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# Mortgage Refinancing, Consumer Spending, and Competition: Evidence from the Home Affordable Refinancing Program

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WORKING PAPER 21512

DOI 10.3386/w21512

ISSUE DATE August 2015


REVISION DATE April 2020


Using loan-level mortgage data merged with consumer credit records, we examine the ability of the government to impact mortgage refinancing activity and spur consumption by focusing on the Home Affordable Refinance Program (HARP). The policy relaxed housing equity constraints by extending government credit guarantee on insufficiently collateralized mortgages refinanced by intermediaries. Difference-in-difference tests based on program eligibility criteria reveal a significant increase in refinancing activity by


based on program eligibility criteria reveal a significant increase in refinancing activity by HARP. More than three million eligible borrowers with primarily fixed-rate mortgages refinanced under HARP, receiving an average reduction of 1.45% in interest rate that amounts to \$3,000 in annual savings. Durable spending by borrowers increased significantly after refinancing and regions more exposed to the program saw a relative increase in non-durable and durable consumer spending, a decline in foreclosure rates, and faster recovery in house prices. A variety of identification strategies suggest that competitive frictions in the refinancing market partly hampered the program's impact: the take-up rate and annual savings among those who refinanced were reduced by 10% to 20%. These effects were amplified for the most indebted borrowers, the key target of the program. These findings have implications for future policy interventions, pass-through of monetary policy through household balance-sheets and design of the mortgage market.

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The Home Affordable Refinancing Program led to more household spending but impediments to competition kept it from reaching its full...

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## Published Versions

Sumit Agarwal & Gene Amromin & Souphala Chomsisengphet & Tim Landvoigt & Tomasz Piskorski & Amit Seru & Vincent Yao, 2023. "[Mortgage Refinancing, Consumer Spending, and Competition: Evidence from the Home Affordable Refinance Program](#)," *The Review of Economic Studies*, vol 90(2), pages 499-537.

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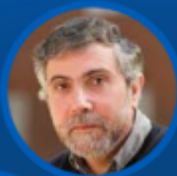
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Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

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