Comments on
The Impact of Housing Markets on Consumer Debt

Karen Pence
Federal Reserve Board

Note: The views expressed are mine alone and not necessarily those of the Board of Governors or its staff
What this paper does

- Explores the relationship between changes in house prices and changes in household debt
- Uses panel data on household credit records and zip-code level house price index
- Finds that balances on home equity lines of credit rose with house prices for all groups
  - Individuals with better access to credit appear to offset some of the rise with decreases in other debt
  - More credit-constrained individuals just increase debt
Implications for consumption

- Two ways that house prices might affect consumption
  - An increase in wealth increases consumption
  - Households have a greater ability to borrow because they can post more collateral

- The fact that debt rose more for credit-constrained households suggests that the collateral constraint is more important
Assessment of paper

- Interesting and important descriptive piece of changes in household debt in areas with significant house price swings

- Am not convinced that the authors have isolated a causal relationship between house prices and consumption
  - Authors are not able to control for all relevant factors
  - House price instrument may be problematic
Debt is a tough proxy for consumption

- Debt is a method of payment
  - Does not involve a change in consumption
  - Mechanically reflects consumption

- Debt is a bet on a better future
  - Higher income; higher house prices
  - Allows an increase in current consumption
    - At the possible cost of household and financial instability
Factors affecting household debt decisions

• Current income and wealth
• Expected future income and wealth
• Price terms of credit (interest rates)
• Non price terms (down payment, maturity, is loan offered at all)

• Authors may only be controlling for current income and wealth
The yield curve shifted significantly
Credit cards are less available to borrowers with lower credit quality

Source: Han, Keys, and Li.
Mortgage credit has contracted

Prime Credit Scores at Mortgage Origination

Note: Concerns 30-year fixed-rate mortgages originated in month shown. Source: LPS Applied Analytics.
## Saiz inelasticity instrument

<table>
<thead>
<tr>
<th>MSA</th>
<th>Inelasticity Rank</th>
<th>Share of “undevelopable” land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ventura, CA</td>
<td>1</td>
<td>80%</td>
</tr>
<tr>
<td>Miami, FL</td>
<td>2</td>
<td>77%</td>
</tr>
<tr>
<td>Fort Lauderdale, FL</td>
<td>3</td>
<td>76%</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>5</td>
<td>73%</td>
</tr>
<tr>
<td>San Jose, CA</td>
<td>9</td>
<td>64%</td>
</tr>
<tr>
<td>San Diego, CA</td>
<td>10</td>
<td>63%</td>
</tr>
<tr>
<td>Riverside, CA</td>
<td>25</td>
<td>38%</td>
</tr>
<tr>
<td>Bakersfield, CA</td>
<td>41</td>
<td>38%</td>
</tr>
<tr>
<td>Fresno, CA</td>
<td>61</td>
<td>13%</td>
</tr>
<tr>
<td>Stockton, CA</td>
<td>66</td>
<td>12%</td>
</tr>
</tbody>
</table>
Source: FHFA. 2009:Q1 = 100
House price coefficient may be capturing other factors

- The authors emphasize that house price changes should affect consumption through the wealth and collateral channels

- In addition, in areas where house prices increased:
  - Households appeared to anticipate future increases → should increase consumption
  - Lenders loosened credit standards more → should increase consumption
Recommendations

- Downplay linkage with consumption
- Embrace the richness of the many changes in housing and debt markets in the 2000s
- Documenting these patterns with these rich and high quality data is a significant contribution