given level of income, borrowers who buy more expensive houses are less price elastic with respect to mortgages. This makes sense: customers who are willing to purchase a larger house are also more willing to pay a higher interest rate. Conditional on the house price, on the other hand, higher-income households are more price elastic. In other words, the household which bought a more frugal home relative to its income is also more price elastic when choosing a mortgage. Since jumbo mortgages cater to borrowers in high house-price areas, this implies that they cater to a less price-elastic part of the borrower population, allowing, all else equal, higher markups earned on these mortgages.

Distribution of Ideal Mortgage Sizes

The preference for mortgage size is a central driver of consumers choosing jumbo versus conforming mortgages. As Table 5B shows, the ideal mortgage size is larger for wealthier individuals, with an elasticity of 0.38: as income rises by 1%, the desired mortgage size increases by 0.38%. This estimate is close to the heuristic that household debt should not exceed 30% of household income. Desired loan size also increases with house prices, with an elasticity of approximately 0.39.

Consumers borrow below their ideal size either due to LTV constraints or because they choose a cheaper and more convenient conforming mortgage instead of the desired jumbo. Borrowers find departures from their ideal mortgage size costly. For borrowers who would otherwise prefer a jumbo mortgage, we estimate a mean disutility of taking a smaller loan to be $\bar{\beta} = 5.79$, which is equivalent to roughly a 5.1% higher interest rate. This estimate reflects the fact that consumers are on average very price elastic, but jumbo borrowers are still willing to take a more expensive jumbo mortgage. Therefore, these borrowers must place a high value on the additional funds provided by a jumbo mortgage. That is intuitive: taking out a smaller conforming mortgage may prevent the borrower from purchasing a home or result in purchasing a substantially smaller home than they desire.

Borrowers with high income are less sensitive to taking smaller loans, while borrowers with high house prices are more sensitive to taking smaller loans. This is not surprising: High-income borrowers are likely to be able to adjust to smaller loan sizes by putting up more of their own money. Borrowers buying high-price homes, on the other hand, are more dependent on larger loan sizes and consequently are less willing to substitute a small conforming loan for a large jumbo loan. Finally, we find a positive and substantial preference for conforming loans overall as opposed to jumbo loans, possibly reflecting the costs of qualifying for and obtaining a jumbo loan (e.g., increased screening/loan documentation requirements, additional time and effort needed to obtain a jumbo loan relative to conforming loan). The preference for conforming mortgages explains the substantially smaller market share of jumbo mortgages relative to the house price distribution.

IV.C.2 Supply Estimation and Results

To estimate the supply-side parameters, which govern intermediaries' behavior, we use the revealed preferences of intermediaries in setting interest rates and choosing how many loans to retain on the balance sheet. We estimate parameters governing the costs of origination for the three types of intermediaries we observe, the financing cost of balance sheet lending, and the costs of originate-to-distribute. Intuitively, using demand estimates, we can compute the markups that intermediaries earn. We use lenders' pricing decisions, combined with these markups, to infer the costs of lending. For