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

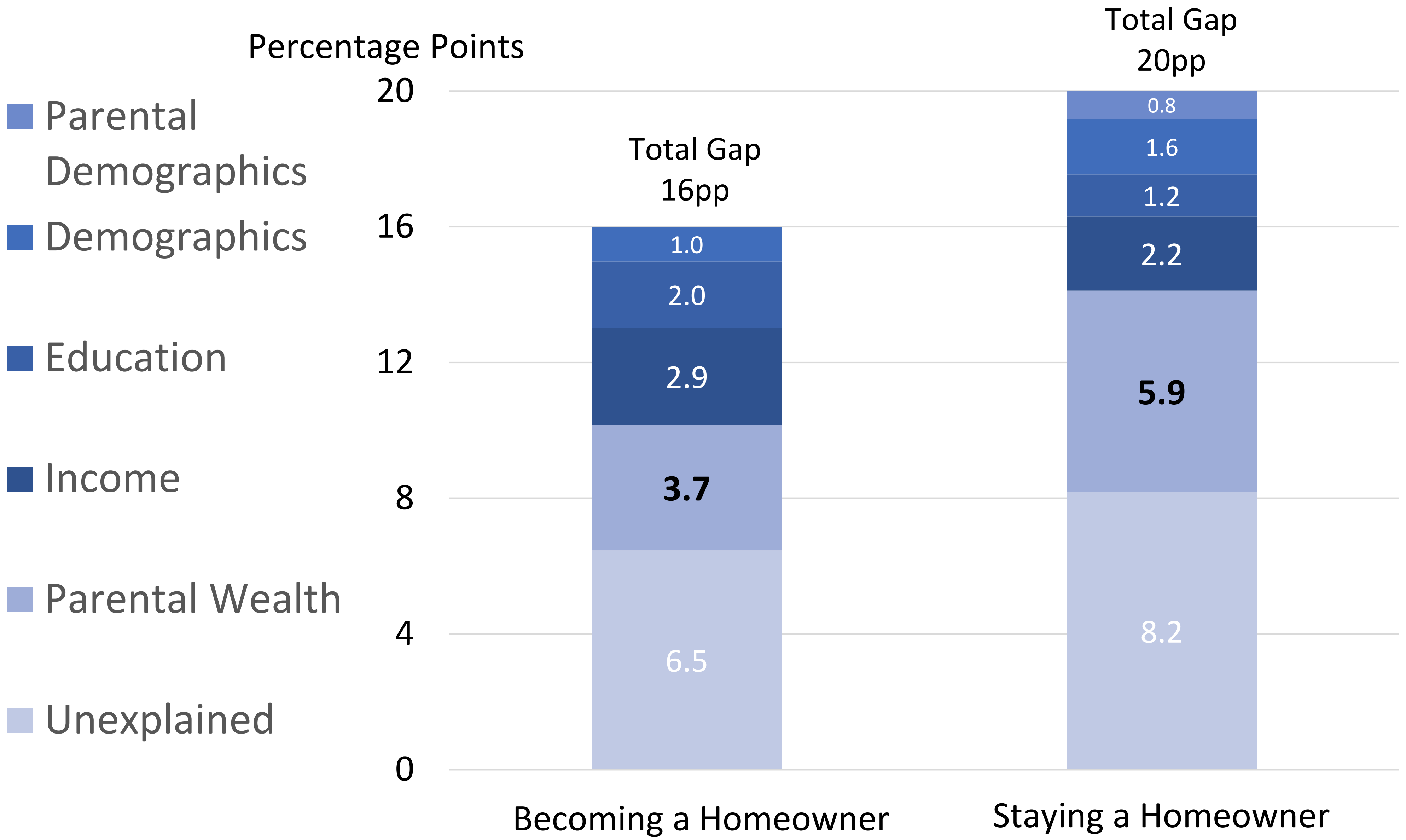
- [Paper 1] Parental wealth plays a role in homeownership transitions
- [Paper 2] Lowering interest rates: A pathway for some areas but not others
- [Paper 3] Pathway can include risky non traditional contracts

Paper 1: Approach & Selected Findings
Bond and Eriksen

- 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
    - Years: 2004, 2008, 2012
  - 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



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

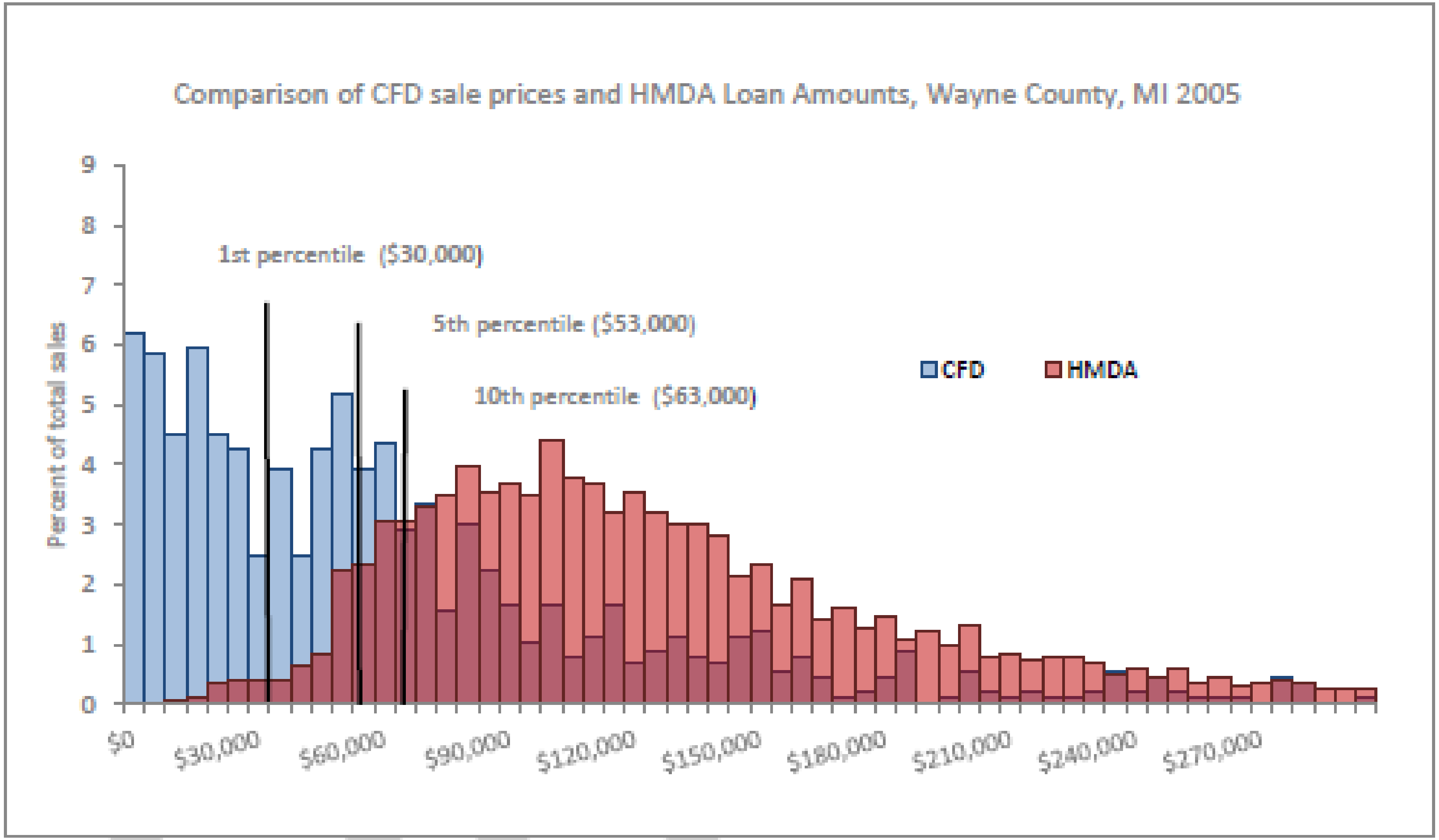
Paper 3: Main Takeaways
Carpenter, George, and Nelson

- 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



Paper 3: Policy Implications
Carpenter, George, and Nelson

- 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