Discussion of: *No Shopping in the U.S. Mortgage Market: Direct and Strategic Effects of Providing Information*

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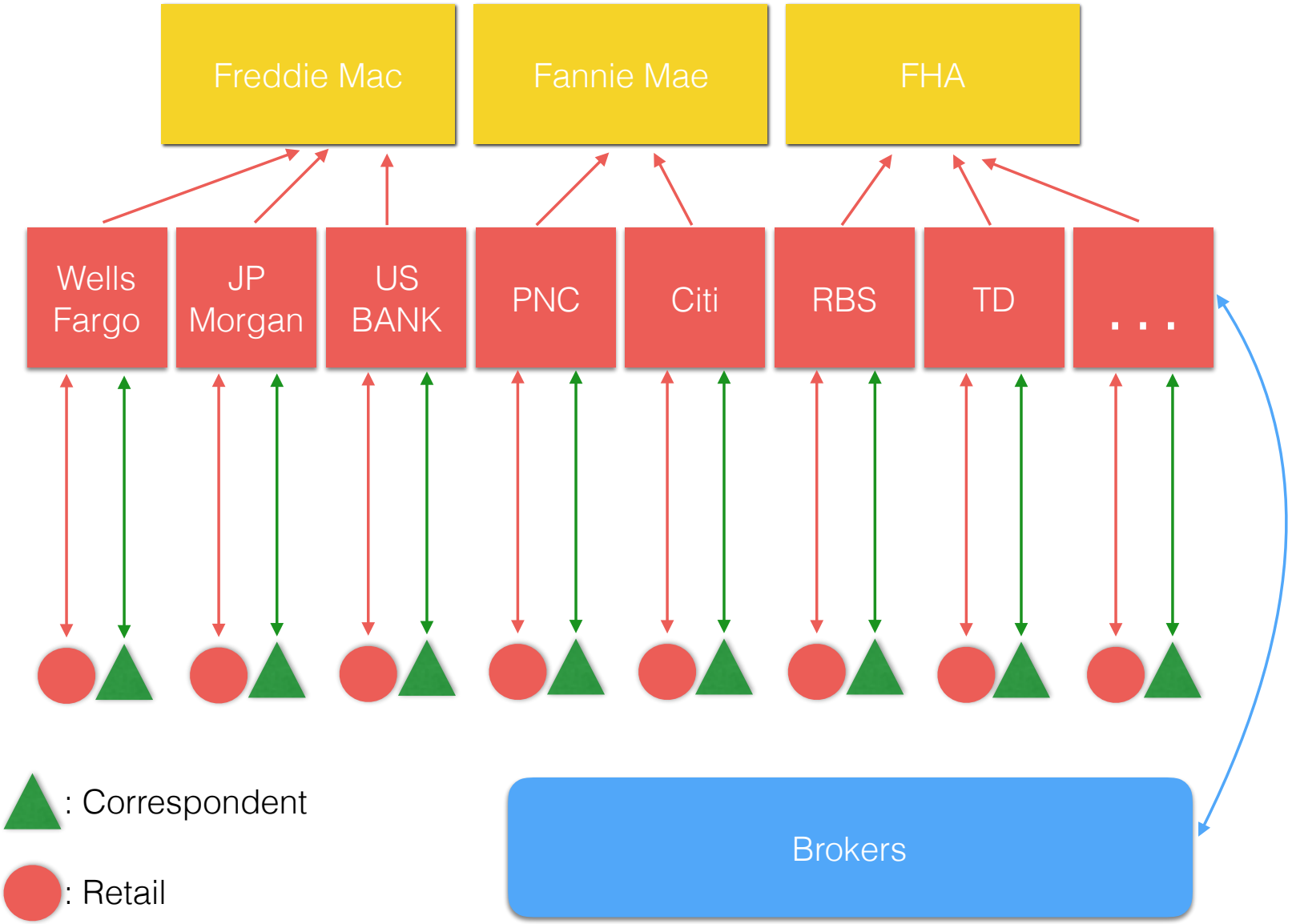
Supply Chain of the US Mortgage Industry



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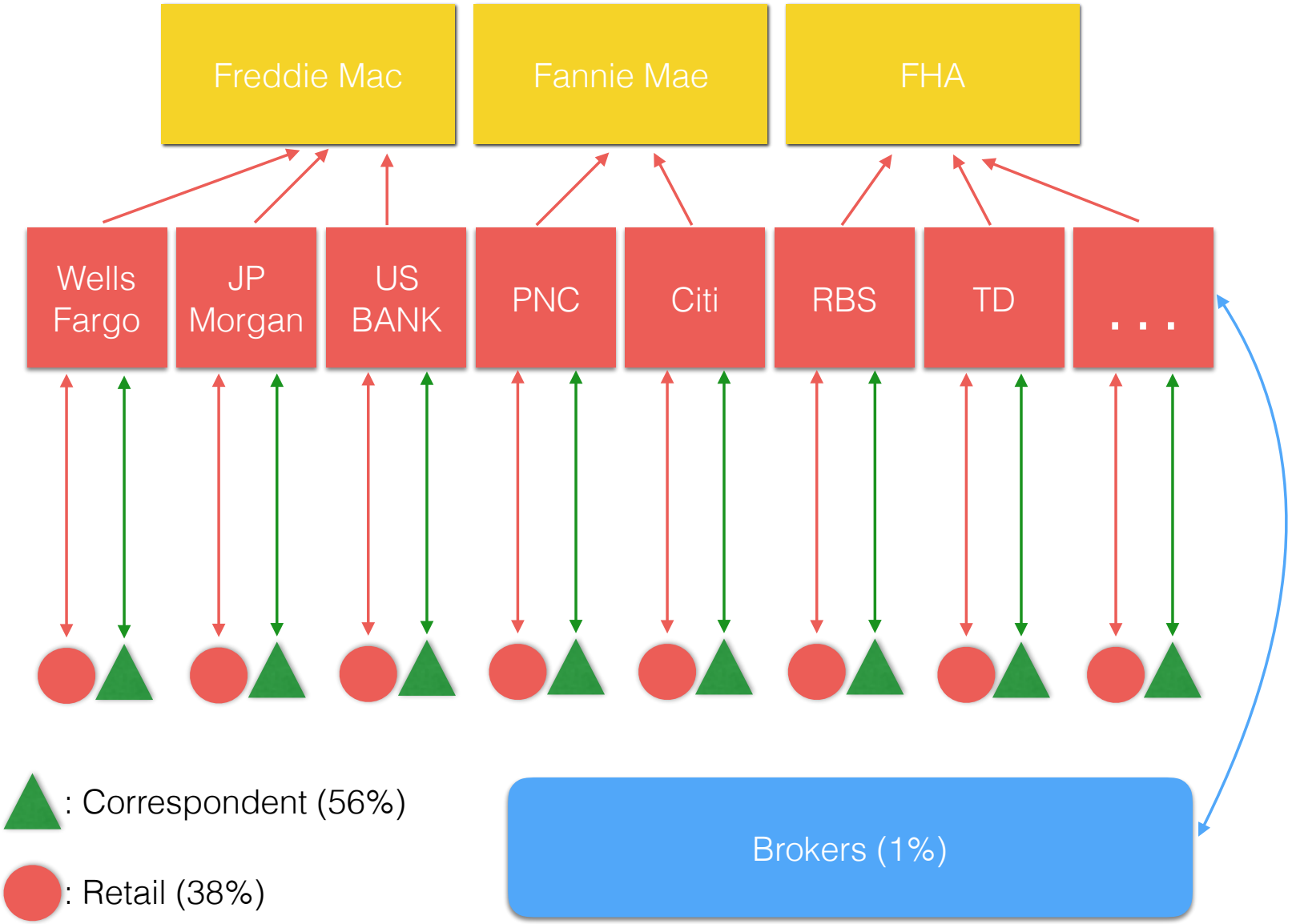

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- **Ps and Qs:** Merge three data-sets
  - *HMDA:* Market shares (all lenders)
  - *CoreLogic:* Financial characteristics of borrowers (17 servicers)
  - *Informa:* Retail mortgage price sheets (31 lenders)

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- This is a lot of work!

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  Questions:
  - ★ Need more descriptive work...
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  - ★ What about heterogenous pricing rules across lenders (e.g. different base prices, FICO cutoffs, etc)?
  - ★ Do we see more dispersion among low risk or large LTV borrowers?
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  - ★ What factors predict search? Awareness?
  - ★ Do searchers pay less?

Summary of the Model

- **Ingredients:** Differentiation + Search cost + Awareness
- Expected utility:

  Aware options ($\approx$ 30): $u_{ij} = E_{p,\epsilon}\left[\delta_j - \alpha p_j + \epsilon_{it}\right]$
  Unaware options ($\approx$ 10K): $u_{i0} = \sum_h \rho_h E_{p,\epsilon}\left[\delta_h - \alpha p_j + \epsilon_{it}\right]$
- Two consumer types:

  Rational: Use the empirical price distribution of prices (Informa lenders)
  LOP: Assume that $p_{ij} = \bar{p}_i$ for all j
- Search protocol:

  Reservation utility: $E_{p,\epsilon}\left[\max\{\delta_j - \alpha p_j + \epsilon_{it} - r_j, 0\}\right] = c$
  Rank options (incl. 0): $r_i^{(1)} > r_i^{(2)} > \cdots > r_i^{(J)}$
  Stopping rule: Continue searching if $u^* < r_i^{(k)}$.

Comments and Suggestions

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  The search protocol for **LOP** consumers imply that they should pay significantly more than **rational** consumers. Is it the case?
  An alternative interpretation is that LOP consumers rely on their (informed and caring) real-estate agent to search on their behalf.

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- **Suggested change:**

  Initial quote: Pre-qualifying lender (e.g. home bank or realtor' "personal" broker)
  Choice-set: Realtor suggest J additional lenders (e.g. max EU)
  Search: Consumer decide to investigate J or not.