



Finance Speaker Series

Alberta School of Business
Department of Finance

Presents:

Asaf Bernstein

University of Colorado Boulder

Topic:

The Mortgage Piggy Bank: Building Wealth through
Amortization

Friday, December 3, 2021

1:30pm – 3:00pm

Zoom details located in the calendar invite.

If you are not a member of the Finance department and
would like to attend, please contact Beth Boison

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for the Zoom meeting details.

ABSTRACT

Mortgage amortization schedules are among the largest savings plans in the world (ex. U.S. households contribute hundreds of billions of dollars annually to these “mortgage piggy banks”). However, little is known about their effects on wealth accumulation. Ex-ante, the effect is unclear. It depends on the fungibility of home equity and other savings, and households’ willingness to adjust consumption or leisure. Empirically, effects are difficult to identify since amortization and other savings choices are typically co-determined. We overcome this challenge by utilizing a 2013 Dutch reform that increased amortization

requirements for new mortgages. Using detailed administrative data, we compare savings decisions for home-buyers right before or after the reform. We use plausibly exogenous variation in the timing of home purchase coming from life-events (ex. birth of a child) to address selection concerns. We find that marginal wealth-building from amortization (MWA) is substantial. Remarkably, households leave non-mortgage savings untouched and cut consumption and leisure instead, implying a near 1-for-1 rise in net-worth. Results hold five years out when the additional amortization-induced home equity is larger than the stock of liquid savings, suggesting substantial amounts of amortization-driven savings over a typical business cycle. Effects are ubiquitous and hold for movers and unconstrained households who could easily offset the additional amortization by reducing non-mortgage savings, suggesting a broad applicability of our results. Overall, our results highlight the critical importance of mortgage amortization for household wealth building.