

Real Estate Department

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From:

Fernando V. Ferreira

Associate Professor of Real Estate, and Business Economics and Public Policy
The Wharton School, University of Pennsylvania

January 15, 2013

Dear Colleague,

I am very pleased to write this letter on behalf of Anthony DeFusco, who is pursuing a NBER Household Finance Research Grant. Anthony is a Ph.D. student in Applied Economics at Wharton. Our program admits 5 or 6 highly qualified students every year. In the past three years we were able to attract students that were accepted in top Economics programs, such as Princeton, Michigan, Penn, and Chicago. We compete for students by providing a lot of research support, and also by giving them the best possible training available at Penn.

Anthony is one of the top students in his cohort. He excelled in the core courses, and has worked on a very interesting research agenda. The relevant paper for this grant (in co-authorship with Andrew Paciorek from the FED) is about estimating the household interest rate elasticity of mortgage demand. This is obviously a very important structural parameter to estimate, as mortgage debt is critical for a large fraction of households in the United States. Moreover, policymakers would be highly interested in this parameter, as the FED is still trying to boost the housing market in order to help the overall economy. Despite its importance though, estimating such elasticity is very difficult due to data limitations and omitted factors.

Anthony proposed a very clever research design to credibly estimate the interest rate elasticity: exploiting the regulatory requirement of conforming loan limits imposed on the GSEs. Those requirements create a notch in the budget constraint of households deciding on how much debt to incur, and it leads to a nice setting where the notch can be used to recover the relevant elasticity. Anthony already has micro data on the bunching of mortgages around the conforming loan limits, as shown in his proposal. But he lacks the critical data on the magnitude of the interest rate differential that are part of the menu of interest rates available to households. These data can be purchased from a company called LoanSifter, and the research grant would be solely used for that purpose.

This is a very exciting project, with clear practical consequences. Moreover, Anthony is a very competent, talented, and hard-working student. He will successfully complete this project. I hope that you can participate in this endeavor by providing critical assistance with the data purchase.

Thank you, and please do not hesitate to contact me if I can provide further information.

A handwritten signature in black ink that reads "Fernando V. Ferreira". The signature is written in a cursive, flowing style.

Fernando V. Ferreira

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