

Liquidity, Wealth, and Housing *Discussion*

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CFPB Research Conference

May 7, 2021



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Brandsaas: Bank of Mom and Dad

- Study effect of parental transfer of wealth on homeownership of young households
- Important exercise given growing role of parental transfers
- Discussion
 1. Role of parental wealth
 2. The intra-family decision problem
 3. Black-white homeownership gap

Role of parental wealth

- This paper: wealth is source of monetary transfer
- Parental wealth affects many more aspects of children's lives that are
 - Not necessarily observable over time or at all in PSID
 - Influence expectations of future income/shocks and housing choices
 - For example
 - Social networks
 - Physical and mental health outcomes
 - Return on assets
 - Revealing fixed-effect results: within-person variation in parental wealth is not relevant for being behind on mortgage payment
- Wealthy parents: a great source of investment when a child and option value later in life

Intra-family decision problem

- In the model, parents are altruistic, children are not
-  Children overinvest in housing – they purposefully become housing rich and cash poor to extract further parental support in case of future negative shocks
-  When parental transfers are shut down
 - Median wealth of young households doubles
 - Wealth at purchase increases by 59%
 - Mortgage debt decreases by 50%

Intra-family decision problem

- Why not mutual altruism?
- Undersaving can be present even if kids care about their parents – option value of parental wealth is valuable even if never used
- Other possible considerations
 - Preferences for “nesting” – own home when baby comes
 - Interaction with siblings (data available in PSID)
 - Interaction with other forms of support (e.g., college)

Black-White homeownership gap

- Model fails to fit important moments for Black young homeowners
 - Median wealth in the model is 5.51 times as large as in data
 - Wealth at purchase in the model is 4.99 times as large as in data
 - Mortgage debt in the model is 55% as large as in data
- Black-White homeownership gap (Urban, 2019)
 - 2017: 41.8 pp for Black vs 71.9 pp for White households
 - Income gap (including parental support): 9 pp
 - Credit score gap: 10.8 pp
 - Marital status gap: 9 pp

Bernstein and Koudijs: Mortgage amortization

- Considers mortgage reform in Netherlands to study role of mortgage amortization in wealth accumulation
- **First study** that I am aware of to causally establish that mortgage amortization builds wealth
- Discussion
 - The policy environment
 - Summary of key findings
 - Policy implications

The policy environment

- Very different from US mortgage market & large market-wide changes
- Netherlands mortgage market pre-reform
 - Very strong recourse (lender's ability go after other assets)
 - High LTV loans (often over 100%)
 - Generous mortgage interest tax deduction
 - Full interest-only loan was available
 - Over time, macroprudential considerations
 - Interest-only share reduced
 - Maturity capped at 30 years
 - Limits on DTI and LTV
 - 2011: IO set at maximum 50%
- 2013 reform: first-time homebuyers were to have fully amortizing mortgage

Summary of key findings

- For a given size mortgage, amortized mortgage payment is higher after reform
- Reform leads to one-for-one increase in savings and wealth accumulation
- Holds for households who already save and for all ages
- Households increase labor supply by 26%-36%, remainder is decrease in consumption
 - Any survey evidence on which components of consumption are affected?

Policy implications

- Housing policy take-away
 - ➔ Key is amortizing mortgage, not solely homeownership
- More choice of amortizing mortgages would be beneficial to consumers
 - Given desired loan size and LTV
 - Desiring lowest rate
 - Can vary payment size by varying maturity
 - ➔ Create liquidity in more maturities

Pattison: Landlords as Lenders?

- Part of literature considering how households adjust personal finances in response to unemployment or income shortfalls (Ganong and Noel, 2019)
- Focuses on late payment of housing: during 225 periods of unemployment
 - 23.5% decline in household income
 - 1.3% decline in housing payments
- Discussion
 1. “Valuable source of liquidity”
 - a. The household’s cost of missed mortgage payment
 - b. The household’s cost of missed rent payment
 2. Rental market and evictions

Household's cost of missed mortgage payment

- Ex ante cost
 - Mortgage pricing depends on credit worthiness (score) at origination
 - Some ex-ante expectation and cost of mortgage delinquency is built in
- Ex post cost
 - Late fees
 - Most servicers report mortgage delinquency after 30 days
 - As a function of the severity of the delinquency, credit score and future credit access and credit pricing are affected
- CFPB mortgage servicing rule extended to 120 days the length of time before foreclosure can be started

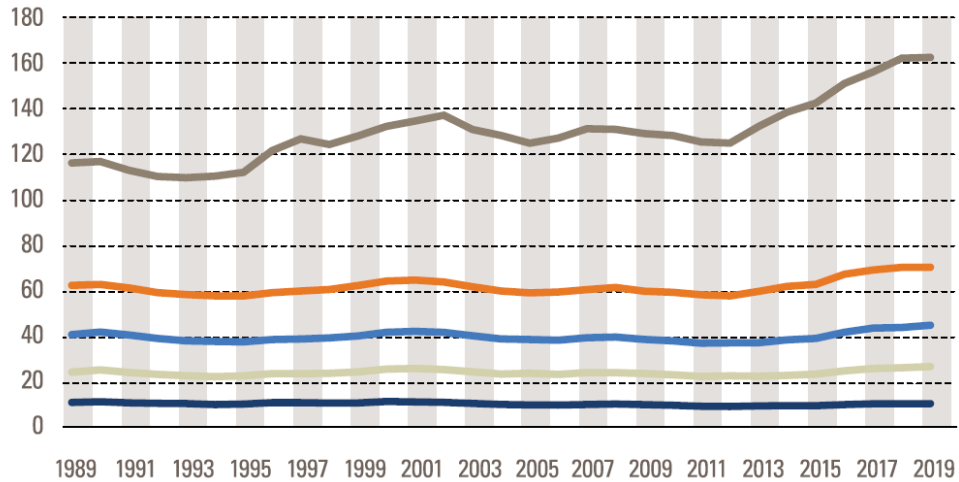
Household's cost of missed rental payment

- In violation of lease
 - Late fee
 - Risk of unit not being kept up
 - Risk of landlord retaliation and harassment
 - Start of eviction process

Rental market – growing inequality

...Inequality Among Renter Households Has Increased Sharply Over the Past Three Decades

Average Renter Household Income (Thousands of 2018 dollars)



Income Quintile

■ Bottom ■ Lower-Middle ■ Middle ■ Upper-Middle ■ Top

Notes: Income quintiles are for renter households only. Dollar values are adjusted for inflation using the CPI-U for All Items.

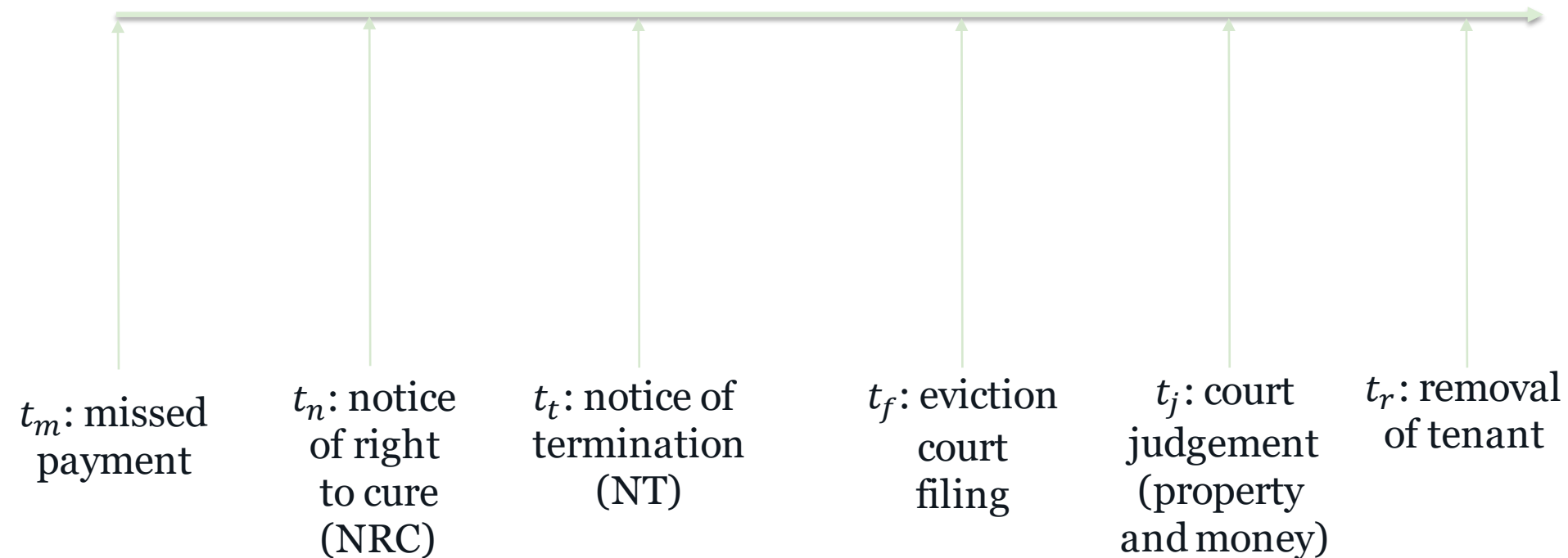
Source: JCHS tabulations of US Census Bureau, Current Population Survey via IPUMS-CPS.

Behind on rent in the pandemic

- From Census Pulse data, week ending March 29, 2021

Renter income	Share behind on rent
Less than \$25,000	20.00%
\$25,000 - \$49,999	15.97%
\$50,000 - \$99,999	9.47%
\$100,000 - \$199,999	5.65%
\$200,000 and above	3.95%

Eviction process for non-payment can be very fast



Summary of state and federal policies

- Among the 45.36M rental households in the U.S., the prevalence of
 - Legal late period is 15.54% (5.4 days, if exists)
 - Notice of right to cure is 89.86% (6.6 days, if exists)
- Many tenants vacate for fear of consequences of eviction filing on record – known as “informal evictions”
- Monetary cost of evictions generally low (few hundred \$)
- Federal policy
 - CFPB issued Interim Final Rule in April
 - required debt collectors to provide written notice to tenants of their rights under the CDC eviction moratorium
 - clarified ways in which tenants can hold debt collectors accountable for evictions that violate Federal law