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Interest rate pass through and asymmetries in adjustable rate mortgages

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Abstract

This study extends the recent work on interest rate pass through from the federal funds rate to mortgage rates. The Enders–Siklos (2001) momentum threshold autoregressive (MTAR) model is used to test for cointegration and asymmetric adjustment in adjustable rate mortgages for newly built and previously owned homes over the federal funds targeting period 1987:2 to 2005:6. Based on the MTAR specification, the respective adjustable rate mortgages and the federal funds rate are cointegrated but with incomplete interest rate pass through. The results also indicate asymmetries in the response of the adjustable rates to changes in the federal funds rate.

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