

Quick take: Income inequality and homeownership

The US government's outsized role in housing finance yields comparable homeownership rates to most developed economies. With rising income inequality impeding homebuying, what should the role of the government be?

The US government plays an outsized role in housing finance today



2/3

of all US mortgage credit risk is held by the US government

Source: Federal Reserve, Mortgage Debt Outstanding (Table 1.54), Data Q1 1970 – Q3 2019

How this outsized role is viewed

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Sceptics say:

Government subsidies do little more than encourage better-off households to purchase more expensive houses.

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Our analysts say:

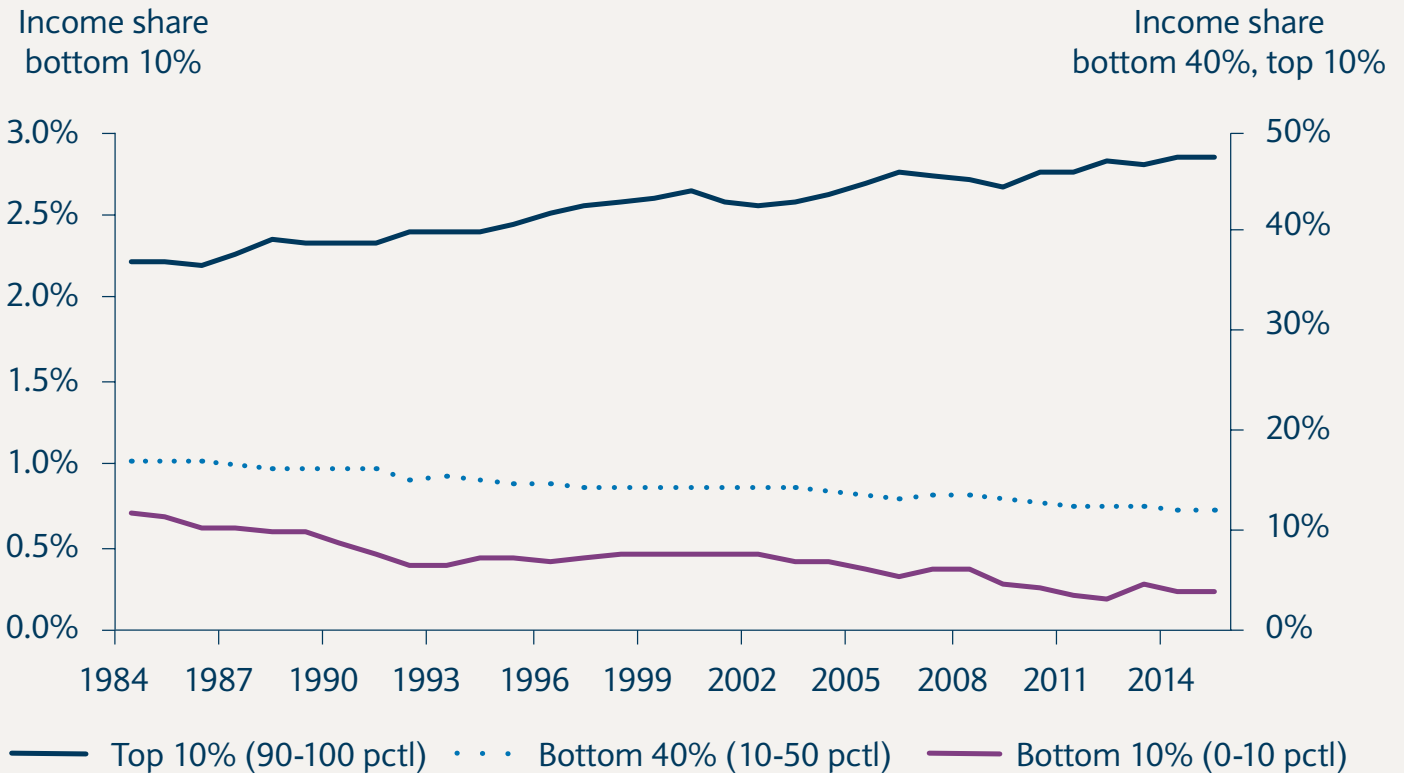
Government intervention has enabled the US to achieve similar levels of homeownership to other developed countries despite higher levels of income inequality.

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Income inequality is a structural challenge to US homeownership

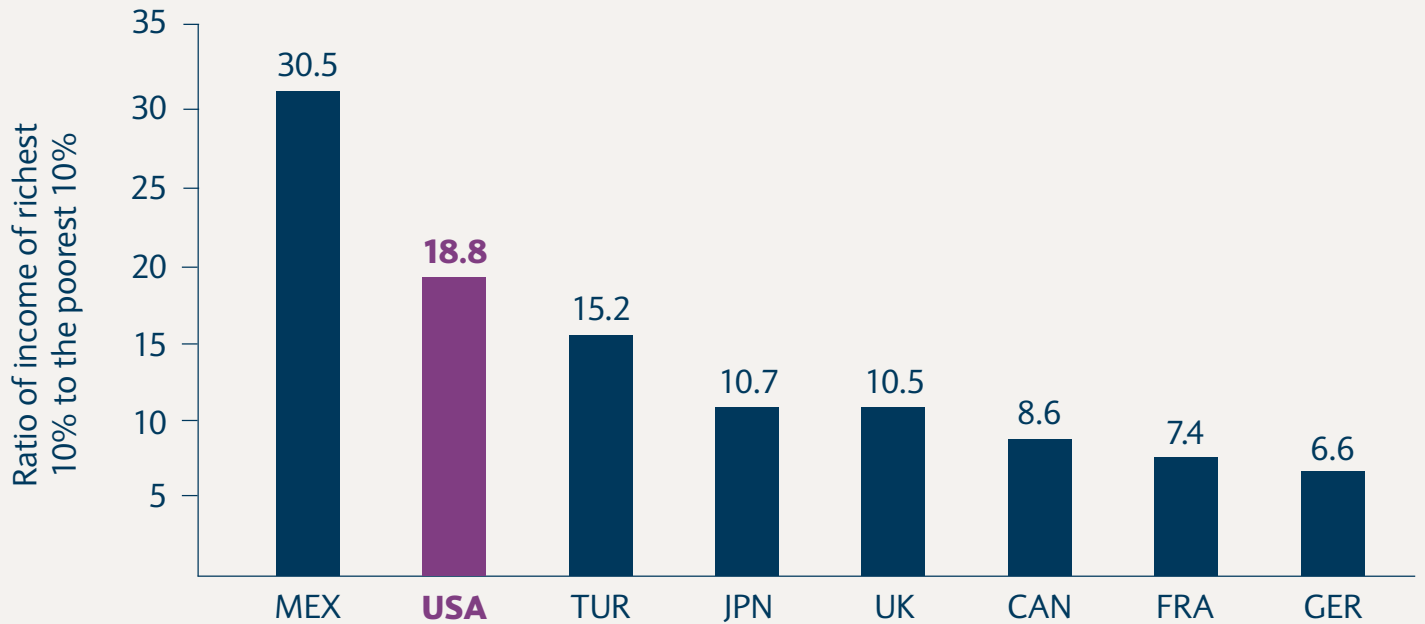
Our analysis shows income inequality exerts downward pressure on homeownership, affecting housing market outcomes.

Income inequality has widened substantially in the US...



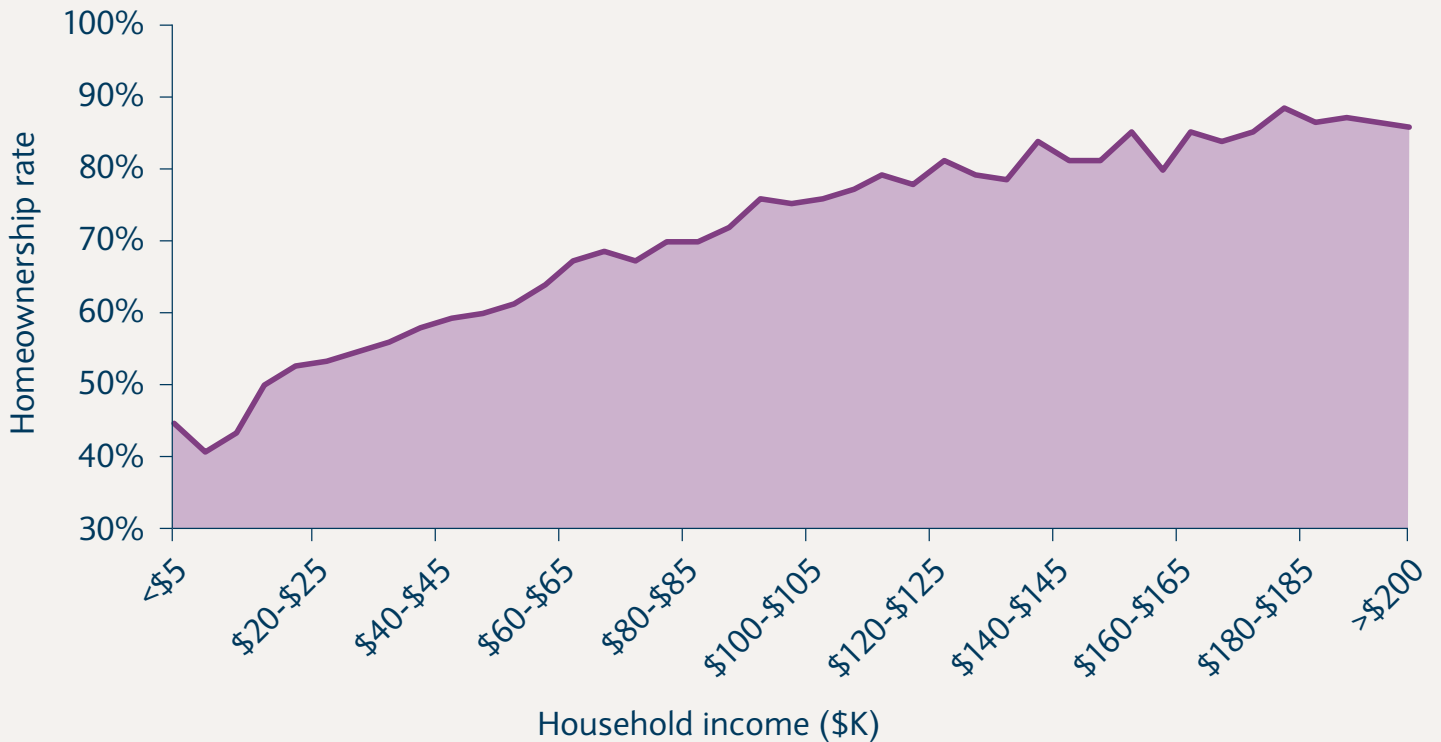
Source: Barclays Research, World Inequality Database (WID)

...and is now notably higher than in other developed countries.



Source: OECD Income Distribution Database, Data 2013-2015 Note: The chart shows the share of all income received by the top 10 %, divided by the share of income received by the bottom 10 % for each country (S90/S10).

What's more, US homeownership increases with income.

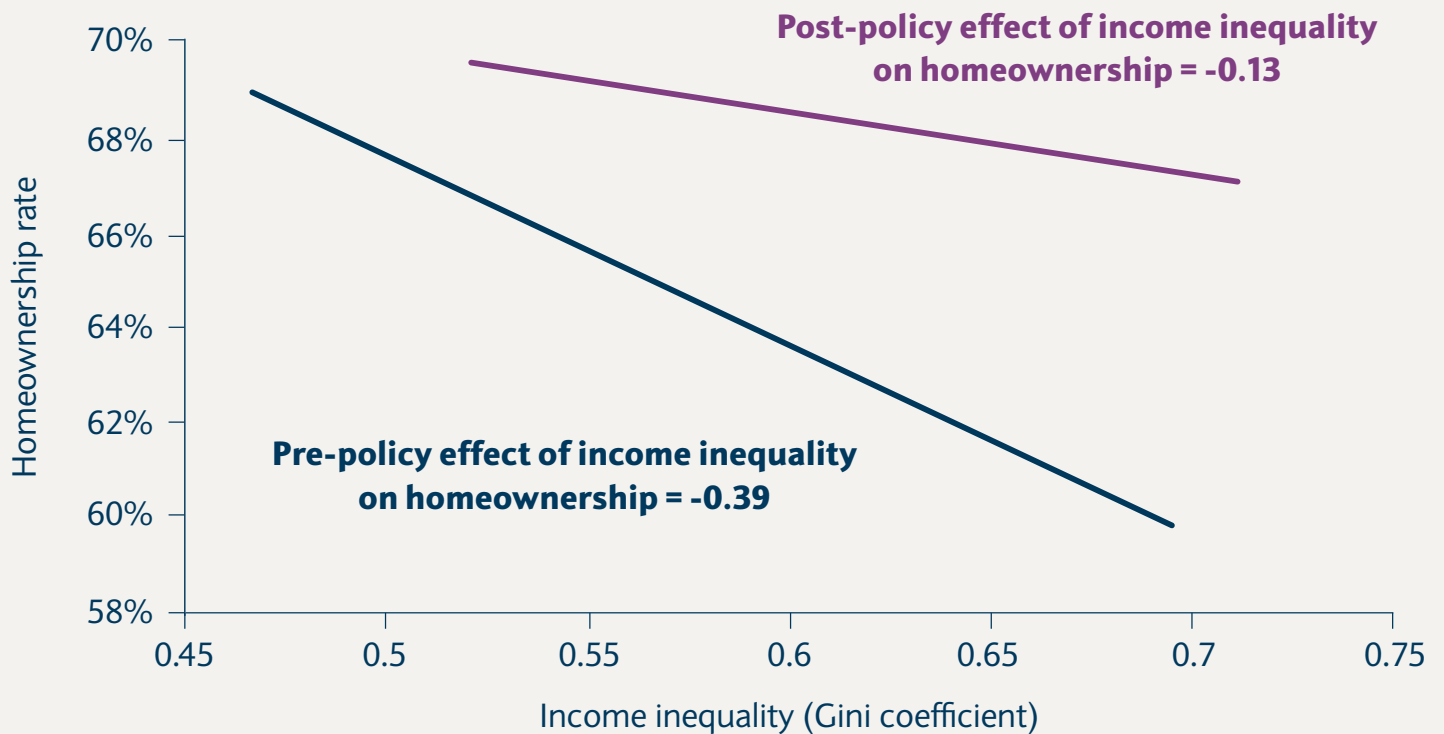


Source: Census Bureau, Current Population Survey, 2019 Annual Social and Economic Supplement

US government intervention effectively offsets income inequality

Affordability targets mandate that government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, purchase a certain percentage of mortgages originated by low-income borrowers.

After affordability targets were introduced in 1992, the negative impact of income inequality on homeownership was 40-60% lower.



Source: Barclays Research. Note: This figure is a simple visualisation of a panel regression model of homeownership and income inequality with state and time fixed effects. The slopes represent the average effect across all US states before and after the GSE affordability targets were introduced. Income inequality is based on the Gini Coefficient, which reflects the statistical dispersion of income and is measured on a scale between 0 and 1, with a Gini of 0 representing complete equality and a Gini of 1 complete inequality.

A divide by race

Our analysis suggests the negative effects of income inequality on homeownership fall disproportionately on Black residents.

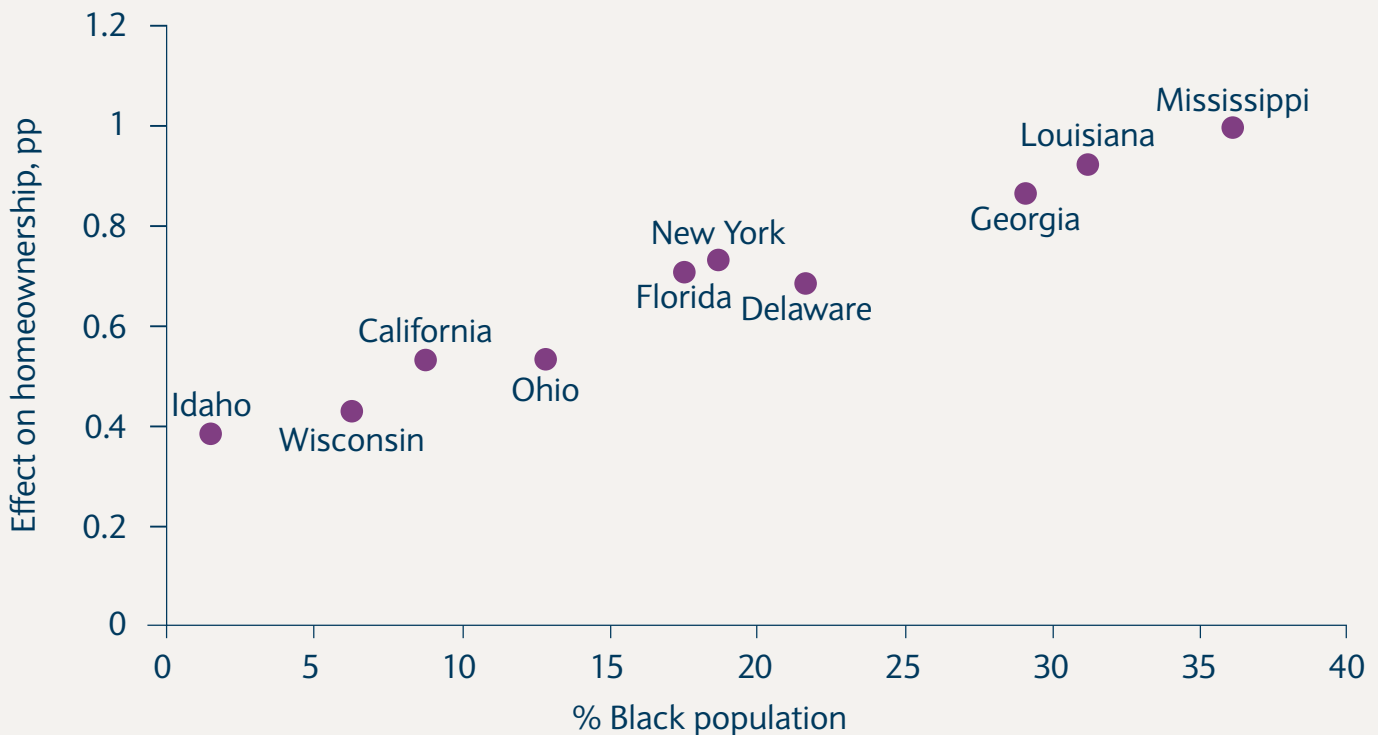
Income inequality's negative impact on homeownership is

⚠️ 2.4x higher

in states with the most Black residents.

Source: Barclays Research

However, the data show that states with the highest Black populations accrue the most benefits from affordability targets.



Source: Barclays Research. Note: Model predictions for GSE affordability target going from 20% to 40%. Gini and % Black population for the select US states are evaluated at the mean over the period 1996-2015.



Reimagining housing finance reform in today's environment

On the heels of a pandemic and in the wake of heightened awareness of racial and social justice reforms, our analysis suggests two key considerations for policymakers as the US housing reform debate evolves.

Key policy considerations:

1

Left unfettered, rising income inequality in the US would restrict homeownership relative to other developed countries.

2

Subsidies, such as affordability targets, are effective at supporting homeownership among low-income and minority populations.

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