

Schubert and Gorback (2023): The Impact of Cultural Preferences on Homeownership

Discussion by Lu Liu

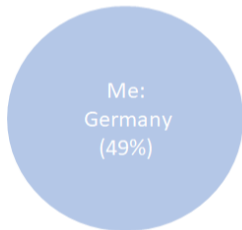
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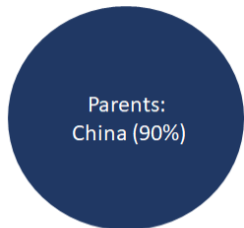
Motivation: The American Dream & Preferences for Home Ownership

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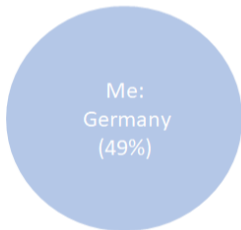


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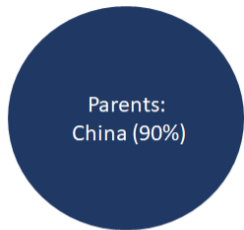


- Peers who did not emigrate: unprecedented wealth accumulation post-1980s via home ownership

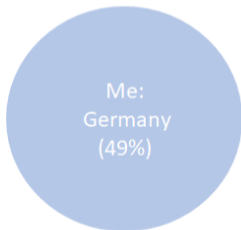


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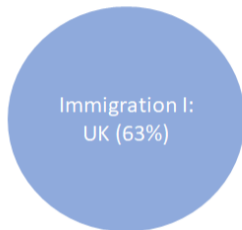
Motivation: The American Dream & Preferences for Home Ownership



- Peers who did not emigrate: unprecedented wealth accumulation post-1980s via home ownership



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- PhD Student: uncertain tenure (limited credit history, low income, low/no wealth)

Motivation: The American Dream & Preferences for Home Ownership

Parents:
China (90%)

- Peers who did not emigrate: unprecedented wealth accumulation post-1980s via home ownership

Me:
Germany
(49%)

- Student: no wealth, good rental housing stock

Immigration I:
UK (63%)

- PhD Student: uncertain tenure (limited credit history, low income, low/no wealth)

Immigration II:
US (66%)

- Assistant Professor: long enough expected stay, sufficient income, but limited credit history, saving for down payment.
- Favorable tax treatment, limited long-term rental options, but high fixed cost of buying a house.

This Paper

- Immigrants' homeownership norms (measured using homeownership rates in country of origin, HOCO) help explain the gap between local and immigrant homeownership rates in the US
- Key findings:
 - 1 sd ↑ in HOCO associated with 2.8 pp increase in home ownership
 - Model predictions for HOCO (\approx preference for homeownership):
 - High HOCO households have higher prob of HO along tax schedule
 - High HOCO households raise HO more in response to credit supply shock
 - Use lender geographic footprint and aggregate credit provision as shock to local credit, find evidence in support of prediction
 - Work in progress: housing wealth formation, defaults

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- Discussion points:
 - 1 What does HOCO measure? What's the benchmark for HO?
 - 2 Preferences vs. constraints
 - 3 Empirical design + thoughts on the credit supply shock

Comment 1: What Does HOCO Measure? What's the Benchmark for HO?

HOCO as a measure of “norm/cultural preference/affinity” for HO vs. optimal choice

- What is a *norm*? HOCO endogenous outcome of long-run tax incentives, rental market structure & price stability, housing subsidies, inflation/house price expectations, school choice ...
- What is an *affinity*? Idiosyncratic preference, e.g. for DIY in the house, pure experience/endowment effects (e.g. parents owned a house)? (“pride, sense of security, control premium”)

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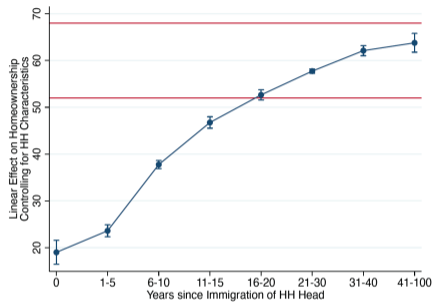
Helpful **benchmark**:

- HO a result of optimal tenure decision; given taxes, price/rent ratio, income, (prob. of) having children, *wealth*, *expected tenure*, *price expectations*, idiosyn. preferences ...
- Prediction: controlling for these factors, **local HO = immigrant HO**, up to idiosyncratic preference effects
 - Show step-wise how close we get to HO equality (e.g. adding income, adding price/rent ratio ... - e.g. HOCO about as x% as important as income?)
 - Can narrow down / speculate what HOCO likely captures

Comment 2: Preferences vs. Constraints

Figure 2

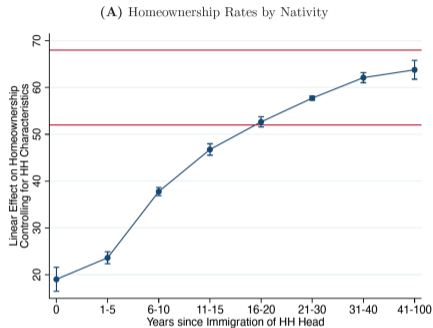
(A) Homeownership Rates by Nativity



(B) Homeownership by Years in US (foreign born only)

Comment 2: Preferences vs. Constraints

Figure 2



(B) Homeownership by Years in US (foreign born only)

- Closing of gap after ≈ 40 years of immigration
- Assimilation or wealth building? (e.g. “dynastic” home equity / intergenerational correlation of wealth and bequests)
 - May be able to proxy for home equity, and separately identify this from proxies of assimilation (e.g. “experience effects”/time since immigration, variation in neighborhood composition ...)

Comment 3: Testing the Hypothesis + Thoughts on the Credit Supply Shock

- Tenure choice **model prediction**: HHs with greater HO preference will **increase HO more** in response to credit supply shock
- **County-level credit supply shock**: “shift-share”-style argument
 - Shift: Lender×time FEs, controlling for county×year FEs (local economic conditions)
 - Share: Lender market share in county
 - Identifying assumption: Lender-time FEs or lender market share not correlated with HOCO
- Do we need a shock? Alternative explanation for HOCO: **unobservables, e.g. expected mobility (visa status, occupation)** - this strategy should help

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- **Concern**: When lenders reduce credit, happens via raising prices or tighter **underwriting standards** (and vice versa) - which could be correlated with HOCO/the most **marginal borrowers (e.g. FICO, LTV, credit history)**. Relative expansion could be larger for high-HOCO HHs?
 - Find synthetically matched high HOCO vs. low HOCO country to illustrate? Could check correlation with HMDA application/rejection rates (doesn't have CO but does have race, could check at county/geographic level), FHA share etc.

Minor Comments

- Need to define HOCO prominently/explicitly and stick to definition when talking about what HOCO measures
- Given life-cycle catch up / reduction in HO gap, what's the intuition that HOCO explains 1/3 of the conditional gap of 7%? Is there a gap conditional on years since immigration?
- Credit shock: hold share constant rather than updating?
- Effects not robust to average tenure (ignoring marital status) - Table IV, Column 6: how much does tenure by marital status vary? Is this sensitivity surprising?
- What is the key hypothesis & empirical test/design that the paper will stake itself on?

Conclusion

- What matters for immigrant HO choice? Novel facts and interesting variation based on immigrant home country HO rates
- HOCO seems to matter for HO - tell us more about underlying mechanisms **why** and **relative magnitudes**
 - E.g. preferences vs. constraints, assimilation vs. wealth building
 - May be able to learn about what holds back HO more broadly
- Best of luck, looking forward to future iterations!