# Discussion: Best, Cloyne, Ilzetzki, Kleven

Ben Etheridge

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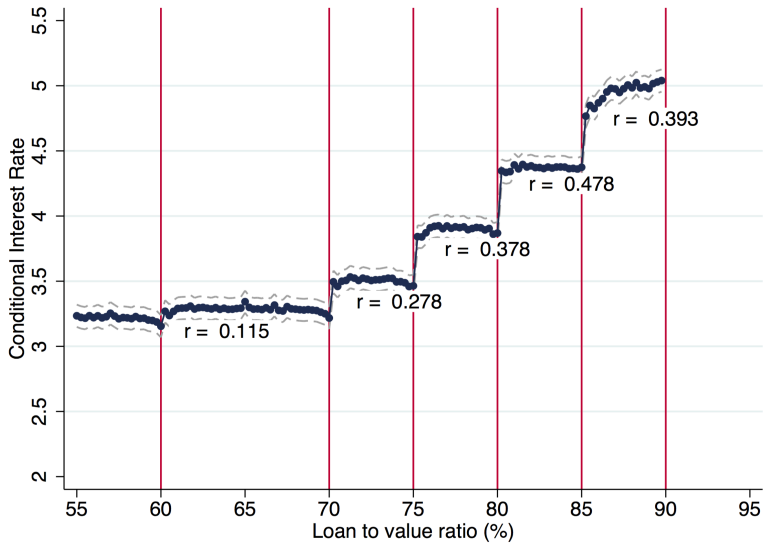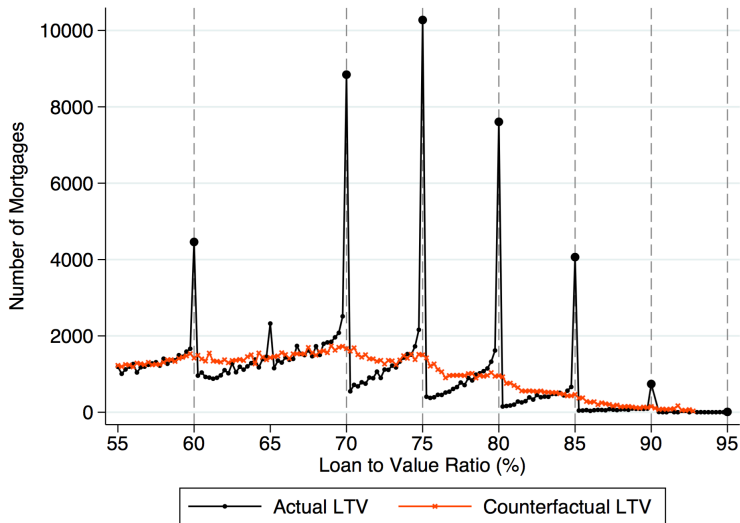**FIGURE 1: CONDITIONAL INTEREST RATE JUMPS AT NOTCHES**

# Figure 3

# Basic idea

- Simple consumption model implies household debt should be 'bunched' at 'notches'.
  - Should want to take out a mortgage at 75%, rather than 75.1%.
- Use this insight to estimate preferences for smoothing consumption.
  - Elasticity of intertemporal substitution (EIS).

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- Use this insight to estimate preferences for smoothing consumption.
  - Elasticity of intertemporal substitution (EIS).
- Approach: Interpret some key statistics using the consumption model.
- Finding: authors conclude that people bunch less than might have thought *a priori*.
  - $\implies$ low EIS, people don't like to shift consumption around.

# Discussion: equity extraction
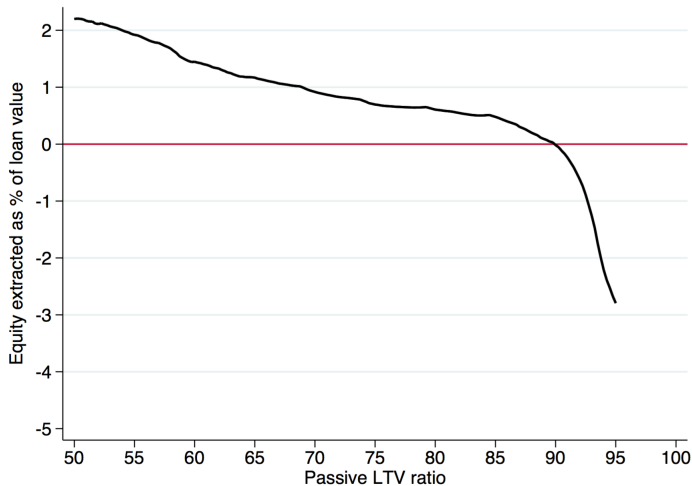
- Bunchers seem to have extracted lots of equity.

TABLE 2: FROM BUNCHING TO MORTGAGE DEMAND ELASTICITIES

| Statistic | Notch | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| | 60 | 70 | 75 | 80 | 85 | Pooled |
| $\Delta$Equity/$V$ (%) | 3.34 | 4.11 | 5.26 | 6.12 | 5.89 | 4.88 |
| | (0.09) | (0.06) | (0.07) | (0.07) | (0.12) | (0.04) |

- While non-bunchers extract less (next slide).
  - Those with high LTVs are *injecting* equity.

FIGURE A.3: EQUITY EXTRACTION BY PASSIVE LTV FOR NON-BUNCHERS

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  - Households not paying down debt.
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- In general there should be more on the dynamics in the data.
  - How many households cross notches?
  - What do they do at their 2*nd* re-mortgage?

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- Model implies *saving*/paying down debt.
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  - There is no motive to extract equity.
- How to reconcile model (with low EIS) with data?
  - Some households need to extract because of low income shock/high consumption needs?
  - Needs some model (and data) on income fluctuations.
  - This still wouldn't imply equity extraction *on average*.

1 Framework and institutional setting seems to rule out high EIS automatically.

   1 Required jump in LTV is larger than distance between notches.

TABLE A.2: FRACTION OF LIQUIDITY CONSTRAINED HOUSEHOLDS UNDER $\sigma = 1$

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- What are 'non-optimizers'?
- More robust/standard approach would be to include frictions directly and see how model could match more features of the data.
- More practical amendment: stick with current approach but introduce some pictures of 'theoretical' distributions with bunches/holes etc.