Is Competition a Cure for Confusion?
Evidence from the Residential Mortgage Market

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3. Substitutability of competition and sophistication? Competition does not substitute for mortgage market sophistication or information acquisition.

4. Advice as a remedy for lack of sophistication? Except for agent use, so significant relation between informational source and mortgage rate.
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Sophistication Measures

Two main measures of sophistication using NSMO data:

- ex-ante and ex-post sophistication indicators

- Both significantly affect interest rate in the right direction

Comments:

- Not sure how to interpret the ex-post measure because information gained during mortgage application does not necessarily explain interest rate

- Put borrowers into four ex-ante/ex-post sophistication buckets (as done with familiar) and show how they map on education and income

- Rank items used to create competition measures because some items may be more important than others

- Use a broad measure of sophistication like an index that aggregates borrower familiarity with mortgage products
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Competition Measures

Main measure captures extent to which borrowers are exposed to competition using number of lenders a borrower seriously considers.

Alternative measure: Whether borrower is not located in a low-income metro tract.

Comments:
- Concern with main measure: it is up to borrower to decide the level of competition - alternative measure does better on this dimension.
- Independent competition measure, such as HHI of local originations using HMDA data.
- Use average number of lenders contacted as a measure of local competition.

Impact of the expansion of Fintec industry: Quicken Loans is the largest mortgage originator.

Can we still talk about a local mortgage market competition?
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Additional Comments

- Potential endogeneity from measurement errors or omitted variables?
- Non-recourse and judicial foreclosure states
- Risk-based explanation of sophistication effect (Table 5) using ex-post change in credit rating to proxy for unobservable risk?
- Would have like to see more on the effect of sophistication for first-time buyers and minorities
- For emphasis, it may be useful including first column of Table 5 in Table 8
- Suggest changing “First Mortgage” to “First-Time Buyers”
- Best experiment design?
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Study Sample:

- NSMO sample from 2013 to 2016
- GSE-guaranteed mortgages? Any jumbos?
- LTVs ranging from 2 to 125 are a bit surprising for the period
  - LTVs used for non-first liens when generating LTV fixed effects?
- How many below 700 credit score loans? How common was this during the studied period?
- For clarity, define closed-end mortgages
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✶ A very important and interesting research topic given the importance of housing finance

✶ Convincing results!