

# **House Prices and Mortgage Credit Availability**

## *Is the Relationship Reinforcing?*

by  
**Laura Berlinghieri**

### **Abstract Job Market Paper**

Sustained growth in U.S. house prices has recently coincided with a surge in mortgage lending. As a result, the possibility of a reinforcing relationship between mortgage lending and house prices has received increased attention. Using inflation-adjusted U.S. national data, an Engle-Granger two-step method is used to examine the possibility of a two-way interaction between house prices and mortgage credit. Dynamic ordinary least squares estimation in the first step finds a long-run relationship between the two variables. The second step employs an error correction model to test for a short-run relationship and finds that house price growth responds immediately to a change in mortgage credit. In addition, mortgage credit responds contemporaneously to a change in house prices, suggesting that the relationship is reinforcing in the short run.