The Mortgage Recording Tax
Incidence and Market Power Repercussions

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Abstract

The mortgage recording tax is an ad valorem tax on the loan amount for a property purchase or mortgage refinance. Even though this type of tax may seem to make the purchase of a home more costly and bar borrowers from taking full advantage of decreases in long-term interest rates, little attempt had previously been made to study the incidence and refinance implications of this tax. Exploiting variation in the mortgage recording tax rate in New York state over time within a county and between counties at any given time, estimates suggest that the typical tax increase of 25 basis points leads to a decrease in initial mortgage interest rate of approximately one-tenth of a percent, with the effect concentrated in the population of subprime borrowers, and an increase in loan-to-value at origination of approximately 2 percentage points. Furthermore, I find that a 25 basis point increase in the tax rate crowds out approximately one-in-seven mortgage refinances.

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