

Accepted Manuscript

Financial Literacy, Present Bias and Alternative Mortgage Products

John Gathergood , Jörg Weber

PII: S0378-4266(17)30031-6
DOI: [10.1016/j.jbankfin.2017.01.022](https://doi.org/10.1016/j.jbankfin.2017.01.022)
Reference: JBF 5092

To appear in: *Journal of Banking and Finance*

Received date: 28 August 2015
Revised date: 23 January 2017
Accepted date: 27 January 2017

Please cite this article as: John Gathergood , Jörg Weber , Financial Literacy, Present Bias and Alternative Mortgage Products, *Journal of Banking and Finance* (2017), doi: [10.1016/j.jbankfin.2017.01.022](https://doi.org/10.1016/j.jbankfin.2017.01.022)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



Financial Literacy, Present Bias and Alternative Mortgage Products

John Gathergood*

University of Nottingham, School of Economics
Network for Integrated Behavioural Science

Jörg Weber†

University of Nottingham, School of Economics
Centre for Decision Research and Experimental Economics
Network for Integrated Behavioural Science

January 2017

Abstract

Choosing a mortgage is one of the most important financial decisions made by a household. Financial innovation has given rise to more complex mortgage products with back-loaded payments, known as ‘Alternative Mortgage Products’ (AMPs), or ‘Interest-Only Mortgages’. Using a specially designed question module in a representative survey of UK mortgage holders, we investigate the effect of consumer financial sophistication on the decision to choose an AMP instead of a standard repayment mortgage. We show poor financial literacy and present bias raise the likelihood of choosing an AMP. Financially literate individuals are also more likely to choose an Adjustable Rate Mortgage (ARM), suggesting they avoid paying the term premium of a fixed rate mortgage.

Keywords: mortgages, financial literacy, present bias, alternative mortgage products

JEL Codes: D10, D12, G21

* Corresponding author. Email address: john.gathergood@nottingham.ac.uk.

† Email address: joerg.weber@nottingham.ac.uk.

We would like to thank the editor and two anonymous referees for their helpful comments and suggestions. We would also like to thank João Cocco, Michael Haliassos, Charles Sprenger, Andreas Fuster, Abigail Barr and Robin Cubitt for their comments on earlier versions of this paper. Further thanks to conference participants at the Network for Integrated Behavioral Science Household Finance Conference April 2014, SABE Workshop July 2014, Rotterdam Household Finance Conference September 2014, Royal Economic Society Annual Conference 2015 and the ‘Consumer Choice in Mortgage Markets’ Conference, Imperial College London 2016. We acknowledge research funding which contributed towards this work under ESRC grants RES-061-25-0478 and ES/K002201/1 (Network for Integrated Behavioural Science). The authors would like to thank YouGov for incorporating questions into their household survey and making the data available for the purposes of this research project.

Download English Version:

<https://daneshyari.com/en/article/5088110>

Download Persian Version:

<https://daneshyari.com/article/5088110>

[Daneshyari.com](https://daneshyari.com)