Pathways to Homeownership and Housing Wealth

Discussion

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The Homeownership Pathway & What The Papers Tell Us

Many view homeownership as part of the pathway to the middle class

- [Paper 1] Parental wealth plays a role in homeownership transitions
- [Paper 2] Lowering interest rates: A pathway for some areas but not others
- [Paper 3] Pathway can include risky non traditional contracts
Examine homeownership transition disparities in white and non-white families

- Fairly large, panel data set (HRS), so can look at transitions into/out of homeownership
- Focus on transitions: Renter to owner, owner to owner (sustainability)

Compared to children of non-white parent(s), children with both white parents are

- 16% more likely to become a homeowner over a 4 year period
- 20% more likely to maintain homeownership over a 4 year period

What can the HRS data tell us about these “transition” gaps?
Paper 1: Factors of Transition Gaps in Homeownership, White vs. Non-White

Percentage Points

- Parental Demographics
- Demographics
- Education
- Income
- Parental Wealth
- Unexplained

Total Gap 16pp
- 1.0
- 2.0
- 2.9
- 3.7
- 6.5
- 2.2

Total Gap 20pp
- 0.8
- 1.6
- 1.2
- 5.9
- 8.2

Becoming a Homeowner

Staying a Homeowner

Factors include parental demographics, income, education, parental wealth, and unexplained factors.
Paper 1: Policy Implications

• Policies that help build wealth for parents can benefit future generations
  • One way to do this is through homeownership
  • Historical policies explicitly favored white families in the pathway to homeownership

• However, structural reasons for the wealth gap persist, including
  • Home prices in neighborhoods with large shares of families of color have not recovered as well as homes in majority white neighborhoods
Paper 2: Main Takeaways

Hacamo

• Home price data in early 2000s and economic stimulus for dot-com bubble
• Lowering interest rates fuels borrowing and increased home prices in middle income areas, but not in low and high income areas
  • Low income: credit constrained (ex: do not have a down payment)
  • High income: already live in their “dream home”
• Main focus on the “real economy” financed by home equity
Paper 2: Policy Implications

*Hacamo*

**Place matters, even for a nationally set interest rate**

- Not all neighborhoods share the benefits of lower rates equally
  - Lowering rates may not be the way to encourage transition to homeownership
    - For certain groups who are credit constrained for other reasons
    - Other policies can get people to the point where they can respond to a lower rate

- Lowering rates may worsen affordability issues in middle income areas
  - Middle income families may be priced out, move into lower income areas
Paper 3: Main Takeaways
Carpenter, George, and Nelson

• CFDs are common in neighborhoods in decline (low mortgage originations)
• Getting a traditional mortgage is hard for a many reasons, including
  • Properties are low value, so they’re not profitable for traditional mortgage lenders
  • Low home sales volumes
    = few comparable properties or “comps” for appraisers
    = mortgages hard to make
Paper 3: Low-Value Properties CFDs Instead of Mortgages
• Policy Implications
  • Authors propose tighter consumer protections on CFDs
  • This will make CFDs more like mortgages, and there will likely be fewer of them
  • Strictly regulating CFDs may help consumers, but need more to solve distressed neighborhood problem