

What is the relationship between market rates of interest and affordable housing ...

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Borrowing money in the majority of cases requires the borrower to repay not only the full amount of money, but also the interest on it. Therefore, interest rates determine the cost of borrowing money. The minimum exchange rates are set by state authorities, such as Federal Reserve in the US as the means to control inflation. Therefore, interest rates affect borrowing money for housing as much as any other investment, determining its affordability.

In order to investigate the effect of interest rate on the housing price, let us consider the consequences of increased rates. Firstly, increased interest rates would result in higher monthly mortgage payments, making it harder for the borrowers to repay their outstanding debt, leading to more frequent failures to meet mortgage obligations. Moreover, high interest affects the affordability of houses, thus discouraging the potential buyers from taking a mortgage. Decreased demand in this case would trigger a decline in housing prices.

The impact interest rates have on the housing market often depends on the prevalent types of mortgages. The higher the proportions of the disposable income, borrowers have to pay, the more unclear the boundary between affordable housing and default becomes. Therefore, in the market where mortgage prerequisites are not strict, increased interest rates make non-payment of mortgages more frequent, undermining the stability of the housing market and economy in general, as the recent sub-prime mortgage crisis has demonstrated.

However, interest rates do not always have straight-forward effect on the housing affordability. Thus, there is a certain time lag between the rate

change and customer response in changing their demand. Additionally, high confidence of the consumers may result in decreasing saving patterns, without affecting mortgage payments and housing purchases. Lastly, affordability is not solely determined by the interest rates, but also the level of inflation and other factors, requiring more in-depth analysis of the market for making conclusions about affordability.

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