

Mortgage Lock-In, Mobility, and Labor Reallocation

By Fonseca and Liu

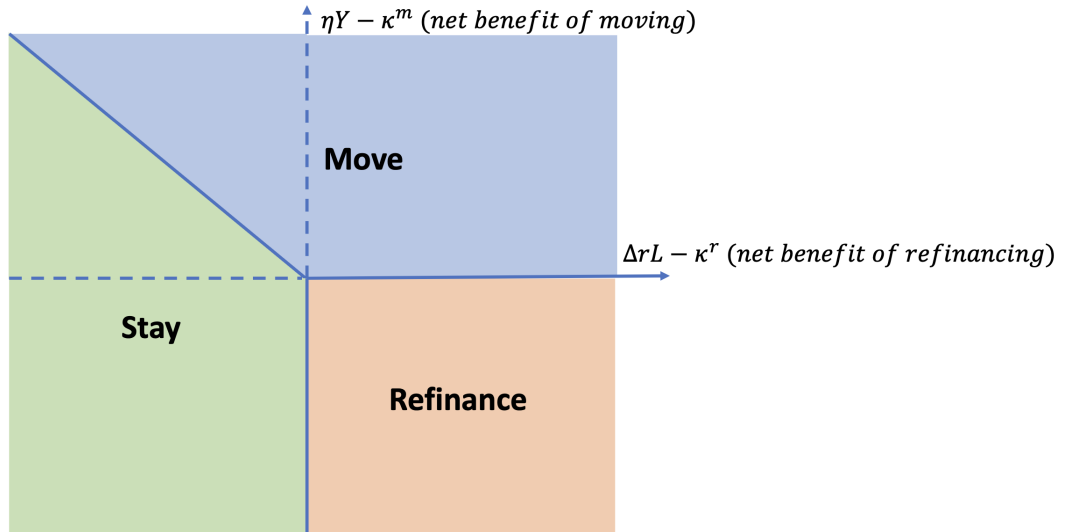
Discussion by Alex Xi He
University of Maryland

GU-Clark Symposium
October 2023

Summary

- This paper studies “mortgage lock-in”: households locked in low interest rates at home purchase, but need to remortgage at the current interest rate when they move, so it increases the cost of moving if the current interest rate is higher than the locked-in interest rate
- It shows that mortgage lock-in reduces labor mobility and people are less likely to move to better job opportunities

An illustration



Summary

- I've been waiting for this paper to be written!

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Why so many Americans feel trapped in their homes by their low-rate mortgages

PUBLISHED TUE, AUG 1 2023·9:03 AM EDT | UPDATED TUE, AUG 1 2023·12:49 PM EDT

 **Jessica Dickler**
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KEY POINTS

- The recent spike in mortgage rates has created a so-called golden handcuff effect.
- Nearly **82%** of homeowners feel “locked-in” by their existing low-rate mortgage, according to data from Realtor.com.

This is a big shock to moving cost!

- The expected lock-in value for the average household is around \$52,000
- This is 17% of the \$312,000 moving cost estimated in Kennan and Walker (2011)
- Bryan and Morten (2019) estimates that Americans require a 15% income gain to migrate, and the higher interest rates can increase the cost by 8% of the annual income

Rental option

- Another option is to rent a house in the new location, rent out the current house, and keep the low interest rate



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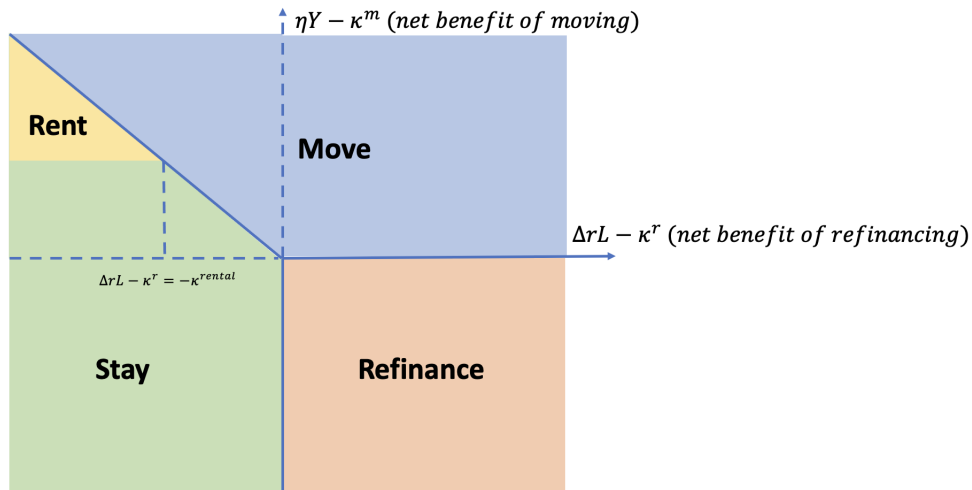
Homeowners who held onto a 3% mortgage rate are becoming ‘accidental landlords’

BY **ALENA BOTROS**

March 13, 2023 at 6:02 PM EDT



Rental option



Rental option

- Another option is to rent a house in the new location, rent out the current house, and keep the low interest rate
- When Δr is too low, renting dominates and Δr no longer matters
- Can potentially test this using geographical variation in rental costs

Employment opportunities

- The paper shows that mortgage lock-in reduces the elasticity of mobility to nearby employment opportunities
 - Nearby employment opportunities are measured using predicted wage growth from a Bartik instrument
- Why use a Bartik instrument?
 - I'm not sure it's needed given that you have county/zip code fixed effects
- What matters should be the **difference** in wage growth between the county of residence and nearby counties

Refinancing cost

- In the two-period model, moving does not depend on Δr if $\Delta r L > \kappa^r$, where L is loan size and κ^r is refinancing cost
- But in reality, there are many periods, and moving does not depend on Δr if the present value of difference in loan payments exceeds κ^r
- Empirically, the relationship is flat when Δr is greater than 1.8 pp, which implies huge refinancing costs (on the order of \$20k–30k) and much larger than \$2000–3000 in the literature
- Why? Could they be liquidity constrained?