MACROECONOMICS

Houses as ATMs? Mortgage Refinancing and Macroeconomic Uncertainty

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Working paper

Both the origins of the recent financial crisis and the severity of the Great Recession are often attributed to the increase in consumer indebtedness during the period of house price run-up in mid-2000s and the subsequent deterioration of household balance sheets with the sharp decline in house prices. There is less consensus on the structural forces driving the borrowing boom and the consumption slump that followed.

The authors of this paper present an estimated structural model of household mortgage debt and liquidity management that accounts for a range of key features of both the historical time-series and the cross-sectional facts on mortgage refinancing, household leverage, and consumption. The model can be useful for quantitative evaluation of economic policies aimed at supporting household balance sheets via the mortgage market.

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