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Auteurs:

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Engelse titel:

Till debt do us part: Divorces, economic outcomes and a test of moral hazard

Engels abstract:

The Dutch Parliament has issued a unanimous bill to the Minister of Internal Affairs, in order to request lifting the (tightening) caps on loan-to-value (LTV) ratios for those who want to buy a mortgage-default insurance (NHG). This because the share of insured mortgages is rapidly declining among starters. In this study, we first address whether the reduction in the market share of the NHG is due to the tightening of the LTV-cap. Next, we analyze whether relaxing the LTV-cap to over 100% for NHG loans can constitute an incentive to moral hazard, where households prefer to divorce rather than carry residual debt. Our analysis shows that the reduction in market share is due to two separate factors. First, the contemporaneous increase in house prices and the reduction in the price-threshold that allows NHG qualification, has reduced the possibility of becoming eligible to buy the insurance. Second, interest rate reductions for NHG loans have nearly disappeared, and this was a main incentive to acquire the NHG. Our results on divorces show that the chance to strategically divorce increases the hazard rate into divorce by 31%. Connected to this, we show a number of negative externalities that could arise when divorces increase, including a worsening of the pension position.