

How Do Lender-Household Relationships Affect Mortgage Refinancing?

Yanting Huang (Job Market Candidate)
Simon Business School, University of Rochester • yhu113@simon.rochester.edu

Relationship lenders help households refinance by informing them of potential refinancing opportunities

I. Causal Effects of Lender-Household Relationships on Household Refinancing

Data: U.S. household-year panel (2003-2023)

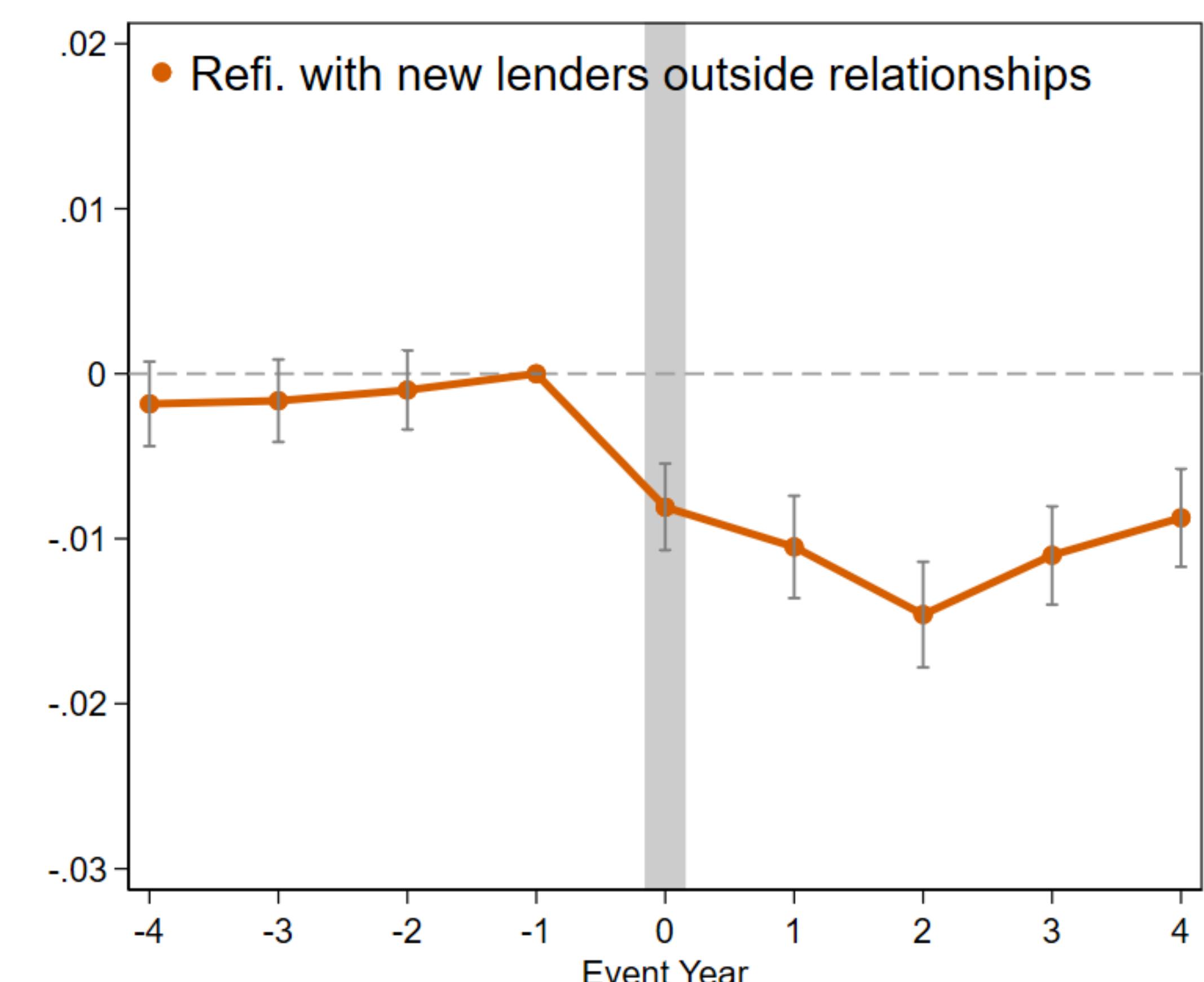
Empirical Design: Matched DID

- Events: Relationship lender M&As as disruptions to the relationships
- Treated households: whose relationship lender was acquired
- Control households: observably comparable to the treated prior to the M&As, and never experienced an M&A

$$Refi_{i,t} = \alpha + \beta_1(Treated)_i \times \mathbf{1}(Post)_t + \tau_i + \gamma_s$$

Results

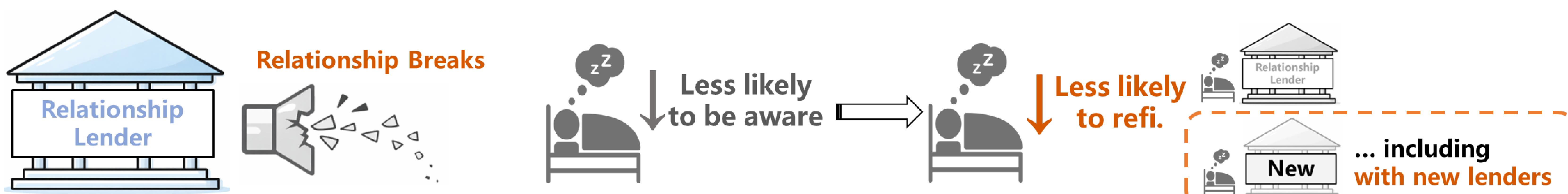
- Treated households are less likely to refinance by 43%
- Treated households **do NOT** switch to new lenders outside the relationships:
They are less likely to refinance with new lenders outside the relationships by 35%
- No impact on refinance loans' interest rates, fees, or performance



Relationship-Lender-Informing Channel



- Lenders' incentives: Earn origination fees; Maintain relationships
- Examples: Lenders call / email / talk to households
- Evidence: News reports; The NSMO survey shows that 69% of refinancing borrowers rely heavily on their mortgage lender/broker for information



After relationships break, lenders are less likely to inform households of refinancing opportunities

- Households are less likely to be aware of refinancing opportunities
- Households are less likely to refinance, including refinancing with new lenders outside the relationships

Competing channels

Changes in borrower characteristics? X No changes in households' default rates; X No changes in household refinancing costs

II. A Dynamic Structural Model of the Relationships and Household Refinancing

Important questions remain

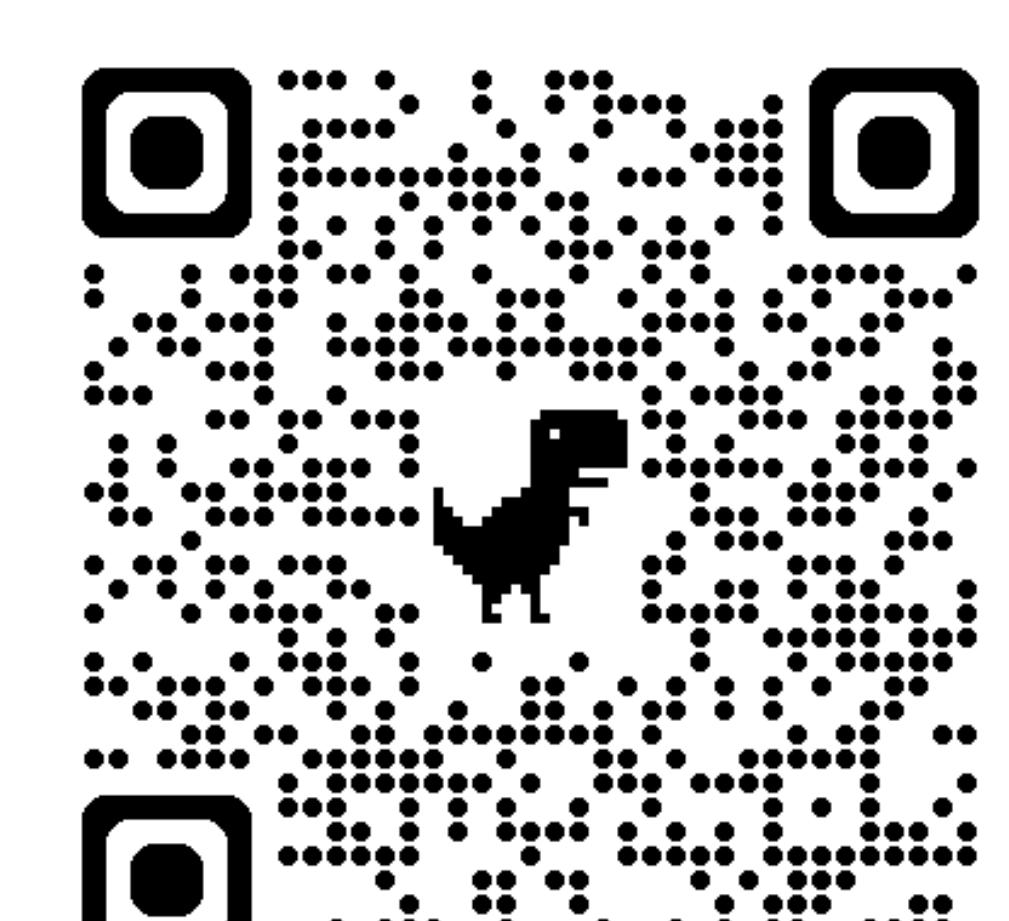
Q1. Policies aimed at protecting consumer privacy are limiting lenders' informing ability: Do they impact household welfare in refinancing?
Q2. The relationship-lender-informing channel vs. competing channels in the literature: Which has a larger economic magnitude?

I develop a structural model

- It is dynamic to incorporate the real-option feature of refinancing
- It allows relationships to impact household awareness of refinancing opportunities

Answers

A1. Policies limiting lenders' informing ability: They can reduce household welfare in refinancing
A2. The relationship-lender-informing channel vs. competing channels: The informing channel has a larger economic magnitude



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