

# **Leverage and House-price Dynamics Under the Recourse-Loan System in Japanese prefectures**

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## **Abstract**

We use Japanese prefectural-level data to analyze the relationship between borrowing patterns and house price dynamics under the recourse-loan system. Our principal finding is that in prefectures where highly leveraged homeowners are common— i.e. have high, extended loan-to-value ratios— house prices respond less to prefecture-specific shocks, such as changes in per-capita income. This finding based on the recourse-loan system is quite different from the finding under the non-recourse loan system, because under the recourse-loan system, the lock-in effect stemming from severe equity constraints is much more severe.

**Key Words:** house price dynamics, extended loan to value ratio. Panel data, recourse-loan system, Japan

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