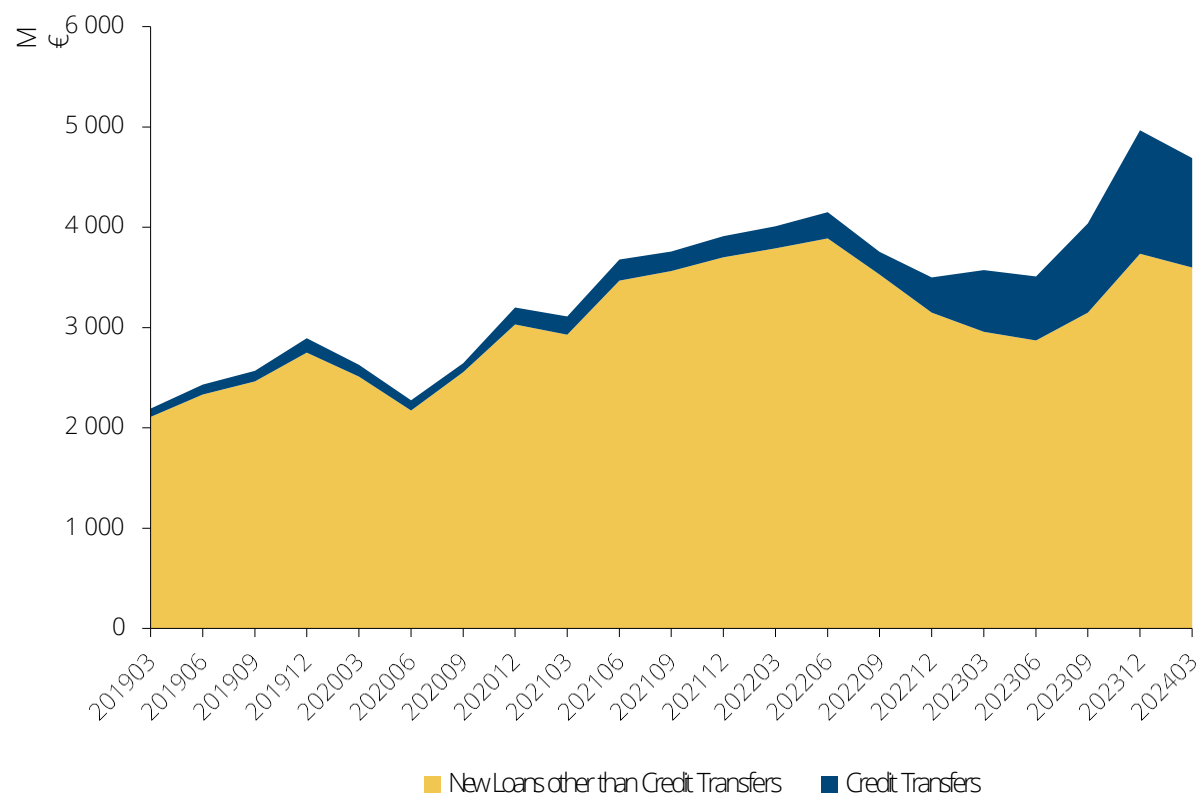
- The old and new loans have the same collateral
- The amounts may be different

- The two matching strategies were joined together to create a final algorithm which is robust enough and can be used to mark credit transfers.

# KEY RESULTS



## New Housing loans Credit Transfers and Other New Loans



### Impact on the aggregated statistics

- In 2023, credit transfers accounted for 27% of the amount of new housing loans.
- This represents a substantial increase compared to previous years.
- Several factors contributed to the surge in credit transfers: The increase in interest rates and the change in legislation.
- This trend persisted in the first quarter of 2024.

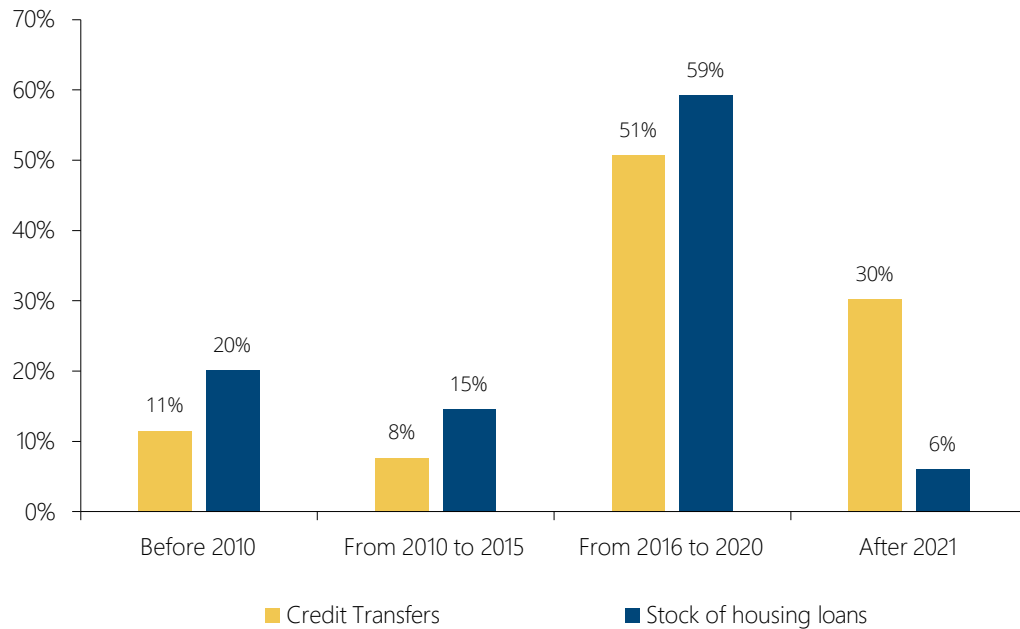
### Which loans were transferred?



# KEY RESULTS

Which loans were transferred?

## Origination year of housing loans



- Mostly loans originated after 2016 (81%).
- 97% of the transferred loan amounts were on floating rates.
- 63% were indexed to the 12-month Euribor.

## What were the main changes?

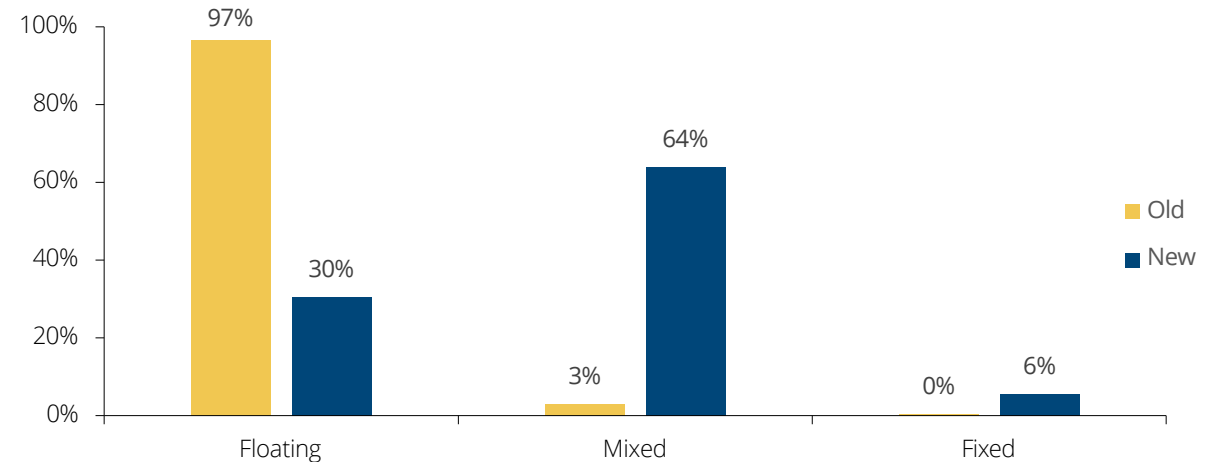


# KEY RESULTS

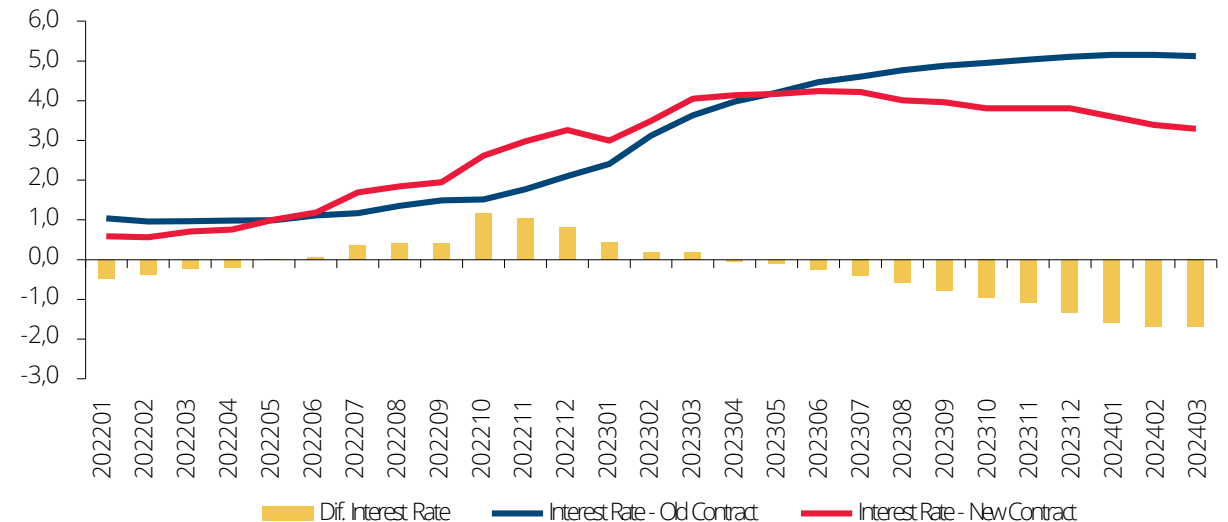
What were the main changes?

- The majority opted to switch from floating interest rates to mixed-rate contracts (61%).
- There was no significant change in the maturity of the loans (75% either decrease or had no change at all).
- From May 2022 to May 2023, on average households accepted higher interest rates when transferring loans between institutions.
- Households sought to transfer loans before their next reset period.

Credit Transfers by type of interest rate



Comparison of Average Interest Rates





# CONCLUSIONS

- For a Central Bank, it is vital to pay close attention to credit markets and to its dynamics.

## Credit Transfers

- Credit Transfers were a relevant phenomena that helped reshape the credit market in Portugal
- The sustained trend in 2024 and the detailed analysis of transferred loans underscore the critical role of credit transfers in shaping the financial landscape.

## Granular Data

- It works as a magnifying glass which makes it possible to look beyond the aggregate statistics.
- Our findings highlight the value of granular microdata in providing essential insights for policymakers.