



Discussion of “Responses to Savings Commitments: Evidence from Mortgage Run-Offs”

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Removing a Savings Constraint

- Making final mortgage payment (“run-off”) predictably relaxes a savings constraint
- “Where does the money that was going to pay the mortgage bill go in the following months?”
- Sheds light on the PIH → anticipated change in discretionary income
 - Prior work in this area:
 - Coulibaly and Li (2006), Stephens (2008), Scholnick (2013)

This Paper

- Uses uniquely rich data from Denmark
 - Danish Civil Registration
 - SSN, gender, DOB, demographics
 - Danish Tax Authority
 - Labor income, components of wealth, deposits, interest paid, dividends
- Finds two main household responses to run-off:
 - 1) 53% of liquidity goes to paying down other debts (bank loans)
 - 2) 39% of liquidity goes to leisure (decreased labor income)

My comments

- Labor response: intensive and extensive margins
- Exogeneity and anticipation
- More on mortgage contracts
- Window of observation
- Age-cohort-year questions
- Selection for bank loans
- Compare to prior literature

Intensive and Extensive Margins of Labor Supply

- Most puzzling result in the paper is run-off leads to **DECREASE** in retirement likelihood
 - 6 pp less likely to retire (!)
 - This is not what I would have expected
- Is there a clearer way to decompose income into
 - $\Pr(\text{income} > 0)$
 - hours
 - wages
- Interpreting some of the interaction models is tricky, especially when the signs go in opposite directions

Exogeneity and Anticipation

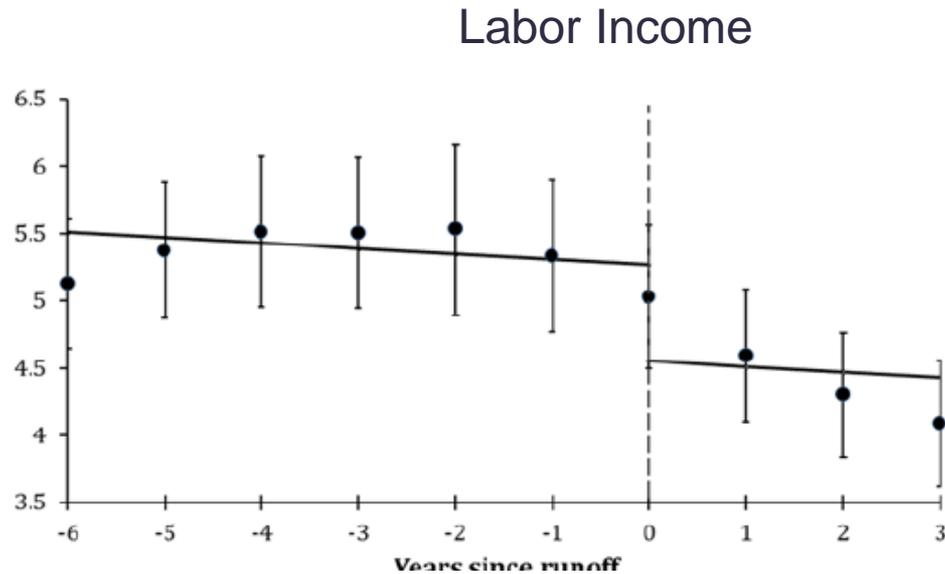
- Authors describe the timing of run-off as “quasi-exogenous” and talk about “random assignment” of run-off date
- Timing may be uncorrelated with some other determinants of consumption
 - Run-off date is determined 15 or 30 years in advance, so it is likely unrelated to current macroeconomic conditions
- But not necessarily all determinants: It isn’t “random” in the sense that households may have prepared for years for the last mortgage payment
 - e.g. “I can finally retire once the house is paid off”

More on Mortgage Contracts

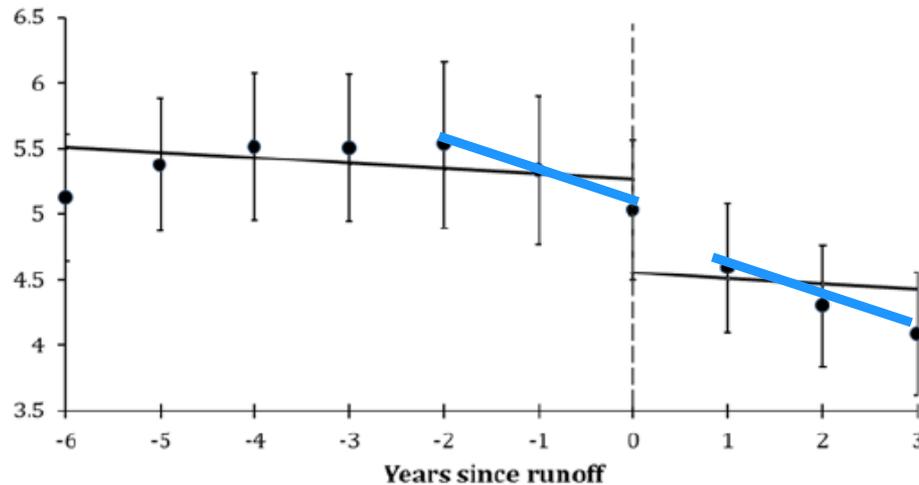
- Authors don't observe monthly payments of $P+I$, instead see annual amounts of interest paid and changes in mortgage balances
- Could use data from other sources to characterize the usual mortgage terms (15 or 30 years?), what share are adjustable-rate mortgage, etc.
- Why are balance paydowns more variable than expected? Wouldn't they be extremely smooth and predictable?

What's the Right Window of Observation?

- Line fit through six years prior:



- Line “fit” through three years prior?



Age-Cohort-Year Questions

- Substantial heterogeneity in the size of mortgage payments
- Is this only based on size of the house, or does it reflect
 - Differences in age
 - Advantage of Danish data relative to Scholnick (2013)
 - Can do more to look at age distribution of retirement v. run-off
 - Differences in vintage
 - Homebuyers from 1980s who bought when housing was relatively cheap?
 - Or in different interest rate environments?
 - Or contract types?

Selection Issues for Bank Loans

- What share of households with a run-off have a bank loan?
 - And what are the underwriting standards?
- What are these bank loans used for?
 - Seems important if these loans are taken out as anticipatory consumption
- Would be nice to say more about when these bank loans are taken out, what they are used for, what the usual amortization schedule is, etc.

Finally, Compare to Prior Literature

- Authors have produced new (and improved!) estimates of the household response to mortgage run-off using superior data from Denmark
- Should add a section comparing their findings to the prior papers qualitatively and quantitatively
 - Coulibaly and Li (2006), Stephens (2008), Scholnick (2013)
- Will make it much more straightforward to note the useful contributions of this project
- Overall very interesting and important work!