

Discussion of

The Marginal Propensity to Extract Housing Wealth: Evidence from Home Equity Windfalls

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* The views expressed in this presentation are those of the author and do not necessarily reflect the position of any institution



The Research Question

How much housing wealth do homeowners extract and consume when they experience a positive shock to home equity?

Identification Strategy

- Excess equity is defined as the **gap between the appraised value and the purchase price**
- Authors thus use **individual-level wealth shocks** from the difference between appraisal and the purchase price rather than aggregate price variation
- Assumption: Buying below market value is an **exogenous wealth shock** (luck) and is effectively random



Main Findings: Equity extraction through borrowing

- Households extracted **13 cents of every dollar** of windfall equity within seven years through:
 - Home equity lines of credit (HELOCs)
 - Cash-out refinances
 - Second mortgages
- The effect builds gradually over time, with extraction continuing even seven years after purchase



Main Findings: Equity extraction including home sales

- Approximately **one-third of buyers in the sample sold their property** within seven years
- When including income from home sales, the **marginal propensity to extract rises to 33 cents per dollar**
- Excess equity had **negligible effect on the probability of moving**



Further results

- No effect on other consumer debt (credit cards, auto loans, student loans), suggesting extracted equity is used to finance consumption rather than debt repayment



Robustness

- Is the gap between appraisal and actual price driven by **luck** or **savvy/skilled buyers** obtain systematically better deals?
 - Appraisals proved highly accurate: excess equity predicted future sale prices nearly one-for-one
 - For repeat buyers, current excess equity showed very low correlation with future excess equity, suggesting deals were largely luck rather than skill



Policy implications: Long transmission lags

- The finding that equity extraction continues for many years after the wealth shock has important consequences: House prices movements may influence household consumption with long delays in countries where homeowners can extract housing wealth gains.



Questions and Remarks

- What if high excess equity homes are systematically different, e.g. require near-term investment? Measured consumption might then actually be maintenance expenditure or renovation costs required to make the home habitable, rather than a pure wealth effect.
- FHA borrowers are distinct: LTV around 100%, lower credit scores, often liquidity constrained. To what extent can be results generalized to the whole market?
- Why the data sample ends in 2015?

Thank you

