Discussion of "Refinancing Frictions, Mortgage Pricing and Redistribution" by Berger, Milbradt, Tourre and Vavra

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These notes reflect the views of the author and don't necessarily reflect the official positions of the Federal Reserve Bank of Boston or the Federal Reserve System. discussions/Berger2024.tex

Paul Willen (Boston Fed)

Discussion of Berger et al. (2024)

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- Two things to note:
 - Option cost has gone way up
 - P-S is how we pay for closing costsw



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• Why has option cost gone up so much?

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 - If option cost were fixed at 2021 level, (some) borrowers would be getting a subsidy now



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- Inattentive borrowers are paying closing costs for attentive borrowers
- For refinances (especially rate-and-term)
 - P-S spread is deadweight loss
 - · Financial system already bears the risk.



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- Why do attentive borrowers pay more over lifetime?
 - Aren't they always refinancing to get lower rates?
- Lose the cross subsidy for closing costs!
- With no closing costs everyone would pay the same rate over lifetime.
 - Price of option would exactly offset the benefit.



The slide you've all been waiting for...

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The slide you've all been waiting for...

• The end.

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