

ENDOWMENTS AND MINORITY HOMEOWNERSHIP

Arthur Acolin

University of Washington

Desen Lin

UPenn

Susan Wachter

UPenn

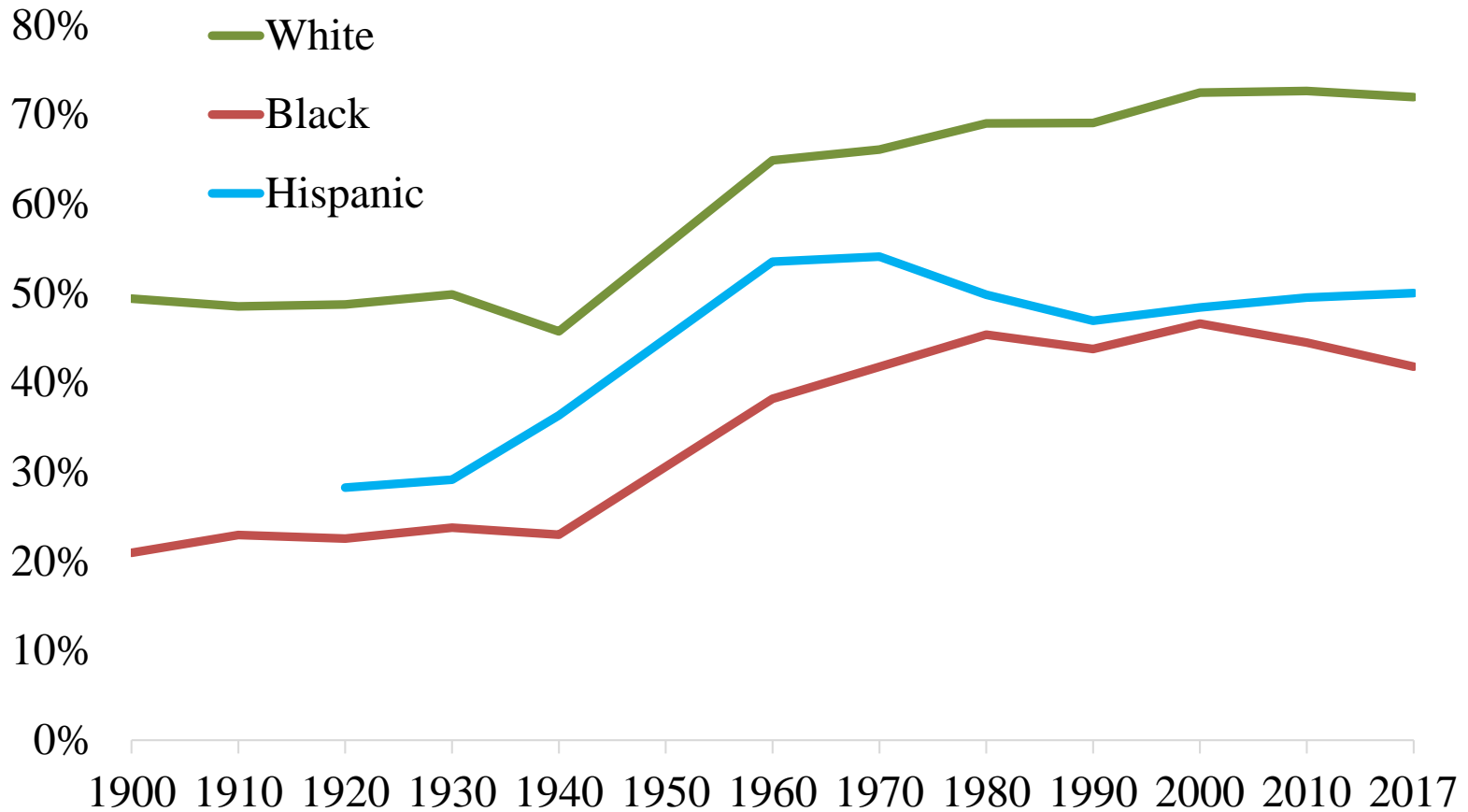
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Overview

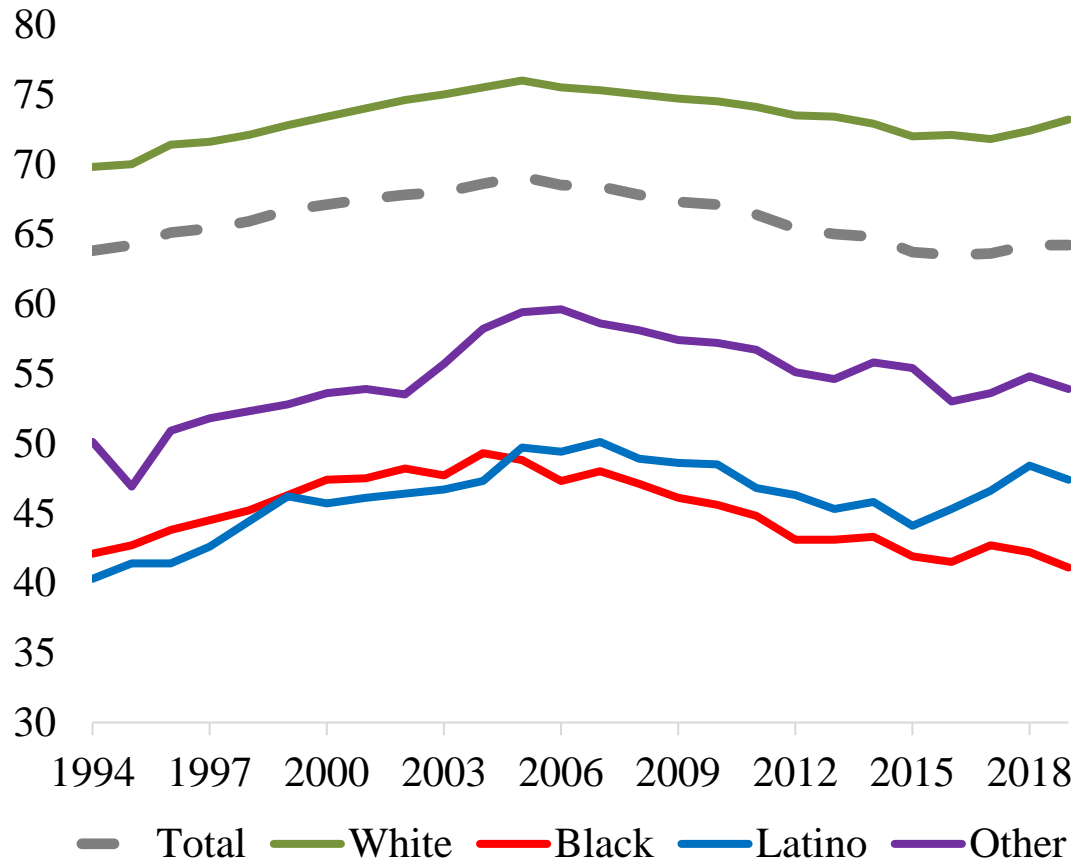
- Minority-White Homeownership Gaps:
 - Increased during bust (2013) for all groups
 - Large, persistent, and growing for Blacks (2017)
 - Large, persistent, but recently decreasing (2013-17) for Latinos
 - Moderate and declining for Asians
- In Recent Decades Share of Gap for Black-White Households Explained by Differences in Endowments Declined
- Consistent with the Role of Borrowing Constraints (Income, Credit and particularly Wealth) in Context of Tight Credit Standards and Rising House Prices

Persistence of Large Gaps Over Time



Source: IPUMS, 1900-2010 Decennial Census; 2017 American Community Survey

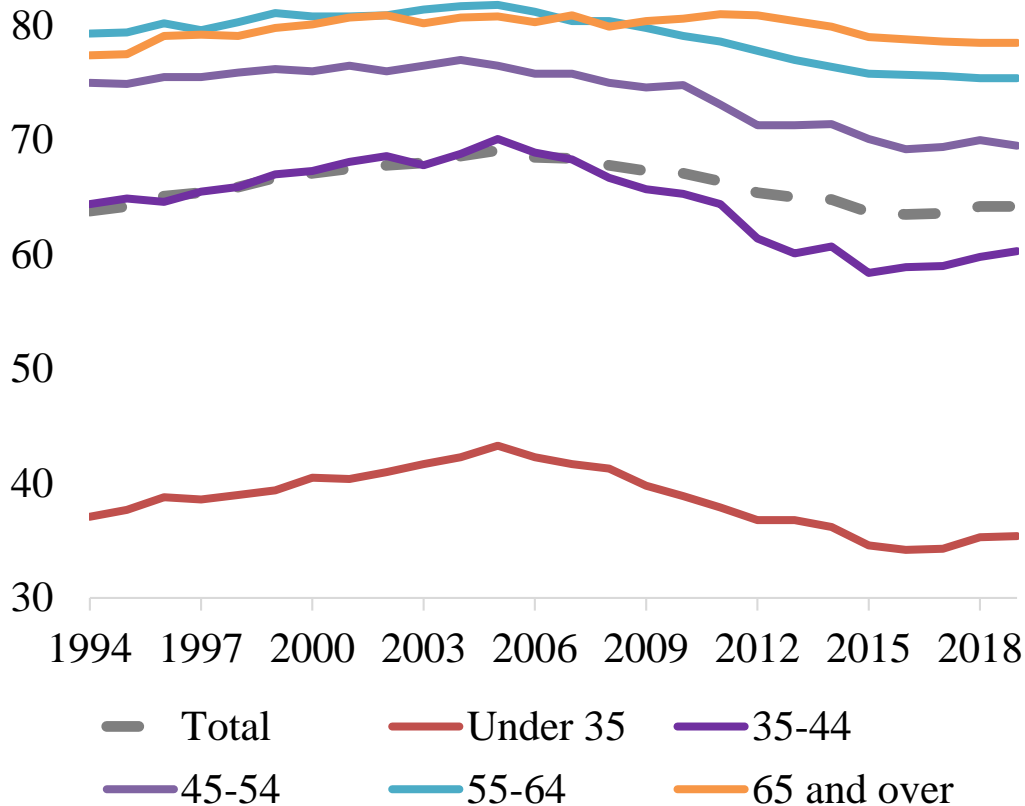
Homeownership Trends by Race and Ethnicity



- Larger decline and smaller recovery among Black households
- From peak to Q1 2019:
 - White: -2.8 pp
 - Black: -8.2 pp
 - Latino: -2.7 pp
 - Other: -4.6 pp

Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, First Quarter Data

Recent Trends by Age Groups



- More pronounced decline for younger cohort that are also more diverse

Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, First Quarter Data

Persistent Gap in Homeownership Despite Legislation

- Fair Housing Act adopted in 1968 and subsequent acts make de jure discrimination in housing markets illegal and aim to ensure equal access to mortgage credit.
 - Equal Credit and opportunity Act (ECOA, 1974); Home Mortgage Disclosure Act (HMDA, 1975); Community Reinvestment Act (CRA, 1977); Financial Institutions Reform, Recovery and Enforcement Act (FIRREA, 1989); Government Sponsored Enterprise Act (1992)
- Nonetheless:
 - Homeownership rate for black households is 41% in Q1 2019 compared to 73% for white households → 32 pp gap. In 1970, black homeownership was 42% and homeownership gap was 24 pp.
 - For Hispanic households it was 48% in Q1 2019 → 25 pp gap. In 1970, Hispanic homeownership was 54% and homeownership gap was 16 pp.

Research Question

- How did minority-white homeownership gap evolve between 1989 and 2017?
- What factors contribute to explain these changes (or lack thereof)?

Data

- American Housing Survey (AHS) for 1989, 2005, 2013 and 2017.
- Nationally representative samples with detailed information on households and housing characteristics that are consistent over time.
- Lacks information about household wealth, credit, and employment history that affect a household's ability to access credit.

Methodology

- Estimate tenure choice logit models.

$$E(\textit{tenure}_i = 1 | X)$$

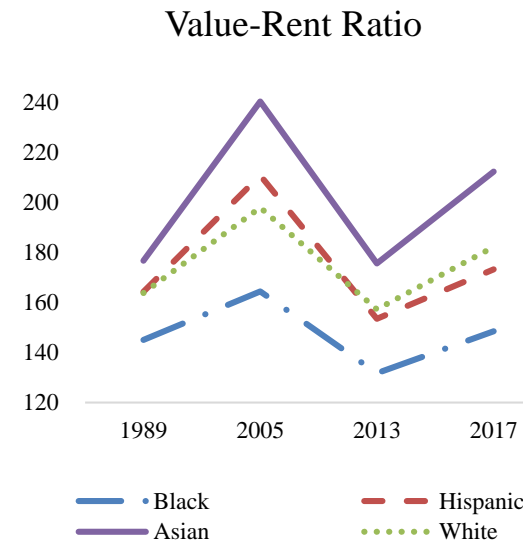
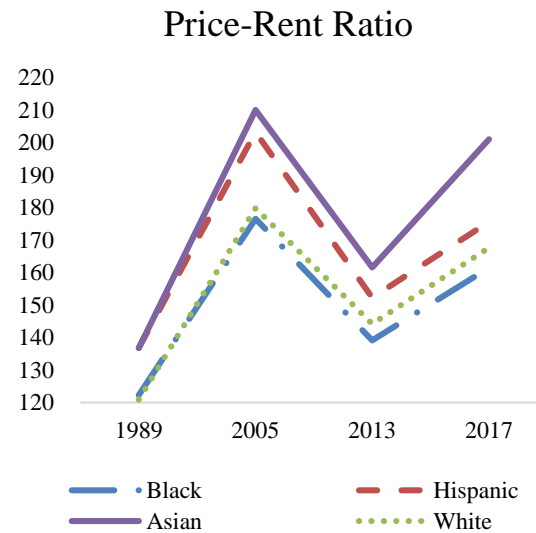
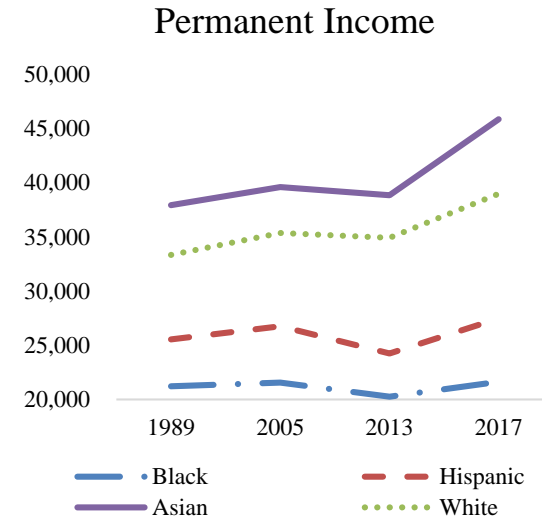
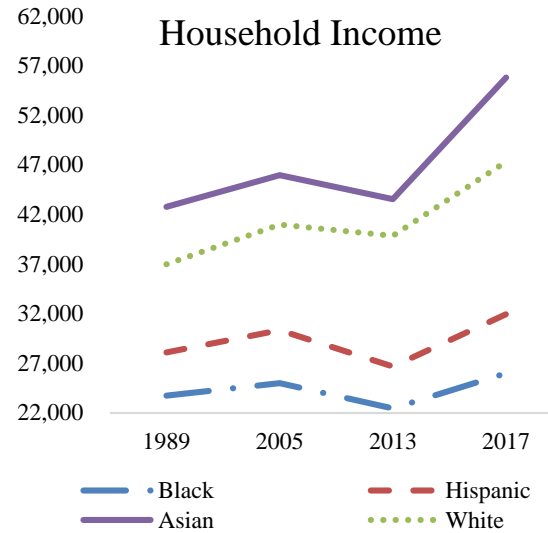
$$= F(\beta_0 + \textit{inc}_i \cdot \vec{\beta}_1 + \textit{hratio}_i \cdot \vec{\beta}_2 + \textit{race}_i \cdot \vec{\beta}_3 + D_i \cdot \vec{\beta}_4 + Z_i \cdot \vec{\beta}_5)$$

- Control for household endowments (transitory and permanent income; age; marital status; gender; household size) and market endowments (value-rent ratio; price-rent price ratio).
- Decompose disparities in homeownership rates into the share accounted for by endowments and a residual share that is unexplained.

Endowment vs Residual

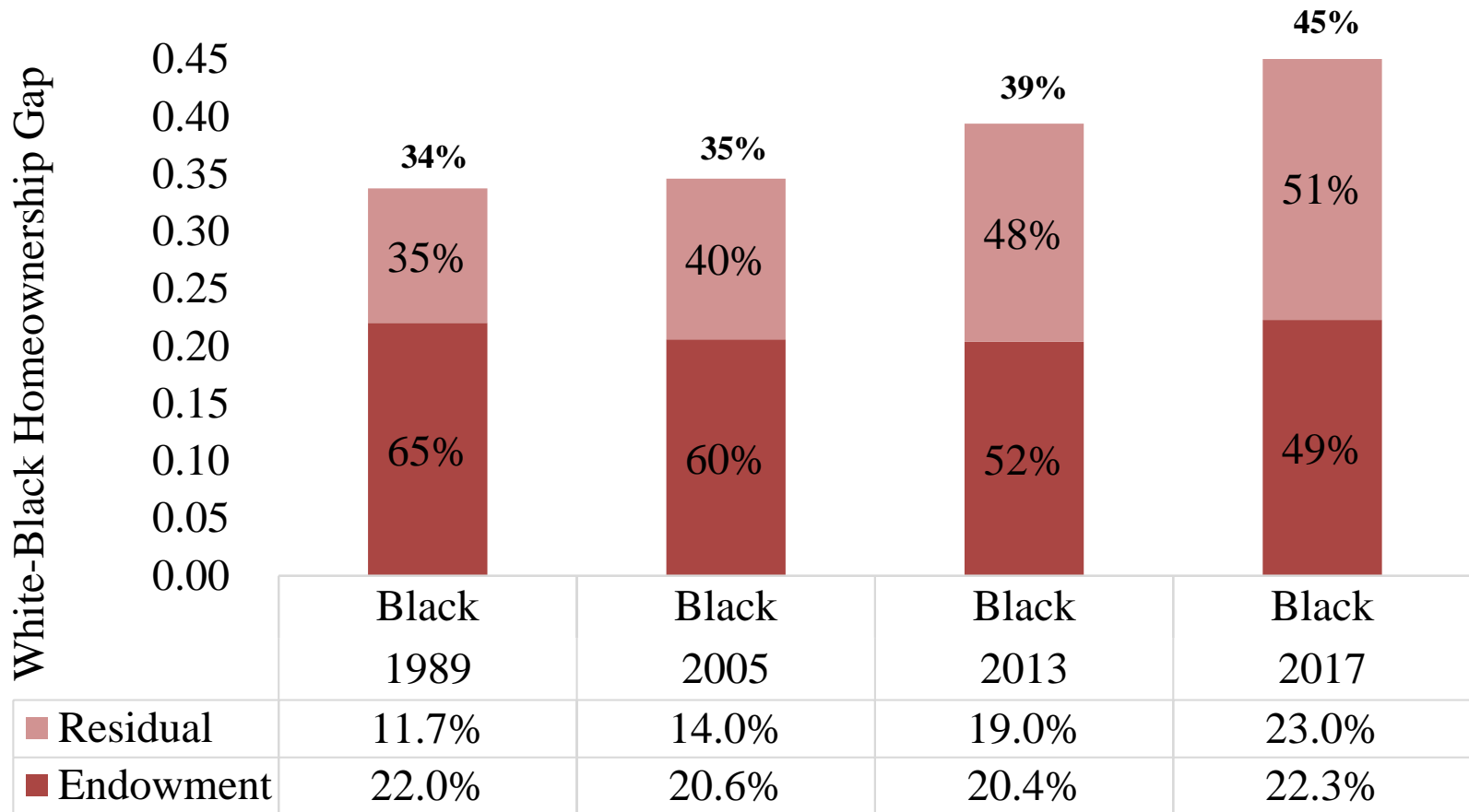
- Compare similar households across race and ethnic groups, holding constant the endowment variables in standard tenure choice models
 - Permanent and transitory income, price-rent ratio, value-rent ratio, gender, age, marital status, family size, location
- Residual: portion of the homeownership gap not explained by endowment
 - Important omitted variables such as individual and parental wealth, credit scores
 - Unobserved barriers such as discriminatory practices and their legacy

Persistent Differences in Income and Location Over Time



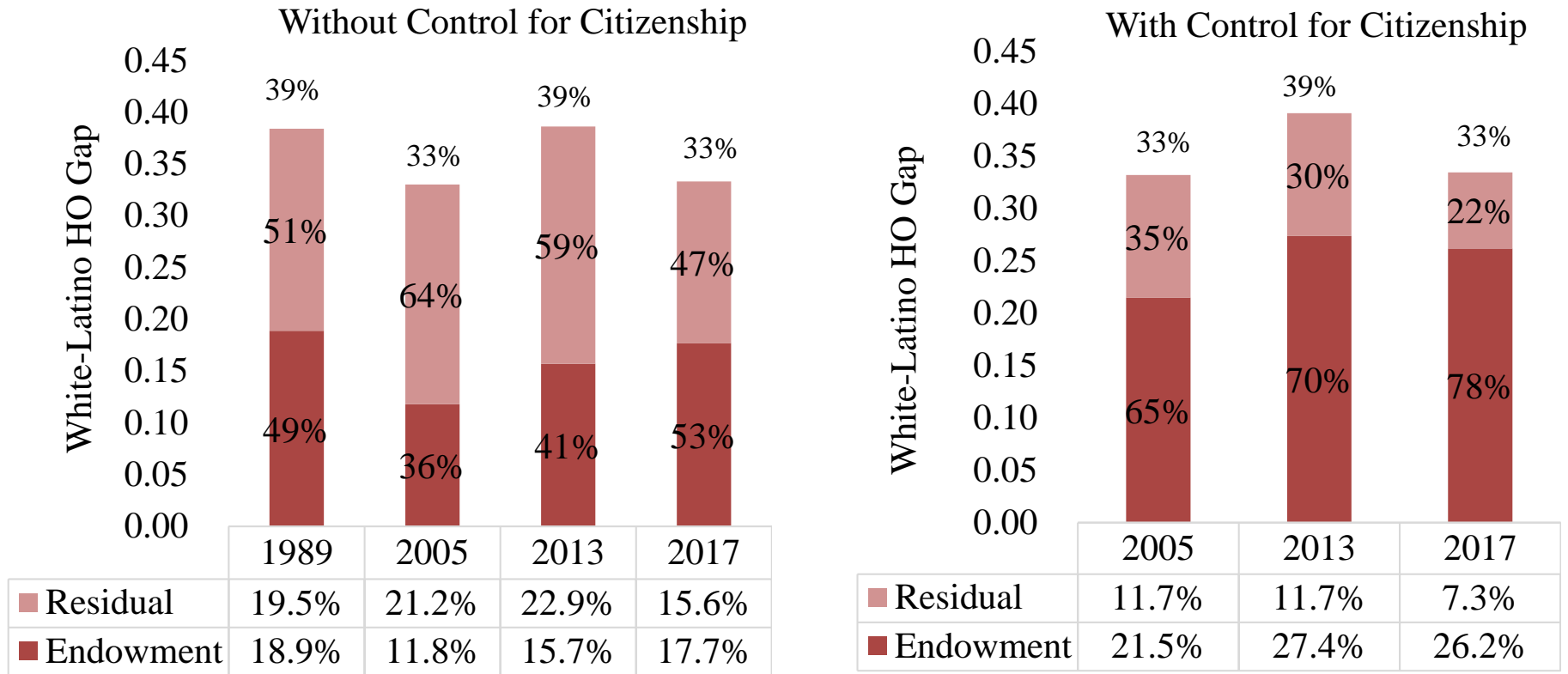
Note: AHS 1989, 2005, 2013, 2017 National File. A higher value-rent ratio and a lower price-rent ratio having positive impacts on the decision to own

Key Findings: Increasing White-Black Gap and Smaller Share Explained by Endowment



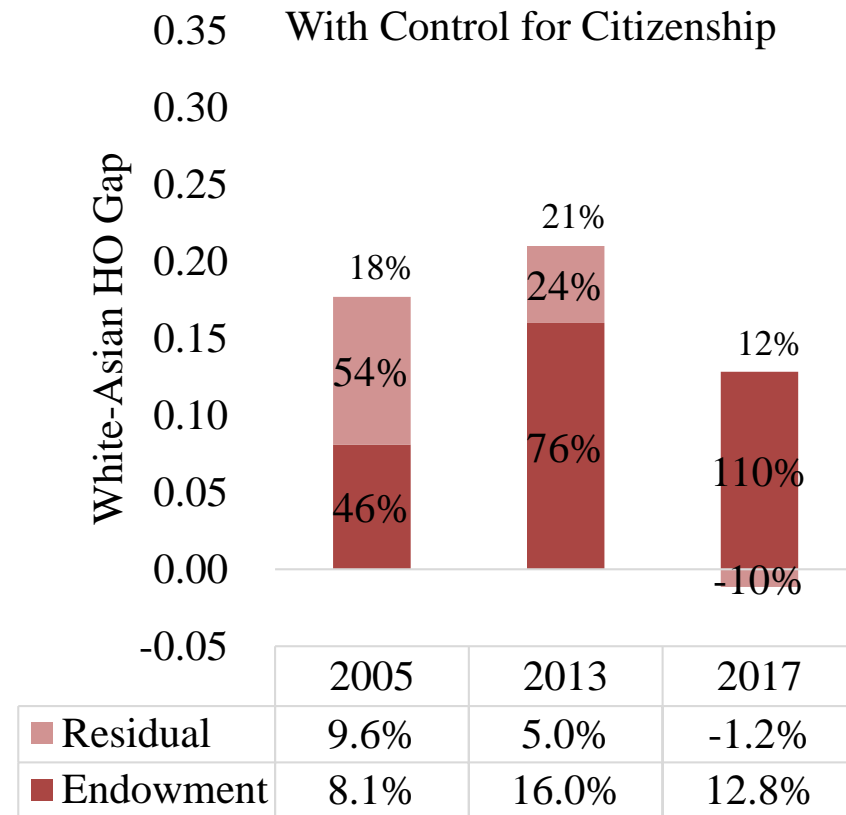
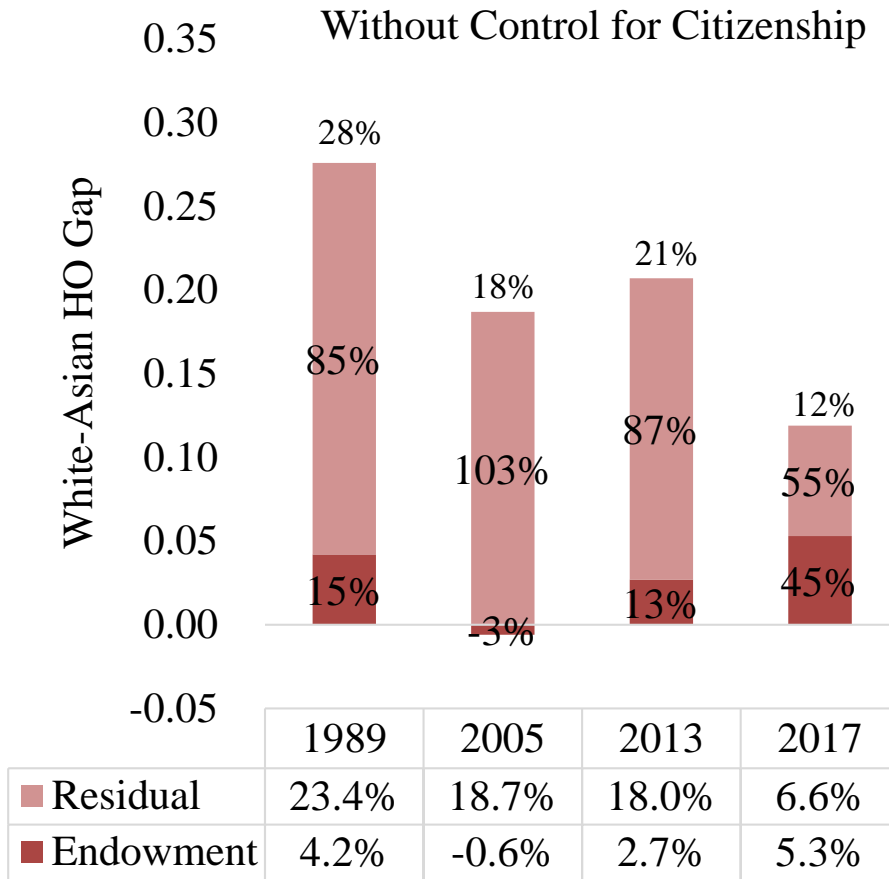
Note: Controls include Permanent Income, Transitory Income, Price-Rent Ratio, Value-Rent Ratio, Age, Family Size, Married, Gender.

Key Findings: Strong Recovery and Importance of Immigration for Latino Homeownership



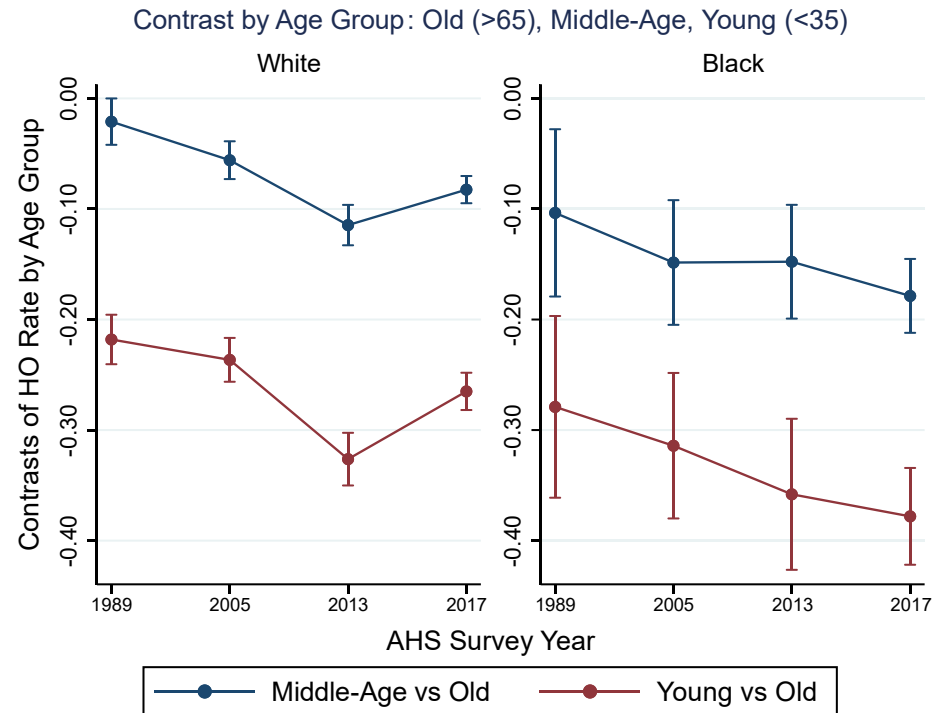
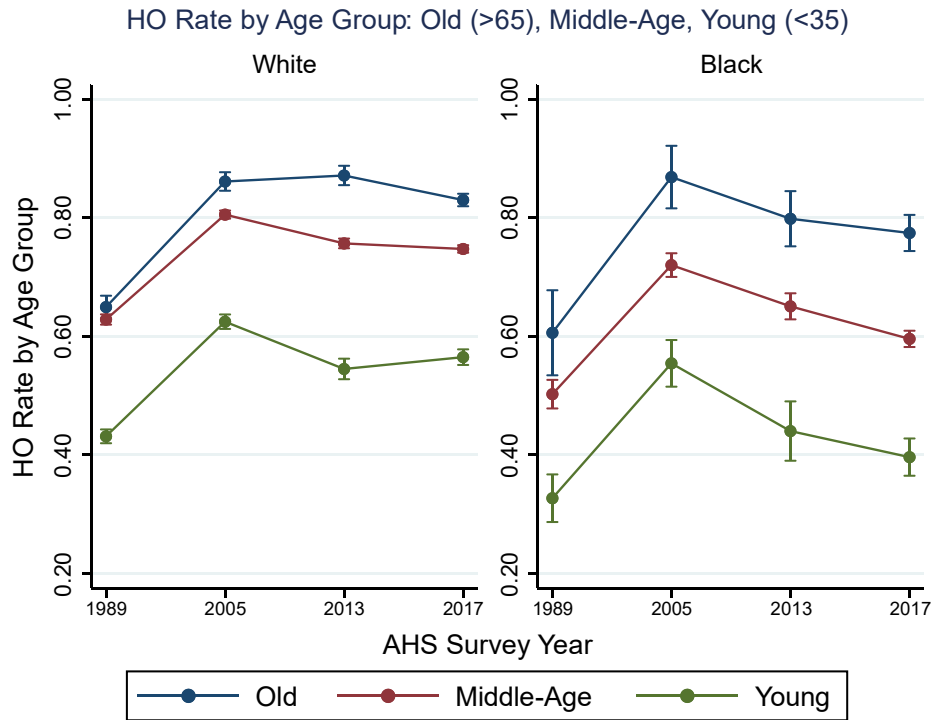
Note: Controls include Permanent Income, Transitory Income, Price-Rent Ratio, Value-Rent Ratio, Age, Family Size, Married, Gender.

Key Findings: Moderate and Decreasing Asian-White Gap and Importance of Immigration



Note: Controls include Permanent Income, Transitory Income, Price-Rent Ratio, Value-Rent Ratio, Age, Family Size, Married, Gender.

HO, Age Group and Minority: White vs Black



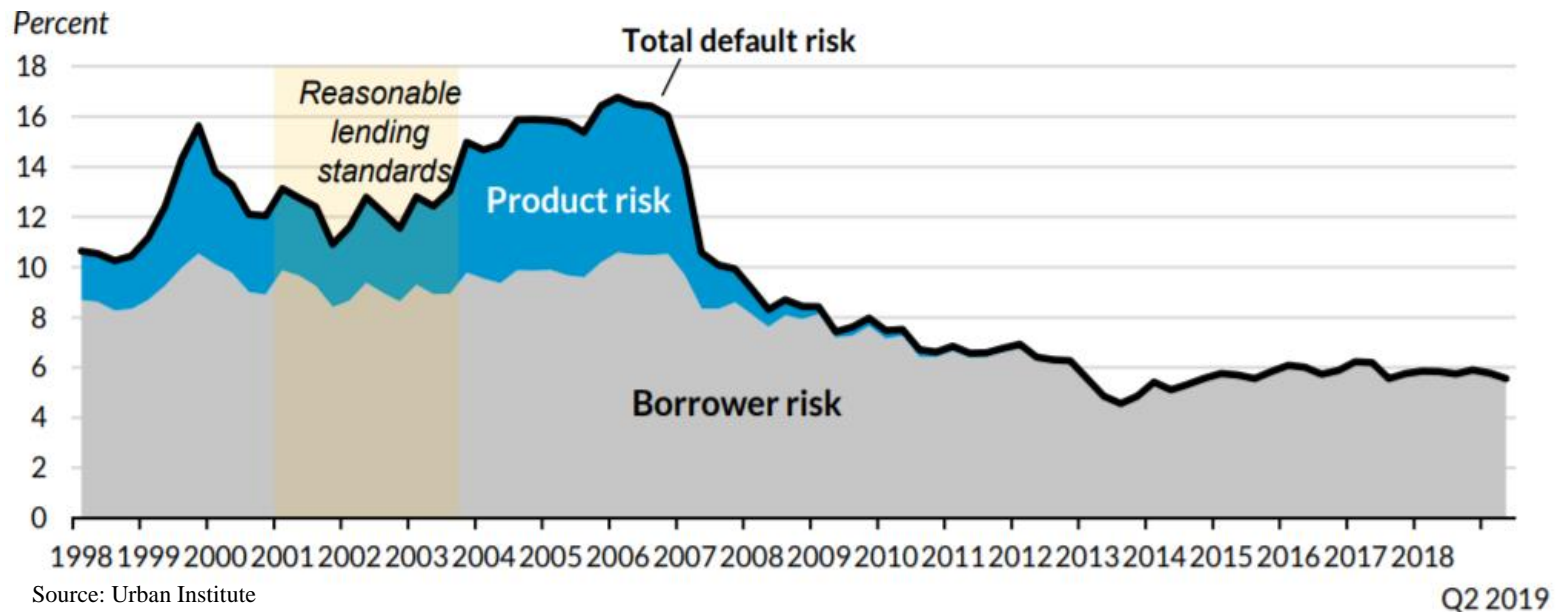
Note: AHS 1989, 2005, 2013, 2017. Age group: Young (< 35), Middle Age, and Old (> 65);

What Explains Persistence in Gap?

- Lower endowment, particularly permanent income, for minority households contributes to lower access to homeownership.
- For Latino and Asian households, the share of immigrants is also a factor in the lower homeownership rate.
- However, we find an increasing unexplained gap in homeownership for black households, consistent with an increased impact of tightened credit.
- Further, unmeasured differences in wealth (including parental wealth) and credit records likely contribute to unexplained portion of gap.
 - Minority households more likely wealth and credit constrained
 - Credit constrained households more impacted by increase in HPI
 - As long as wealth does not improve, homeownership access would not change

Borrowing Constraints and Homeownership

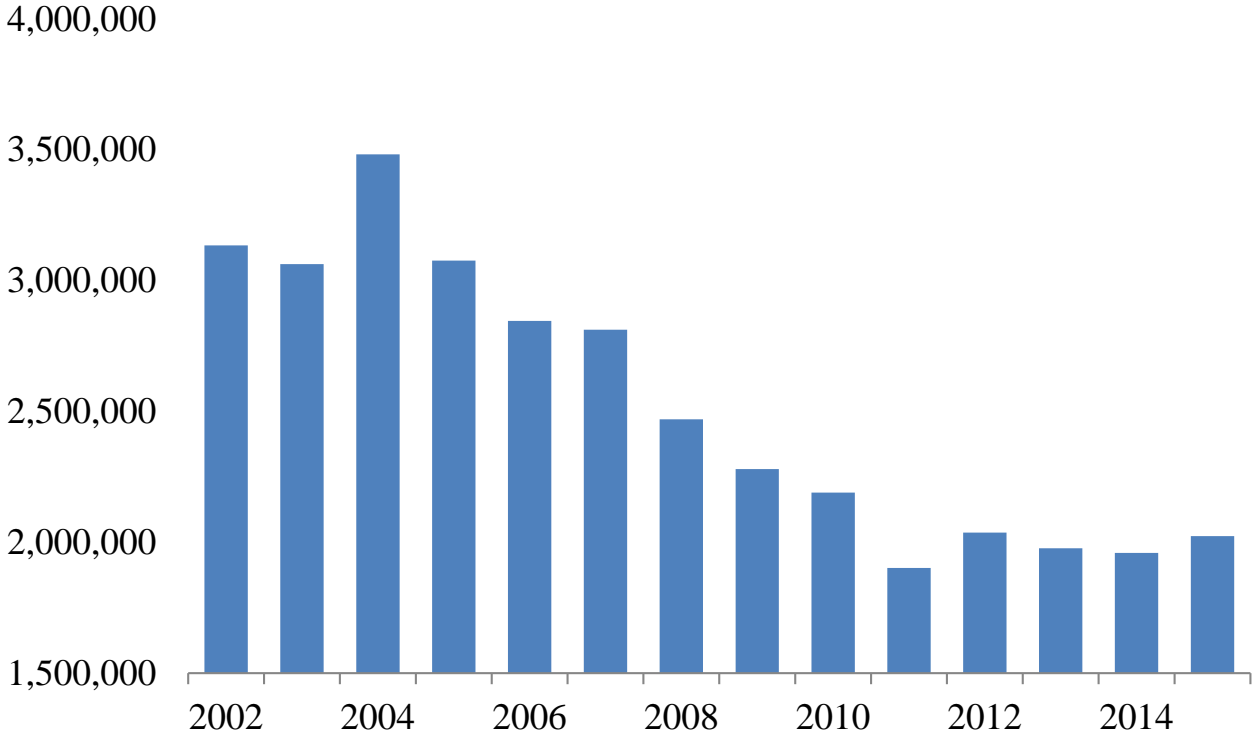
Housing Credit Availability Index, All Channels



- Acolin et al (2016) estimate that the homeownership rate in 2010-2013 was 5.2 pp lower than it would have been if borrowing constraints were at the 2004-2007 level and 2.3 pp lower than if constraints were at the 2001 level.
- Credit availability as measured by Urban Institute remains low.

First Time Access Still Low

First Time Homebuyers



Source: Acolin, Calem, Jagtiani & Wachter 2018

Thank You!