

Mortgage structure, saving rates and the wealth distribution

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Introduction

How do mortgage repayment schedules affect saving? A theory

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- Less noticed: $\sim 60\%$ of saving flows in the Euro area are mortgage repayments (similar in US)

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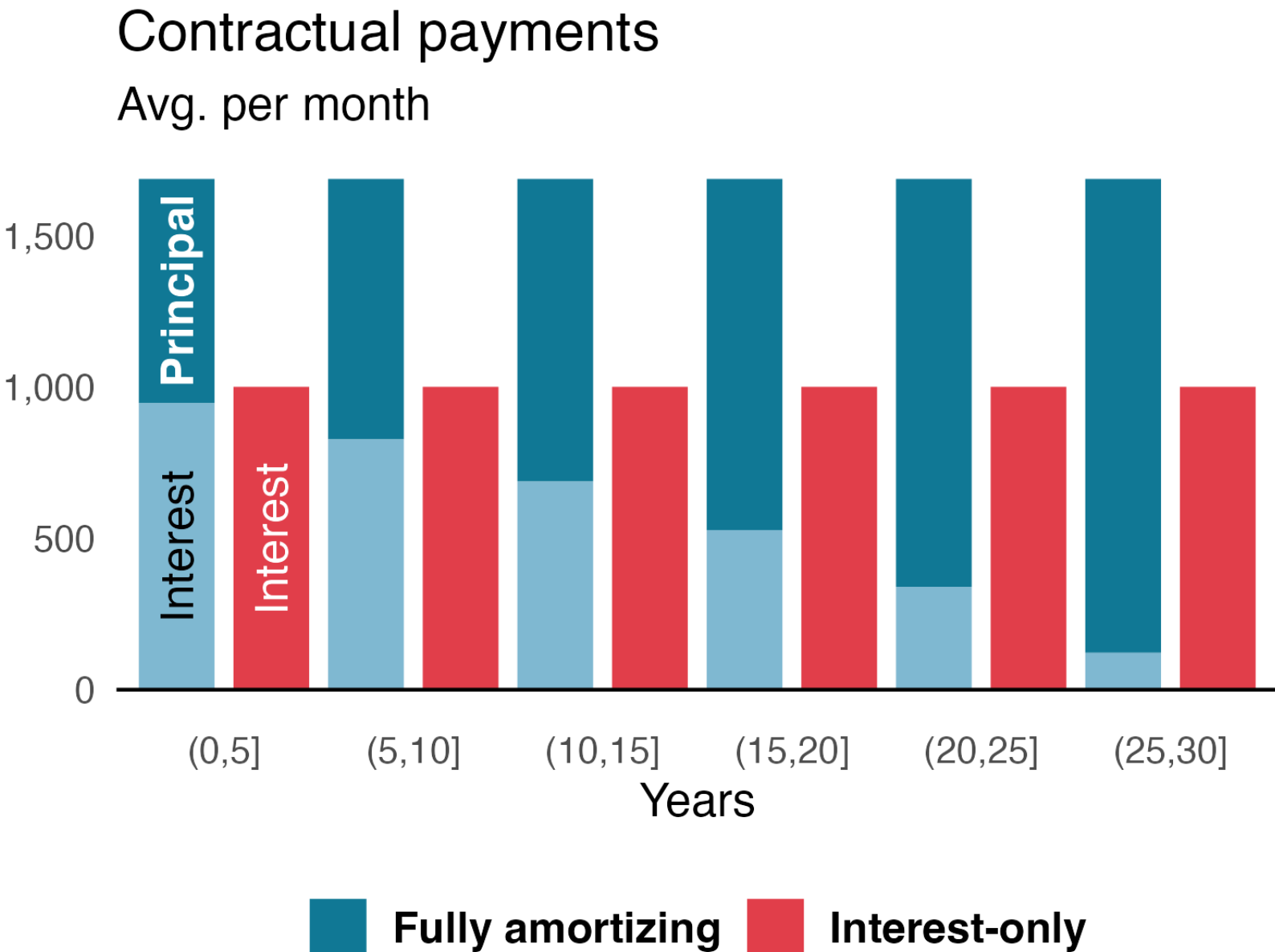
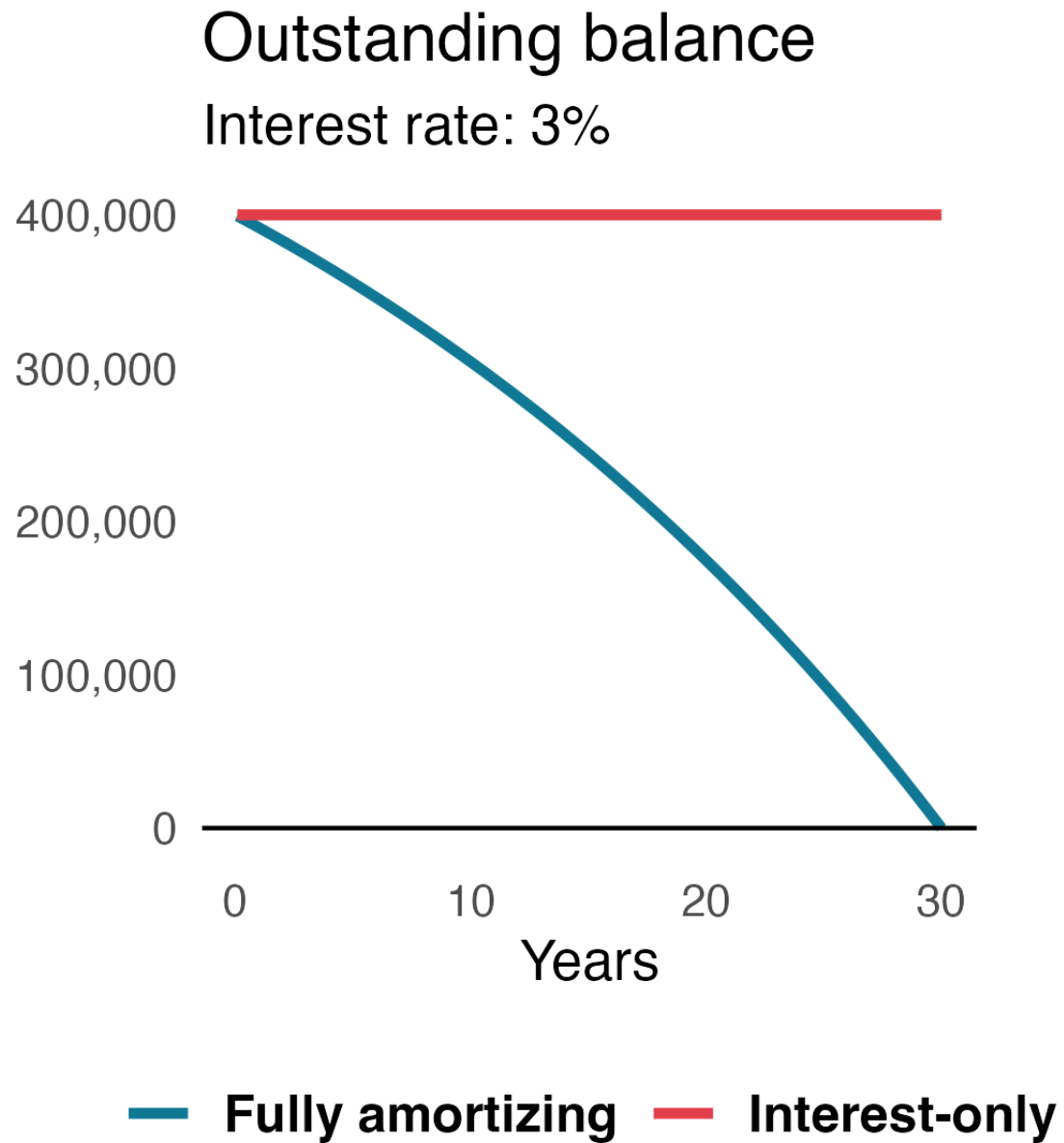
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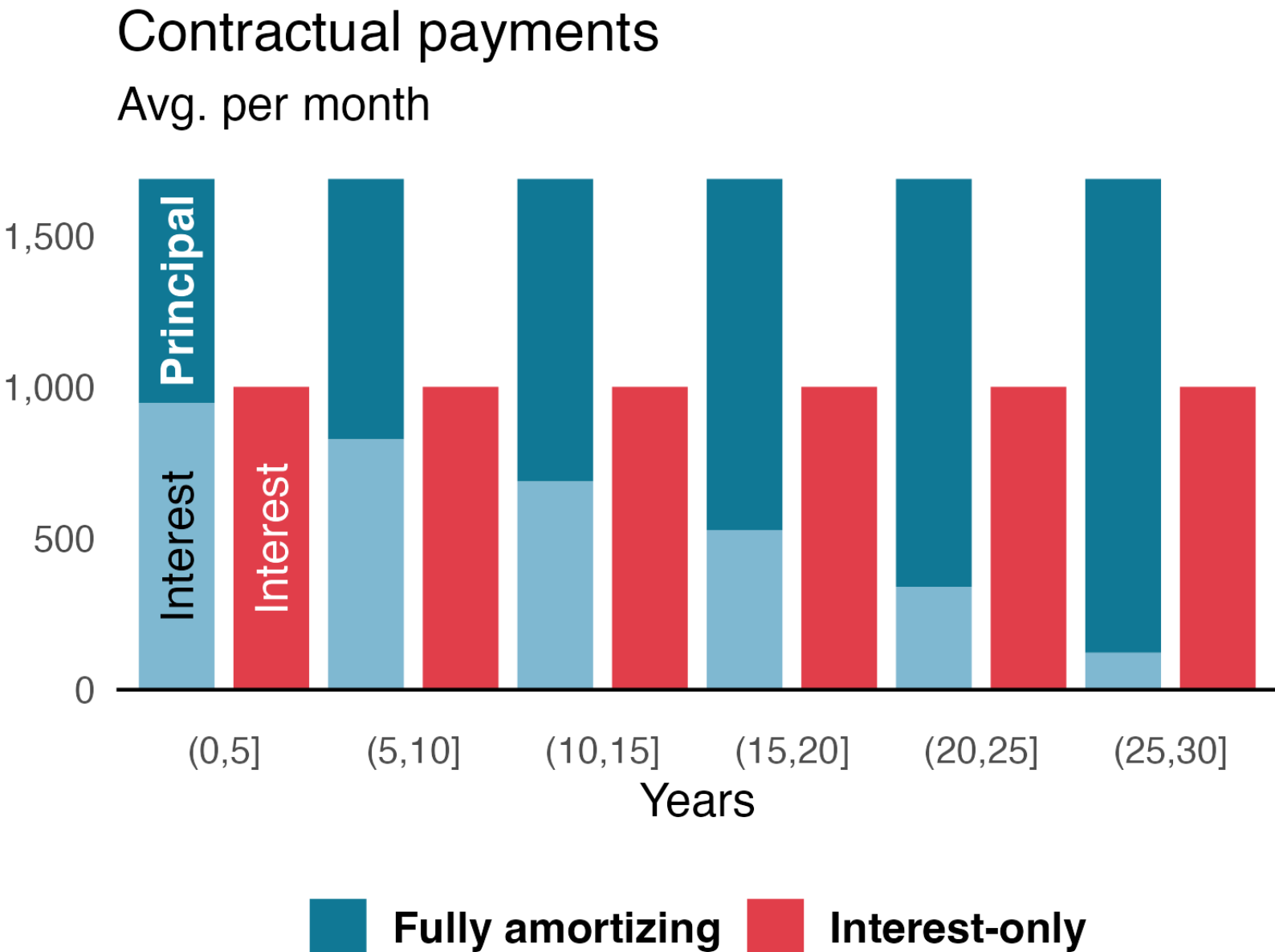
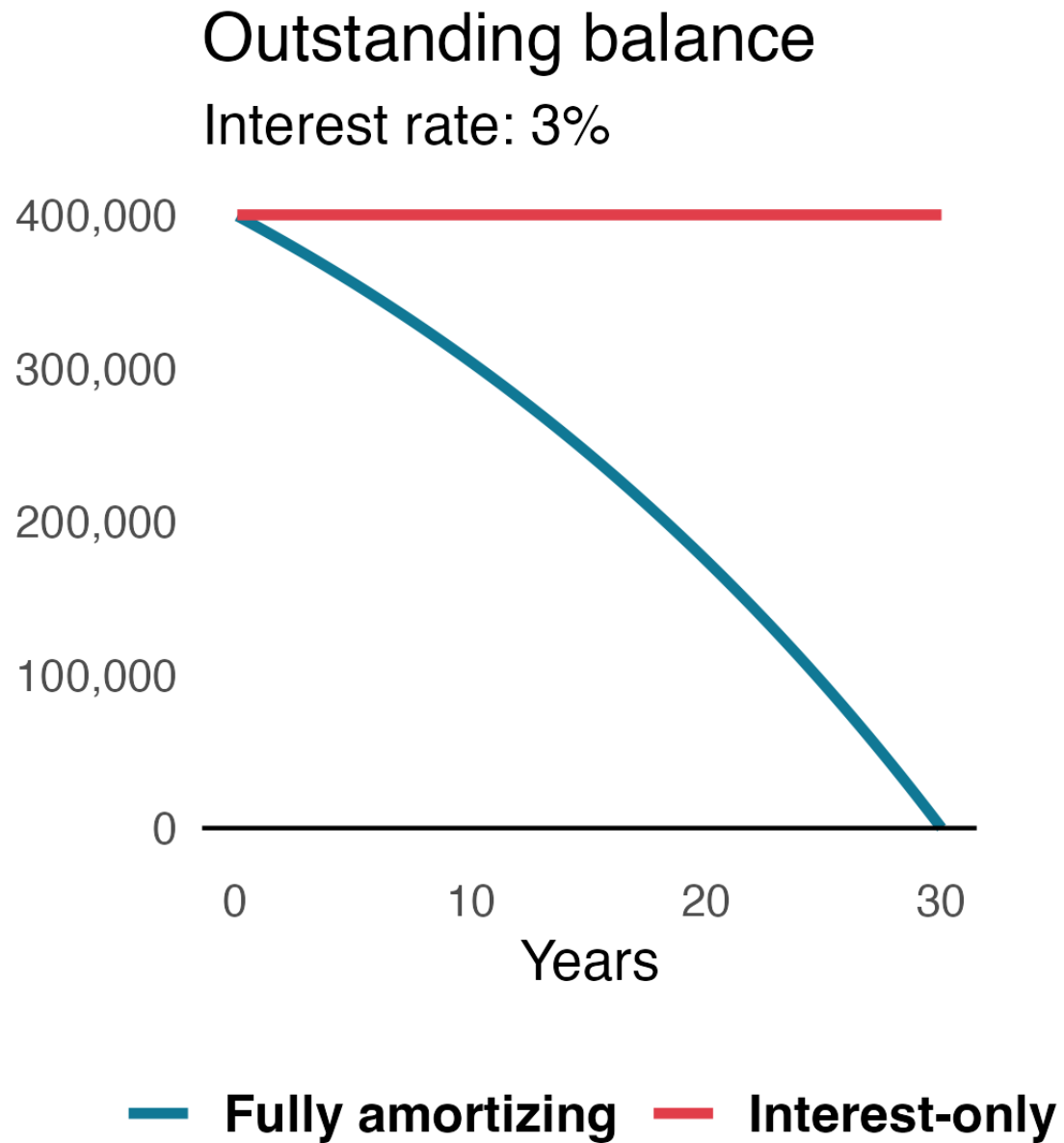
All this is saving is not just frictionless, optimal

- In many countries (Euro area, US), only available structure is a **fully amortizing annuity loan**:
- Repayment schedule fixed at origination and costly to deviate from (refinancing, late penalties, ...)
 - One (comparable) alternative: **interest-only** loan What?

What is an interest-only mortgage?



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This paper

Standard model, w/ costly deviation from repayment schedule can rationalize these effects:

- Explains large effects on consumption in empirical literature → $\Downarrow C$, $\Uparrow$ saving rate
 - Effects are heterogeneous: younger, poorer homeowners save more; others unaffected

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Matches **novel stylized facts** from household wealth data in Europe

- Younger and lower-income/wealth homeowners with an amortizing mortgage save more
- Homeowners with *interest-only mortgages* in **Netherlands** similar to renters
 - But no differences among older, richer groups

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Large implications of mandatory amortization for wealth accumulation & distribution

Introduction

Contribution to the literature

- Effects of mortgage amortization on household consumption and saving

Backman and Khorunzhina (2024), Bernstein and Koudijs (2024), Backman et al. (2024); Larsen et al. (2024); Attanasio et al. (2021)

→ This paper: **clarify role of precautionary saving mechanism + long-run effects**

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→ This paper: **clarify role of precautionary saving mechanism + long-run effects**
- Optimal mortgage payment structure
Boar et al. (2022); Balke et al. (2024), Boutros et al. (2025); Campbell and Cocco (2015), Campbell et al. (2018), Chambers et al. (2009), Greenwald et al. (2018), Guren et al. (2018), Piskorski and Tchisty (2010, 2011)
→ This paper: **(heterogeneous) effects on household wealth and welfare of repayment rigidity**

Agenda

1. Introduction
2. Model framework and insights
3. Data: stylized facts and calibration
4. Model results
5. Conclusion

Model framework and insights

Model framework

Data: stylized facts and calibration</

