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

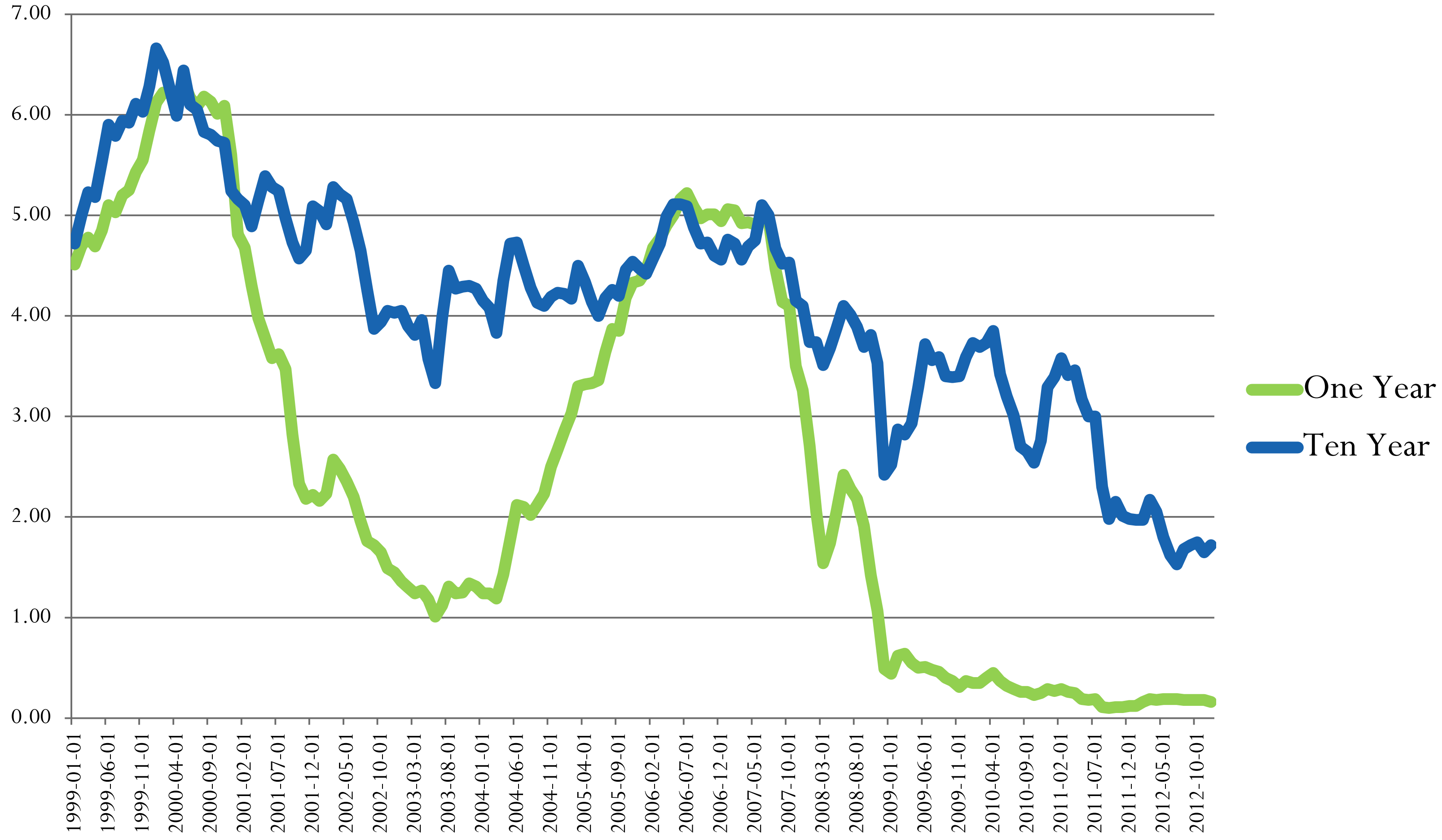
- Debt is a method of payment
  - Does not involve a change in consumption
  - Mechanically reflects consumption
- Debt is a bet on a better future
  - Higher income; higher house prices
  - Allows an increase in current consumption
    - At the possible cost of household and financial instability

Factors affecting household debt decisions

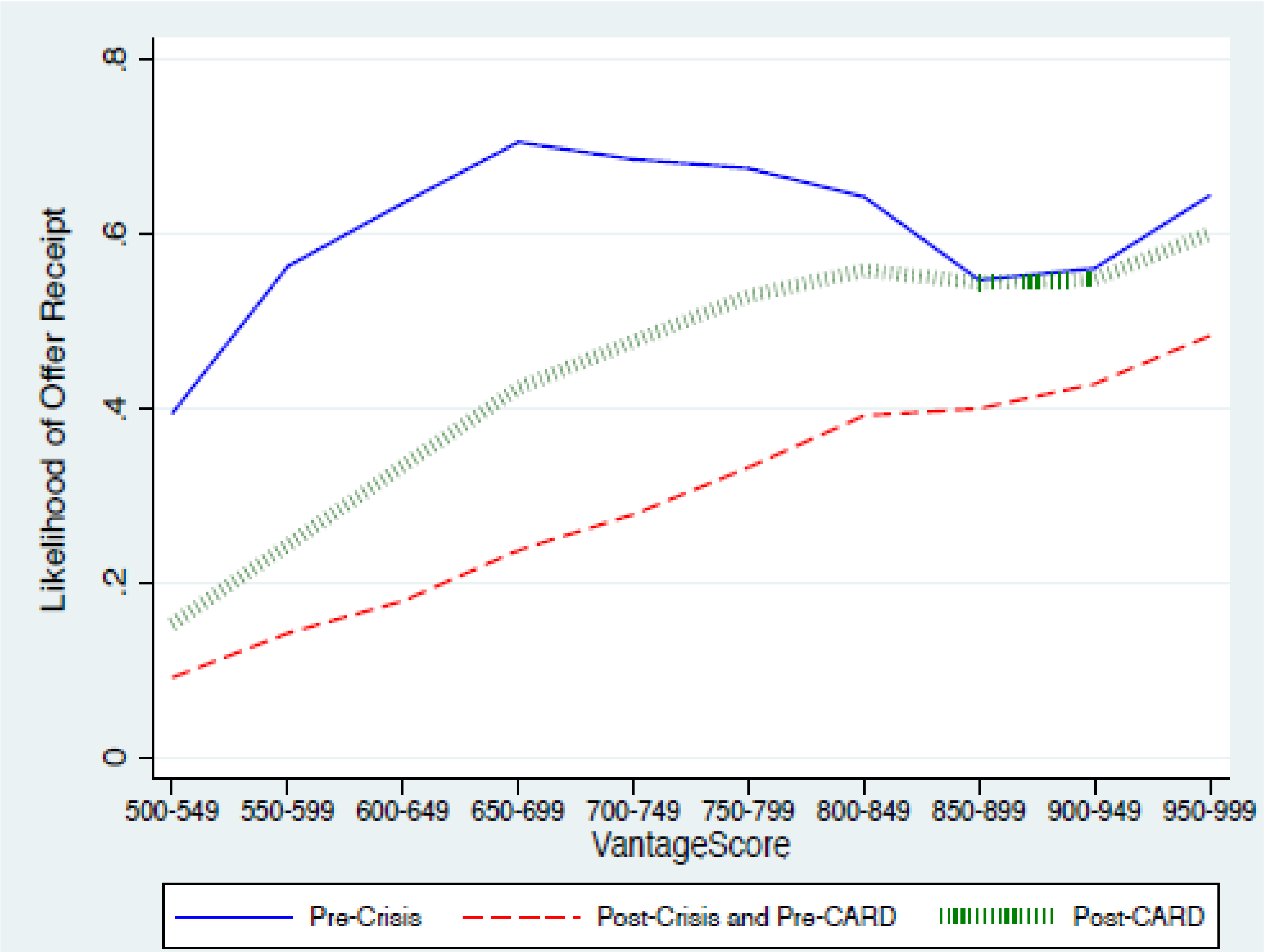
- Current income and wealth
- Expected future income and wealth
- Price terms of credit (interest rates)
- Non price terms (down payment, maturity, is loan offered at all)

- Authors may only be controlling for current income and wealth

The yield curve shifted significantly

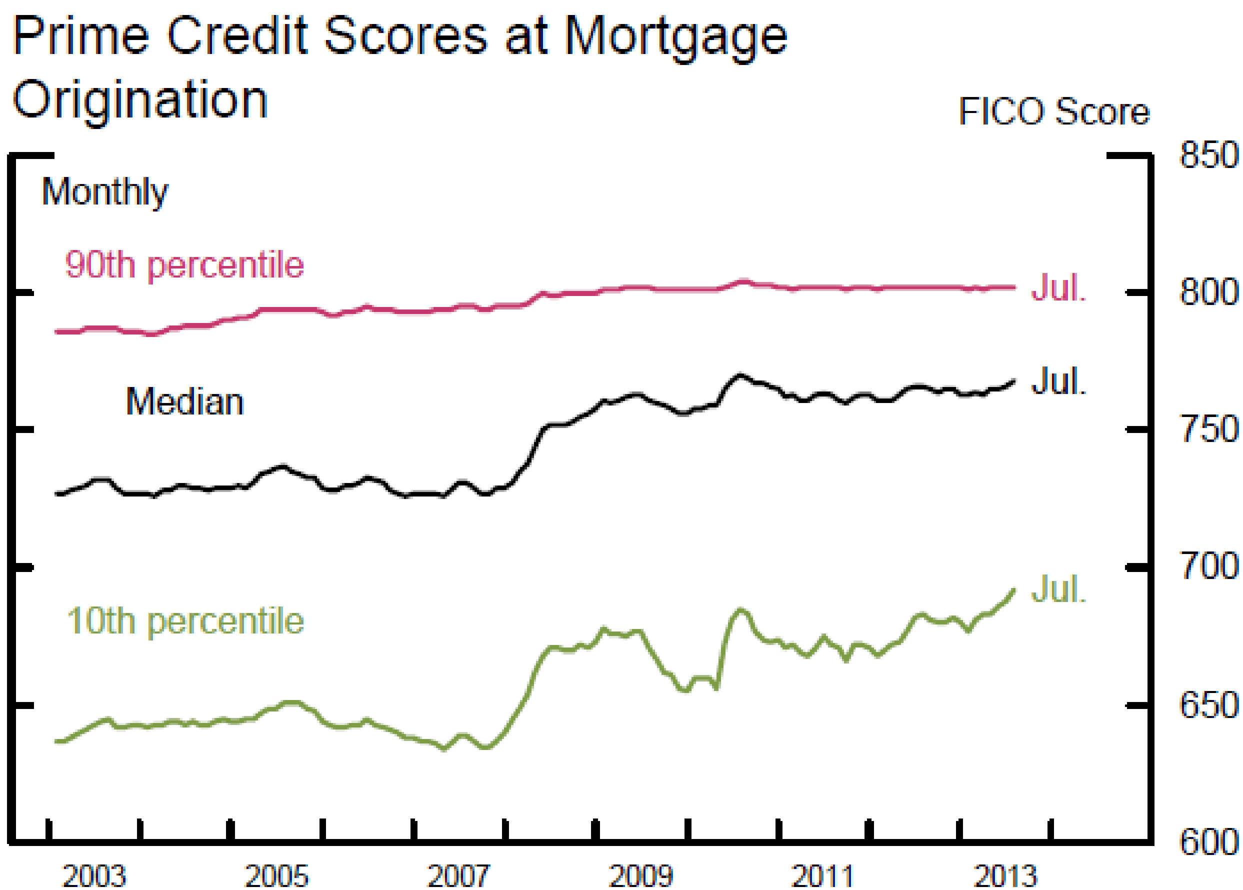


Credit cards are less available to borrowers with lower credit quality



Source: Han, Keys, and Li.

Mortgage credit has contracted

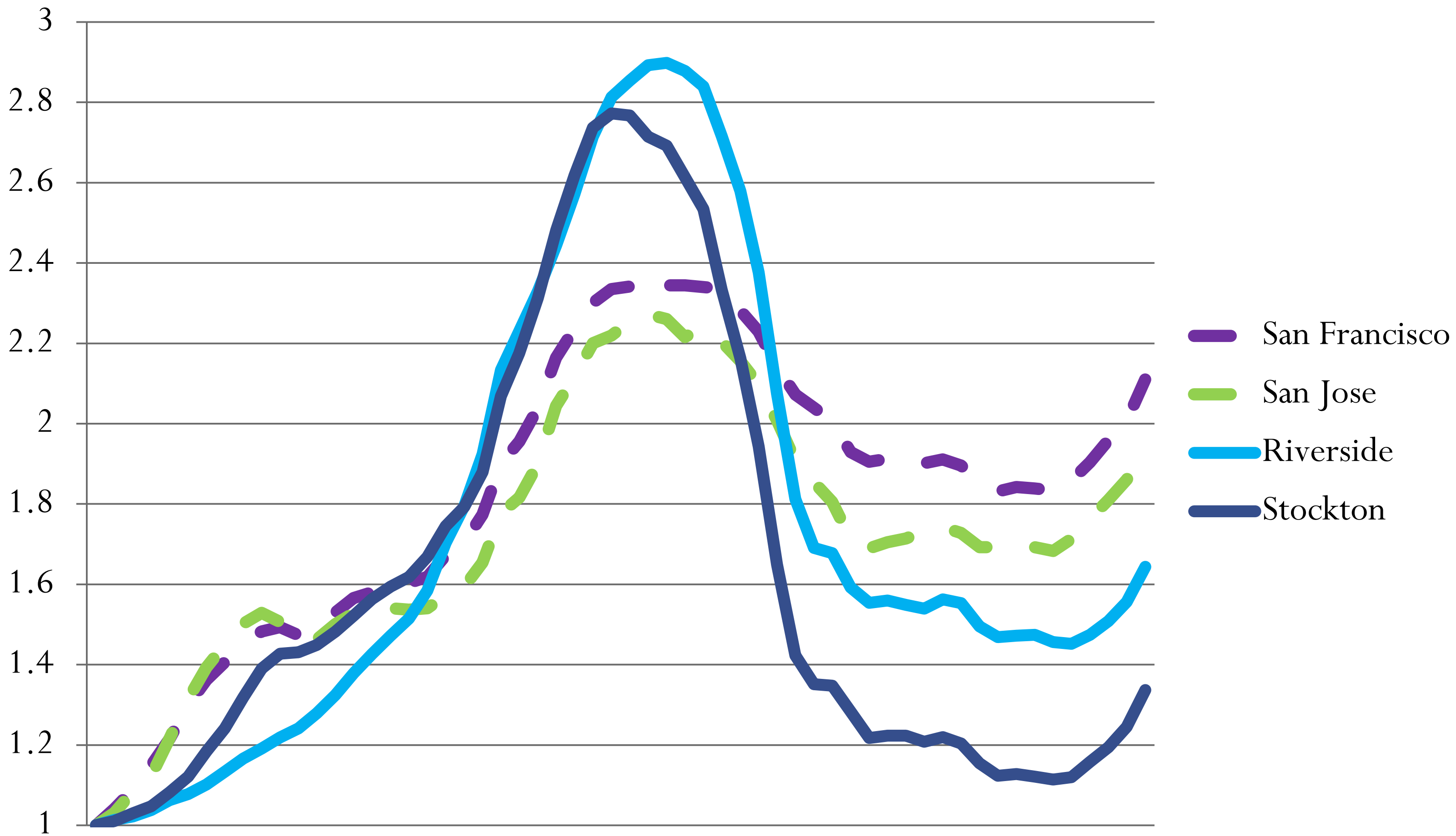


Note: Concerns 30-year fixed-rate mortgages originated in month shown.
Source: LPS Applied Analytics.

Saiz inelasticity instrument

MSA	Inelasticity Rank	Share of "undevelopable" land
Ventura, CA	1	80%
Miami, FL	2	77%
Fort Lauderdale, FL	3	76%
San Francisco, CA	5	73%
San Jose, CA	9	64%
San Diego, CA	10	63%
Riverside, CA	25	38%
Bakersfield, CA	41	38%
Fresno, CA	61	13%
Stockton, CA	66	12%

CA House Prices, 1999-2012



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 $\rightarrow$ should increase consumption
  - Lenders loosened credit standards more $\rightarrow$ 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