Information in Mortgage Markets

Discussion by David Low

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Three Important Findings

Loan Product Steering in Mortgage Markets

- Lenders steer some borrowers to expensive mortgages.

Identifying Social Influence in Household Mortgage Decisions

- Mortgage refinancing decisions are influenced by immediate neighbors.

Information Losses in Home Purchase Appraisals / Appraising Home Purchase Appraisals

- Home purchase appraisals are biased in predictable ways.

Contributions to the Literature

Information in the mortgage market is imperfect.

Each paper highlights the role of an information provider:

1. Lenders for purchase mortgages
2. Neighbors for mortgage refis
3. Appraisers (chosen by lenders) for housing

Can these information providers do better?
Could others?

Literature on Purchase Mortgages

There is significant dispersion in fees, interest rates.

- Woodward & Hall (2012); Allen et al. (2014); Alexandrov & Kulaev (2015), etc.

Consumers could obtain similar mortgages, save thousands.
Implausible that search costs are so high.
⇒ Consumers lack basic information on returns to search.

Many other decisions involved besides fees, interest rate: FRM vs. ARM, 15 year vs 30 year, etc.

- Much more complex tradeoffs
- Harder to show "mistakes", but hard to be optimistic

Loan Product Steering in Mortgages

Lenders steer some borrowers to expensive mortgages.

- Steered borrowers pay more, default less
- Foa et al (2015): banks influence FRM / ARM decision

⇒ Lenders have incentives to mislead borrowers.
⇒ *And* competitors have no incentive to educate them.

- Gabaix & Laibson (2006): “shrouded” attributes

How to incentivize lenders to educate borrowers?
What are the alternatives?

Literature on Refi Mortgages

Consumers make significant refinancing mistakes.

- "Woodheads" do not refinance when rates fall
- Many refinancers wait too long: Stanton (1995), Agarwal et al. (2015), etc.
- Others refinance too early: Chang & Yavas (2009), Argarwal et al. (2015), etc.

⇒ Consumers appear poorly informed about refinancing.

Other decisions: equity to extract, terms of new mortgage etc.

- Much more complex tradeoffs
- Again, harder to show "mistakes". But hard to be optimistic

Identifying Social Influence in Household Mortgage Decisions

Mortgage refinancing decisions are influenced by neighbors.
Hard to explain with a standard model.
⇒ Refinancing behavior either not optimal, or not informed

But what are the mechanisms behind behavior transmission?
Social utility? Social learning? Herding?

What are the consquences of behavior transmission?

- Who is most likely to influence / be influenced?
- Are influenced outcomes more or less optimal?

Literature on Housing Market Info

Because of search, negotiation, and matching, there is considerable price dispersion in the housing market.

Important macroeconomic consequences:

- Seasonality in prices: Ngai & Tenreyro (2014)
- Extra cyclicality in prices: Hedlund (2015), Head et al. (2015), Guren & McQuade (2015)
- Postive autocorrelation in price growth: Guren (2016)

$\Rightarrow$ Valuing a home is *hard*, and this *matters*.

Home Purchase Appraisals

Home purchase appraisals are biased in predictable ways.

More evidence that valuing a home is *hard*.

- 15% of appraisals are for 5% or more of transaction price

Valuing a home is also *important* for mortgage lenders.

- Home equity is strongly predictive of default risk

And yet, lenders supress home value information.

Is this outcome suboptimal?
What would a better outcome look like?

Improving Info in Mortgage Markets

Information in mortgage market is imperfect.

But who provides information? How does it impact the market? These papers provide some answers.

- Mortgage lenders steer borrowers
- Neighbors inform mortgage refis
- Purchase appraisals may be biased upward to save deals

Next steps?

- Who *could* provide information?
- How can information providers be incentivized?