

# The Mortgage Piggy Bank, Saving Behavior and the Distribution of Wealth: Evidence from Euro Area Countries

Luís Teles Morais

Nova School of Business and Economics & European Central Bank, DG Statistics  
[21310@novasbe.pt](mailto:21310@novasbe.pt)

This paper explores how saving through mortgage debt repayment shapes heterogeneity in household saving rates and, ultimately, the distribution of wealth.

The lion's share of middle class households' wealth is held in housing. Recent studies have shown how this moderated the rise of wealth inequality in the last decades, through a returns to wealth channel: the middle class benefited from high returns in housing. Here, I seek to understand to what extent homeownership may also curb wealth inequality through a saving rates channel.

Given high transaction costs in mortgages and housing, both rational (binding liquidity and credit constraints) and behavioral (desire for a savings commitment device) factors can introduce a wedge between the saving behavior of mortgaged homeowners, and other households. This study provides evidence from European countries for the presence of such a wedge, and its impact on the distribution of saving rates.

Multiple studies (namely Kaiser, 2021, presented at the last IARIW meetings) have shown that, in European countries, wealth inequality is lower where homeownership rates are higher. Building on this observation, using the same dataset (the Household Finance and Consumption Survey, HFCS), this paper uncovers evidence for a specific mechanism that can plausibly lead homeownership to influence the wealth distribution: the effect of mortgage amortization on the distribution of saving rates.

Firstly, it provides estimates of the distribution of saving rates in euro area countries; to this effect it improves on the limitations of HFCS data on income and consumption by matching it to National Accounts data. Second, it shows how the distributions differ across subsamples of mortgaged homeowners, outright homeowners, and renters. To further establish the importance of the effect it first analyses, in a quantile regression framework, how, even after controlling for age, education, income and other features, mortgaged homeowners are present in the higher quantiles of saving intensity, compared to other groups. Then, using counterfactual decomposition methods (as in Machado and Mata 2005), it provides estimates of the impact of having a mortgage payment on different parts of the distribution of saving. Finally, in an unconditional quantile regression framework, it is shown how the effect is related with the life cycle and with the severity of mortgage amortization payments (payment to income ratios).

Taking advantage of the cross-country heterogeneity in the HFCS sample, the paper examines robustness of these effects to different institutional settings, in terms of housing and rental markets, preferences for homeownership and mortgage credit regulations.