

# How Do Lender-Household Relationships Affect Mortgage Refinancing?

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**Relationship lenders help households refinance by informing them of potential refinancing opportunities**

## I. Causal Effects of Lender-Household Relationships on Household Refinancing

**Data:** U.S. household-year panel (2003-2023)

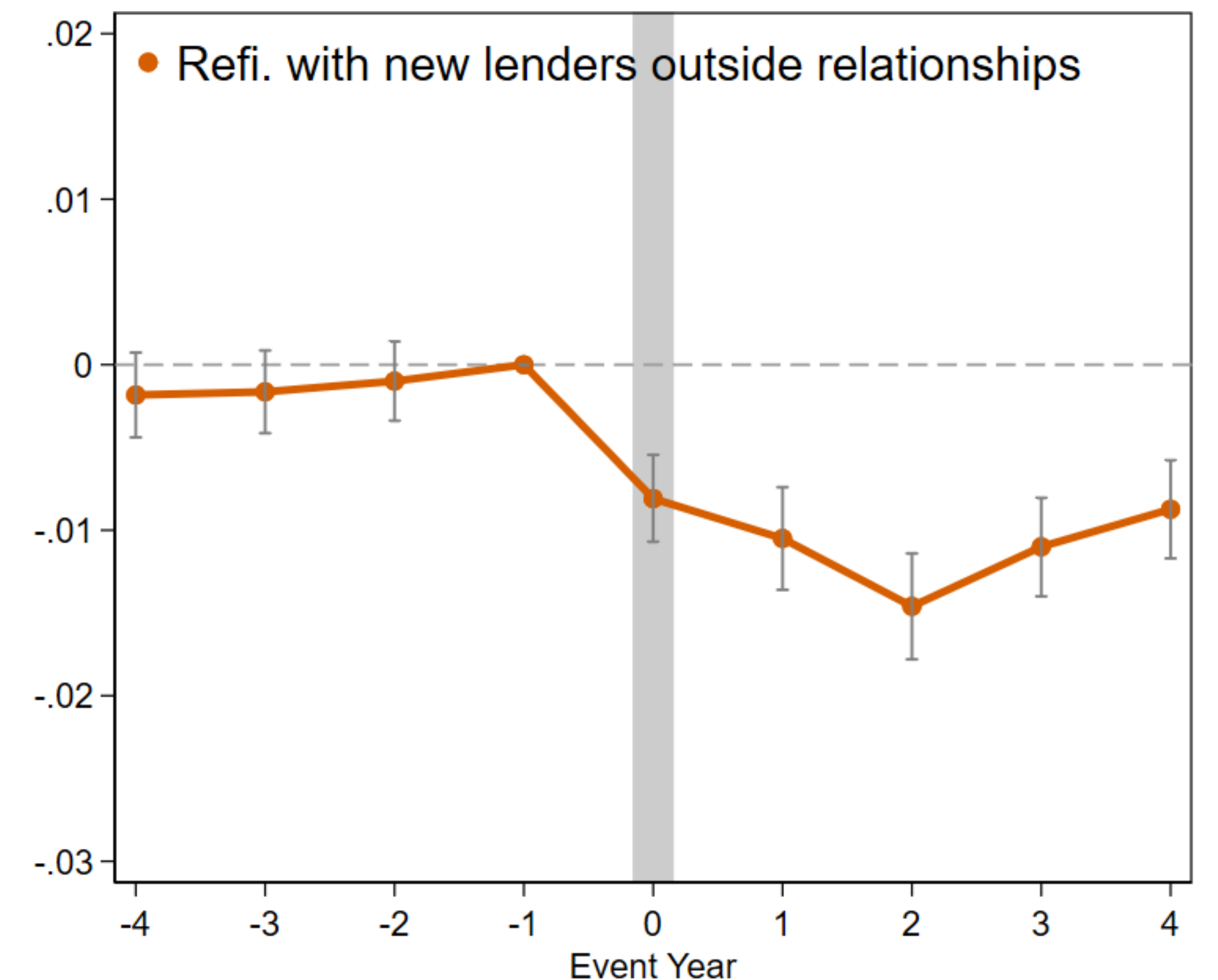
**Empirical Design: Matched DID**

- Events: Relationship lender M&As as disruptions to the relationships
- Treated households: whose relationship lender was acquired
- Control households: observably comparable to the treated prior to the M&As, and never experienced an M&A

$$Refi_{i,t} = \alpha + \beta \mathbf{1}(Treated)_i \times \mathbf{1}(Post)_t + \tau_i + \gamma_\delta$$

**Results**

- Treated households are less likely to refinance by 43%
- Treated households **do NOT switch to new lenders outside the relationships:**  
**They are less likely to refinance with new lenders outside the relationships by 35%**
- No impact on refinance loans' interest rates, fees, or performance

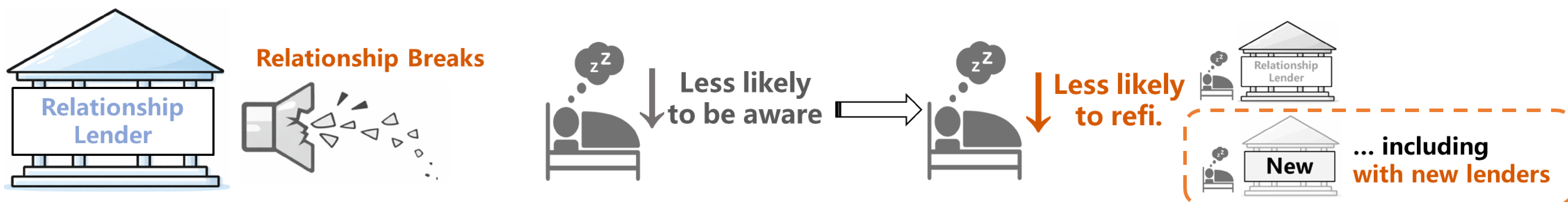


## Relationship-Lender-Informing Channel



**The relationship-lender-informing channel: Relationship lenders help households refinance by informing them of potential refinancing opportunities**

- Lenders' incentives: Earn origination fees; Maintain relationships
- Examples: Lenders call / email / talk to households
- Evidence: News reports; The NSMO survey shows that 69% of refinancing borrowers rely heavily on their mortgage lender/broker for information



**The relationship-lender-informing channel explains the main findings**

After relationships break, lenders are less likely to inform households of refinancing opportunities

- Households are less likely to be aware of refinancing opportunities
- Households are less likely to refinance, including refinancing with new lenders outside the relationships

**Competing channels**

Changes in borrower characteristics? X No changes in households' default rates; X No changes in household refinancing costs

## II. A Dynamic Structural Model of the Relationships and Household Refinancing

**Important questions remain**

**Q1.** Policies aimed at protecting consumer privacy are limiting lenders' informing ability: Do they impact household welfare in refinancing?

**Q2.** The relationship-lender-informing channel vs. competing channels in the literature: Which has a larger economic magnitude?

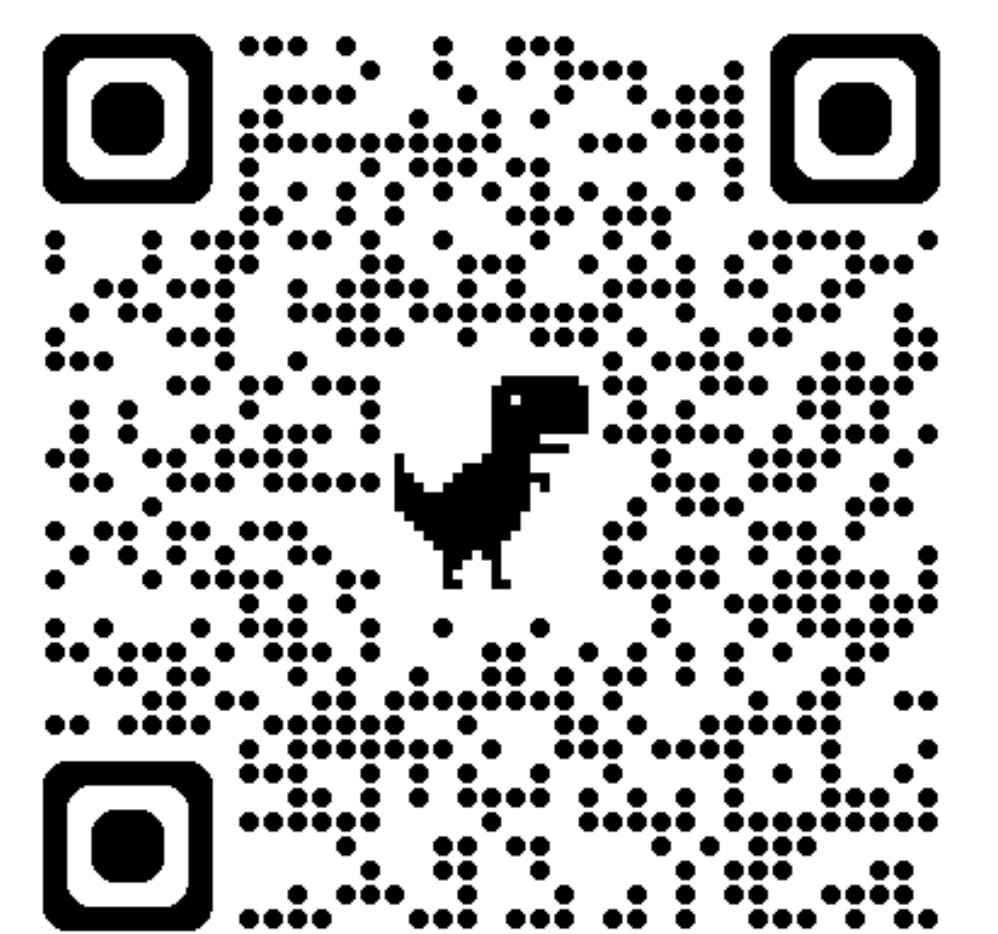
**I develop a structural model**

- It is dynamic to incorporate the real-option feature of refinancing
- It allows relationships to impact household awareness of refinancing opportunities

**Answers**

**A1.** Policies limiting lenders' informing ability: They can reduce household welfare in refinancing

**A2.** The relationship-lender-informing channel vs. competing channels: The informing channel has a larger economic magnitude



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