The Mortgage Piggy Bank: Building Wealth through Amortization

Friday, December 3, 2021
1:30pm – 3:00pm

Zoom details located in the calendar invite. If you are not a member of the Finance department and would like to attend, please contact Beth Boison (boison@ualberta.ca) for the Zoom meeting details.

ABSTRACT

Mortgage amortization schedules are among the largest savings plans in the world (ex. U.S. households contribute hundreds of billions of dollars annually to these “mortgage piggy banks”). However, little is known about their effects on wealth accumulation. Ex-ante, the effect is unclear. It depends on the fungibility of home equity and other savings, and households’ willingness to adjust consumption or leisure. Empirically, effects are difficult to identify since amortization and other savings choices are typically co-determined. We overcome this challenge by utilizing a 2013 Dutch reform that increased amortization...
requirements for new mortgages. Using detailed administrative data, we compare savings
decisions for home-buyers right before or after the reform. We use plausibly exogenous
variation in the timing of home purchase coming from life-events (ex. birth of a child) to
address selection concerns. We find that marginal wealth-building from amortization
(MWA) is substantial. Remarkably, households leave non-mortgage savings untouched
and cut consumption and leisure instead, implying a near 1-for-1 rise in net-worth. Results
hold five years out when the additional amortization-induced home equity is larger than
the stock of liquid savings, suggesting substantial amounts of amortization-driven savings
over a typical business cycle. Effects are ubiquitous and hold for movers and unconstrained
households who could easily offset the additional amortization by reducing non-mortgage
savings, suggesting a broad applicability of our results. Overall, our results highlight the
critical importance of mortgage amortization for household wealth building.