

# Mortgage Rate and the Choice of Mortgage Length: Quasi-experimental Evidence from Chinese Transaction-level Data

Guoying Deng, Zhigang Li, Guangliang Ye<sup>1</sup>

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## Abstract

Utilizing a large transaction-level dataset on housing mortgages in China, this study estimates the effect of the mortgage rate spread between long- and short-term loans on property purchasers' choice of loan length. Our identification of the causal effect of this spread on loan length hinges on a unique institutional feature of China, that is, its "dual-track" mortgage scheme. We observe two types of mortgagors in this setting: "normal" mortgagors who face floating mortgage rates spread and "special mortgagors" who are entitled to a fixed mortgage rate spread. Using the latter as a comparison group to address the confounding effects of omitted factors, we find that the change in interest rates significantly affects the mortgage decisions of normal mortgagors. When the prime mortgage rate spread increases by 10 basis points, the likelihood of such a mortgagor choosing a short-term loan increases by 8.4 percent.

Keywords: Mortgage rates; Loan decision; Quasi-experiment; China housing market

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<sup>1</sup> Zhigang Li is a Senior Economist at BBVA Research. Guangliang Ye is a professor at the People's University of China and Guoying Deng is an assistant professor at Shichuan University.