These views expressed are mine and do not necessarily reflect those of the Federal Reserve Bank of Atlanta.
Paper studies the effects of peer networks on mortgage refinancing behavior.

Uses novel administrative dataset on public school teachers in Texas matched to public property records.

Identifies “endogenous interaction” effects (Manski 2000) using plausibly exogenous variation in the formation of peer groups.

Campus assignment is random, teacher breaks are randomly scheduled.

Economically and statistically significant peer effects.

One standard deviation increase in peer group refinances within previous 3 months increases likelihood of refinancing by 6% - 42%.
Important contribution to mortgage literature:

- Well documented that many borrowers do not refinance when it *appears* to be in their financial interests to do so.
  - Deng and Quigley (2001) – many borrowers don’t refinance when option is deeply in the money (“woodheads”).
  - Well known that refinancing behavior of subprime mortgage borrowers largely insensitive to interest rate volatility.
  - But, difficult to conclusively show mistakes because optimal decision depends on so many individual-specific factors.

- Results suggest suboptimal behavior is taking place and that peer effects can alleviate such behavior.
- Highly relevant for MBS pricing and understanding monetary policy mechanism – especially distributional effects.
Important contribution to literature on social interactions/peer effects.

Very difficult to distinguish between:

1. **Endogenous interactions**: An individual’s behavior is influenced by the behavior of the group.

2. **Correlated effects**: Individuals in the same group behave similarly because they have similar individual characteristics and/or face similar institutional environments.

3. **Contextual interactions**: An individual’s behavior varies with the exogenous characteristics of the group.

Distinction is crucial because policy implications very different:

- Endogenous interactions create feedbacks between individual decisions.

- Convincing evidence that peer networks influence mortgage decisions.
1. Negative Savings and Costly Refinances ⇒ Errors of Commission?

2. IV Analysis

3. External Validity

4. Suggestions
Paper finds that peer groups also increase likelihood of refinancing for teachers that would appear to lose money by doing so.

- Similar magnitudes as teachers that would save money by refinancing (Table 4), although not statistically significant.

Hesitant to interpret these results as suggestive that some teachers are truly worse off.

- Possible that many of these teachers are withdrawing equity.
  - Might be able to test as should be able to identify cash-out refinances in data.

- Possible that this is simply measurement error ⇒ identifying instances of negative savings when they are really positive.
Data on contract characteristics very limited.
No information on interest rates or maturities or closing costs.

- Assume 30-year term for all loans and use the average rate for 30-year FRMs in the corresponding month (the PMMS rate).
- Assume closing costs of 1.5% original principal balance.

⇒ Noisy estimates of “net savings.”

- Could explain finding that peer effects result in costly refinances.
- Example: Teacher with poor credit score purchases home where mortgage rate significantly higher than PMMS monthly rate.
- Improves credit score by making mortgage payments for few years and then refinances at rate closer to PMMS.
- New PMMS rate higher than old PMMS rate, but teacher’s refi rate is lower than purchase rate due to credit score improvement.
IV Analysis

- Instrument for peer group refines with peer group’s refi incentives (average estimated savings).
  - Worried about unobserved heterogeneity at the off-period level.
  - Skeptical that this is important concern.
  - One possibility might be bulk/group refinancing?
    - Infamous Boston Fed bulk refinancing scheme.
- Estimated peer effects increase by more than fourfold!
- Seems like an implausibly large magnitude.
  - Perhaps more precise estimate of savings might help.
Important sample restrictions:

- Teachers.
- Registered voters.
- Purchased home between 2002 and 2011.
- Used a fixed-rate mortgage (FRM) to finance purchase.
- Restrictions on campus size (50 teachers) and average voter registration (70%).

⇒ Sample that starts with \( \sim 3.7 \) million teachers ends with \( \sim 32k \) teachers.

Summary statistics show that sample is:

- 66% Female.
- Very highly educated – 73% with at least bachelor’s degree.
Suggestions

- See if peer effects become stronger as estimated savings ↑.
  - Formalize Figure 3 by including interaction effect between peer refinances and estimated savings.
  - If positive estimate ⇒ consistent with peer effects helping to correct especially large “mistakes.”

- Could merge loan-level data with property records data.
  - Detailed mortgage characteristics and performance.
    - Can estimate net savings much more precisely.
    - Can study peer effects and mortgage choice.
    - Can study peer effects and mortgage default ⇒ contagion.

- Use property records to determine refi experience.
  - Might expect that greater experience lowers peer effects.