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# Instrument Choice: The Demand for Mortgages in Canada

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## Abstract

This paper is directed at understanding the factors which caused mortgage demand to fluctuate to the degree witnessed in the 1980s. We model the mortgage choice decision as involving simultaneous options on both the term and the amortization choice, by cost minimizing risk averse borrowers. The model is estimated using a bivariate ordered probit methodology. An extensive database containing details on the financial and demographic characteristics of households is used. We find that, contrary to the dominant model of mortgage demand, borrowers react to market conditions in a risk averse and cost minimizing manner.

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## References (0)

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### [Endogeneity in household mortgage choice](#)

2018, Economic Modelling

*Citation Excerpt :*

...LaFayette et al. (1995) analyse the impact of affordability constraints in the tenure decision by allowing for endogeneity of income, wealth and affordability, and also by correcting for sample selection bias. Breslaw et al. (1996)

model the simultaneous choice of mortgage term and amortization using Canadian data; in their modeling they acknowledge the potential endogeneity of LTV and debt service ratios which are in turn partly determined by the mortgage term and amortization decisions. Grudnitski et al. (1995) apply a neural network analysis and find that the characteristics of a borrower's net worth, marital status and education level and whether a co-borrower is involved contribute in a significant way to the neural network's ability to determine mortgage choice....

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