Discussion of: *No Shopping in the U.S. Mortgage Market: Direct and Strategic E ects of Providing Information*

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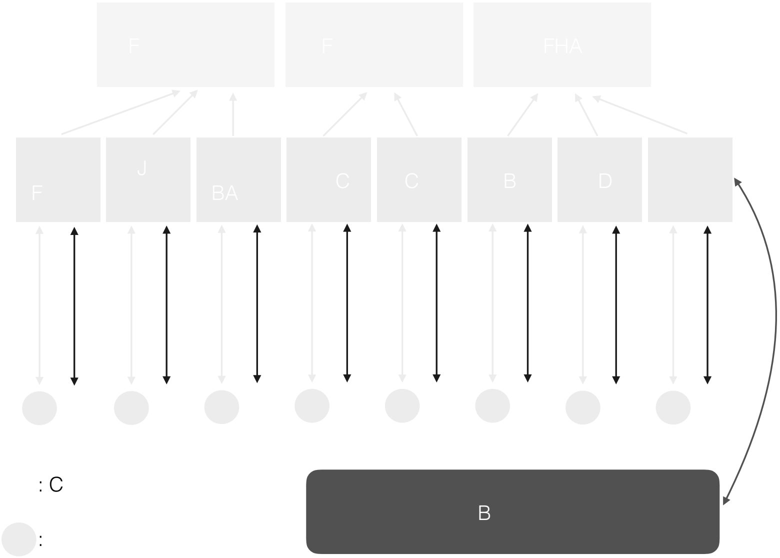
November 3, 2016

Supply Chain of the US Mortgage Industry



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Summary of the Data

Ps and Qs: Merge three data-sets

- HMDA: Market shares (all lenders)
- CoreLogic: Financial characteristics of borrowers (17 servicers)
- Informa: Retail mortgage price sheets (31 lenders)

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  - HMDA: Market shares (all lenders)
  - CoreLogic: Financial characteristics of borrowers (17 servicers)
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- Search and awareness:
  - NSMO: National survey of mortgage borrowers shopping process and beliefs about price dispersion
  - SBI: Financial institution \awareness"

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Key Takeaways

Price dispersion:

- Only 4% pay the lowest price (cond. of choosing an Informa lender?)
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  - Average potential savings = $300 /year
  - Large? They are LARGE. Everyone in DC is quite surprised to see this!
  - Questions:
    - Need more descriptive work...
    - How much of the dispersion is due to the fact that some lenders are using national prices, while other target speci c markets?
    - What about heterogenous pricing rules across lenders (e.g. di erent base prices, FICO cuto s, etc)?
    - Do we see more dispersion among low risk or large LTV borrowers?
    - Are \correspondents" using comparable price sheets?
    - Is it consistent with the CoreLogic \transaction price" measure?
- Search and beliefs:
  - 50% of borrowers only consider one lender...

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Search and beliefs:

- 50% of borrowers only consider one lender...
- 60% report believing that prices are roughly the same across lenders...
- Questions:
  - Need more descriptive work...
  - What factors predict search? Awareness?
  - Do searchers pay less?

Comments and Suggestions

- This is not a simple model...
  - Thus our model has 1123 parameters. With this parsimonious model we aim to capture elasticity of demand for each Informa lender, as it likely varies across locations and consumer types.
- Question: Can the model rationalize the large market share of \unaware options"?
  - Correspondent originates 56% of mortgages
  - But, consumers are allowed to sample only one \unaware" lender
- Question: Is it a good model for LOP consumers (60%)?
  - The search protocol for LOP consumers imply that they should pay signi cantly more than rational consumers. Is it the case?
  - An alternative interpretation is that LOP consumers rely on their (informed and caring) real-estate agent to search on their behalf.

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- Suggested change:
  - Initial quote: Pre-qualifying lender (e.g. home bank or realtor' \personal" broker)
  - Choice-set: Realtor suggest J additional lenders (e.g. max EU)
  - Search: Consumer decide to investigate J or not.