Discussion of

"The Role of Mortgage Interest Fixation Periods for Macro-Prudential & Monetary Policies"

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Main question

How does the duration of mortgages affect the transmission of monetary policy?

$$\frac{\mathrm{d} \ln \left[y_t \left(\text{mortgage duration} \right) \right]}{\mathrm{d} \text{MP}_t} =? \tag{1}$$

- Lots of international variation in mortgage characteristics.

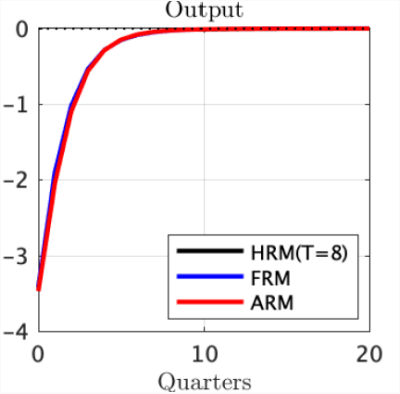
Methods

Calibrated macro model with:

- Heterogenous time preference (i.e., borrowers and savers).
- Mortgages (different durations).
- Borrowing constraints (macro-prudential policies).
- Housing.
- Nominal rigidities.

Main finding

Mortgage duration does NOT matter for MP transmission!



- One small exception: borrowers increase hours worked more with low mortgage duration.

Why?

Channels:

- Nominal rigidities.
- Net-worth distribution.

Suggestion: study net worth

Net-worth distribution is a key state variable. And it should be differentially exposed to MP according to the mortgage duration.

$\rightarrow$ Model mortgages as perpetuities, but simpler.

Saver's simplified BC:

$$c_t + \frac{V_t M_t}{P_t} = y_t + \frac{M_{t-1}\left[1 + (1-\nu)V_t\right]}{P_t} \tag{2}$$

where $\nu = 1$ is an adjustable-rate mortgage and $\nu < 1$ has a longer duration.

$$\text{NW}_t^S = -\text{NW}_t^B = \frac{1-\nu}{i_t + \nu}\frac{M_{t-1}}{P_t}. \tag{3}$$

Hypothesis: There is no difference in MP transmission under different mortgage durations because MP has no overall effect on the NW distribution.

- MP leads to $i_t \uparrow$ and $P_t \downarrow$.

Comments

- Mortgage-market characteristics are also endogenous (Drechsler, Savov and Schnabl, 2021).
  - Problem for interpretation of the comparison across mortgage durations.

- Banks and related frictions seem important to study this question.
  - A transfer of NW to banks tends to increase demand because they are better at investing in physical capital.

Conclusion

- First-order question
- Unexpected and interesting results.
- But why?

Thank you!