

# Systematic Mistakes in the Mortgage Market and Lack of Financial Sophistication

Sumit Agarwal , Itzhak Ben-David , Vincent Yao

PII: S0304-405X(16)30125-8  
DOI: [10.1016/j.jfineco.2016.01.028](https://doi.org/10.1016/j.jfineco.2016.01.028)  
Reference: FINEC 2680

To appear in: *Journal of Financial Economics*

Received date: 11 January 2015  
Revised date: 14 December 2015  
Accepted date: 7 January 2016

Please cite this article as: Sumit Agarwal , Itzhak Ben-David , Vincent Yao , Systematic Mistakes in the Mortgage Market and Lack of Financial Sophistication, *Journal of Financial Economics* (2016), doi: [10.1016/j.jfineco.2016.01.028](https://doi.org/10.1016/j.jfineco.2016.01.028)

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.



# Systematic Mistakes in the Mortgage Market and Lack of Financial Sophistication

Sumit Agarwal

*Georgetown University, McDonough School of Business  
3700 O Street NW, Washington DC 20057, ushakri@yahoo.com*

Itzhak Ben-David

*Fisher College of Business, The Ohio State University, and NBER  
2100 Neil Avenue, Columbus OH 43210, bendavid@fisher.osu.edu*

Vincent Yao

*J. Mack Robinson College of Business, Georgia State University  
35 Broad Street Atlanta, GA 30303, wyao2@gsu.edu, (301) 760-9937*

March 2016

## Abstract

Institutions often offer a menu of contracts to consumers in an attempt to create a separating equilibrium that reveals borrower types and provides better pricing. We test the effectiveness of a specific set of contracts in the mortgage market: mortgage points. Points allow borrowers to exchange an upfront amount for a decrease in the mortgage rate. We document that, on average, points takers lose about \$700. Also, points takers are less financially savvy (less educated, older), and they make mistakes on other dimensions (e.g., inefficiently refinancing their mortgages). Overall, our results show that borrowers overestimate how long they will stay with the mortgage.

Keywords: Discount points, mortgage decision making, refinancing, leverage, financial literacy, household finance, inattentiveness

JEL Classification: D03, D12, D14, D18, G01, G21

---

We benefited from the comments of John Driscoll and David Laibson as well as seminar and conference participants at the CFPB Research Conference, University of California (Berkeley), Georgia State University, and Baruch College. Ben-David acknowledges and appreciates the financial support of the Dice Center at the Fisher College of Business, The Ohio State University. Contact author: Vincent Yao.

## 1. Introduction

Download English Version:

<https://daneshyari.com/en/article/5100600>

Download Persian Version:

<https://daneshyari.com/article/5100600>

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