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

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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 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

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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Mortgage Refinancing, Consumer Spending, and Competition

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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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