

Cost of Credit and House Prices

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Abstract

This paper studies the relationship between house prices and financing conditions by exploiting a sudden reduction in the mortgage rates of state-owned banks in Turkey during the summer of 2020 as an exogenous shock to provide causal estimates of the cost of credit on house prices. The effects are estimated using a detailed dataset on all house sales with mortgages. We find that a 1 percentage point decrease in annual interest rates raised house prices by 2.1%. The impact is driven by a corresponding increase in individual mortgage loans of 6.6%.

Keywords: Mortgage rates; Mortgage lending; House prices

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