



Center for Social Development

GEORGE WARREN BROWN  
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# Homeownership and Wealth among Low-Income Young Adults: Evidence from the Community Advantage Program

**Michal Grinstein-Weiss, Blair Russell,  
Lucy Gorham, Clinton Key**

Presentation for Federal Reserve Bank of St. Louis Symposium - The Balance Sheets of Younger Americans: Is the American Dream at Risk?

May 9, 2014



# Research Questions

- During the period 2005 to 2012, did households under 40 see differing changes in net worth compared to over 40 households?
- Does the homeownership play a moderating role?



# Outline

- Literature review and theoretical background
- Program description and data
- Analytical approach
- Research findings
- Implications



# Is homeownership still the American Dream for young people?

“The End of Ownership: Why Aren’t Young People Buying More Houses”

*The Atlantic*, Feb. 29, 2012

“For More People, the American Dream Doesn’t Include a Home of Their Own”

*Washington Post*, Mar. 1, 2014



# Is homeownership still the American Dream for young people?

- Yes

95% of young renters and owners expect to own a home in the future (Drew & Herbert, 2012)

- But...

Homeownership decreased during 1980-2000 among the young (Fisher & Gervais, 2011)

- Increased income uncertainty
- Delayed household formation

Homeownership rate among young families fell from 50% in 2005 to 42% in 2013 (Emmons & Noeth, 2014)



# The impact of homeownership on net worth

## Positive

- Appreciation of value
- Forced savings
- Insulation from rising housing costs
- Tax benefits

## Negative

- Transaction costs
- Opportunity costs



# Realizing the benefits of homeownership

(Herbert & Belsky, 2008)

- Location
- Property features
- Mortgage features
- Timing of purchases and sales relative to house price cycles
- Return on alternative investments
- Cost of renting
- Age/timing of household at purchase
- Tenure length

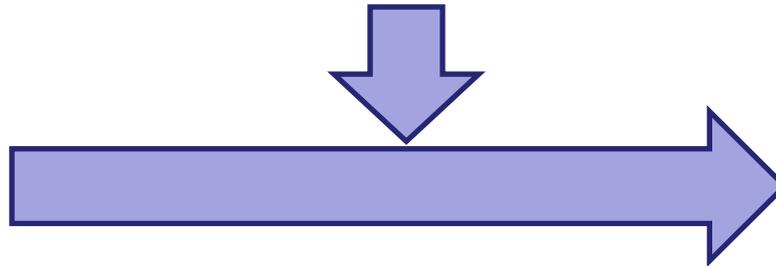


# The Community Advantage Program (CAP)

Lenders make  
30-year, fixed-rate  
mortgages to lower-  
income borrowers



Grant from  
Ford Foundation for risk  
underwriting



Mortgages sold by  
lender to Fannie Mae  
via Self Help



# The Community Advantage Program

46,453 loans

Most (68%) put down less than 5%

$\frac{1}{2}$  < 680 credit score

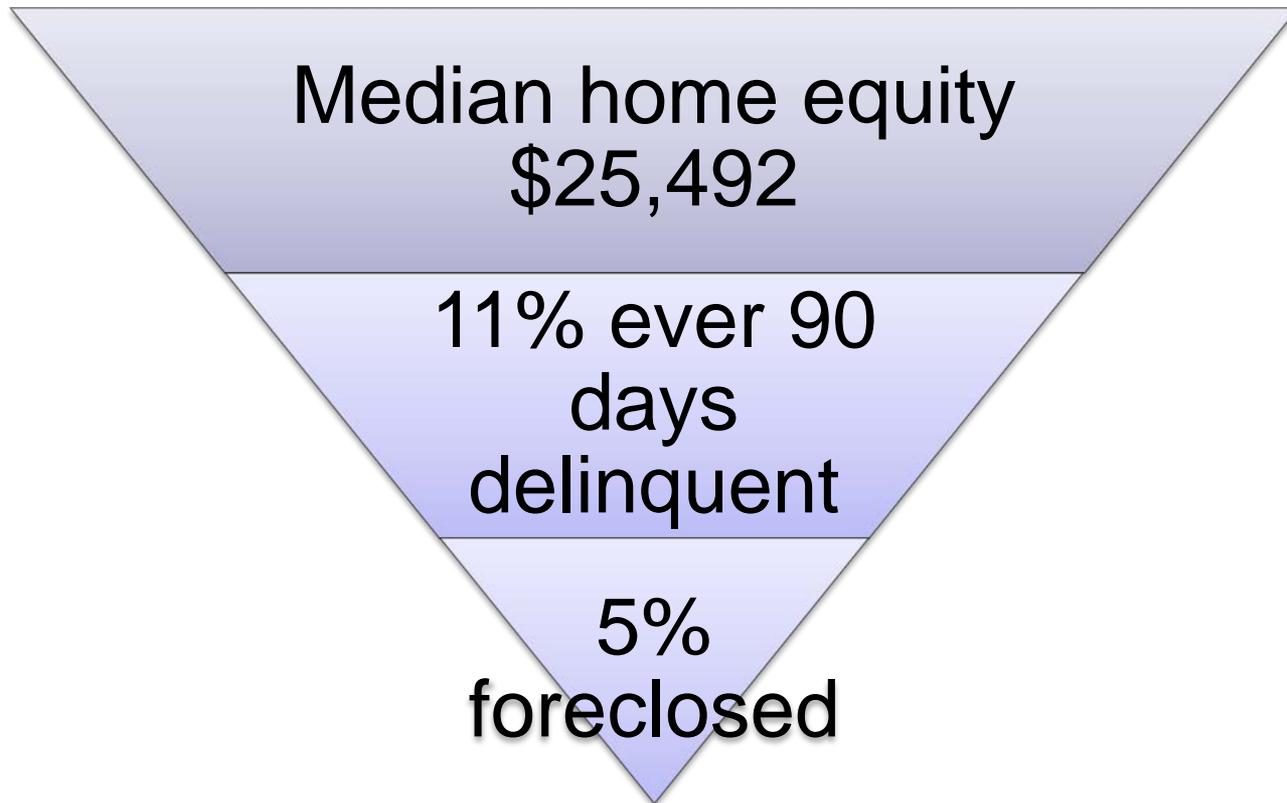
\$30,972 median income

41% female-headed

40% minority



# Loan performance through 2011





# Data overview

- 3 waves of CAP survey
  - 2005, 2008, 2012
- Matched panel of renters
  - Same neighborhoods as CAP owners
  - Met income criteria
- Analytic sample: 1,435
  - 736 homeowners
  - 699 renters



# Summary statistics by tenure and age

	Owners	Renters	Under 40	40 and Over
Homeowner	-	-	68.4%	30.9%
Age (in 2005)	32.7	40.7	29.3	50
Under 40 (in 2005)	81.6%	47.8%	-	-
Male	51.5%	25.1%	45.2%	29.2%
Married (in 2005)	53.9%	42.7%	54.6%	38.0%
Race/Ethnicity				
White	62.6%	47.5%	58.1%	51.4%
Black	19.5%	35.5%	23.4%	32.9%
Hispanic	14.1%	13.3%	14.8%	11.5%
Other	3.8%	3.8%	3.6%	4.2%
Employment				
Ever Unemployed	12.2%	23.6%	15.6%	20.4%
Education (in 2005)				
Less than High School	6.7%	13.1%	6.4%	15.8%
High School Grad	18.9%	28.1%	21.4%	26.1%
Some College	44.0%	38.4%	42.3%	40.1%
College Grad and Up	30.4%	20.4%	30.0%	18.1%
Household Members (# in 2005)				
Minors	0.957	0.098	0.737	0.22
Adults	1.845	2.458	2.13	2.127
Income				
Income 2005	\$41,988	\$24,089	\$38,190	\$25,413
Income 2008	\$54,993	\$32,232	\$52,335	\$29,833
Income 2012	\$58,769	\$34,444	\$57,623	\$28,835



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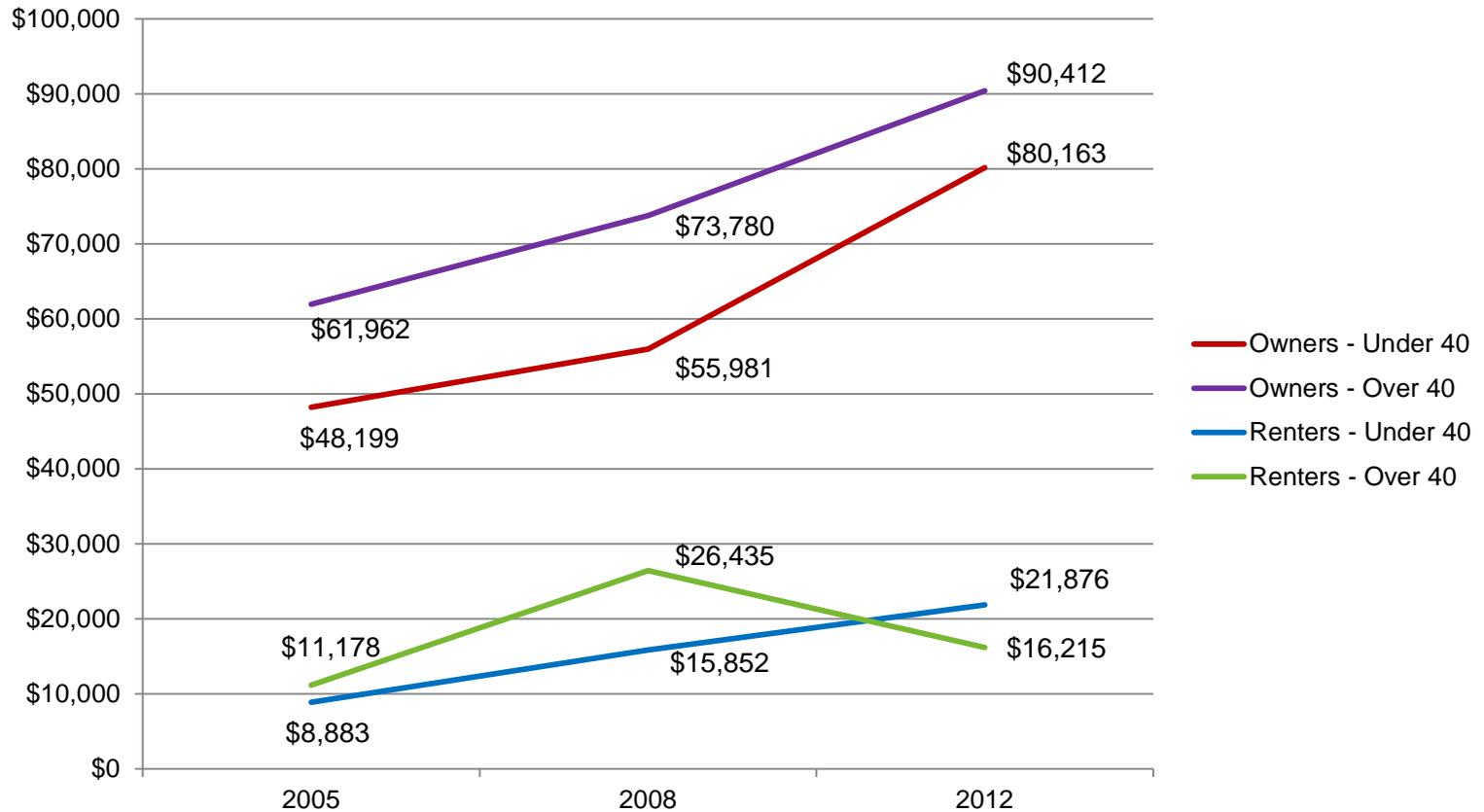


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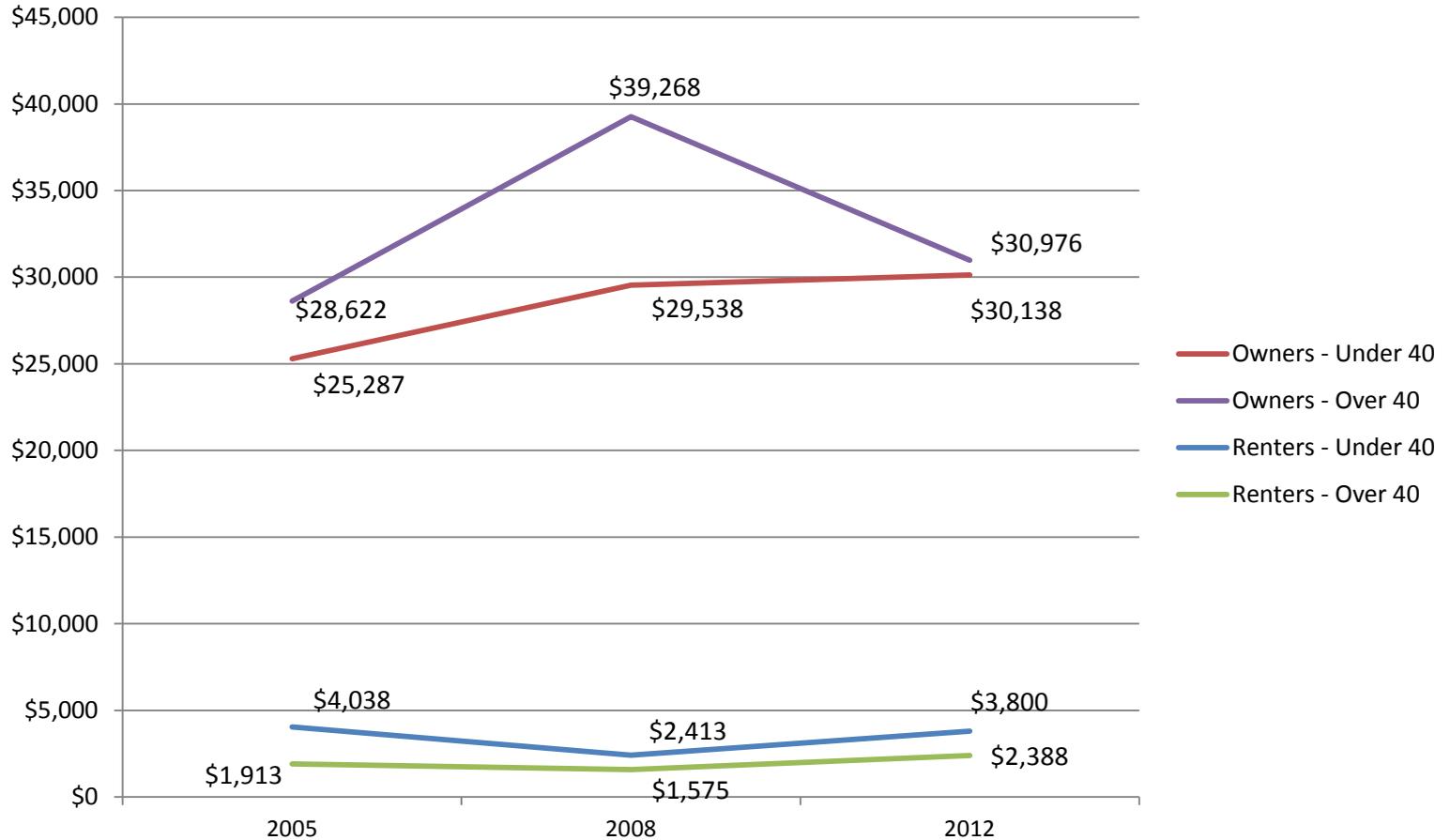


# Mean net worth by age, tenure, and year





# Median net worth





# Analytical approach

## Propensity score weighting

### 1. Model homeownership

$$Pr(H_i = 1 | X_i = x) = \frac{e^{(x'\gamma)}}{1 + e^{(x'\gamma)}}$$

### 2. Convert propensity scores to sampling weights

- Homeowners:  $w = 1$
- Renters:  $w = p/(1-p)$



# Causal model

## Weighted OLS regression

$$Y_i = \beta_0 + \beta_1 H_i + \beta_2 A_i + \beta_3 H_i \cdot A_i + \gamma X_i + \varepsilon_i$$

$Y$  = Change in net worth (2005 – 2012)

$H = 1$  (Homeowner)

$A = 1$  (Under 40 in 2005)

$H \cdot A = 1$  (Homeowner under 40 in 2005)

# Results: Change in net worth 2005-2012

VARIABLES	B (SE)
Homeowner	-28,140** (13,770)
Under 40	-24,587** (11,578)
Interaction: Homeowner × Under 40	21,576* (13,083)

Note: Weighted Regression; 1% Outliers in Net Worth Change excluded

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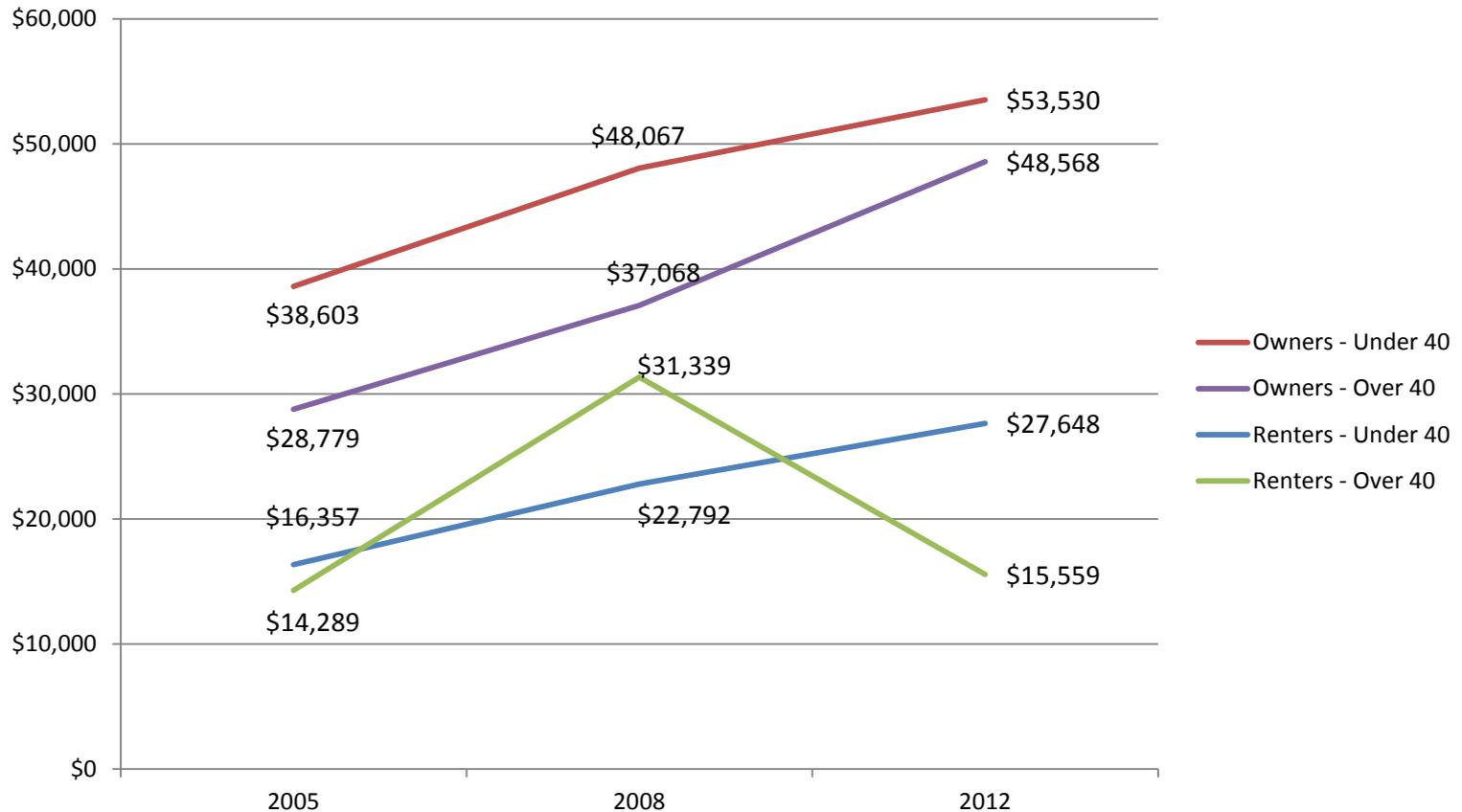
**Yes, younger households saw less growth**

- Does homeownership play a moderating role?

**Yes, young CAP homeowners better off than young renters**

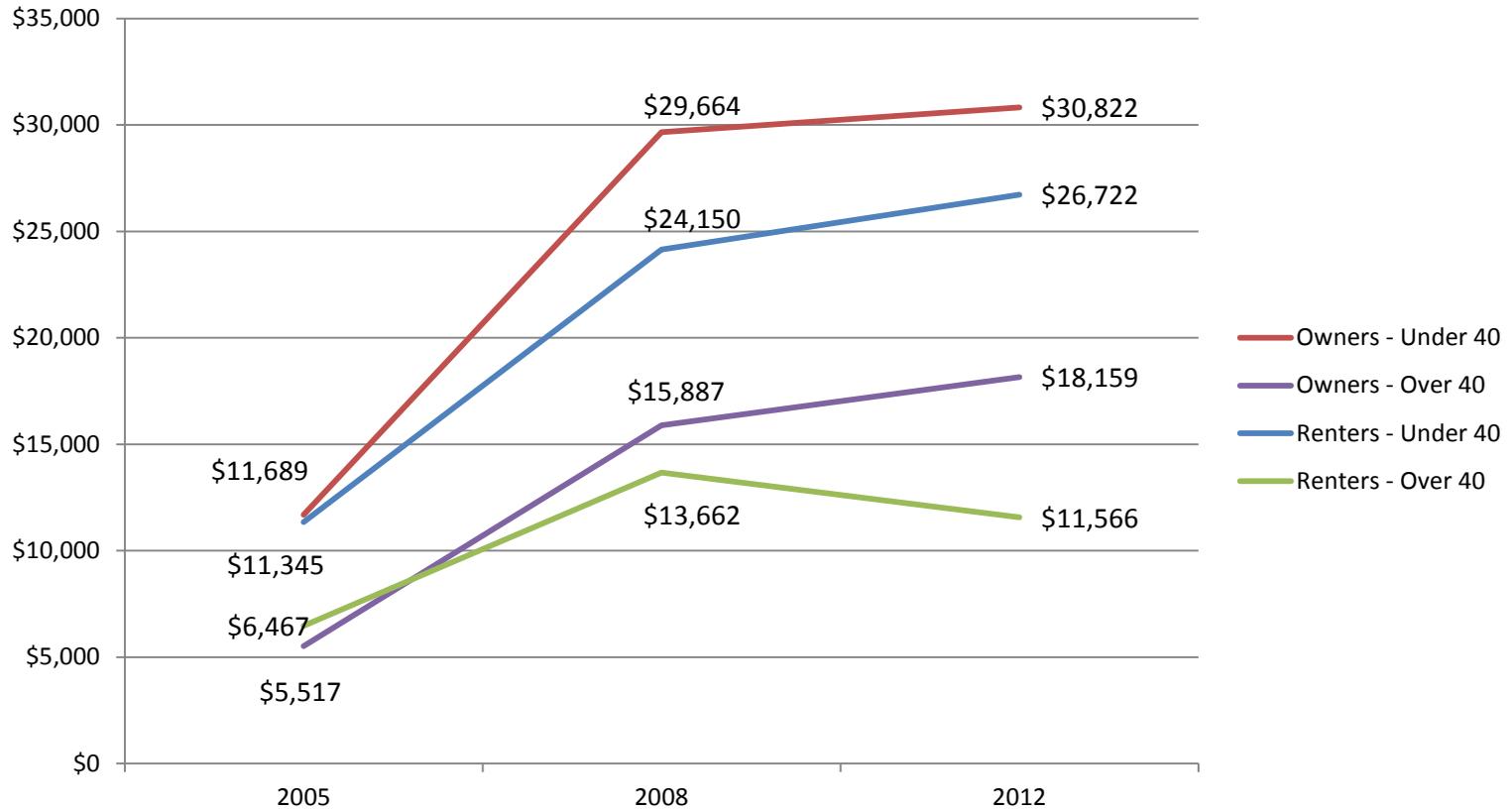


# Non-housing assets





# Non-housing debt





# Limitations

- Excludes those who changed tenure status
  - Not counting those who lost home
- Unobservable differences between homeowners and renters
- Applicability to non-CAP population
  - Low- to moderate-income sample
  - Favorable mortgage terms



# Discussion

- Young generation disproportionately negatively impacted by Great Recession
- Young homeowners able to weather the storm better than renters
- Data from before, during, and after historic housing market decline
  - Worst case scenario for home buyers
- Policy must also consider external effects of homeownership



# Thank you

- Ford Foundation for generous support of this research
- Please contact Blair Russell with questions or comments: [brussell@wustl.edu](mailto:brussell@wustl.edu)



# Summary statistics

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Age (in 2005)	36.2	Household Members (# in 2005)	
Male	39.9%	Minors	0.559
Married (in 2005)	49.0%	Adults	2.129
Race/Ethnicity		Income	
White	55.9%	Income 2005	\$33,830
Black	26.5%	Income 2008	\$45,043
Hispanic	13.7%	Income 2012	\$48,168
Other	3.8%	Neighborhood Characteristics	
Employment		Disadvantage Composite Score	0.086
Unemployed Ever	17.2%	Median Home Value	\$95,305
Education (in 2005)		Median Rent	\$472
Less than High School	9.5%		
High School Grad	23.0%		
Some College	41.5%		
College Grad and Up	26.0%		

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