“The Response of Debtors to Rate Changes” by Philip Schnorpfeil et al.

Discussion by Christophe Spaenjers (CU Boulder)

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This paper

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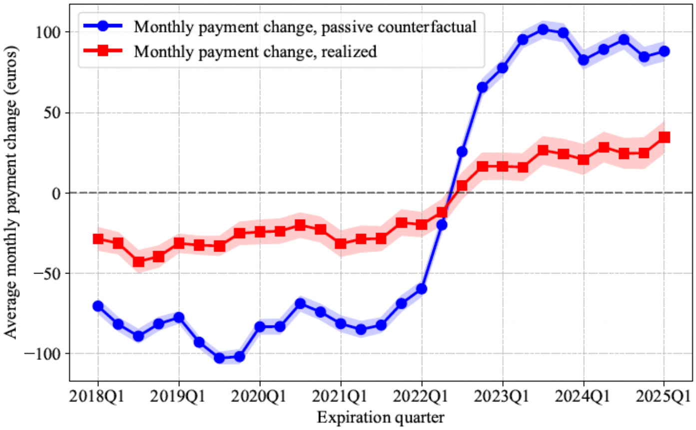
- An important question because it matters for transmission of monetary policy, households' financial resilience, and maybe even financial stability
- Fits in broader strand of recent literature looking at borrowers' consumption responses and mortgage market actions in times of high interest rates

Main finding in one picture

Panel B. Average actual vs. counterfactual monthly payment changes



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Overview of discussion

1. What's the problem?
2. Skill vs. luck
3. Bargaining with banks

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  - If rates on forward contracts and prolongation offers are fairly priced, is it obvious that borrowers should do anything until a few weeks before the end of the fixation period?
  - Is there anything special about the fact that rates are high? Would we expect to see borrowers prepare in absence of interest rate increase?

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- Survey: "We then ask how likely they would be to take the following actions to prepare for the rate reset: (i) meet an advisor from their current lender, (ii) compare loan offers from different lenders, (iii) reduce the mortgage balance, (iv) lock in the future interest rate before the reset, (v) reduce their expenses, and (vi) increase their income."

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  $\rightarrow$ Are all of these unambiguously smart things to do?

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- Survey: "Respondents imagine they have a 100,000 mortgage EUR that needs refinancing in one or three years, with the interest rate increasing to 3.5% (from a level of 1.5% or 3%)."
  $\rightarrow$ In reality we don't know what rate will be?

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  - Offered rates are "not tailored to individual borrowers" but negotiating a better deal is possible?
- I am missing a more complete "model" of borrower behavior and bank-borrower interactions

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  $\rightarrow$ Or fewer outside options? Maybe also searching but not finding anything?

Minor points (for authors only)

(i) In this setting borrowers seem to be aware of interest rate environment. It's interesting to think about why. Are Germans generally better-informed? Or is it that people with mortgages with shorter fixation periods are aware of the risk of interest rate increases hurting them and thus pay more attention? (I.e., maybe 30-year FRMs have made Americans inattentive?)

(ii) Relatedly, are there any policy implications for U.S. following from results (and RCT results on letters in particular)? The observation that readership is selected toward the already-informed is a sobering finding for disclosure-based policy.

(iii) Borrowers with high income and literacy read the letter, or read it + remember it?

(iv) Paper first discusses the survey and then the RCT but chronologically these took place in reverse order

(v) Unclear whether the classification of survey respondents into having prepared or not is based on an open answer

Final thoughts

- Great paper! Or papers?

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- More clearly communicate key take-aways that are unique to your paper? I want to cite you!