



**Title:** The Mortgage Trap: Economic and Social Implications of the Lack of Personal Bankruptcy in Spain

**Acronym:** MOTRAP

**Project leader:** Joan Llull

**Host organisation:** Fundació Markets, Organizations, and Votes in Economics (MOVE)

**Main purpose of the project (50 words max.):**

Our goal is to understand the difficulties in accessing the Spanish housing market and to propose efficient policies to alleviate this social scourge. We quantitatively explore the role played by unlimited liability on mortgages (absence of “dación en pago”) and lack of minimum down-payment requirements on housing inflation and over-indebtedness.

**Design/methodology/approach:**

We will build a structural microeconomic model of household decisions on home-ownership and mortgages, internalizing the role of banks and developers in determining house prices and lending rates in equilibrium. We will estimate the model using Spanish data, and will use the model to simulate the effects of different policies.

**Potential results:**

We expect that the unlimited liability on mortgage loans and the lack of down-payment requirement on housing inflation and over-indebtedness increased the demand for home-ownership and increased indebtedness of households. Using our estimated model, we will quantify the importance of these effects and evaluate alternative policies.

**Social relevance of the research:**

The housing situation has consistently been one of the top social problems in Spain, contributing to increasing inequality and eroding the middle class. The lack of access to the housing market is particularly dramatic for younger and lower income households. We expect to propose policies that alleviate this scourge.

**Originality/value of the project:**

This is the first project to quantitatively explore the impact of unlimited liabilities on mortgage loans using advanced structural microeconomic techniques to analyze households’ housing purchase/mortgage decisions throughout their lives, and their interactions with banks and developers in equilibrium. We will also use rich and novel micro data in estimation.