Mortgage Amortization and Wealth Accumulation

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February 2020

Abstract

In January 2013, the Dutch government restricted new interest-only mortgages, which were a component of most home loans, causing a substantial rise in required monthly debt repayments. This novel quasi-experiment provides a unique opportunity to examine the role that amortizing mortgages can play in wealth accumulation. When we compare first-time home buyers right around the implementation of the regulation, we find little to no change in the accumulation of short or long-term financial assets, despite a significant increase in debt repayment. This implies a near 1-for-1 rise in net worth. It appears that households in environments with lower debt repayments consume more and work less rather than increase financial assets. Results hold restricting our sample to life-event driven purchases and appear unrelated to selection around the timing of the regulation. Results are consistent with savings decisions being almost entirely driven by short-term consumption smoothing or mental accounting. This suggests that policymakers can stimulate households to accumulate more wealth by encouraging homeownership financed with mortgages that force them to regularly pay down these loans.

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We would like to thank seminar participants at the MIT Sloan Junior Finance Conference, Baruch College, CFDM Lab Group and CU Boulder finance lunch for helpful comments.