

Applied Economics &gt;

Volume 40, 2008 - Issue 18

261 | 6

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# Interest rate volatility and home mortgage loans

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Pages 2381-2385 | Published online: 11 Apr 2011

Cite this article <https://doi.org/10.1080/00036840600949538>

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## Abstract

The US economy has experienced substantial fluctuations in real and nominal interest rates since the 1970s. This article investigates empirically the relationship between home mortgage loans and volatility in mortgage rates for the period 1971:02 to 2003:03. Contrary to common wisdom, we find a positive relationship between mortgage rate volatility and home mortgage loans. Further investigation indicates that this is due to volatility in the bond market. In times of high interest volatility, households increase their mortgage borrowing, which yields a positive relationship between mortgage rate volatility and home mortgage loans.

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