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# Factors that affect mortgage default in Cyprus: Which are the borrower and mortgage characteristics and which are the macroeconomic factors that have a statistically significant effect on the mortgage default in Cyprus?

Petrou, Nikoletta

Master of Business Administration, School of Business, Neapolis University Pafos

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# **FACTORS THAT AFFECT MORTGAGE DEFAULT IN CYPRUS**

**Which are the borrower and mortgage characteristics and which are the macroeconomic factors that have a statistically significant effect on the mortgage default in Cyprus?**

**A dissertation submitted in fulfilment  
of the requirements for the degree of**

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**by**

**Nikoletta Petrou**

**Tutor: Dr. Petros Sivitanides**



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# **1. ABSTRACT**

This dissertation aims at identifying the determinant factors of mortgage default in Cyprus. It begins with a theoretical study of the factors that increase non-performing mortgage loans of the housing market globally. The study is expected to identify the characteristics of the mortgage loans which increase the probability for a household to default, creating non-performing loans in the portfolios of the Financial Institutions. Furthermore, the study is expected to identify which macroeconomic factors could lead to the increase of mortgage default in Cyprus. For this investigation data from a Cyprus Public Bank were collected which include default and non-default mortgage loans for the period from 2006 to 2013. The non performing mortgage loans problem noted a rapid increase in the last years in Cyprus and aggravates the financial position of the country. The issue of mortgage default attracted the interest of many scholars. Over the past years economists have put a lot of effort into understanding the causes of the increase of mortgage default.

## **METHODOLOGY**

A logistic regression analysis has been conducted in the SPSS Statistic Program in order to determine which independent variables affect the probability of a mortgage loan to become default and also the statistical significance of those variables. The independent variables used are the income of the borrower, the type of job, the size of household, debt to income ratio, the average age of borrowers, loan date, interest rate of the loan today, mortgage balance today, amount of the loan, repayment period, default year, default month, mortgage balance on default, loan to value ratio on default for defaulted loans and snapshot for non-default, current loan to value ratio (CLTV), market value on loan date, number of bedrooms and size of house, unemployment rate, interest rates, growth rate of GDP and the house price index. The questionnaire was used as a tool for the collection of primary data.

## **FINDINGS**

The conclusion out of this study shows that the period that a borrower has taken loan, house price index, the annual instalment, the age of borrowers and the mortgage balance on snapshot quarter are the most significant factors that affect the mortgage default.