



5TH EBA RESEARCH WORKSHOP 28 - 29 NOVEMBER 2016

Discussing on “*Who is interested? Estimation of Demand on the Hungarian mortgage loan market in a discrete choice framework*” by Akos Aczel, Central Bank of Hungary

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This contribution represents my own personal view

Decision making process of consumers on HU mortgage loan market

- Demand on the Hungarian mortgage loan market
- Market with a quite limited banks' presence
- Conditional logit model on Hungarian credit registry data of newly granted (domestic currency denominated) loans in 2015
- Consumers choose a bank by the role of interest rate, demographic factors and some other related variables assuming utility maximization
- Restrictions on the choice: financial position (wage), consumer characteristics (age), banks business models (i.e. target audiences) and geographic constraints (i.e. proximity)
- Introducing these restrictions, the market microstructure becomes pivotal
- Evidence that interest rates matter when choosing among banks
- Demographic variables drive the demand curve as well

Related literature & other issues to discuss

- **Multinomial discrete choice models : Mc Fadden, Maddala, Train, etc.**
- **Application of the discrete choice models to the banking sector: Deposit market and Consumer loans (Dick (2002), etc.)**
- **Market Microstructure implies different set of decisions: apply/not apply (borrower); accept/reject (lender); choose the mortgage; pay/failure to pay over time**
- **Many binary and multiple choices with both self-selection and discrimination are not taken into account**
- **No credit risk parameters information for the borrower (i.e. scoring, PD, LGD)**
- **No other relevant information that may affect interest rate setting (i.e. instalment to disposable income ratio, customer loyalty, etc.)**
- **Banks are expected to get more detailed information on the clients**

Policy implications

- **Tool for business model analysis by (nested) logit models**
- **Market microstructure analysis : competition issues**
- **Interest rate matters is quite straightforward**



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