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Financial Constraints and Inflated Home Prices during the Real Estate Boom

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Abstract

During the housing boom, financially constrained home buyers artificially inflated transaction prices in order to draw larger mortgages. Using transaction data from Illinois that includes sellers' offers to inflate prices, I estimate that in 2005-2008, up to 16 percent of highly leveraged transactions had inflated prices of up to 9 percent. Inflated transactions were common in low-income neighborhoods and when intermediaries had a greater stake or an informational advantage. Borrowers who inflated prices were more likely to default, but their mortgage rates were not

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