DISCUSSION

Help to Spend?

Housing Market and Consumption Response to Relaxing the Down Payment Constraint

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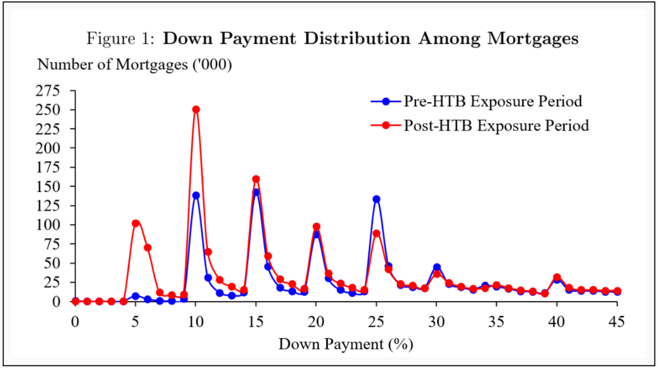
INTRODUCTION



- Clean identification of mortgage market effects.
- **Not** a general relaxation of credit conditions.
- Instead: Constrained buyers have a path to home ownership.

Part 1: Housing market effects

Theory

- Ortalo-Magne and Rady (2006), Chambers et al. (2009), Halket and Vasudev (2014), Fuster and Zafar (2016).
- **Unambiguous prediction:**
  - Positive effect on lending and housing transactions.
  - Restricted to the young cohort.

✓

Administrative data

- Cross-sectional identification exploits observed decisions in pre-crisis period.
- Precise validation of post-policy increase in transaction volume:
  - 200k observed vs. 217k estimated.
  - Predominantly first-time buyers.

✓

PART 2: CONSUMPTION EFFECTS

Theory

- Sinai and Souleles (2005), Davidoff (2006), Han (2008), Banks et al. (2010). Halket et al. (2015), **Guren et al. (2021)**.
- Ambiguous consumption elasticity:
  - Positive (wealth effect)
  - Negative (illiquidity risk)
  - **Zero**/heterogeneous?

Identification

- Direct effect:
  - Restricted to the young cohort. ⊗
- Spillover in local municipality:
  - But: no effect on house prices. ?
  - And: no effect on construction. ?

COMMENTS

1. Counterfactual

"We end the sample period in 2016 as the market for low-down payment mortgages had been ***reestablished.****"*

- How did this market adjustment work?
- Does the transition not contaminate the results?

Alternative counterfactual:

- Analyze the behaviour of non-eligible buyers.
- For example: non-first-time buyers, second-home owners, unqualified property types.
- Currently these categories of transactions are simply filtered out.

The Paper's Main Objective

Micro?

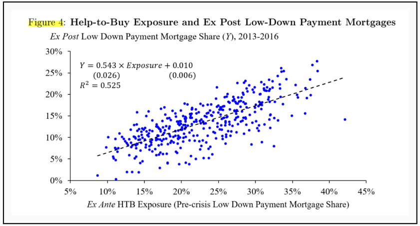
- Testing the savings channel is an important contribution.
- Additional expectations effect: policy signals regime shift.
- In which case, it is rational for *everyone* to save less. (Do we observe this in the data?)

Macro?

- As of yet unconvincing.
- **Segmentation** and preferred habitats (Badarinza and Ramadorai, 2018).
- Theory says that two **local variables** are driving the direction of the effect:
  - Price/rent ratio.
  - Liquidity.

3. Identification of macro effects

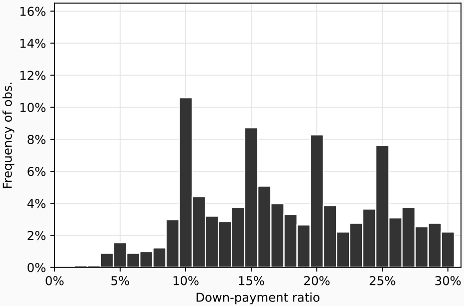
If identification works well in Part 1 (local changes in housing market activity), this does not mean that it has to work equally well in Part 2 (local consumption/output).



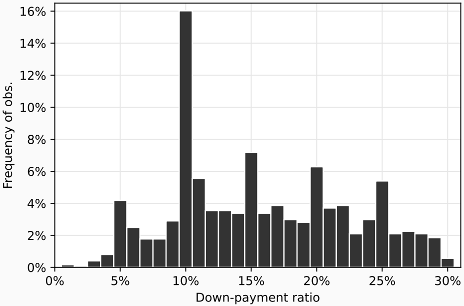
- **No other shock** may have affected mortgage and housing market activity during this period, but is this also true for consumption?
  - Capture **eligibility** more broadly, e.g., through underlying demographics.
  - Separate groups whose **income** does not depend on the local economy.

4. Identification of micro effects

2010 – 2012

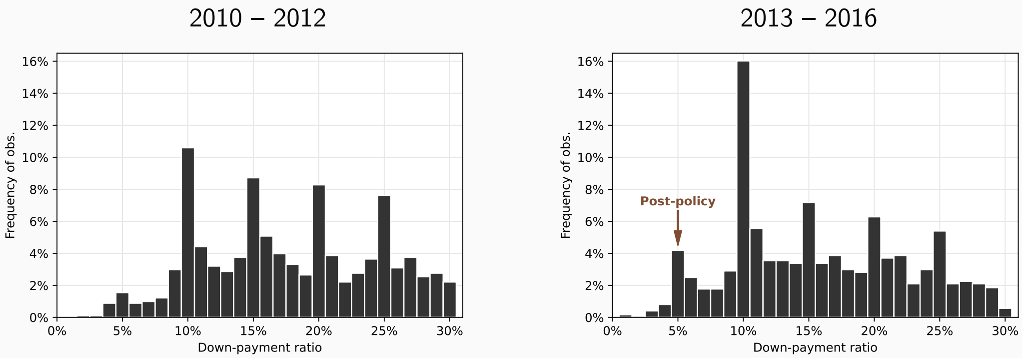


2013 – 2016



Source: Understanding Society (BHPS)

4. Identification of micro effects



Source: Understanding Society (BHPS)

4. Identification of micro effects

Who are the constrained borrowers?

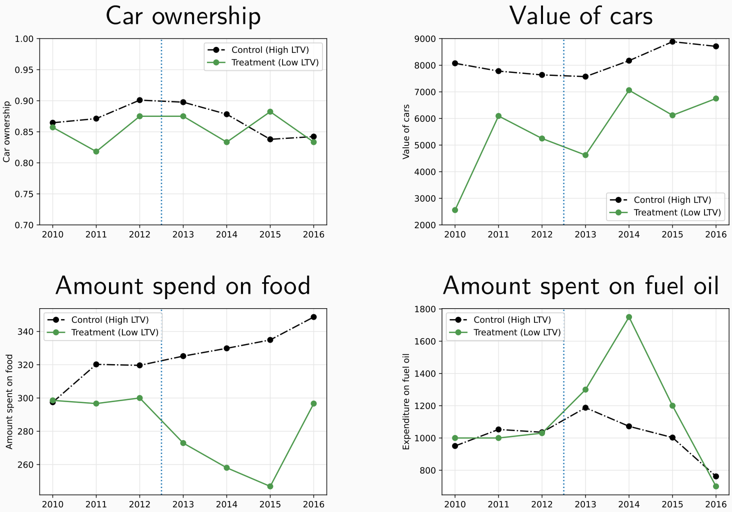
Characteristics of the post-policy mortgage borrower cohort

(2013 – 2016)

	Low downpayment		High downpayment
Age of household head	37 years	$<$	43 years
Household income	38k	$<$	50k
House value	153k	$<$	241k
Mortgage amount	130k	$<$	142k
Car ownership	80%	$<$	85%
Value of cars	5.0k	$<$	7.4k

Source: Understanding Society (BHPS)

4. Identification of micro effects



Source: Understanding Society (BHPS)

Conclusions

- Clean **policy experiment**, associated with a well-defined and precisely estimated impact on mortgage contract issuance and housing market transaction volume.
- Results consistent with theoretical predictions and validated by administrative data.

Comments

1. Counterfactual can exploit treatment heterogeneity.
2. House price effects potentially better identified in relevant segments.
3. Capture eligibility more broadly, e.g., young population with upwards sloping income.
4. Potential to isolate/constrain the magnitude of the direct effect.

Appendix

- Revisiting Table 3, column (5) graphically (a proposal):