Abstract. What’s the role of credit conditions in housing booms and busts and what are the
distributional consequences of housing booms and busts across households of different
characteristics? In this paper, we take China’s recent changes in housing policy as an exper-iment to
address these two key issues. During 2014Q4-2016Q3, China relaxed its housing policies by reducing
the minimum down payment ratio of non-primary houses from 60-70 percent to 30 percent. By
exploiting two unique micro-level data sets, we find that this policy change induced a significant
increase in mortgage credit demand among middle-aged high-educated households, while crowding
out mortgage credit to young households. More-over, consumption growth by middle-aged high-
educated households slowed down following this policy change. To quantify the aggregate and
distributional impacts of this policy change, we construct an overlapping-generation economy with
household heterogeneity and calibrate it to match various aggregate and cross-sectional moments of
China. Our policy experiment suggests that a cut in the minimum down payment ratio for non-
primary houses involves a self-enforcing effect on housing demand via equilibrium housing price: a
reduction in the down payment ratio for non-primary housing triggers an initial housing price
increase. This, in turn, generates capital gains for existing homeowners when the policy changes and
allows them to switch to a larger or better house by overcoming the credit constraint for housing
investment. Such a process is self-enforcing via the equilibrium housing prices due to the interaction
between stronger housing demand and higher housing price.