

# Subsidized Financial Investments, Homeownership, and Upward Mobility in the United States

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<sup>1</sup>Views are personal and do not necessarily reflect the official viewpoint of CAFRAL or the Reserve Bank of India.

# Big Picture

**Motivation:** Shared Goal of LIFT Researchers

- Alleviating the financial constraints of underserved Populations
- Challenge: Understanding the (unintended) consequences of increased access to financial tools and financing opportunities

**Application:** Eased access to mortgage financing and homeownership (in the US)

**Key Takeaway:** Unintended adverse effects due to

- Sorting of non-minority groups
- Deterioration of place-based determinants of upward mobility
- **Dangers of Geography-Based Large-Scale Implementations**

# Homeownership and the American Dream

## **Homeownership = major policy goal for at least 150 years**

- Homestead Act of 1862, establishment of the Federal Housing Administration (FHA) in 1934, Housing and Urban Development Act of 1968, the Community Reinvestment Act (CRA) Act of 1977, the Federal Housing Enterprise Safety and Soundness Act (“GSE Act”) of 1992, and the American Dream Downpayment Initiative in 2003.

## **Homeownership has been linked to**

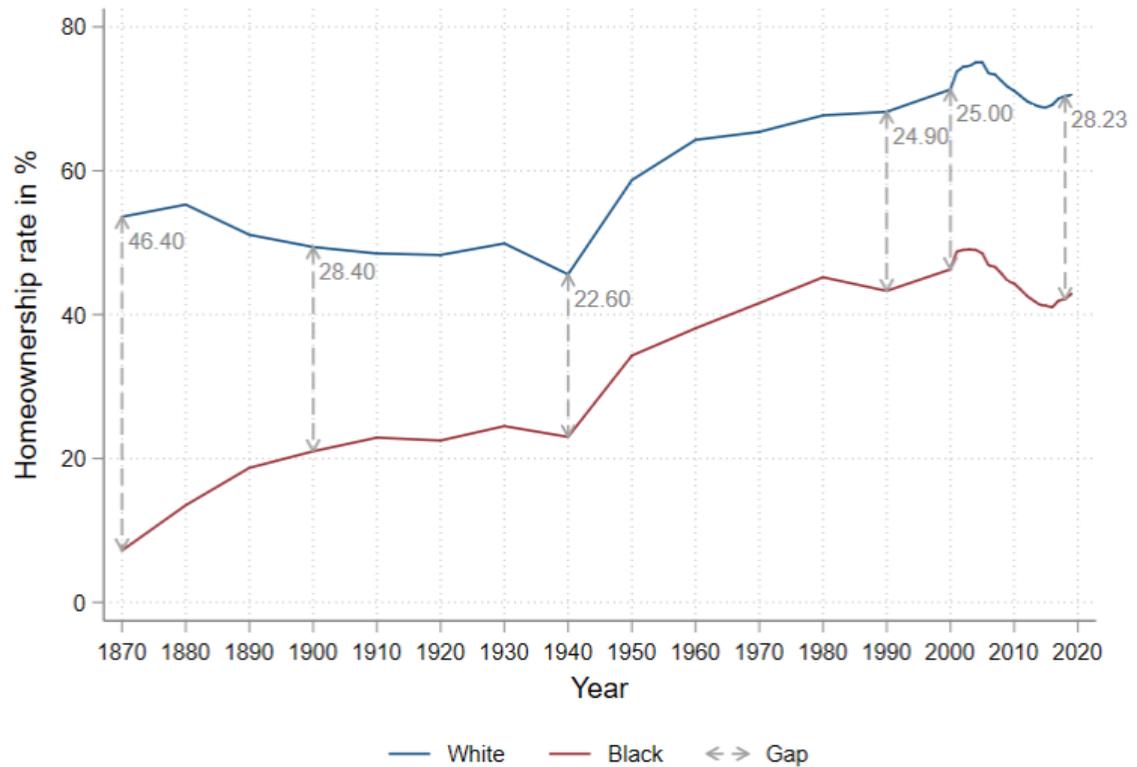
- Better children’s outcomes (Green and White, 1997)
- Wealth creation, consumption smoothing, financial stability (Sodini et al., 2016)
- Positive externalities through social capital (DiPasquale and Glaeser, 1999)

## **Homeownership as a human right**

- In the words of Pope John Paul II, “a home is much more than a roof over one’s head.” It is “a place for building and seeking one’s life.” (Catholic Charities USA, WP 2018-4)

# Social Justice Issue: Racial and socio-economics disparities

## White-Black racial homeownership gap over the years



# Homeownership and Politics

## In the 1990s:

“Today, I am requesting that you lead an effort to dramatically increase homeownership in our nation over the next six years. . . . Your program should include **strategies to ensure that families currently underrepresented among homeowners — particularly minority families, young families, and low-income families — can partake of the American Dream.**” — *President Clinton in a letter to HUD Secretary Henry Cisneros on November 3<sup>rd</sup>, 1994*

## In the 2000s:

“The problem is we have what we call a **homeownership gap in America**. Three-quarters of Anglos own their homes, and yet less than 50 percent of African Americans and Hispanics own homes . . . And **we need to do something about it.**” — *President George Bush on June 18, 2002*

## Today:

“Because home ownership is how many families save and build wealth, **these racial disparities in home ownership contribute to the racial wealth gap**. It is far past time to put an end to systemic housing discrimination . . .” — *President Joe Biden on January 2021 (The Biden plan for investing in our communities through housing)*

## This paper

**Setting:** 1992 GSE Act as the “Experiment”

- “GSE Act” = Federal Housing Enterprise Safety and Soundness Act of 1992
- Increased access to mortgage financing in low-income and minority *neighborhoods* (“targeted” census tracts) under the “Underserved Area Goals” (UAGs)
- Accounting for broader ease in financing due to the higher “conforming loan limit” (CLL) in the wider commuting zone (CZ)

**Question:** How did these housing policies affect homeownership and the upward mobility of children growing in targeted neighborhoods (census tracts) o

- Impact on HO and HO gap
- Impact on **upward mobility** of cohorts born between 1980–1986 and 1978–1983, conditional on parents’ income (Chetty et al. 2017, 2019)

## Finding 1: Homeownership

1. 14.37 pp decline in homeownership in targeted census tracts.
2. Decline in homeownership driven by
  - outflow of white homeowner (14.81 pp decline)
  - despite increase in Black homeownership (0.40 pp increase)
3. Outflow of white homeowners strongest when “ease of mortgage access” in the remaining census tracts in the same CZ increased due to CLL changes.
  - For every 1 SD increase in the access to mortgage financing in other census tracts in the same CZ, we observe an additional decline in white homeowners in the targeted census tract of 3 pp.

**Conclusion:** easier access to mortgage financing in other tracts in a CZ allowed white homeowners to move out of targeted neighborhoods, increasing racial segregation.

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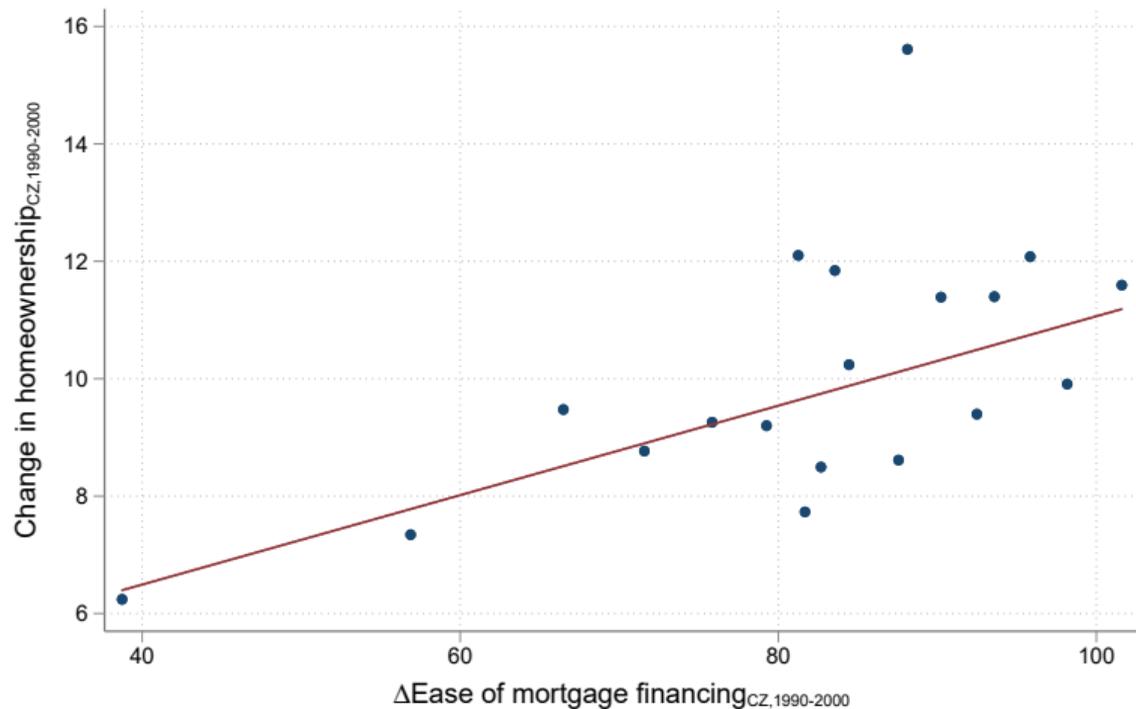
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## CZ-level: Change in homeownership and increase in ease of mortgage financing between 1990–2000



Slope = .076(.013)

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## Finding 2: Upward Mobility

**Definition:** income percentile rank of the children relative to that of their parents.  
(Focus on focus on families with below-median incomes in the national distribution.)

1. **Decline** in low-income children's upward mobility (0.79 SD).
2. **Same effect** both among low-income Black families (-7%) and among those low-income white families (-18%) who remained in targeted tracts.
3. Decline in upward mobility in the targeted tracts is strongest when accompanied by an increase in access to mortgage financing in the surrounding tracts in the CZ (additional 0.20 SD decline [or, additional 26%] if the remaining tracts in the CZ see a 1 SD increase in ease of mortgage financing).
4. **Aside:** Impact on low-income children is not offset with a corresponding increase in upward mobility of high-income children.

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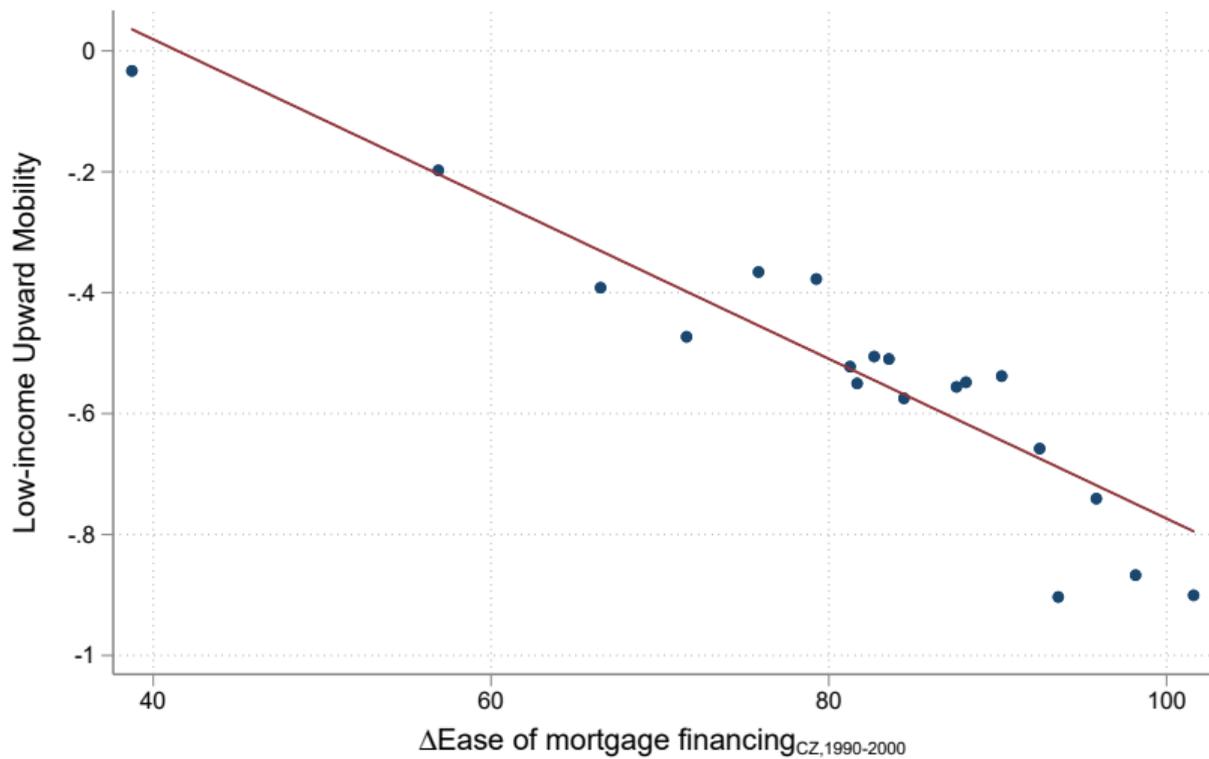
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# Upward mobility of children from low-income families



Slope = -0.013 (0.0008)

## Finding 3: Channels

### **Suggestive evidence on deteriorating place-based factors**

1. Decline in house-prices (0.1%)
2. Decline in school revenues from local sources (property taxes, local economy)
3. Decline in school quality (teacher-student ratio)

(Cf. findings that both Black and white families who remain adversely affected.)

**Net outcome:** Segregation increases and inequality perpetuates long-term.

## Conclusion

- **Goal of homeownership policies of the 1990s:** implemented with the dual goal of increasing homeownership and decreasing the racial gap in white-Black homeownership.
- **Effect of homeownership policies of the 1990s:** inadvertently increased racial sorting and decreased upward mobility.
  - Negative effects due to the interaction of the increases in the ease of mortgage financing and the geographically targeted housing goals
- Historical parallel: small-scale MTO experiment versus large-scale Great Migration
- **Policy Implications?**
  - Importance of sorting (selection) effects in the adoption of financial projects
  - This application: Increase in public investment in disadvantaged neighborhoods could counter some of these adverse effects, e.g. creation of “Opportunity Zones”.