

## **Determinants of Borrower Choice: Differences Across Time and Borrower Types**

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Purchasing a home is one of the most important decisions for many household, and the choice of a mortgage loan is a critical part of that decision. This study looks at the determinants of consumer mortgage choice between fixed and adjustable rate mortgages. Understanding this consumer decision is important to many groups (borrowers, lenders, policymakers) and has far reaching implications (for instance, it impacts monetary policy transmission mechanism). This study contributes to the literature by presenting evidence on consumer mortgage choice from a large dataset and examining heterogeneity of sensitivity of mortgage choice to its determinants across borrowers and across time. We differentiate between borrowers with different credit quality and gain insight into the experiences of subprime borrowers, which is group that gained particular interest from researchers and policymakers during the Great Recession. We are also able to look into differences in consumer mortgage choice before and during the financial crisis. We use a large loan-level data provided by Lender Processing Services (LPS) Applied Analytics, Inc. Servicers represented in the dataset account for about 60% of the mortgage market (most of the large mortgage servicers are represented). Our sample includes approximately 1.15 million mortgage loans originated in the U.S. between January 1, 2000 and December 31, 2007. Following the existing literature (see, for instance, Dhillon et. al 1987, Vickery 2007, Krainer 2010), we model the mortgage choice decision using a standard probit probability specification (explanatory variables include fixed rates, fixed rate mortgage/ARM spread, term premium, past two years of house price appreciation to account for affordability concerns, and borrower characteristics, such as credit score, loan-to-value ratio, loan amount, and loan type and the purpose of the loan to differentiate between purchasing and refinancing).