

Inattention and Inertia in Household Finance: Evidence from the Danish Mortgage Market

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Abstract

A common problem in household finance is that households are often inactive in response to incentives. Mortgages are generally the largest household liability, and mortgage refinancing is an important channel for monetary policy transmission, so inactivity in this setting can be socially costly. We study how the Danish population responds to mortgage refinancing incentives between 2010 and 2014, building an empirical model that identifies two important sources of inactivity: inattention (a low probability of responding to a refinancing incentive in a given quarter), and inertia (a psychological addition to the financial cost of refinancing). Inertia is hump-shaped in age and generally increasing in socioeconomic status, while inattention is highest for older households and households with low income, education, housing wealth, and financial wealth, making it the key determinant of low refinancing among households with low socioeconomic status. Our model highlights the importance of policies to make such households aware of refinancing opportunities or to refinance mortgages automatically.