

# Homeownership as Asset Accumulation Strategy

**Carolina Reid, Ph.D.**  
**Federal Reserve Bank of San Francisco**

## Homeownership and Wealth

- Historically, Americans have always held an enormous amount of wealth in their homes; the median net worth of owners in 2004 was nearly \$185,000—compared to \$4,000 for renters.
- The housing boom during the first half of this decade pushed home equity levels to an all-time high of \$11 trillion at the end of 2005, compared to \$7.6 trillion just three years earlier.
- The homeownership rate—particularly among lower-income and minority households—grew substantially, aided by strong economic growth, low unemployment, low interest rates, and a boom in subprime lending.
- Since July 2007, more than 1.8 million homeowners have lost their home to foreclosures

# Supporting Sustainable Homeownership

- The Foreclosure Crisis has forced us to revisit how homeownership fits into an asset building strategy
  - One question may be, “Is homeownership the right asset “tool” for low-income families?”
    - Important research question: What is the return on investment on various “assets”, and how might one “asset” be better than another depending on an individual’s financial and life circumstances?
  - Or, is the right question “How do we develop policies that support low-income families in their efforts to become **and** stay homeowners?”
    - Explore the vulnerabilities low-income families face in the housing and credit (and labor) markets and assess how policies could help to mitigate them

# The Determinants of Asset Building

## Institutional Constructs

Access  
Information  
Incentives  
Facilitation  
Expectations

## Individual Constructs

Economic Resources and Needs  
Financial Literacy  
Psychological Variables  
Social Network  
Intergenerational Wealth and  
Knowledge Transfers

Asset  
Accumulation

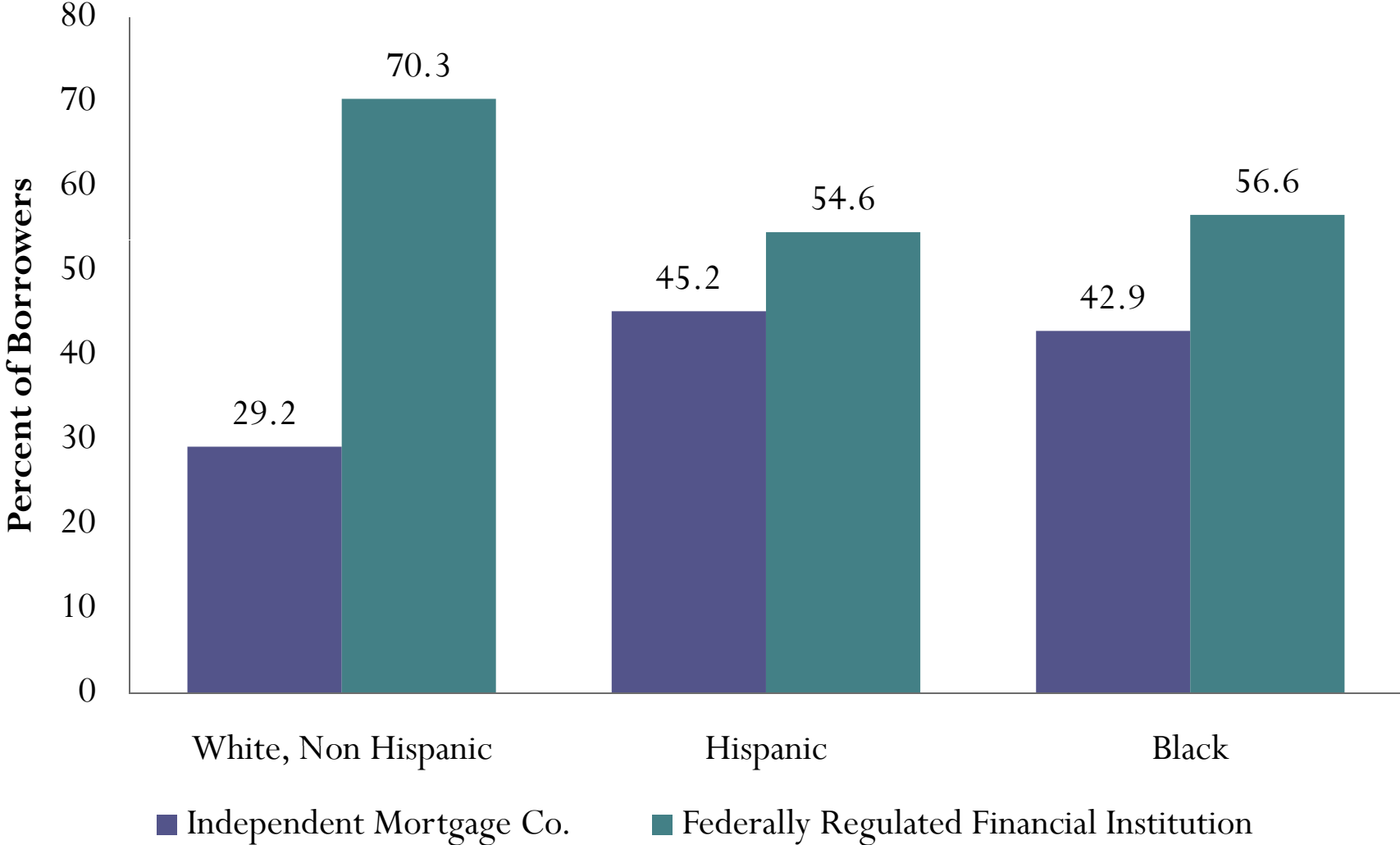
## Savings and Investment Action

When?  
Where?  
How Often?  
How Much?  
Portfolio Composition

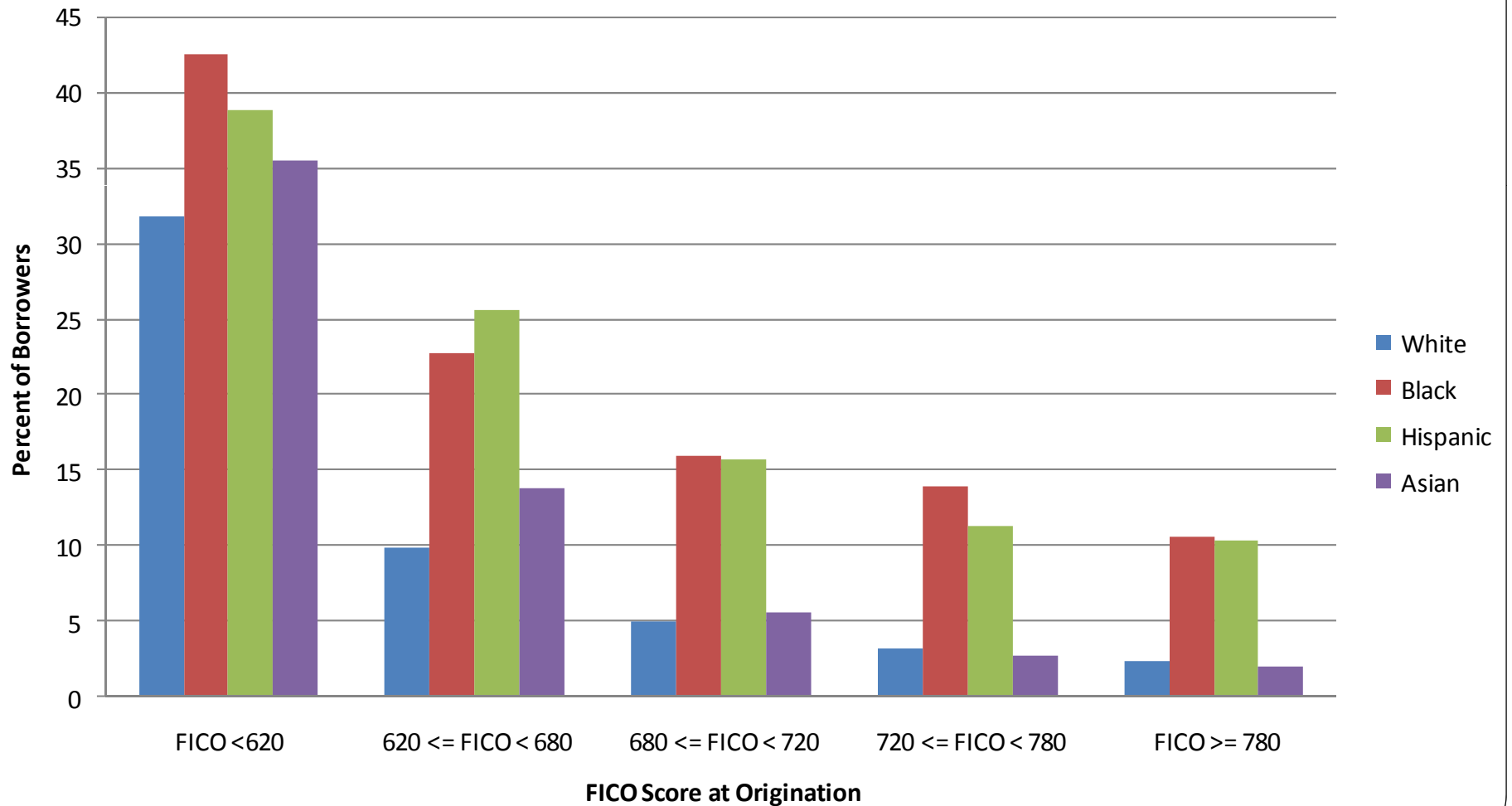
## The Economy

Labor Market  
Housing Market  
Credit Markets  
Stock and Bond Markets

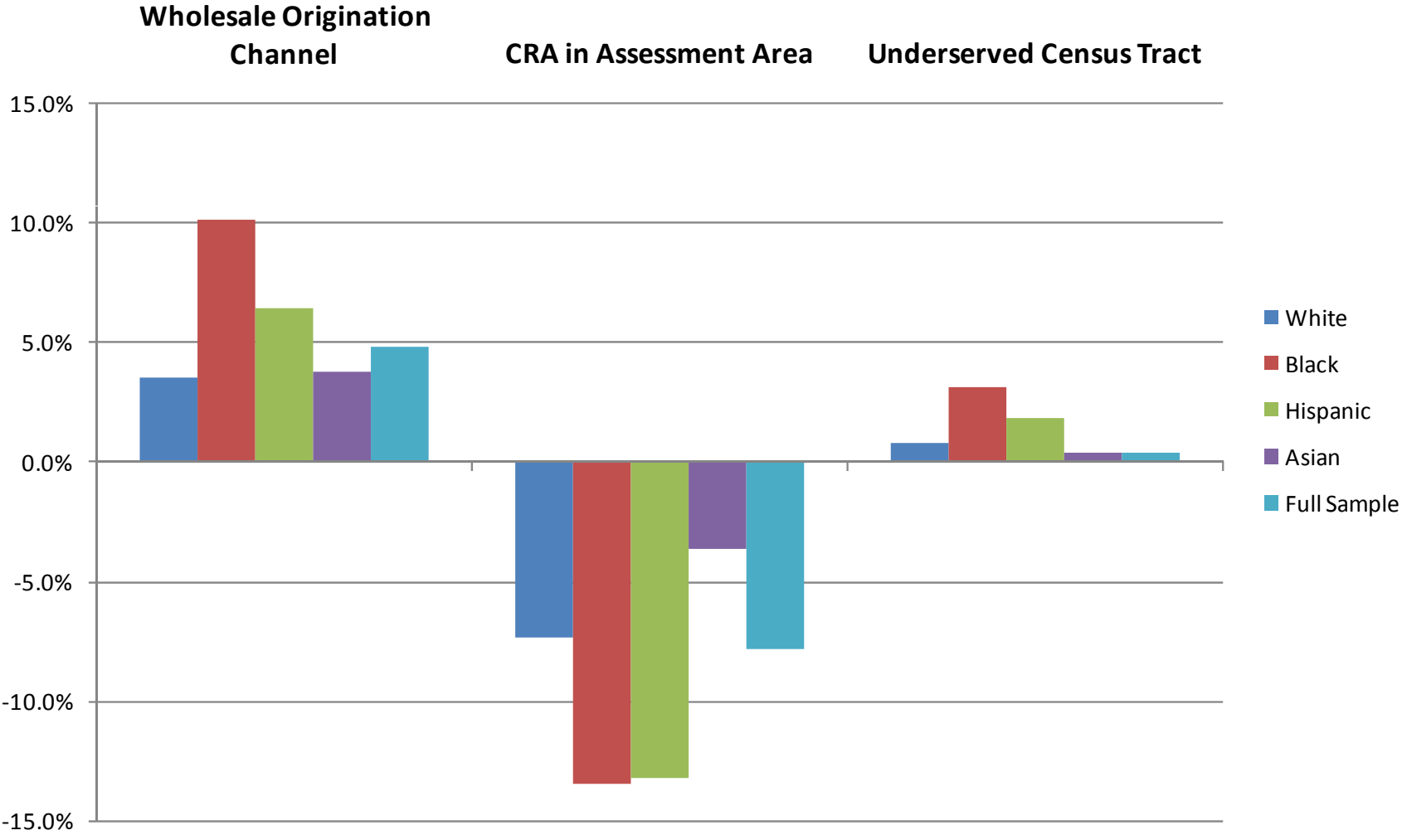
# Minorities Likely to Have Access to Very Different Mortgage Market Channels



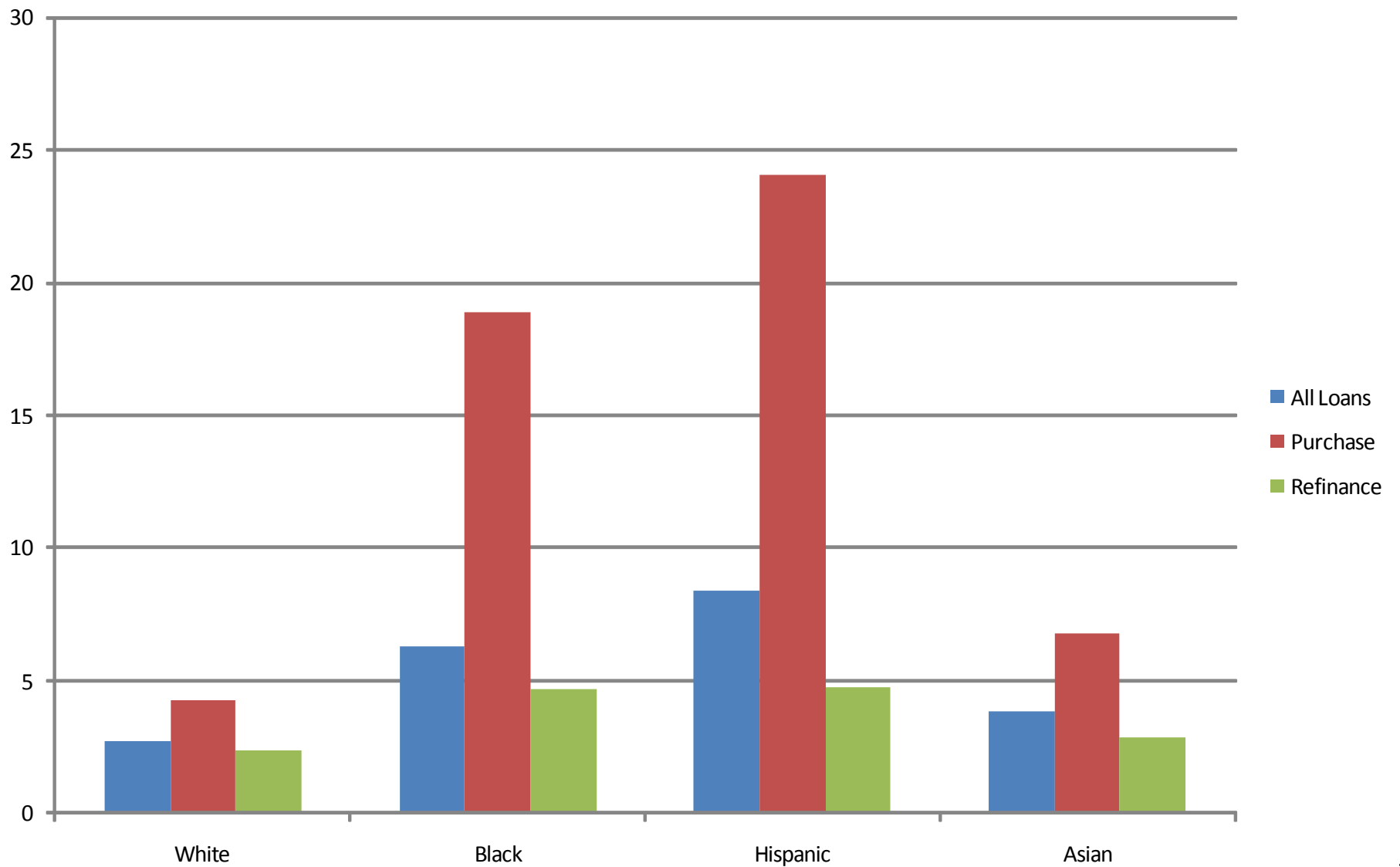
# Minorities More Likely to get a High Cost Loan, Even After Controlling for Borrower Risk Characteristics



# The Important of Mortgage Market Channel and Relationship to Financial Institutions as Determinants of High Cost Lending

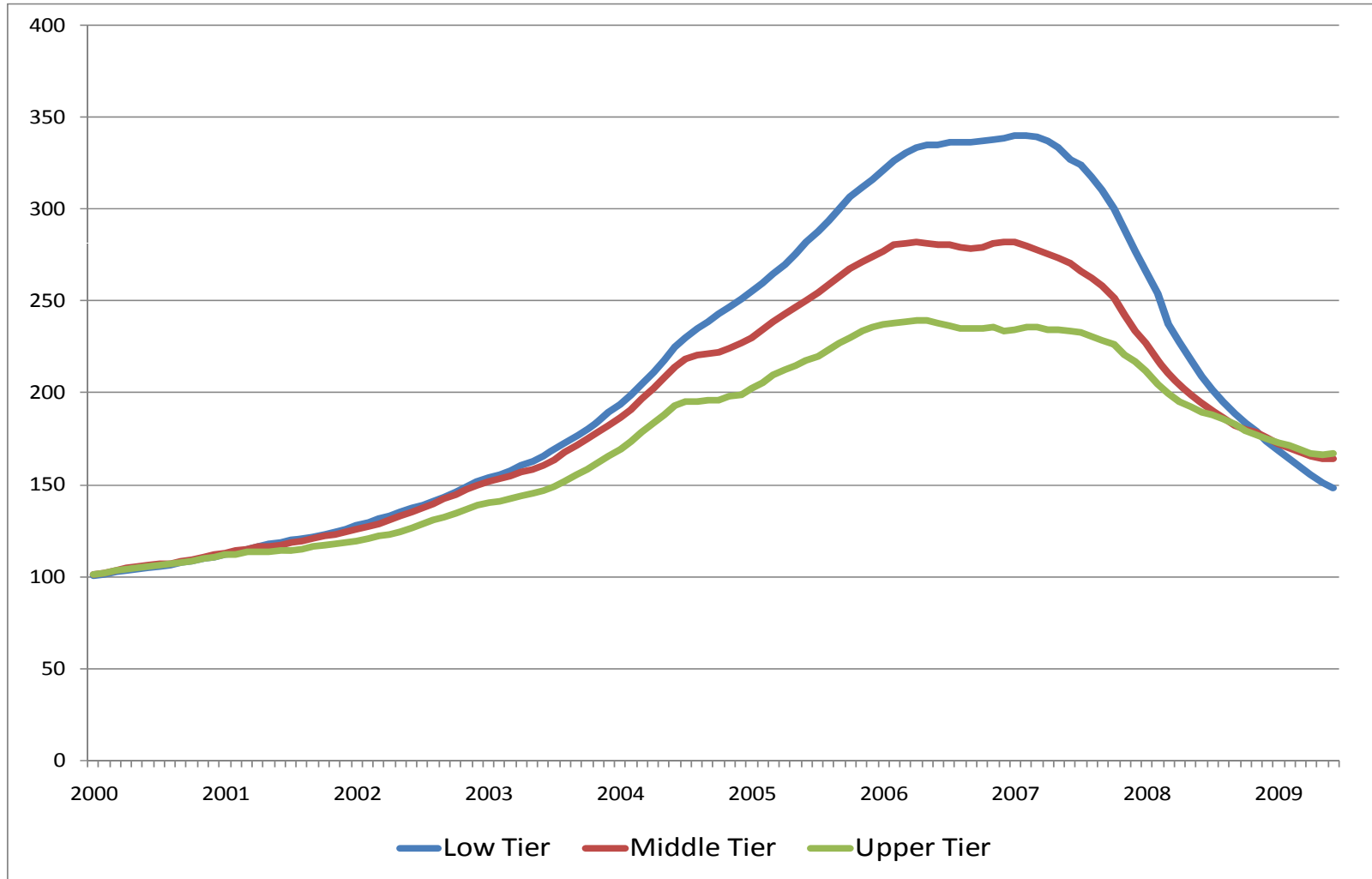


# Foreclosure Rates in California by Race/Ethnicity



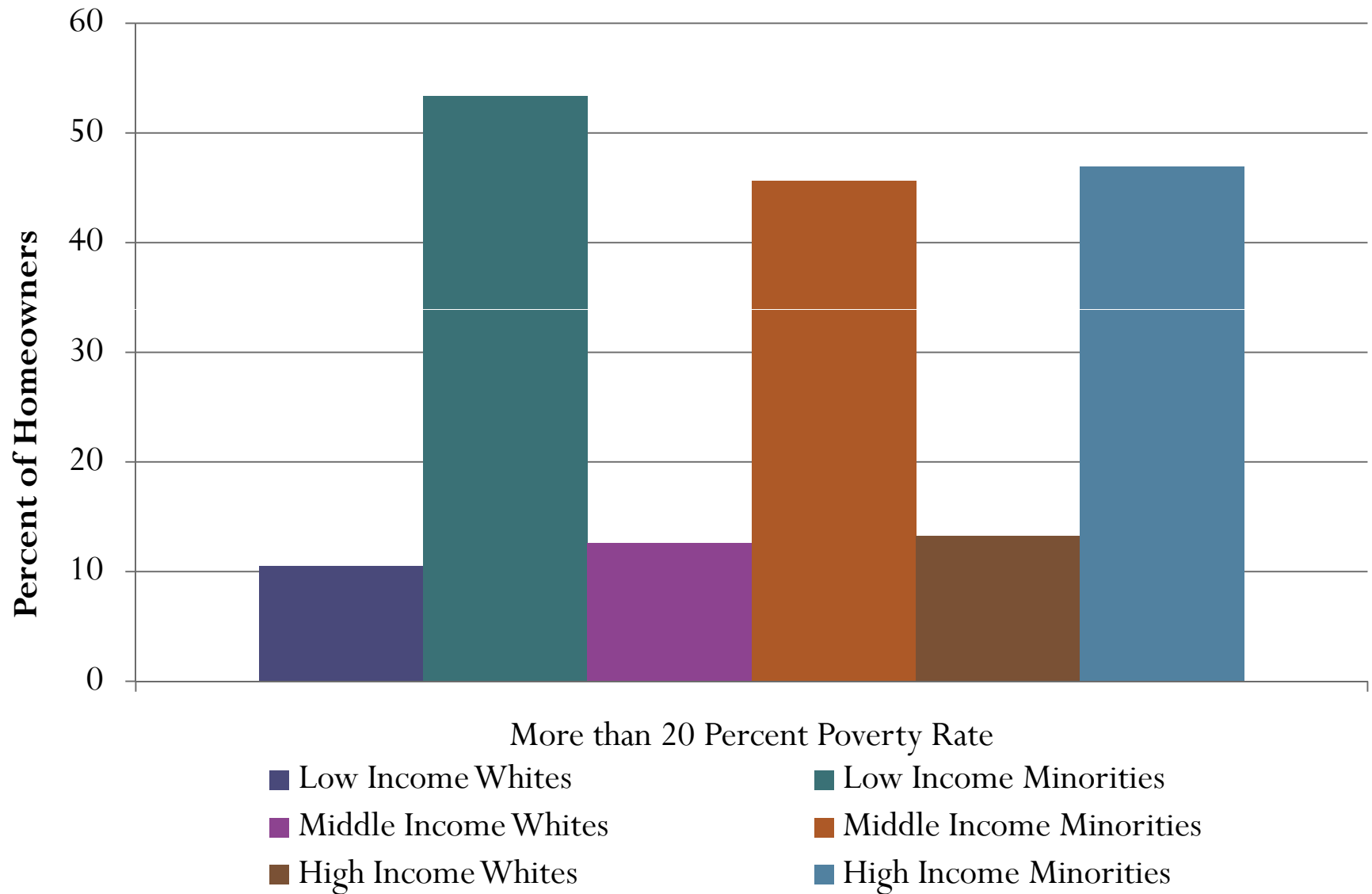
# Price Swings Have Been Most Dramatic for Lower-Priced Homes

## Los Angeles Metropolitan Area

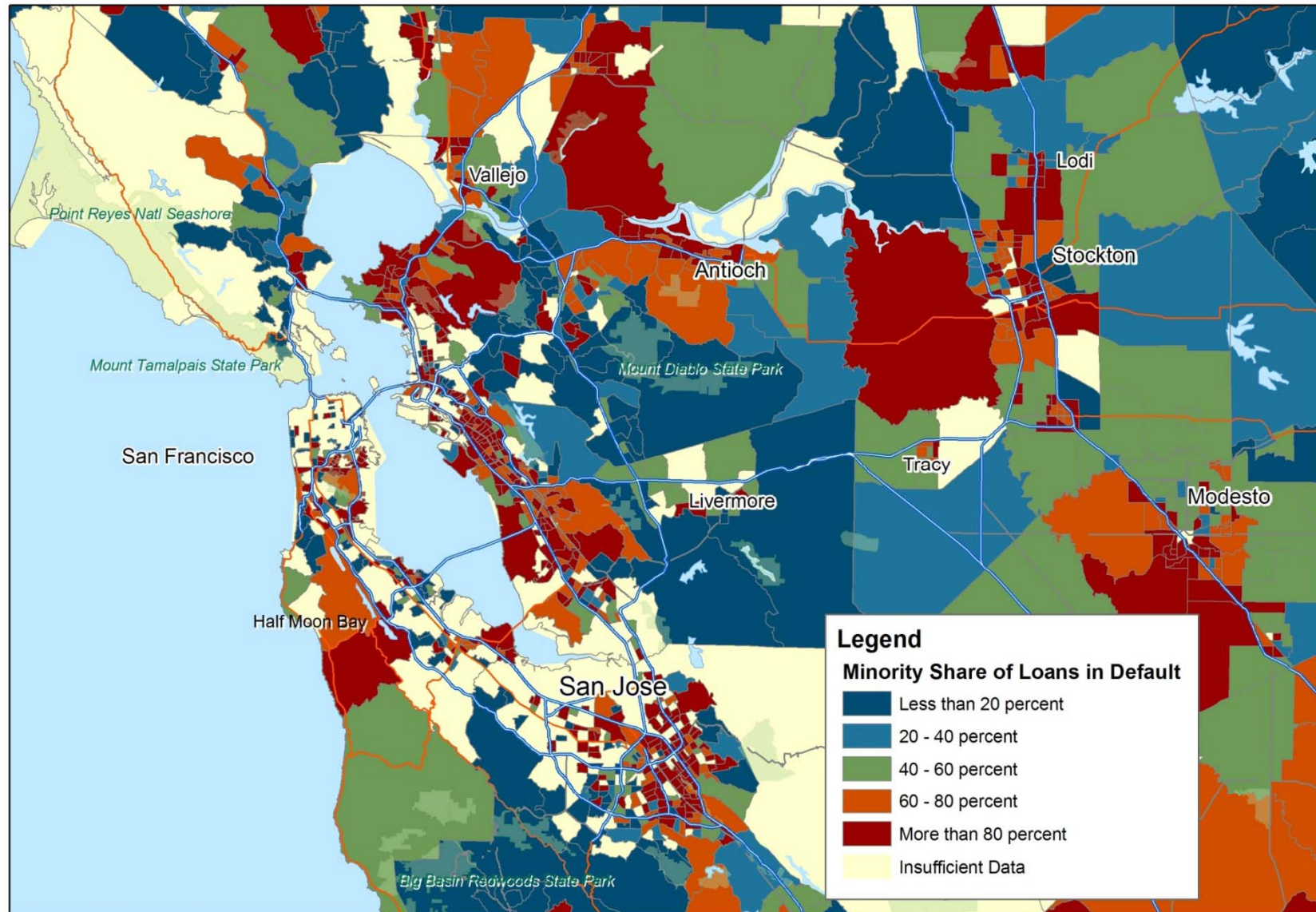


Source: Case - Shiller Home Price Index

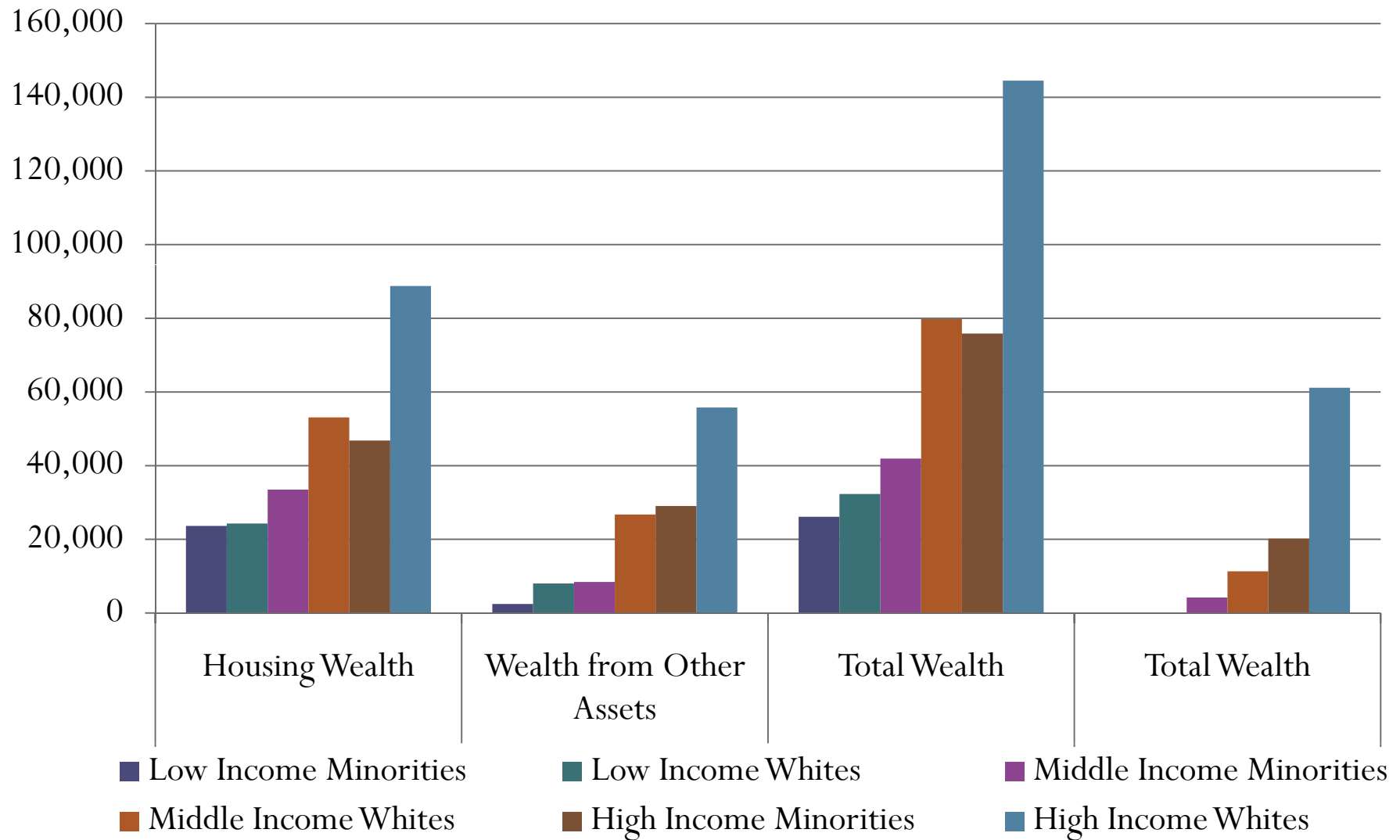
# Neighborhood Poverty



# Long Term Consequences



# Asset Accumulation



# Policy Implications

## Institutional Constructs

Access  
Information  
Incentives  
Facilitation  
Expectations

## Individual Constructs

Economic Resources and Needs  
Financial Literacy  
Psychological Variables  
Social Network  
Intergenerational Wealth and  
Knowledge Transfers

Asset  
Accumulation

## Savings and Investment Action

When?  
Where?  
How Often?  
How Much?  
Portfolio Composition

## The Economy

Labor Market  
Housing Market  
Credit Markets  
Stock and Bond Markets

# Policy Implications

- Findings support the need to reevaluate the regulatory landscape to ensure access to “responsible” credit
  - Consider extending supervisory regime to non-regulated financial institutions
- “Product” matters
  - Prudent underwriting clearly matters
  - Close the gap in credit risk between minorities and whites
- Expand supply of affordable homeownership opportunities, particularly for historically disadvantaged groups
- “Local” matters
  - Link disconnected actors, fill information gaps, provide reputational controls, shape preferences
  - Mediating institutions (e.g. nonprofits) may be an important way of ensuring that both borrowers and lenders make the right credit decisions
- Reducing risk in labor market; income supports matters
- Community development matters

# Thank you!

Carolina Reid, Ph.D.

Federal Reserve Bank of San Francisco

[carolina.reid@sf.frb.org](mailto:carolina.reid@sf.frb.org)

415-974-2161