Discussion of Berger, Lin, Xiao, and Zhu (2026)

"Unawareness, Impatience, and Mental Cost in Mortgage Refinancing Decisions"

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Summary

- **Research Question:** What drives households' failure to refinance despite substantial financial incentives?
  - Candidates: *unawareness*, *mental costs*, *myopia*, and *program expiration*
- **Setting & Data:** Home Affordable Refinance Program (HARP)
  - Sample: 30-year fixed-rate, always-HARP-eligible loans originated in 2003–2006 ($\approx$100K)
  - Structural sample: NYC and Boston subsample, March 2009–May 2010 ($\approx$28K)
- **Findings (reduced form):**
  1. *Awareness* is associated with refinancing outcomes
     - *Awareness* proxied by lagged Google search volume and lagged refinancing rates at the metro level
  2. Proximity to the program deadline increases refinancing activity

Summary

- **Findings (structural):**
  1. Moderate myopia: monthly $\hat{\beta} \approx 0.78$–0.84
  2. Substantial mental switching cost for first-time homebuyers relative to repeat buyers ($\approx \$3{,}950$)
  3. High initial awareness ($\approx 62\%$), which increases rapidly with lagged local refinancing activity
  4. Counterfactual exercises show:
     (i) Removing *awareness frictions* increases the refinancing rate by **0.5 pp**
     (ii) Removing *mental costs* increases the refinancing rate by **4.8 pp**

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- **Key Contributions:**
  - Structural decomposition of three margins of refinancing inertia
    - Goes beyond the Calvo vs. menu cost dichotomy in the literature
  - Finds a low estimated $\hat{\beta}$, a dominant role for mental costs, and a limited role for awareness frictions

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- **This could be a strength rather than a concern, but we need more guidance!**

- **Suggestion: provide more interpretation/explanation of the estimates**
  - **(β)** HARP borrowers: underwater & financially constrained $\rightarrow$ stronger impatience (Lawrance, 1991; Ogaki and Atkeson1997)
  - **(mental cost)** A distinctive, one-time refi program $\rightarrow$ perceived hassle cost of learning $\uparrow$
  - **(+)** Dominance of mental cost relies on extrapolation from the FH vs. repeat buyer gap

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  - (i) *Selected borrowers*: underwater households unable to refinance conventionally
  - (ii) *Special program design*: one-time use, eligibility rules, and program expiration
  - (iii) *Awareness of HARP* $\neq$ *awareness of refinancing opportunities in general*

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- **The structural sample adds another layer of specificity:**
  - Loans that were HARP-eligible throughout the sample period
  - NYC and Boston only: 2 of 210 DMAs
    - High-density, high-media-coverage markets that may not represent the broader population

Point II. Reframing the Scope (ctd.)

Suggestions:

(i) Position the paper around government-sponsored program take-up

- This is where the estimates are most informative
- The paper may offer broader implications for take-up-based government programs
  - e.g., FHA Streamline Refinance, PPP (Chernenko et al., 2023), Emergency Rental Assistance, ...

(ii) Compare key moments with the full DMA sample

Point III. Additional Suggestions

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- **(i) Awareness $\neq$ Attentiveness**
  - Once $a_t = 1$, borrowers actively evaluate refinancing all subsequent period
  - Knowing that HARP exists differs from actively considering it this month

  $\Rightarrow$ By ruling out intermittent attention, the model may attribute non-refinancing to fixed mental costs rather than time-varying inattention

- **(ii) X_t (one-period lagged refinancing) may capture two opposing forces**
  - When many neighbors refi, borrowers may learn more about HARP (= the paper claims)
  - But more past refinances also mean fewer eligible borrowers remain in the pool

  $\Rightarrow$ Low X_t need not imply low awareness

- **(iii) Mental cost counterfactual depends on a normalization**
  - The model finds $\hat{\rho}_{\textit{first-time}} - \hat{\rho}_{\textit{repeat}} \approx \$3{,}950$
  - But the baseline level of mental costs requires an additional normalization assumption

  $\Rightarrow$ Report the cf across different assumptions, rather than a single point estimate

Final Thoughts

- **Impressive paper!**
  - Tackles an important question in household finance
  - Develops a rich structural framework to separate several margins of refi inertia
- **My comments are mainly about interpretation and framing**
  - Estimates are interesting, and the HARP setting may be central to understanding them
  - Slight re-positioning could make the paper's contribution even clearer
- **I really look forward to seeing the next version!**