Can homeownership help low-income seniors preserve wealth?

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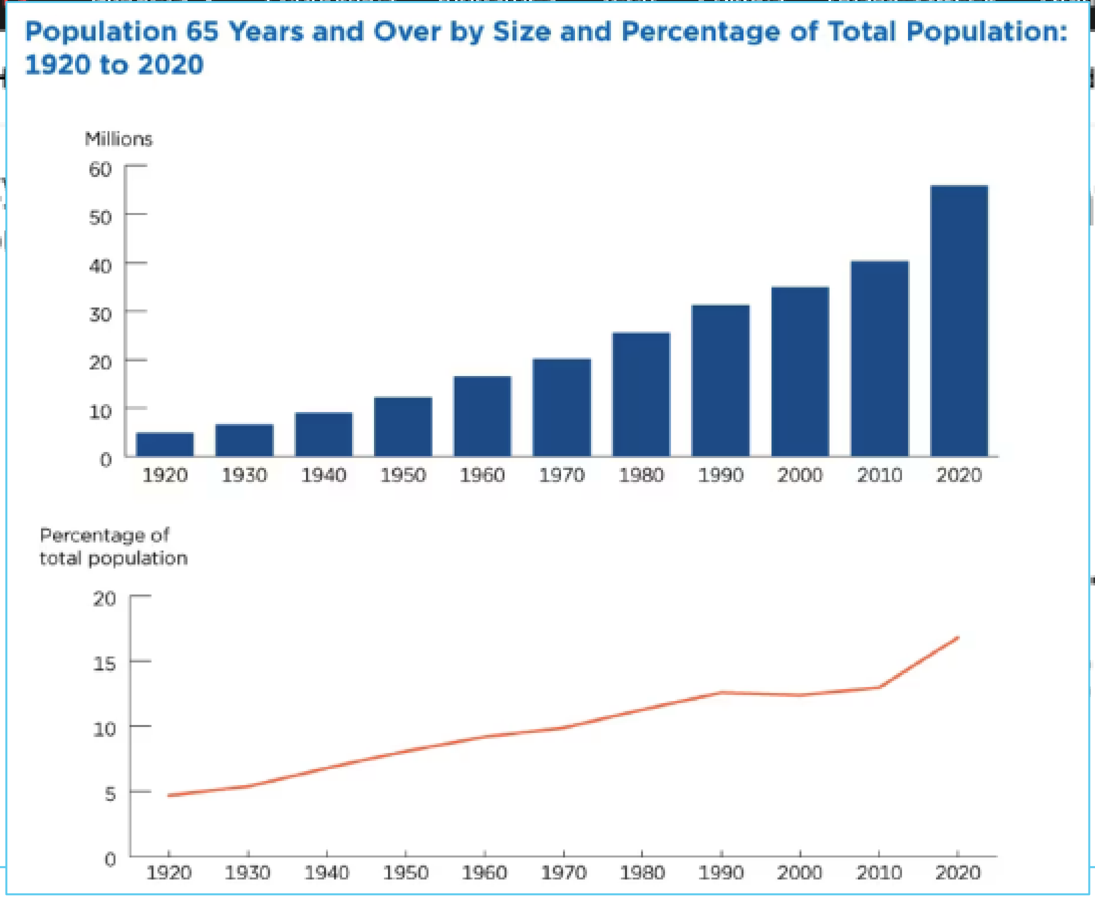
Can homeownership help low-income seniors preserve wealth?

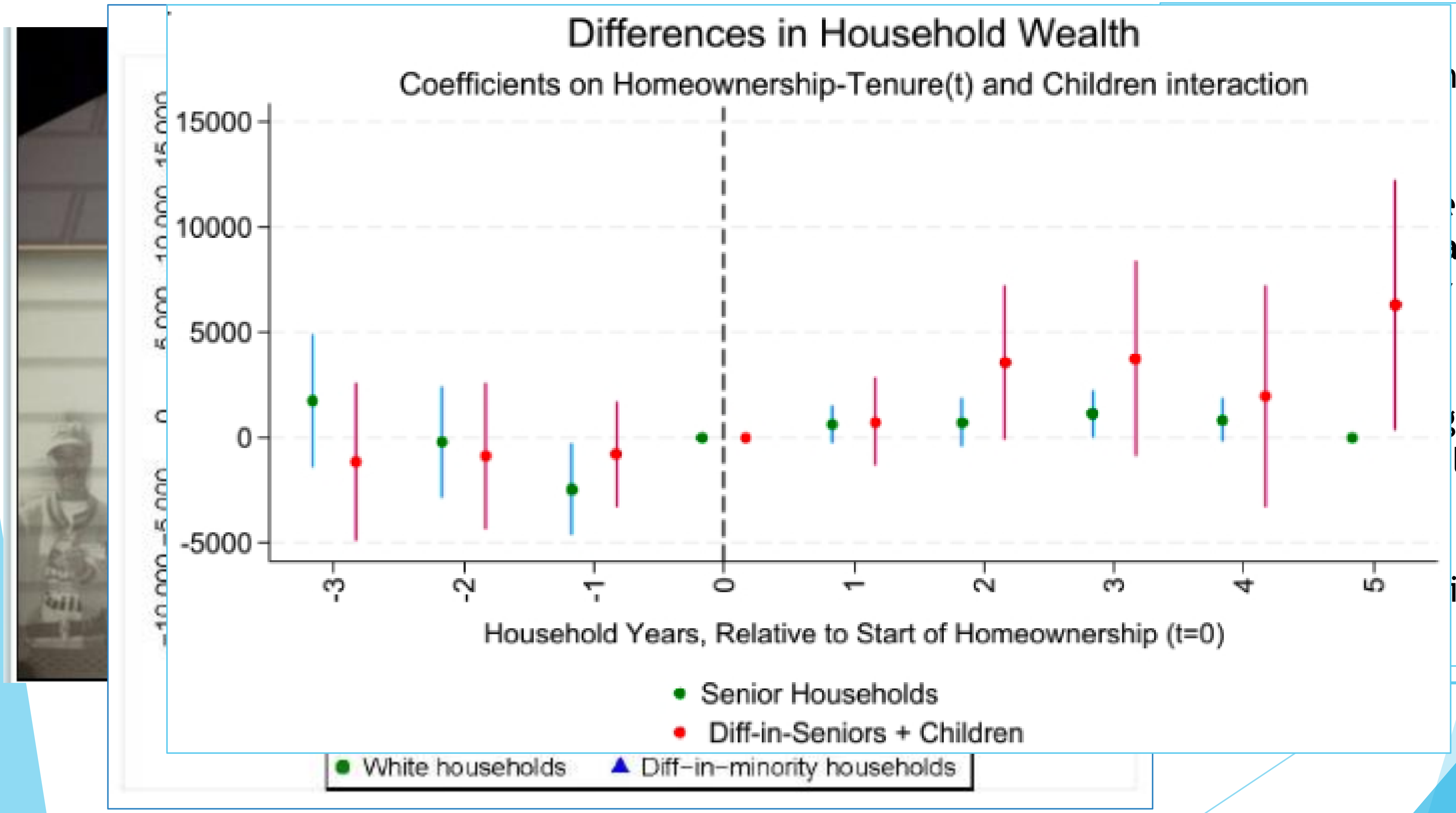
- If home equity accrues through time, then homeowning may help low-income seniors to preserve wealth against dissaving **(Our paper)**
  - Why: Homeowners can earn liquidity premiums for holding an illiquid asset (i.e., homes) (Dimmock, Wang, Yang, 2023; Jansen, Werker, 2022)
  - How: The forced savings of an amortizing mortgage may help preserve wealth as home equity accrues through time (Bernstein, Koudijs, 2023)
- We face several casual challenges (private actions, non-random)
  - Sample: HUD's Homeownership Choice Voucher (HCV) (PIC Data)
  - 2000 to 2020: 2,273 unique households (878 Coresident; 1,192 minority)
  - HoH homeowner at 62 or older: (Eventual) homeowners (household FEs)
- Home equity preserves wealth as liquid wealth (savings) falls by about -$5K
  - ↓Wealth disparities fall for seniors w/ children and minorities build wealth
  - We also find evidence that timing and neighborhood selection matter

Motivation: Vulnerable Seniors? Little income and liquid assets, growing childrearing duties

Seniors are a growing share of the U.S. population and increasingly responsible for child-rearing during a time in life when they should be retired. Sources: U.S. Census.



Motivation: Would homeowning help seniors?

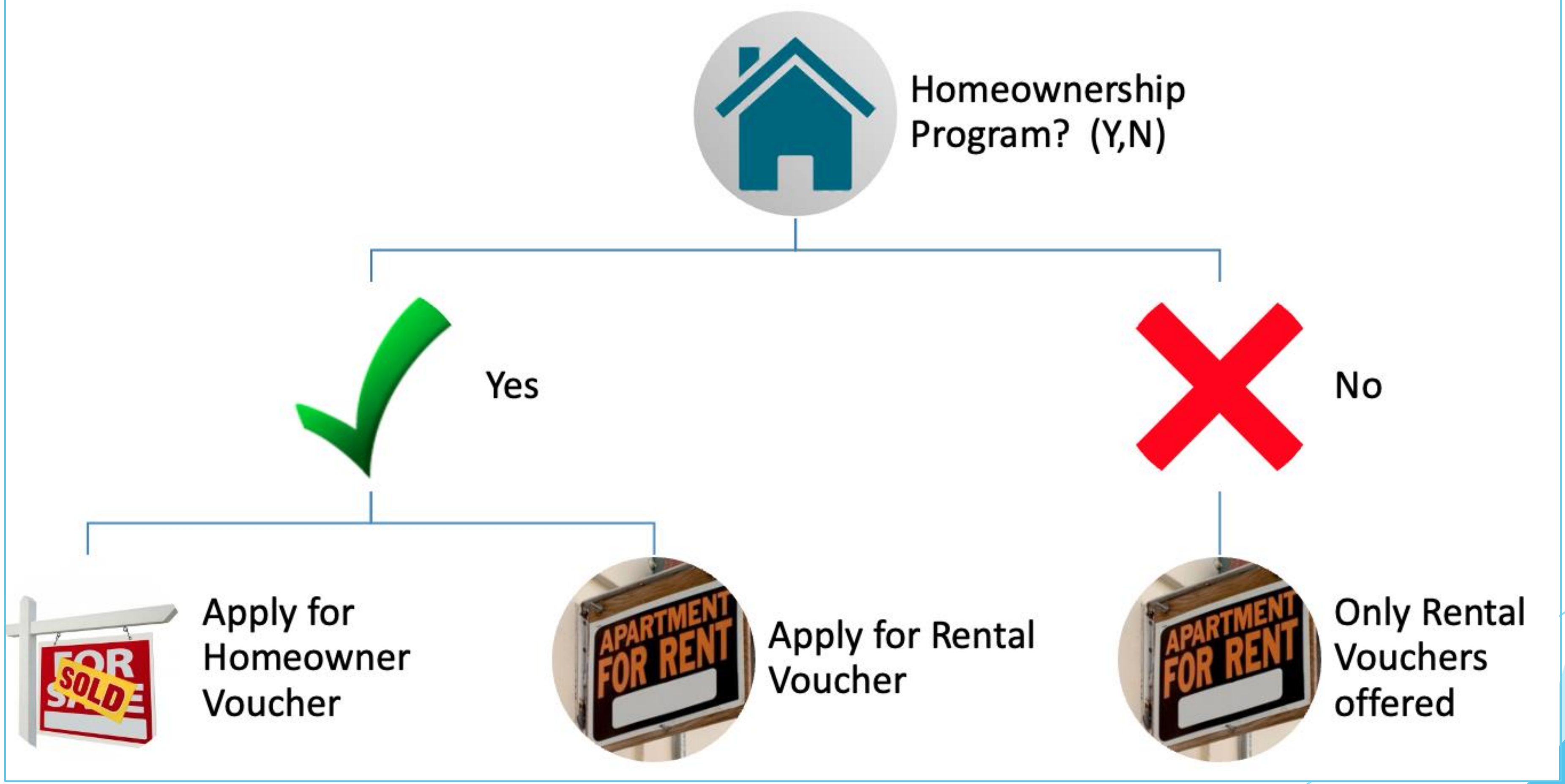


Motivation: Access to homeownership presents a challenge for many low-income senior households

- What do we know about homeownership's causal wealth effects for low-income seniors?
  - Not much. In theory, households can earn a liquidity premium as homeowners (Dimmock, Wang, Yang, 2023; Jansen, Werker, 2022)
  - Bernstein & Koudijs (2023) show HH leave savings untouched as they gain wealth through amortization (cut consumption for mortgage, but likely different for seniors)
- Coresident Seniors: may be forced to use retirement savings on child expenses (education)
  - Abandonment, drug abuse by adult children has forced many grandparents to become caregivers (Wallace, Jeanblanc, Musil, 2019)
  - Traditional senior housing often explicitly prohibit children (fewer affordable options)
- Minority Seniors: Wealth disparities can reduce quality of life for minority seniors
  - Discrimination in lending and financing (repairs, older homes, accessibility issues)
  - Disparities in earnings, wealth and pensions (Chetty et al., 2020)

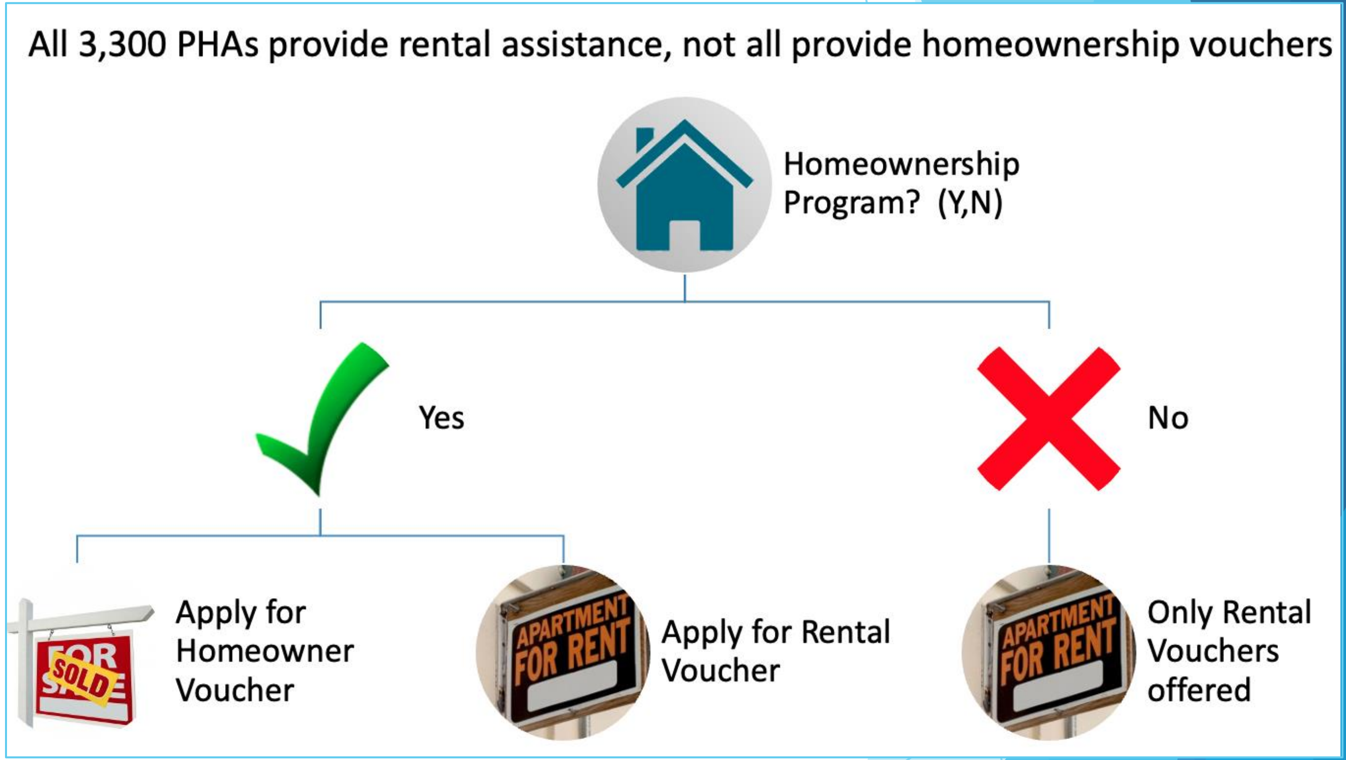
How do household apply for the vouchers?

All 3,300 PHAs provide rental assistance, not all provide homeownership vouchers



Why HUD's Housing Choice Voucher Program?

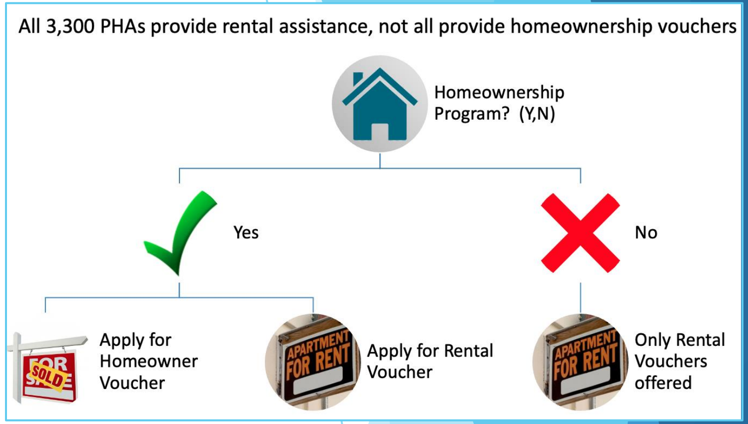
- Positives: low-income homeowners (sample)
  - Identification: same household as treatment and control
  - Verified income and liquid wealth (savings)
  - Racial and familial diversity
  - Plausibly exogenous treatment (buying)



- Challenges: Imputed housing wealth
  - Est. loan: observe payment & year, assume 30-yr fixed FHA loan
  - Est. home value: 3.5% down & annual changes from Zillow price index
  - Selection bias: Household FE - because homeowners and renters can be different, for many unobservable reasons.

HUD's Housing Choice Voucher Program (1 of 2)

- HCV Program (Section 8) introduced in 1974
  - Subsidized housing projects, direct rent payment assistance
  - 1.9 million participating households tenant-based households
  - All 3,300 PHAs provide rental assistance (20% offer homeownership)

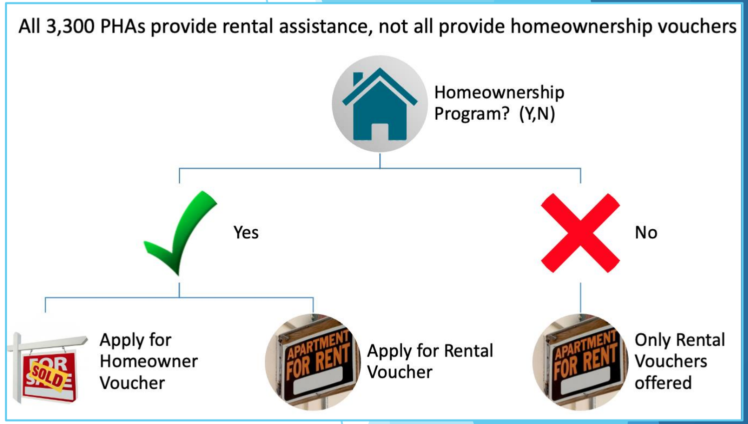


- HCV Homeownership Program (*our study*) introduced in 2000
  - Direct mortgage payment assistance
  - HCVH may act as insurance against loss of income
  - Approx. 9,000 participating owner-occupied households

- Participation decided at the local housing authority level
  - Households apply, but participation varies widely across states
  - In 2020: 0 households in Alaska, DC, Wyoming, 833 in Texas

HUD's Housing Choice Voucher Program (2 of 2)

- HCV Program Requirements
  - First-time homebuyers (as defined by HUD)
  - Including households with one disabled family member
- Minimum income and employment thresholds
  - Less than PHA's median household income
  - 30 hours of employment per week
  - Continuously employed for at least 1 year before receiving voucher
- Mandatory financial and homeownership counseling
  - No previous mortgage defaults
  - Credit counseling/credit cleaning

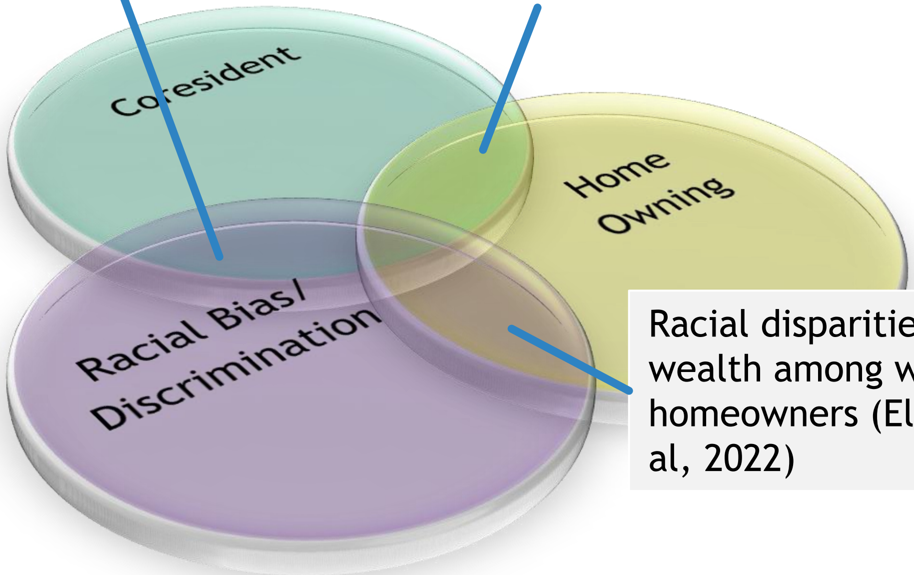


Implications for seniors' wealth preservation?

- Owning a home can earn a liquidity premium (DWY, 2023; JW, 2022; BK, 2023))
- But, since childrearing reduces spending flexibility (Baker, Silverstein, Putney, 2008), coresident seniors may allocate less wealth to home owning and therefore preserve less wealth
- Key idea: **Invest more, preserve more** (-coresident, -minority)

Racial disparities can confound coresident challenges for housing

Coresident seniors may allocate less wealth to homeowning due to childrearing expense



Racial disparities in housing wealth among working-age homeowners (Eldemire et al, 2022)

- Minority Homeownership
  - Prior studies find racial disparities in homeownership
  - Lower appraisal values for minorities (Ambrose et al, 2023)
  - Timing deepens racial disparities in wealth among low-income first-time buyers (Wainer, Zabel, 2020)
  - Reduced net worth for Black first-time home buyers in majority Black neighborhoods (Newman, Holupka, 2016)

Research Design

- $\text{Wealth}_{i,j,t} = a_i + B_1 HCVHomeowner_t + B_2 HCVH_t * Children + B_3 HCVH_t * Minority + B_4 HCVH_t * Children * Minority + B_5 Children_i + B_6 Minority + B_7 Children * Minority + c * X_{i,t-1} + d_t + e_{i,j,t}$
  - Wealth: cash value of financial assets + home equity, Non-Equity Wealth: wealth- home equity
  - B_1: Homeownership's wealth effect; B_{5-7}: Wealth as renters
  - B_{2-4}: Disparities in Wealth, for Coresidents, Minorities, and Minorities with children

- Controls: Fixed Effects: Household (unobservable), & HoH Age, Year, Structure
  - Observable household characteristics (income, children, disability)
  - Economic conditions (County-level jobs and income scaled by population)
  - Cluster at PHA j level (correlated errors among households that interact with the same local PHA)

- Channels for wealth preservation?
  - Labor & non-wage income: finance consumption with increased labor supply (Jansen, Werker, 2022)
  - Timing: age of home purchase, and market timing (liquidity premiums vary over time)
  - Neighborhood selection: influence home appreciation (Rapport, 2010, Newman, Holupka, 2016).

Demographics: 2,273 Unique Households from 2000 to 2020, HoH homeowner at 62 or older

	As Renters (No Children)			As Renters (Children Coresidents)			
	Mean	p50	sd	Mean	p50	sd	
Age of HoH	60.28	60	7.13	56.48	56	6.74	***
Num. of Children	0	0	0	1.82	1	1.18	***
Children	0	0	0	1	1	0	***
Disability	0.52	1	0.5	0.4	0	0.49	***
Minority	0.46	0	0.5	0.65	1	0.48	***

	As Owners (No Children)			As Owners (Children Coresidents)			
	Mean	p50	sd	Mean	p50	sd	
Age of HoH	65.51	65	7.32	61.63	61	7.15	***
Num. of Children	0	0	0	1.66	1	1	***
Children	0	0	0	1	1	0	***
Disability	0.26	0	0.44	0.32	0	0.47	***
Minority	0.47	0	0.5	0.67	1	0.47	***

Table 2 Main Result

	(1) Total Wealth	(2) Non-Equity Wealth
HCV Homeowner × Children	5862.53**	1584.21
	(2.17)	(1.05)
HCV Homeowner	-1722.65	-5041.88**
	(-0.72)	(-2.32)
Children	-6532.31***	-2747.03*
	(-2.64)	(-1.72)
Minority	9770.04**	3965.83*
	(2.49)	(1.73)
HCV Homeowner × Children × Minority	-2843.22	-2958.46
	(-0.80)	(-1.40)
HCV Homeowner × Minority	208.44	-77.37
	(0.12)	(-0.10)
Children × Minority	-20.39	2324.51
	(-0.00)	(0.75)

Coresident: Reduce wealth disparities from renting by 89%.

Homeowner: Home equity stabilizes total wealth; non-equity wealth declines by $5.04K

Minority: No disparities from homeownership, preserve wealth accumulated as renters

Note: all models include HH-FE, Year FE, and controls

Channels: Sources of Income

	(1) Wages	(2) Welfare	(3) Pension
HCV Homeowner × Children	922.58**	-155.15	79.55
	(2.34)	(-1.04)	(0.28)
HCV Homeowner	-554.31***	-97.68	284.94**
	(-2.91)	(-1.54)	(2.00)
Children	-2569.83***	1239.41***	988.01***
	(-6.08)	(7.91)	(3.06)
Minority	-376.62	56.17	789.81
	(-0.68)	(0.26)	(1.63)
HCV Homeowner × Minority × Children	-630.80	-269.22	213.31
	(-1.31)	(-0.91)	(0.57)
HCV Homeowner × Minority	380.14*	47.08	-277.11
	(1.77)	(1.05)	(-1.62)
Minority × Children	364.63	-144.90	-165.61
	(0.67)	(-0.59)	(-0.39)

Coresident: increase labor supply (children may limit ability to sustain reduced liquid wealth).

Homeowner: reduced labor supply partially offset by pension income

Minority: reduce labor supply by less than White households

Channels: HoH Age at Purchase

	Under Age 62		Age 62 and Over	
	(1) Total Wealth	(2) Non-Equity Wealth	(3) Total Wealth	(4) Non-Equity Wealth
HCV Homeowner × Children	8000.50**	2311.65	-6.15	-77.45
	(2.22)	(1.15)	(-0.00)	(-0.05)
HCV Homeowner	1175.34	-4682.07**	-1616.04	-2205.72
	(0.45)	(-2.54)	(-0.67)	(-1.06)
Children	-7945.30**	-3411.57	-802.98	187.37
	(-2.38)	(-1.48)	(-0.29)	(0.20)
Minority	9621.91*	5982.56*	3370.81	-1576.38
	(1.73)	(1.93)	(0.89)	(-0.94)
HCV Homeowner × Minority × Children	-7091.39	-3696.17	5687.03	133.52
	(-1.44)	(-1.42)	(1.43)	(0.06)
HCV Homeowner × Minority	2281.89	27.67	-810.92	-225.73
	(0.77)	(0.02)	(-0.40)	(-0.21)
Minority × Children	4268.67	2778.29	-10804.13**	-2039.61
	(0.82)	(0.78)	(-2.10)	(-1.09)

Under Age 62
- Coresident wealth gains reverse disparity as renters
- Home equity offsets losses in liquid wealth
- Minorities retain wealth from renting

Over Age 62
- Coresident minority HHs maintain disparities in wealth from renting

Channels: Neighborhood Selection - Poverty

	Below Median Poverty		Above Median Poverty	
	(1) Total Wealth	(2) Non-Equity Wealth	(3) Total Wealth	(4) Non-Equity Wealth
HCV Homeowner × Children	7735.19**	1758.36	2637.83	497.13
	(2.17)	(0.84)	(0.63)	(0.25)
HCV Homeowner	-3996.00	-5393.78**	1352.45	-4732.11
	(-1.37)	(-2.49)	(0.45)	(-1.57)
Children	-8749.57***	-2459.82	527.68	-2549.11
	(-2.75)	(-1.03)	(0.16)	(-1.63)
Minority	10870.62**	5866.51**	3546.23	-1795.76
	(2.19)	(2.00)	(0.70)	(-0.97)
HCV Homeowner × Minority × Children	-8637.04	-3568.12	2506.77	-1097.49
	(-1.65)	(-1.15)	(0.47)	(-0.44)
HCV Homeowner × Minority	6536.56**	372.82	-3468.22*	-36.40
	(2.12)	(0.27)	(-1.77)	(-0.04)
Minority × Children	636.73	2989.47	-5549.29	601.64
	(0.12)	(0.72)	(-1.18)	(0.29)

Lower Poverty Neighborhoods:
- Coresidents reduce wealth disparity from $8.7K to $1.0K
- Homeowners' equity offsets losses in liquid wealth
- Minority no disparity in wealth, and preserve more from renting

Higher poverty areas:
- Racial disparities from wealth lost in home equity ($3.5K)

Channels: Neighborhood – Economic Connectedness

	Below Med. Econ. Connected.		Above Med. Econ. Connected.	
	(1) Total Wealth	(2) Non-Equity Wealth	(3) Total Wealth	(4) Non-Equity Wealth
HCV Homeowner × Children	5655.21	657.17	6138.12*	2060.50
	(1.15)	(0.39)	(1.68)	(0.88)
HCV Homeowner	-561.46	-4698.30	-5095.12	-6992.66***
	(-0.16)	(-1.41)	(-1.45)	(-2.76)
Children	-5682.37	-1805.48	-5916.85*	-2318.06
	(-1.46)	(-1.05)	(-1.69)	(-0.92)
Minority	12183.23**	2865.93	3713.39	2118.44
	(2.55)	(1.36)	(0.45)	(0.48)
HCV Homeowner × Minority × Children	-4054.02	-1424.00	-624.06	-3269.05
	(-0.69)	(-0.75)	(-0.14)	(-1.00)
HCV Homeowner × Minority	528.79	-22.70	701.26	363.97
	(0.24)	(-0.03)	(0.24)	(0.24)
Minority × Children	702.89	-736.14	-4132.38	3280.83
	(0.13)	(-0.24)	(-0.71)	(0.70)

Higher Connected Counties:
- Coresidents gain more wealth
- Homeowners' equity offsets losses in liquid wealth
- Minority no disparity in wealth

Lesser Connected Counties:
- Minorities still preserve wealth from renting

Conclusion

- We find evidence that homeownership can be a driver for financial inclusion among senior households with low incomes
  - HUD HCV Homeownership program led to wealth preservation for low-income seniors who became homeowners
- Home equity helps preserve wealth as liquid wealth (savings) declines:
  - Home equity reduced coresident disparities in wealth by approx. 89%
- When and where a home is purchased affects wealth preservation
  - Transitioning earlier in life leads to stronger wealth preservation
  - Market timing (national cycles) affects wealth preservation
  - Neighborhood selection, particularly poverty influences differences in coresident and minority households' wealth preservation as homeowners.
- Findings are new, and not easily inferred from other studies