Discussion of “Household Leverage Before and After the Great Recession” by Adelino and Schoar

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Background

There has been a boom in research on housing and mortgage issues over the past dozen years, including several important papers by these authors.

Much of this research has focused on the experiences of the pre-crisis and crisis periods.

A key theme has been the role of heterogeneity—and these findings have really helped us understand what happened in these periods.
This paper explores heterogeneity in home prices, mortgages, and homeownership over the post-crisis period

Some key results:

The annual cost of owning fell despite a rise in prices and mortgage sizes

Homeownership rates for low-income households appear to have bounced back more strongly than for higher-income households

Purchases of homes by low-income households tilted toward always-boom areas just after the crisis but more recently have been more concentrated in non-booming areas

These results are interesting for what they may say about economic mobility (and, to some extent, financial risks) and they merit further exploration
Result 1: Lower annual costs despite higher mortgage amounts

Payments on Home-related Loans, Real Estate Taxes, Home Insurance, Fuels as a Percent of Income for New Owners

(more of an affordability than a “user cost” measure)

for MSAs with above-median home prices in 2015

Screenshots from Adelino and Schoar (2021)
Both trends likely to be connected, at least in part, to what has happened to interest rates

A decline in interest rates should lower mortgage debt service burdens

A decline in interest rates should raise the price of assets that are alternatives to bonds => more expensive homes => higher purchase mortgage amounts (given constant CLTVs)

Data from Freddie Mac and Federal Reserve via FRED (here and here)
Implications

“Affordability” of housing has increased on net since the pre-crisis period [can see this in other measures too]

We know that ability to make mortgage payments is a key underpinning of the sustainability of homeownership [e.g., Amromin, Dokko, and Dynan, 2020]

But we want to think about risks as well as the most likely outcomes when evaluating the consequences for households and for financial stability

How many mortgages borrowers would go into negative equity if interest rates rise more than is currently expected?

The geographically granular information about home prices and mortgage amounts in the author’s data could allow for some interesting “stress-testing”
Result 2: ACS data show low-income households saw less of a decline in homeownership and had more of a bounce back [relative to higher-income households]

Change in Homeownership Rates by Income Group since 2005 (through 2019)

11/9/21  Dynan - FRB-BOS Conference  Screenshot from Adelino and Schoar (2021)
This is consistent(-ish) with what A & S find in terms of mortgage flows.

Millions of Purchase Mortgages Originated

Percent Change in Purchase Mortgage Originations

— for MSAs with above-median home prices in 2015 —
But it’s somewhat surprising given some things we know about how credit access has changed

Mortgage Originations by Credit Score
Billions of dollars

Urban Institute Housing Credit Availability Index

Screenshot from New York Fed

originations never rebounded for the lowest groups

Screenshot from Urban Institute
And also somewhat surprising given what we know about homeownership patterns by race and ethnicity.

**Homeownership Rates**
Percentage point change since 2005

- **Hispanic or Latino**
- **non-Hispanic White**
- **Black**

2019Q4 homeownership rates:
- 73.6% non-Hispanic white
- 48.1% Hispanic or Latino
- 42.9% Black

Author's calculations based on Census Bureau via [FRED](https://fred.stlouisfed.org/)

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(And the SCF shows a somewhat different pattern)

A&S point out that their estimates are probably more reliable because the ACS is so much larger and because their calculations are in line with patterns from the also-large CPS/HVS.

Still, it seems like some effort to reconcile would be worthwhile given that the SCF is the basis for so much distributional wealth analysis and housing is such an important component of middle-income wealth.
Interpreting the ACS homeownership results

When we think of "low-income" households, we often picture households who have low standards of living over their lifetimes.

But the current income of some households may understate their standard of living because of:

- They live in areas with lower costs of living.
- They have experienced temporary job loss.
- They are at a stage of the life-cycle where current income is lower.

Exploring the role of these factors might be important to the interpretation of the results.
Demographics seem particularly important to consider

The fraction of adults who are above the normal retirement age has increased by more than 4 percentage points since the mid-2000s.

The current incomes of large numbers of adults likely fell substantially with retirement.

Would education or average income over several years be a better way to get at lifetime income?

Author's calculation based on data from CBO, with everyone 20+ counted as adults.
Result 3: Differences in patterns of home purchase across geographies

It seems quite interesting to group areas by differences in their housing cycles.

There is a provocative potential narrative that low-income households bought into great (always boom) areas right after home prices collapsed and later were more likely to purchase in areas that didn't boom in the 2010s.
Some evidence of low-income households being priced out of “always boom” areas

Credit has been tight for all borrowers with less-than-stellar credit scores—especially in MSAs with high housing prices

Urban Institute (2021)
Potential issue with the groupings—MSAs can be big with substantial heterogeneity within

MSA 47900

Washington, DC

Rappahannock, VA
To interpret the different patterns of home purchases

I have the same issue as before about how to think about the income groups—e.g., how many of the low-income people purchasing homes in great MSAs post-crisis were laid-off bankers or well-heeled retirees taking advantage of discounted home prices?

I also want to know more about the home-price-cycle groupings and how they connect with household well-being:

- Beyond growth in home prices, can we point to other common traits tying the groups together?
- In particular, what can we say about whether home price growth is a good proxy for a thriving economy?
To sum up

This is a great line of research, and I’m glad to see these authors tackling it.

The findings are interesting, and I think more analysis will help illuminate the implications of their results.
Final thought

Wherever we come out on the 2010s, there will be lots more work to do on the 2020s

The last 20 months have seen dramatic changes in housing markets and how people think about their homes

Screenshot from Kastle and data from Case-Shiller via FRED