The impact of housing credit on personal bankruptcy

Samit Agarwal

The loan-to-value (LTV) ratio is a key criterion for a home buyer applying for a housing loan. It is used by banks to represent the mortgage amount as a percentage of the total valuation of the property. In general, the higher the LTV ratio, the riskier the loan is for a lender.

The LTV ratio measures the amount of debt relative to the value of the property. A lower LTV ratio means less risk for the lender, as they have a higher equity stake in the property. Conversely, a higher LTV ratio means more risk, as the lender has a lower equity stake.

According to research done by the authors on the impact of housing credit on personal bankruptcy, there is an increased likelihood of personal bankruptcy among buyers who borrow more money to buy expensive and large houses.

The authors of the study, Samit Agarwal and Changcheng Song, found that the likelihood of personal bankruptcy increases with the LTV ratio. They argue that this is because higher LTV ratios increase the risk of default, as borrowers are more likely to be over-leveraged.

The authors also found that the impact of LTV ratios on personal bankruptcy is not uniform across different income groups. High-income households are more likely to default on their mortgage loans when the LTV ratio is high, as they are more susceptible to financial shocks.

In conclusion, the authors recommend that policymakers consider the LTV ratio when regulating housing loans to reduce the risk of personal bankruptcy. They suggest that the LTV ratio should be used as a criterion to assess the riskiness of mortgage loans, and that lenders should be required to consider the LTV ratio when granting loans.