

The Effect of Government Mortgage Guarantees on Home Ownership

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Main Result:

Changes in government guarantees have:

1. A small or zero effect on homeownership
2. Significant effect on financing choices

1. Interpretation of the contribution
2. Empirical strategy and identifying assumption
3. Other comments

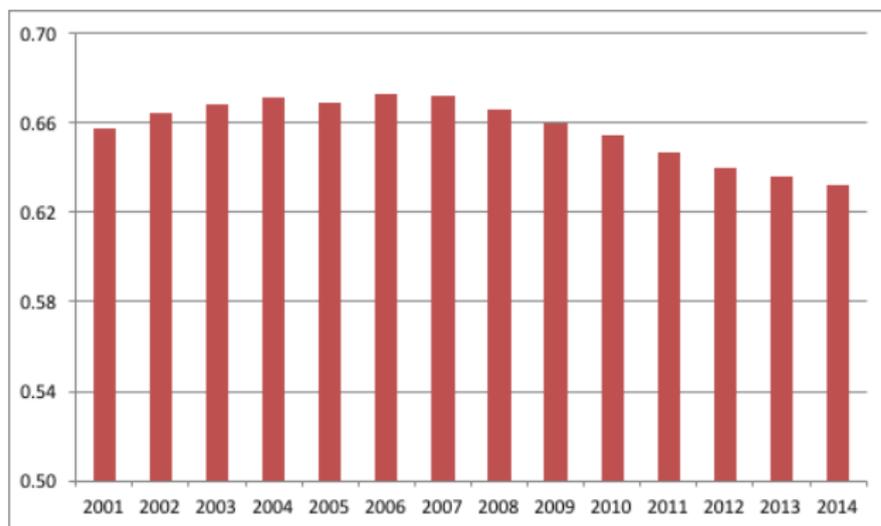
Government guarantee and home ownership?

- Interesting question.
 - But not sure this is the right question to ask in this context
- 1. Homeownership rates and sample period**
 - 2. House transactions distribution**

Comments: Historical homeownership rates

Historical homeownership rates

- Small decline during sample period
- From 67,2% in 2007 to 66,6% in 2008

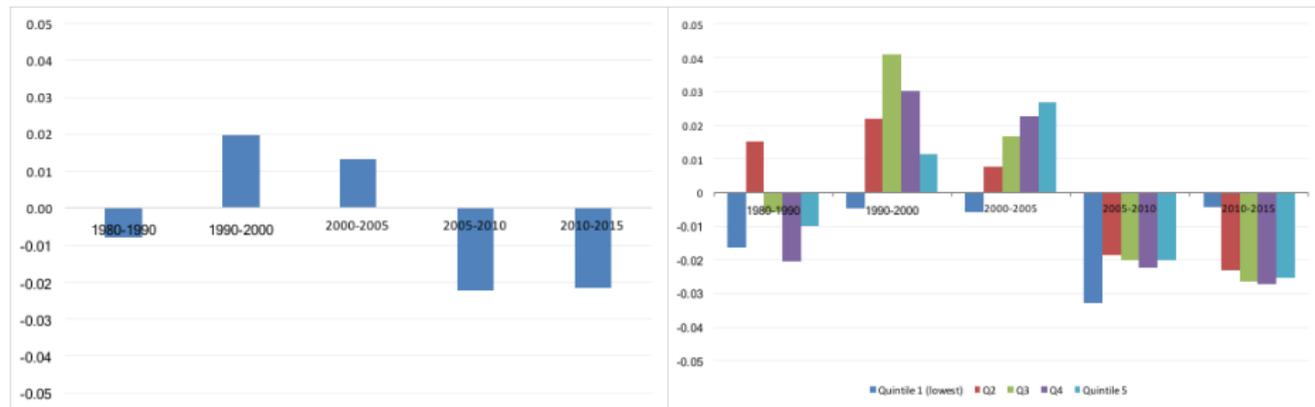


Source: American Community Survey

Comments: Historical homeownership rates

Historical homeownership rates

- Limited variation during the sample period
- Potentially more variation by income areas

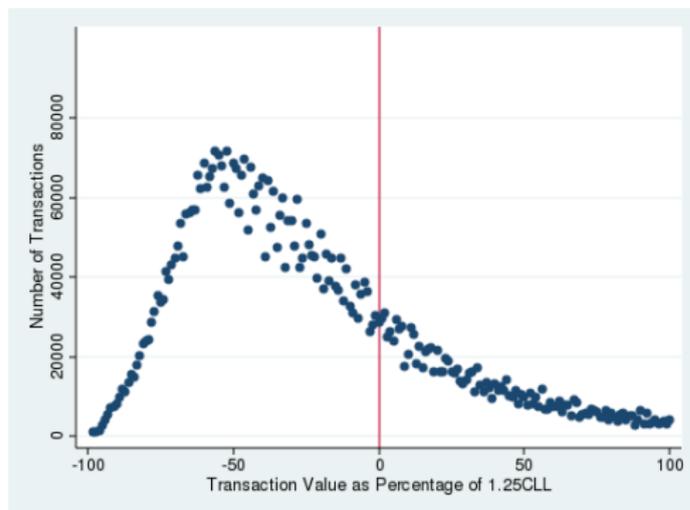


Source: American Community Survey

Comments: House transaction distribution

House transactions associated with the government guarantee threshold

- Magnitude of the shock is small and distribution raises concerns about external validity

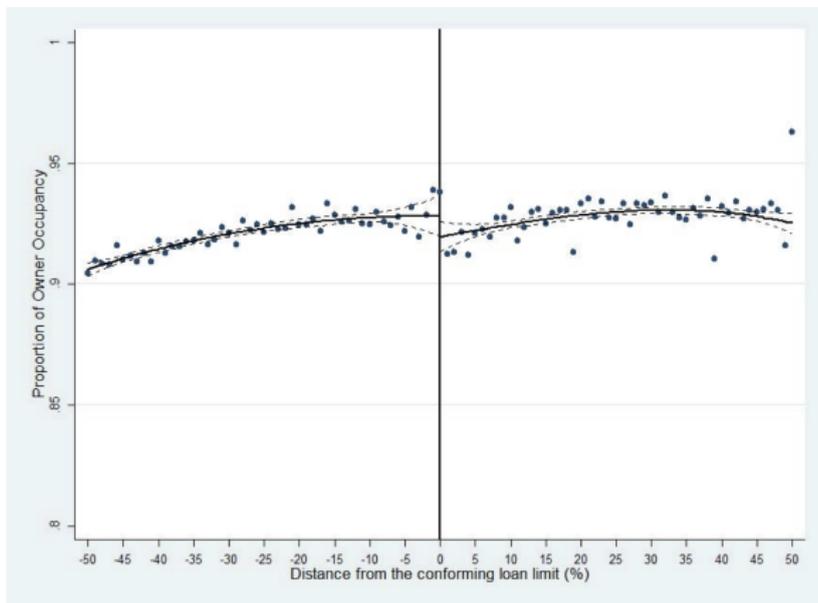


Source: Dataquik Sample Period 2000-2006

Comments: House transaction distribution

House transactions associated with the government guarantee threshold

- No variation in homeownership rate around the threshold



Source: Dataquick Sample Period 2000-2006

Suggestions: Different Sample Period

Use an earlier sample period, where owner occupancy is increasing

Historically 2000-2006 a more “favorable” period

Also, period where change in CLL “more” exogenous

Suggestions: Outcomes

1. Is the change in owner occupancy the only relevant outcome?

- Currently looking at net flows, look at inflows and outflows

2. Household level characteristics?

- Are buyers moving to bigger houses, better neighbors, better schools, etc?

Potentially very interesting to understand housing choices, not only ownership

How it affected the rental markets, Gete and Rether 2017

Empirical strategy

$$y_{i,ym} = \beta_1 Post_{ym} + \beta_2 \Delta CLL_{c(i)} \times Post_{ym} + \Gamma X_{iym} + FE_{c(i)} + \varepsilon_{i,ym}$$

Identifying assumptions:

- Treated and control behave similar in the pre-period (parallel trend)
- Treatment definition is uncorrelated with variables that affect the outcome (exogenous treatment)

Comments: Empirical strategy and identifying assumption

Treatment definition is uncorrelated with variables that affect the outcome (exogenous treatment)

- Deaton (2009) critique: “external” is not the same than “exogenous”

1. Treated vs. Controls define as “high cost” vs. “normal” counties

- Unobservable differences between counties

	Estimation Sample		Entire Sample	
	(1)	(2)	(3)	(4)
	Untreated	Treated	Untreated	Treated
Avg sale price in 2006 and 2007 (before 2007m9)	3.94e+05	4.09e+05	1.97e+05	4.97e+05
% jumbo loans in 2006 and 2007 (before 2007m9)	0.114	0.188	0.024	0.273
% PLS loans in 2006 and 2007 (before 2007m9)	0.281	0.432	0.214	0.476
Avg CLTV in 2006 and 2007 (before 2007m9)	0.826	0.877	0.868	0.861
Δ CLL (\$100K)	0.000	2.201	0.000	2.365
N. Obs.	3,979,870	6,648,338	31,144,206	8,123,793

Identifying assumption: high cost and normal counties are equivalent in other dimension that may affect homeownership

Treatment definition is uncorrelated with variables that affect the outcome (exogenous treatment)

- Deaton (2009) critique: “external” is not the same than “exogenous”

2. ΔCLL , intensity of treatment, uncorrelated with zipcode house prices

-Change is defined by county-level house price, which is likely to be correlated with zipcode level house prices.

Identifying assumption: changes in county-level house prices are uncorrelated to zipcode ownership status

Suggestion: Identifying assumption

1. Treatment vs Controls

Assess the validity of the underlying assumption:

- Show similarities based on observable characteristics (statistically)
- Control for house prices levels

Run similar regression but controlling for **neighboring zipcodes (nz)** **across county border** (Severino and Brown, 2017)

$$y_{i,ym} = \beta_1 Post_{ym} + \beta_2 \Delta CLL_{c(i)} \times Post_{ym} + \Gamma X_{iym} + FE_{c(i)} + FE_{nz(i)} + \varepsilon_{i,ym}$$

Suggestion: Identifying assumption

2. ΔCLL , intensity of treatment

Assess the validity of the underlying assumption:

How correlated are zipcode level house prices in the regression sample with county-level house prices?

- Directly control for house price levels

caveat: are there other variables affecting ownership?

- Focus on a robust sample, where correlation between counties and zipcodes are weak

caveat: may induce a different type of selection

1. Make sample comparable

- It is hard to tract the samples across tables, fixed sample of houses included in the regressions
- Show county plot for regression sample

2. Generate placebo test to assess validity of the estimates

- Randomly assigned counties and redo the analysis, compare the results to “real” regression

3. Potentially explore income heterogeneity

- Conditional on having enough variation

Conclusion

Interesting paper that aims to answer an important question

Need to do more to increase the contribution

- Explore a richer set of outcomes
- Refine robustness of identifying assumptions

Looking forward to reading the new version.

Thank you!