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## The housing bubble and the evolution of the homeownership gap<sup>☆</sup>

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### ABSTRACT

The gap in the white/non-white homeownership rate diverged over the entire course of the recent housing-related business cycle. After controlling for a rich set of factors determining the willingness and ability to own a home, I find that the divergence during the bust can be almost completely explained by observables, where the primary contributor is family structure, particularly marriage. While the explained portion of the divergence during the boom is smaller, it is also almost entirely driven by marriage. Financial variables and education of borrowers also contribute and are consistent with explanations involving excessive risk-taking and lack of experience and search in the mortgage market by minorities. The contribution of the unexplained portion of the divergence is only noteworthy during the boom, most likely attributable to unobserved factors—such as the expectations of whites regarding earnings and asset growth—rather than discrimination.

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### 1. Introduction

While the aggregate homeownership rate in the U.S. has tracked the business cycle fairly closely over the past two decades, at the same time there was a trend toward a larger gap in homeownership between whites and non-whites. Using data from the Panel Study of Income Dynamics (PSID), Fig. 1 plots the white/non-white homeownership differential biennially for 1999–2009.<sup>1</sup> Indeed the experience over the most recent business cycle is not uniform, as Figs. 2 and 3 indicate: the raw and normalized (using 1999 as the base year) homeownership rates are plotted separately for whites and non-whites. While there was an increase in homeownership for whites during the boom, there was actually a small decline for non-whites. Further, a sharp decline in homeownership rates for

whites during the bust is dwarfed by a more precipitous fall for non-whites.

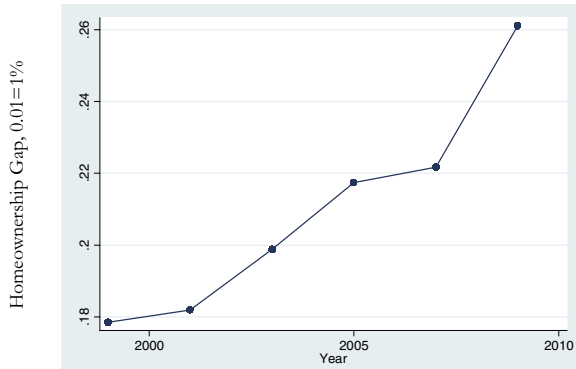
There are several potential explanations for this structural trend. To begin with, Figs. 1–3 show that the divergence during the boom was not simply the fact that both whites and non-whites experienced growth, with the growth of whites outpacing that of non-whites. This may be somewhat surprising given housing and lending policies which aimed to increase homeownership among low-income and minority individuals. Analyses of Community Reinvestment Act (CRA) agreements for the 1990s by Bostic and Robinson (2003, 2005) suggest that agreements increased (new) lending, though after these agreements ended, this lending did not remain elevated. In addition to the CRA, Bostic and Gabriel (2006) considered the effect of the GSE Act—meant to increase mortgage purchases among low-income and minority neighborhoods—yet they find no improvement in homeownership for these groups. However, these results only apply for California. Therefore, if these effects (or lack thereof) continued into the 2000s, then the divergence is understandable.

Perhaps relative growth in income and other assets for whites could have made it more likely for them to obtain financing; or they may have been more informed about financing options given the innovations to mortgage financing and products. It is also possible

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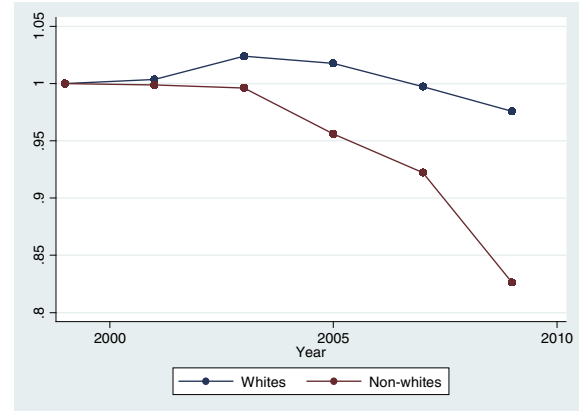
E-mail address: [obergpm@slu.edu](mailto:obergpm@slu.edu)

<sup>1</sup> While much work looks only at blacks and/or considers other minorities separately, they are grouped together here. Due to the small number of non-black minorities in the present sample, findings remained unchanged.



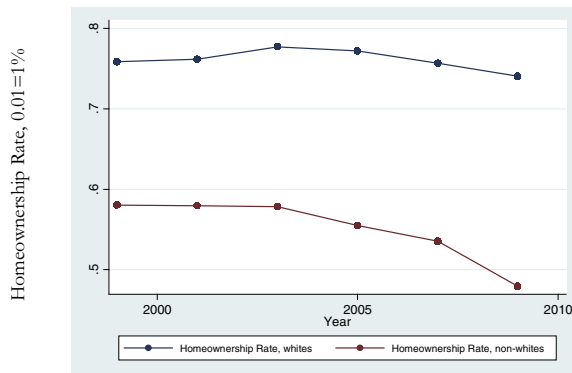
White Homeownership Rate minus Non-White Homeownership Rate

Fig. 1. White homeownership rate minus non-white homeownership rate.



Normalized Homeownership Rates, base year=1999

Fig. 3. Normalized homeownership rates, base year = 1999.



Raw Homeownership Rates

Fig. 2. Raw homeownership rates.

that non-whites were perceived as too risky, but due to criticisms of excessive risk-taking, this explanation seems implausible. While the increased lending of housing policies did not appear to translate into increased homeownership, [Agarwal, Benmelech, Bergman, and Seru \(2012\)](#) find the CRA lending which did take place was associated with riskier lending, as measured by delinquency rates.

Continued and accelerated divergence during the bust may have been due to a greater incidence of delinquency and foreclosure among non-whites: income instability, lower income, and greater leverage could have made it more difficult to repay mortgages and keep homes. In fact, in an investigation on default and foreclosure during the housing boom and bust, [Bayer, Ferreira, and Ross \(2013\)](#) uncovered that minorities were more likely to become delinquent and to default on their mortgages, and ultimately lose their homes. These propensities were even higher within racial groups for those in low employment areas and with high debt-to-income (DTI) ratios. The findings are even more pronounced for those considered to be subprime and for mortgages originated at the peak of the bubble.

Non-whites may have been less informed about federal measures to help with repayment through refinancing or restructuring; or the possibility of working directly with their lender. A final possibility which could have contributed to divergence over both periods is some form of discrimination—lending and distress relief was more common among whites than non-whites. Recent research by [Ghent, Hernández-Murillo, and Owyang \(2014\)](#) may indicate that both of these are possibilities. They examined 2005-vintage mortgages from California and Florida and found a (small, relative to other research) disparate impact in loan prices

for minorities. However, it remained unclear how much of the difference was due to discrimination and how much was due lack of borrower experience in the mortgage market (i.e., minorities may not have searched out the best rate).

This paper examines the divergence in the homeownership gap during the boom and bust to see which reasons are most plausible. I use a rich set of controls from the PSID to account for both preferences in the willingness and ability of homeownership; controls for various forms of assets, debt, income, and risk allow me to investigate the unique environment and developments within the mortgage market during this period. In addition to standard demographic and employment controls, other factors affecting mobility, household formation, creditworthiness, and wealth are also included. I decompose the divergence in homeownership rates between whites and non-whites into explained and unexplained components by applying the methods of [Juhn, Murphy and Pierce \(1991, chap. 4\)](#).

I find that most of the explained changes in the homeownership gap over the boom are largely accounted for by family structure, particularly marital status. Most other observables actually contribute to a convergence of the homeownership gap during this period. Thus some of the earlier explanations for the divergence during the boom do not seem to hold water. Further, and perhaps surprisingly, the unexplained changes in the homeownership gap are largest during this period. The explained portion accounts for almost all of the divergence during the bust. Family structure is still the largest contributor, but a greater array of factors matter during this period. The contribution of earnings risk suggests that lenders were relatively more risk averse when it came to lending to, or perhaps helping, distressed non-white borrowers; the contribution of education may suggest that non-white borrowers were less aware of avenues which could help them keep their homes. The unexplained component changes little during this period and is notably smaller when compared to its counterpart during the boom.

The role of marriage suggests that financial stress may trigger or heighten marital instability, impairing homeownership; and that this is relatively more harmful for non-whites. These grim prospects also could potentially prevent marriages as well and thus homeownership. Discrimination in homeownership against non-whites is unlikely. If it were a factor, one would expect discrimination to be worse during the bust, which is not the case. Instead, the unexplained divergence is likely due to unobserved characteristics, perhaps the relatively more optimistic forecasts of whites regarding growth of their earnings and wealth during the boom, which later turned to pessimism during the bust.

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