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Mortgage Borrower Repayment Behavior: A Microeconomic Analysis with Canadian Adjustable Rate Mortgage Data

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Abstract

In this paper we estimate a model of mortgage borrower behavior using micro-level data on Canadian borrowers with rollover mortgages—a form of adjustable-rate mortgage. Our results suggest that the probability of default rises with a decrease in housing equity and an increase in the mortgage contract rate; however the size of these changes is relatively small. They also show that partial prepayment is sensitive to fluctuations in the rates of return from investing in housing versus other assets. For the United States experience, our results suggest that, relative to fixed-rate mortgage borrowers, adjustable-rate mortgage borrowers are more likely to default and less likely to prepay.

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