

Financial Stability Conference 2026

The Trade-off Between Prudent Lending and Housing Affordability

Panel discussion

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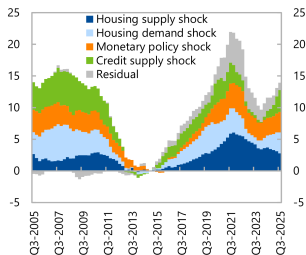
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1. Housing affordability is a pressing – and increasingly unequal – problem

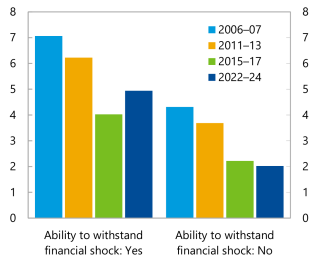
Two house-price booms, but different drivers^[1]

Structural-shock contributions to real house prices



Access to homeownership has weakened^[1]

Renter-to-owner transition probability, by financial strength



51% of EU city residents identify a lack of affordable housing as an immediate and urgent local problem.^[2]

Question: How can policymakers improve housing access without weakening financial resilience?

Answer: match tools to objectives – housing policy for affordability; prudent lending and calibrated macroprudential tools for resilience.

[1] Beyer, Biljanovska, Fotiou, Maneely and Toscani (2026), IMF WP/26/177, Figures 8 and 14. [2] European Commission (2025), Eurobarometer on urban challenges.

2. Different objectives, different tools – easier credit can worsen both problems

Housing affordability^[1]

Objective: improve access to adequate housing, rented or owned.

- Expand housing supply and remove construction bottlenecks
- Social and affordable housing
- Targeted household support

Financial stability^[3]

Objective: contain systemic risk and sustain credit provision.

- **Borrower-based measures:** limit risky lending at origination
- **Capital-based measures:** strengthen lenders' loss-absorbing capacity

Using easier credit to improve access creates two risks:

1. **It can worsen affordability.** When supply is constrained, greater borrowing capacity is more likely to be capitalized into **higher house prices** than additional housing.^[4]
2. **It can amplify downturns.** Looser standards can leave households more leveraged and exposed to shocks, leading to sharper consumption cuts, defaults, and bank losses in downturns.^[3,5]

[1] Beyer et al. (2026), IMF WP/26/177. [3] IMF (2014), Staff Guidance Note on Macroprudential Policy - Detailed Guidance on Instruments.

[4] Favara and Imbs (2015), *American Economic Review* 105(3). [5] Mian, Sufi and Verner (2017), *Quarterly Journal of Economics* 132(4).

3. Calibration is key: target the risk, preserve flexibility

Calibrate to the risk and the market^[3,6]

- **Choose the instrument for the vulnerability:** LTV for collateral/equity buffers; LTI/DTI/DSTI for repayment capacity; combine where needed.
- **Set thresholds from granular data and stress tests,** using international benchmarks as reference points – not rules.
- **Act early and reassess** as risks and market structure evolve.

Embed targeted flexibility^[3,7]

- **First-time buyers:** more lenient thresholds where justified by risk.
- **Speed limits:** allow a limited share of lending above the cap for otherwise creditworthy borrowers.
- **Complementary support:** partial guarantees or downpayment assistance for creditworthy first-time buyers facing a deposit constraint – targeted, time-bound, and subject to normal affordability tests.

Flexibility should reduce unnecessary exclusion – not weaken prudent assessment of repayment capacity.

[3] IMF (2014), Staff Guidance Note on Macroprudential Policy - Detailed Guidance on Instruments. [6] Górnicka and Valderrama (2020), IMF WP/20/165.

[7] Central Bank of Ireland (2022), Framework for the Macroprudential Mortgage Measures.