



FIGURE 3
Interest rate jumps at notches

Notes: This figure shows the conditional interest rate as a function of the LTV ratio from the non-parametric regression (2.1). In each LTV bin, we plot the coefficient on the LTV bin dummy plus a constant given by the mean predicted value $E[\hat{r}_i]$ from all the other covariates (*i.e.* omitting the contribution of the LTV bin dummies). The figure shows that the mortgage interest rate evolves as a step function with sharp notches at LTV ratios of 60%, 70%, 75%, 80%, and 85%.