

Discussion of Fuster-Gianinazzi-Hackethal-Schnorpfeil-Weber 2026

The Response of Debtors to Rate Changes

Xu Lu

University of Washington

Summary of the paper

Question: How do borrowers prepare for & respond to mortgage rate increases?

Key findings:

1. Borrowers actively mitigate: realized payment increase is €276/yr vs. €1,044 counterfactual
2. 83% aware rates rose; median rate nowcast = 3.5% (accurate); tight dispersion vs. US
3. Letter RCT: no shift in rate beliefs (already informed), but ↑ refinancing for near-expiry borrowers
4. Strong selection into reading the letter: the informed read; the unaware don't

A fantastic paper that opens the "black box" of borrower behavior, challenging the traditional narrative of the purely passive, inattentive mortgagors.

My favorite takeaway: **institutions can manufacture attention!**

A lot to like about this paper!

1. Incredible data:

240K borrowers from a large German bank, 2018–2025 w/ information on refinancing, payments, timing; survey data (~2k) w/ randomized vignettes; and letter RCT (~48k).

2. Important question at the right time:

Refinancing is an important channel for monetary transmission. We know little about refinancing behavior during hikes—a very relevant case for today: market pricing in ECB hikes.

3. Rich institutional setting:

Germany's forward mortgages, prepayment options, and Bausparen create observable anticipatory actions most settings lack.

4. Careful survey design that studies a challenging anticipatory adjustment margin:

Open-text responses, vignette randomization, validation against bank data. (I learned a lot!)

My two cents

- I. The paper shows German borrowers are informed and active around mortgage resets.
 - a) Why are they so active?
 - b) The quantity vs. price margin of refinancing
- II. Implications from the responses of debtors.
 - a) Monetary transmission
 - b) Rich setting to understand the origins of inattention!

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- Germans are financially sophisticated! (Cultural? Historical trauma? Institutional messaging?)

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- Repeated reminders from the bank
- High interest rate after fixation period expires
- Loss from the fixation period

--- Rich implications!

The institutional background

Dominant mortgage structure in Germany:

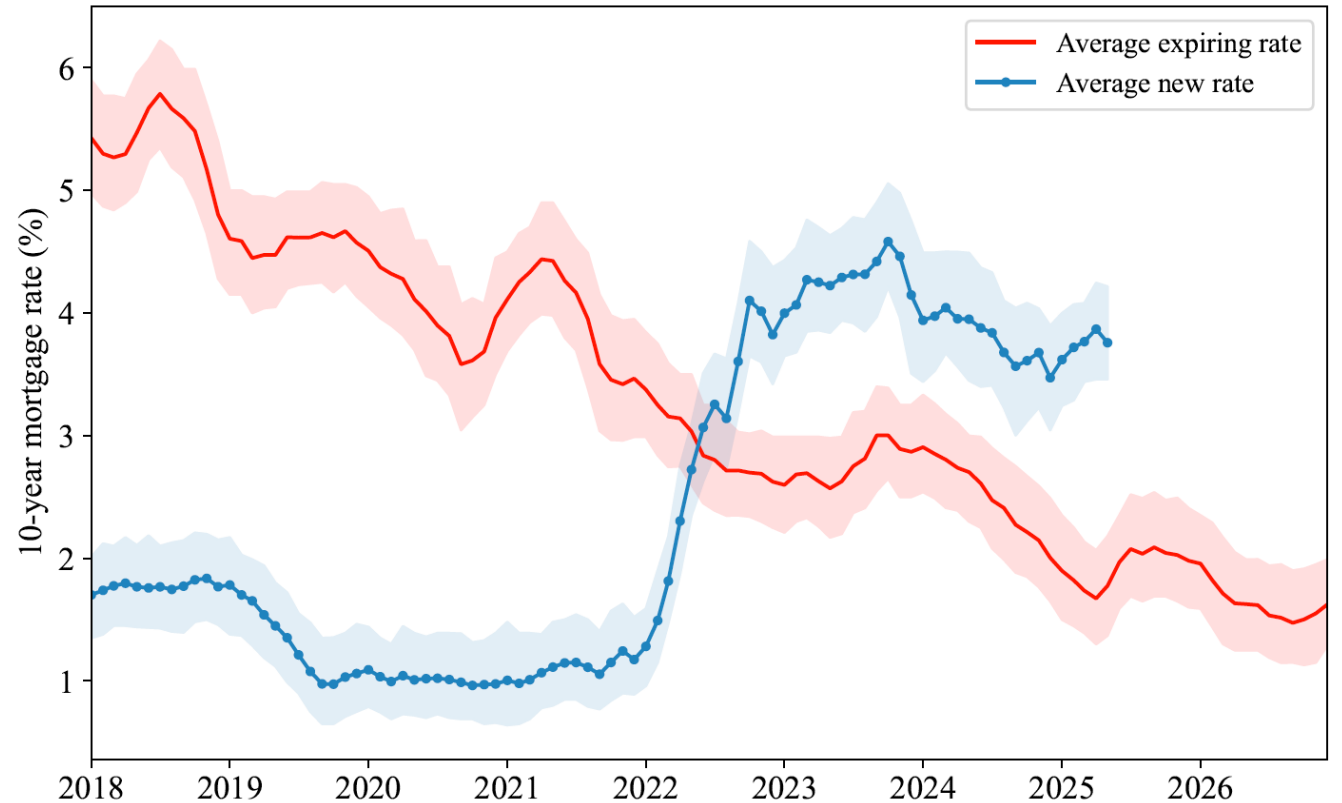
fixation period is shorter than loan term.

At the end of fixation, the borrower must refinance the remaining balance at whatever the prevailing market rate is.

Expiring rate: what borrower *was* paying;

New rate: what they *would* pay going forward.

Figure 1: Rates on new and expiring mortgages at our partner bank



Reminders from banks on mortgage prices (and quantity!)

Besides the usual stories of sophistication, financial literacy, etc, the setting is special:

0. The bank send repeated reminders to borrowers

*“Lender communication with the borrower happens at multiple stages during the fixation period. At the beginning of **each year**, the bank sends a letter with information on the outstanding mortgage balance as well as interest and principal payments made over the past year.*

*Borrowers who have opted into receiving marketing material from the bank receive notifications about the end of the fixation **three, two, and one year before expiry**, together with the offer to take out a forward mortgage”*

---analysis is on the subset of mortgagors that are repeatedly nudged by the bank.

How generalizable are these well-prepared German borrowers? --- not a key concern for implications I'll highlight later

Timing of the sample period

Besides bank reminders, the timing is unique:

1. A high market rate (new rate) & fast hikes after fixation period.

Does the level or the change matter?

$$h(t|R_t^m, R_i, \mathbf{X}_{it}) = h_0(t) \cdot \exp(\beta_1(R_t^m - R_i) + \beta_2\Delta R_t^m + \Gamma\mathbf{X}_{it}).$$

Both: high rate gap and rate change both increase the likelihood of refinancing.

2. Mortgagors paid higher than market rate (new rate) during the fixation;

A borrower who locked in say 5% in 2012 while market rate fell to 1% by 2020 experiences a much larger realized loss relative to the floating counterfactual.

(From a rational benchmark this does not matter for forward-looking refinancing---
reasonable to omit in the paper)

Borrowers react optimally / know better than markets?

- We know that inflation and rates are highly persistent; forward prices already reflect the persistent component.
- Rushing to lock in suggests borrowers are treating the rate shock as potentially more persistent than the market thinks, or they're responding to the salience of the change rather than its information content. It's about risk aversion, not the “free lunch” in the US.
 - When the mass rushed in during 2022, forward premia did **not** spike, suggesting they are paying a fair price for the insurance.
 - Majority of borrowers are not saving because they timed the market well.
 - Borrowers actively restructure their loans & absorb about three-quarters of the mechanical payment shock!

Where the paper innovates from the literature

- The literature on refinancing inertia is about not responding to rate gap, but here the rate gap is merely a wake-up call to a powerful quantity adjustment margin: forward market price is fair (then gain from timing the hikes is irrelevant), and savings from refinancing here mostly work through restructuring the loans.
- In the current design, the response of debtors reflect 1) taking risky directional bet against market expectation 2) take a fair insurance. Is the hazard model about risk aversion?
- Consider provide more direct evidence testing the refi activeness via the quantity margin:
 - Empirically, among the borrowers with “Sondertilgung”, authors can check if they paid off the annual debt reduction during 15-20 when short rate was zero.
 - If so, this is direct evidence of adjusting Q actively.

Implications from the response of the debtors

- 1) Important, policy-relevant results for monetary transmission;
- 2) Intriguing new evidence on origins of inattention!

Monetary transmission

How does monetary tightening today affect households?

Within the German context: Homeownership ~50%.

	Kindermann-Le Blanc-Piazzesi-Schneider 2024	This paper
Key sample	Renters	Mortgagors
Finding	More optimistic and accurate price forecasts but slow to update	Actively anticipate fixation expiry and refinancing dampens pass-through

Renters under-react as they learn slowly.

Mortgagors over-prepare as they are well-informed and have hedging instruments.

Both weaken monetary transmission, but the welfare implications differ! Renters bear unanticipated costs; mortgagors transfer risk to lenders/banks.

Mortgages are sizeable, why don't households refinance?

Extensive evidence points to inattention (e.g., Keys et al. 2016, Andersen et al. 2020, Bryne et al. 2024, Berger et al. 2025a, 2025b).

This paper's unique setting may shed light on the origins of inaction in refinancing!

- Weber et al. 2025: inattention is endogenous, and lower with high inflation.
- This paper: agnostic about the mechanisms, but potentially can say much more (future work!):
 - All existing work (to my knowledge) model forward-looking refinancing decisions with a random path. This paper points to anticipation of directional changes → Important distinction that would imply high prepayment risk for banks.
 - The authors observe size, rates, and timing of mortgage origination and refinancing → great opportunity to test loss aversion/reference point.
 - The authors find move from 1.5% to 3.5% triggers more advisor-seeking and income adjustment than a move from 3.0% to 3.5% → proportional thinking?

Excellent, thought-provoking paper!!
