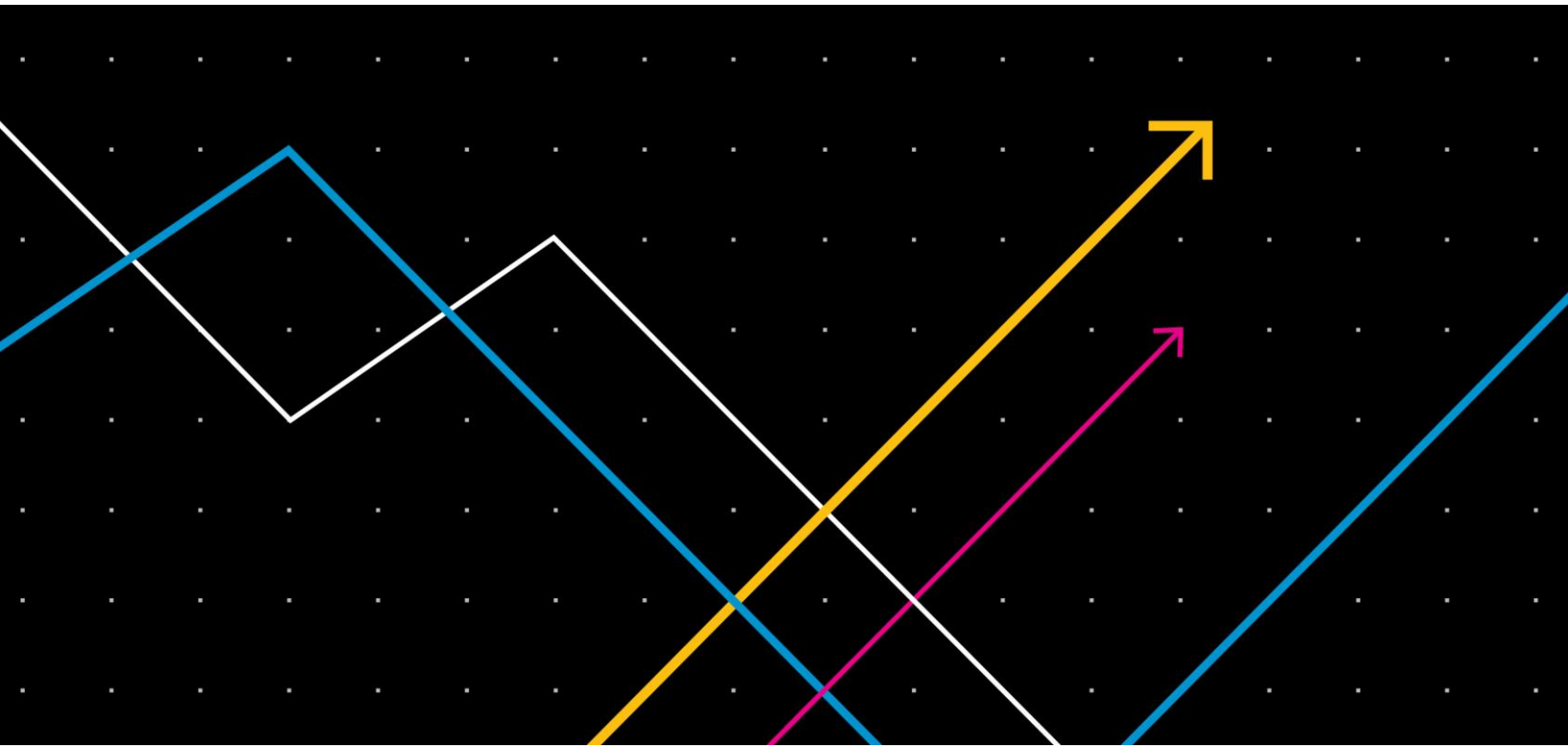

RESEARCH REPORT

Intergenerational Homeownership

The Impact of Parental Homeownership and Wealth on Young Adults' Tenure Choices

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October 2018

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Executive Summary

This study examines how parents' homeownership and wealth influence young adults' (ages 18 to 34) tenure choices. Using Panel Study of Income Dynamics data between 1999 and 2015, we show that the children of homeowners are 7 to 8 percentage points more likely to be homeowners than children of renters, all else equal. Additionally, a 10 percent increase in parental wealth increases young adults' likelihood of owning a home by 0.15 to 0.20 percentage points. The difference in parental homeownership and wealth explains 12 to 13 percent of the homeownership gap between black and white young adults. Our study also shows that the stability of parents' homeownership and the amount of wealth they possess also affect their child's likelihood of owning a home. The impact of parental homeownership and wealth on young adults' homeownership also varies across time and location. The parental homeownership effect was stronger during the economic boom, and the wealth effect was stronger during the bust, when credit tightened. Both parental wealth and homeownership have a stronger relationship with young adults' likelihood of homeowning in low-cost cities, where housing is more affordable.

Intergenerational Homeownership

Introduction

Young adults are delaying the transition to homeownership. Our recent report on millennial homeownership finds that millennials ages 18 and 34 are 7 to 8 percentage points less likely to be homeowners than Gen Xers and baby boomers at the same age (Choi et al. 2018). We also find persistent racial and ethnic disparities in homeownership.

As the US population becomes more racially and ethnically diverse, it is important to ask how the significant decline and ongoing gaps in homeownership will affect future generations. Historically, homeownership has been an important wealth-building asset. Wealth accumulation is financially beneficial not only to the homeowners themselves but can also be transferred to their children. This intergenerational homeownership transfer is likely to reinforce and expand the homeownership and wealth gaps across race and ethnicity.

This study examines the impact of parents' homeownership and wealth on the homebuying prospects of their children between 1999 and 2015. We focus on young adults ages 18 to 34, who are likely to be first-time homebuyers and have fewer financial resources. We find that having a homeowning parent increases a young adult's likelihood of being a homeowner by 7 to 8 percentage points. Additionally, a 10 percent increase in parental wealth increases a young adult's likelihood of owning by 0.15 to 0.2 percentage points. For example, if parental wealth is $200,000, the young adult would have a 50 percent likelihood of owning a home. If parental wealth is $260,000 instead and all other factors are the same, the young adult's homeownership propensity is 54.5 to 56.0 percent. Parental wealth includes financial assets and nonfinancial assets, such as homes and automobiles, minus any debt. Parents' tenure status and wealth explains 12 to 13 percent of the difference in homeownership between black and white young adults.

Additionally, our regression analysis demonstrates that the impact of parents' homeownership on the likelihood of a young adult's homeownership is the strongest for parents who stayed homeowners from 1999 to 2015, the entire sample period. While 71.5 percent of white parents were stable homeowners, only 31.4 percent of black parents sustained their homeownership. Parents also need to have sufficient wealth to support their young adult's homeownership. Young adults are more likely to

be homeowners if their parental wealth is above $200,000. More than 50 percent of white parents and only 10 percent of black parents hold more than $200,000 of wealth.

Finally, we examine whether our results change across time and location. Parents' homeownership and young adults' homeownership have a stronger relationship in low-cost cities. The impact of parental wealth is also higher in low-cost cities where housing is more affordable, but young adults in high-cost cities are also more likely to be homeowners if their parents have greater wealth. The relationship between parents' and young adults' homeownership became weaker after the housing crisis, and the crisis may have shifted young adults' perceptions of homeownership, especially before the economic recovery. The influence of parental wealth on a young adult's homeownership became slightly stronger postcrisis, probably reflecting the tighter borrowing constraints.

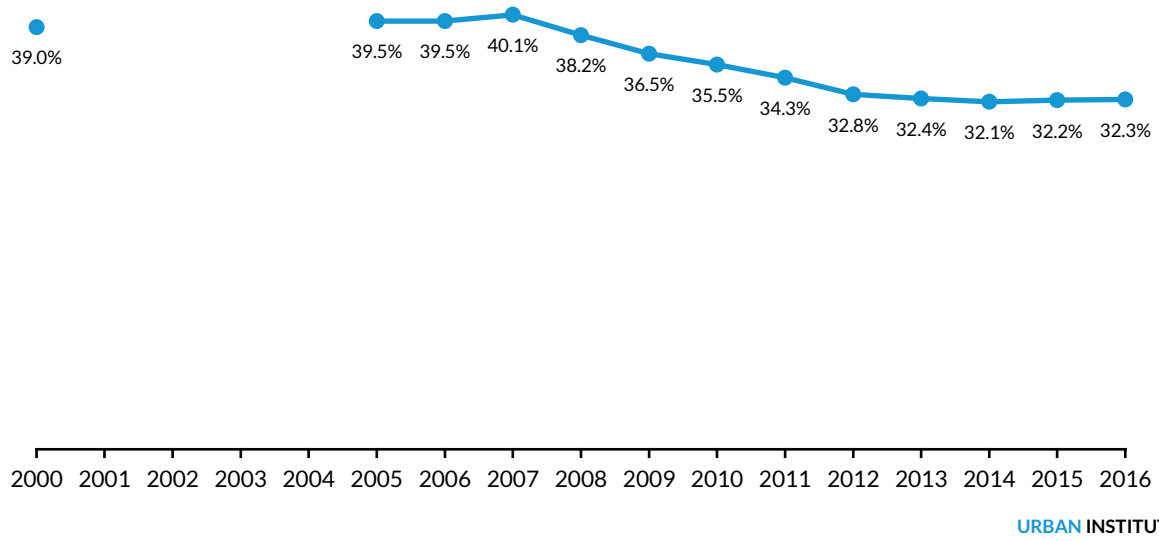
In recent years, house prices have increased (especially at the lower end of the market and in areas where supply is limited) while credit continues to be tight. Our research suggests that young adults who can receive sufficient help from their parents are more likely to access homeownership than in the past. We also make several policy recommendations to support first-time homebuyers who do not have parental assistance: (1) improve financial education on homeownership, (2) introduce tax-free accounts to save for a down payment, and (3) expand the credit box to include more creditworthy borrowers. These policies could help bridge the racial and ethnic gaps in homeownership and expand the wealth-building opportunity for future generations.

Decline and Disparities in Young Adults' Homeownership

The homeownership rate among young adults ages 18 to 34 has dropped from 39.0 percent in 2000 to 32.3 percent in 2016. According to the American Community Survey (ACS), which has provided annual data since 2005, the young adult homeownership rate has decreased consistently since 2007, when the housing market started to collapse.

FIGURE 1

Homeownership Rate among Household Heads Ages 18 to 34

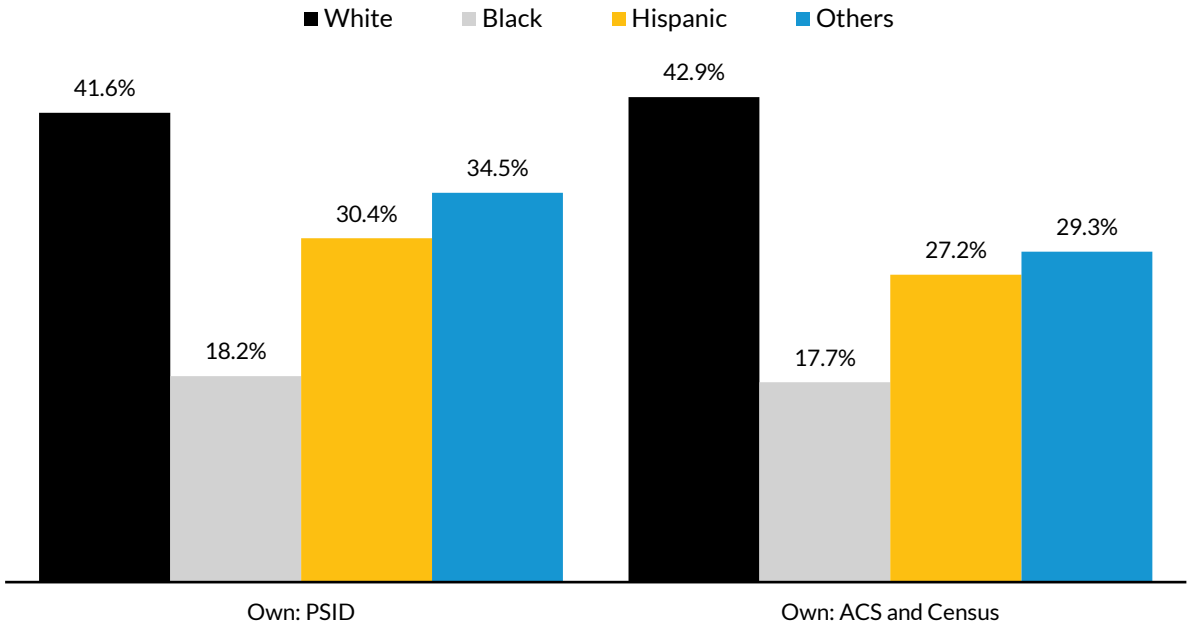


Sources: Decennial Census (2000) and American Community Survey (2005–16).

During this period, the racial and ethnic disparity in homeownership persisted. Both the Panel Study of Income Dynamics[1] and Census Bureau and ACS data show that white young adults have the highest homeownership rate (more than 40 percent), and black young adults have the lowest rate (less than 20 percent).

FIGURE 2

Homeownership Rate among Household Heads Ages 18 to 34 by Race and Ethnicity



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Sources: PSID (1999–2015), Decennial Census (2000), and ACS (2005–16).
Note: ACS = American Community Survey; PSID = Panel Study of Income Dynamics.

Multiple factors contribute to the decline in young adults' homeownership (see Choi et al. [2018] for a comprehensive analysis) and the gaps across race and ethnicity, but we focus on parental influence to better understand how current trends could be passed to the next generation.

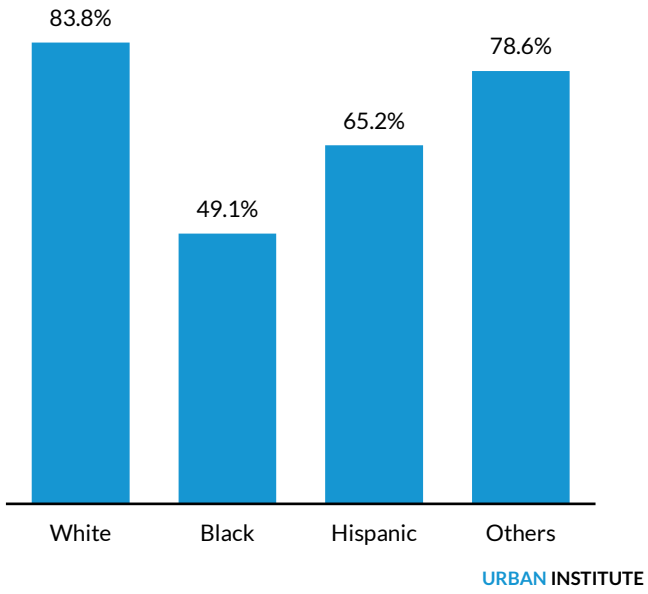
This study uses the Panel Study of Income Dynamics (PSID), a panel dataset that has followed a sample of US individuals and households since 1968. Since 1997, the survey data have been collected biannually. The PSID allows us to link parents' information to young adults' information, and we can examine how parental wealth and homeownership status affect a young adult's propensity of owning a home. As the dataset contains extensive information on individual- and household-level characteristics, we can control for other observable factors that are linked to a young adult's tenure choices. Wealth variables were first included in the 1984 survey and were collected every five years until 1999. Since 1999, the PSID has collected wealth information in every survey period, which is why we selected 1999 to 2015 as our sample period. This covers periods when the US housing market experienced a boom and a bust.

Racial and Ethnic Disparities in Parental Wealth and Parental Homeownership

The disparities in young adults' homeownership rates by race and ethnicity look similar to the disparities in parental homeownership rates. White parents have the highest homeownership rate (83.8 percent), and black parents have the lowest (49.1 percent). The homeownership rate is 65.2 percent for Hispanic parents and 78.6 percent for the remaining parents. The PSID oversamples low-income white and black households, so the sample size of Hispanic and Asian households is small. We combine Asians with other racial and ethnic groups to increase our sample size. In all our analyses, we use sample weights to increase representativeness.

FIGURE 3

Parental Homeownership Rate by Race or Ethnicity, 1999–2015



Source: Panel Study of Income Dynamics.

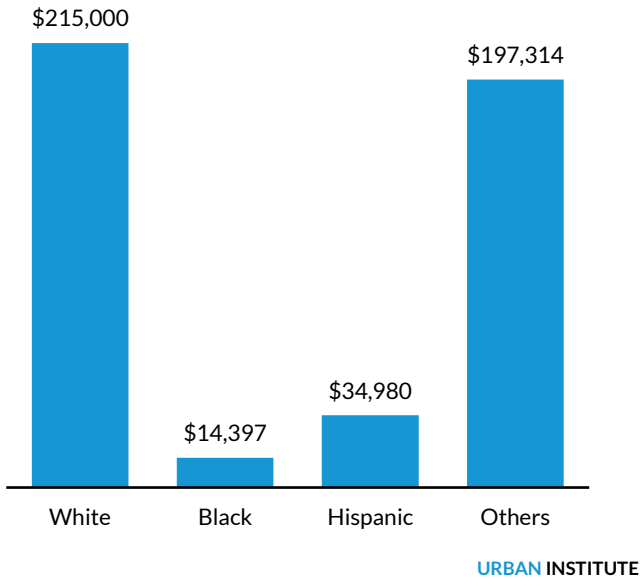
Living with a homeowner parent could help a young adult gain access to homeownership in many ways. For example, the young adult could obtain more information about the mortgage application process from his or her parents. Further, the young adult may have greater motivation to become a homeowner, having realized the benefits of owning. Not only can homeownership help future wealth building, but prior research has also suggested that homeownership can have a positive influence on a young adult's educational attainment, civic participation, and health outcomes (DiPasquale and Glaeser 1999; Green and White 1997; Rohe and Stegman 1994), although it is difficult to confirm the casual

relationship because of selection bias. Studies by Boehm and Schlottmann (1999) and Helderman and Mulder (2007) have found a strong statistical association between parental homeownership and child homeownership.

Parental wealth also shows substantial variations across race and ethnicity. Median wealth for white parents is $215,000, compared with $35,000 for Hispanic parents and $14,400 for black parents. Parents of other races and ethnicities have almost the same level of wealth as white parents, but because their sample size is small (about 40 households a year), the median wealth likely contains substantial measurement error.

FIGURE 4

Parental Median Wealth by Race and Ethnicity in 2015 Dollars, 1999–2015



Source: Panel Study of Income Dynamics.

Parental wealth can have a more direct impact on a young adult's ability to afford a home, especially with respect to having a down payment. Charles and Hurst (2002) find that differences in parents' ability and willingness to provide down payment assistance to their children explains a significant portion of the mortgage application gap between black and white children. Begley (forthcoming) finds that increases in parental housing wealth increases the likelihood of providing a financial transfer to their children, which also increases the young adult's likelihood of becoming a homeowner. This effect was pronounced during the housing bust. Lee and coauthors (2018) also find that financial transfers increase a young adult's probability of becoming a homeowner. Moreover, affluent parents can more easily cosign the loan if their support is needed.

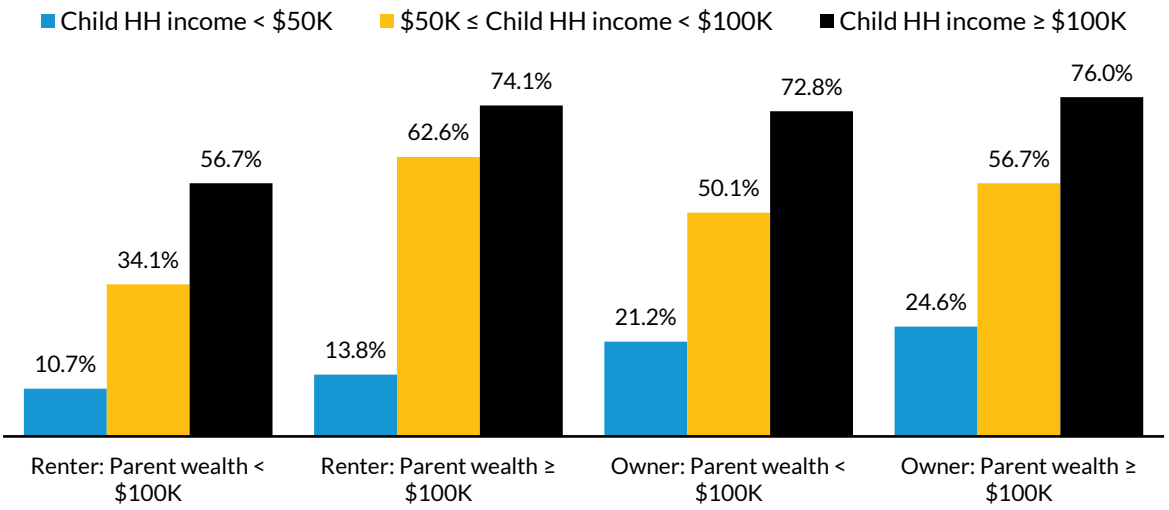
Impact of Parental Homeownership and Wealth on Young Adult's Homeownership

Before presenting the results of our regression analysis, figure 5 depicts how parental wealth and homeownership are related to young adults' homeownership. We divide young adults by their parents' tenure status and calculate the homeownership rate by their household income and their parents' wealth.

A young adult's household income and homeownership are highly correlated. For all four groups, a young adult's homeownership rate increases with household income. This effect is compounded by parental homeownership status. In general, children of homeowners have a higher homeownership rate than those with parents who are renters. The homeownership gap is larger for those whose parents have less than $100,000 in wealth. Finally, the difference in homeownership between those with high-wealth parents and those with low-wealth parents is largest for those earning between $50,000 and $100,000 (middle income). Intuitively, this makes sense. For the lower income group, parental wealth transfers may not be enough to help the child to obtain a mortgage. The high-income group will rely less on parental support, as they are likely to have enough financial resources to access homeownership independently.

FIGURE 5

Young Adults' Homeownership by Household Income, Parental Homeownership, and Parental Wealth, 1999–2015



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Source: Panel Study of Income Dynamics.
Note: HH = household.

We use a linear probability model (LPM) to estimate the effect of parental wealth and homeownership on young adults' homeownership. Although our dependent variable is bivariate (1 if the young adult is a homeowner, 0 otherwise), we use the LPM because the coefficients are easy to interpret. Prior studies, including one by Angrist and Pischke (2009), suggest that the difference between marginal effects calculated from the LPM and logit (or probit) models is minor when the mean of the dependent variable ranged between 0.2 and 0.8. The mean value of a young adult's homeownership is 0.35. For robustness, we provide the results of the logit model in appendix table A.1, which shows results similar to the ones in table 1.

The first column of table 1 shows that black and Hispanic homeownership rates are significantly lower than the white homeownership rate. Without including controls, the homeownership rate for black young adults is 23.3 percentage points lower than the homeownership rate for white young adults. The gap between Hispanic and white young adults is 11.1 percentage points. Young adults in the Other category also have a negative coefficient, but because of the small sample size, the standard error is too large to generate statistical significance.

Column 2 includes young adults' demographic and socioeconomic characteristics, including age, sex, marital status, education, a dummy variable for having a child, and household income. We also include year and fixed effects. Once we include controls, the statistical difference in homeownership between Hispanic and white young adults disappears. The homeownership gap between black and white young adults drops to 15.7 percentage points but remains statistically significant. These results are in line with previous studies (Painter, Gabriel, and Myers 2001) that find that the differences in observable characteristics largely explain the homeownership rate gap between white and Hispanic households but do not fully explain the gap between black and white households.

As for other variables, we find that young adults are more likely to own a home as they get older. Females are less likely to be homeowners than males. Married young adults and those with children are more likely to own. The likelihood of owning increases with educational attainment and household income.

Columns 3 and 4 include parental homeownership and wealth separately. Column 3 shows that young adults whose parents own homes are 7.4 percentage points more likely to a home than young adults whose parents are renters. Column 4 shows that a 1 percent increase in parental wealth increases the likelihood of a young adult's homeownership by 0.021 percentage points. Column 5 includes parents' tenure status and their wealth in one regression model. We also include how many times parents have moved between 1999 and 2015 to examine whether housing stability affects young

adults' homeownership. Because parental wealth and homeownership are correlated, both coefficients become smaller than those in columns 3 and 4. Now, children of homeowners are 4.0 percentage points more likely to own than those with renter parents. A 1 percent increase in parental wealth increases a young adult's likelihood of owning by 0.017 percentage points. The variable that measures the number of times the parent has moved is statistically insignificant.

TABLE 1

How Parental Homeownership and Wealth Affect Young Adults' Homeownership

Variables	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**
Black	-0.233***	-0.157***	-0.142***	-0.129***	-0.128***
	(0.021)	(0.019)	(0.020)	(0.020)	(0.020)
Hispanic	-0.111***	-0.011	-0.003	0.011	0.011
	(0.036)	(0.030)	(0.030)	(0.030)	(0.030)
Others	-0.071	-0.013	-0.011	-0.009	-0.009
	(0.068)	(0.070)	(0.070)	(0.069)	(0.069)
Parent own			0.074***		0.040**
			(0.018)		(0.020)
ln(parent wealth)				0.021***	0.017***
				(0.004)	(0.004)
Age		0.022***	0.022***	0.022***	0.022***
		(0.002)	(0.002)	(0.002)	(0.002)
Female		-0.099***	-0.100***	-0.098***	-0.099***
		(0.015)	(0.015)	(0.015)	(0.015)
Married		0.109***	0.107***	0.108***	0.107***
		(0.019)	(0.019)	(0.019)	(0.019)
Divorced, separated, widowed		0.030	0.030	0.035	0.035
		(0.026)	(0.026)	(0.026)	(0.026)
High school		0.094***	0.086***	0.083**	0.081**
		(0.033)	(0.033)	(0.033)	(0.033)
College		0.111***	0.097***	0.084**	0.083**
		(0.033)	(0.033)	(0.033)	(0.034)
Child exist		0.134***	0.136***	0.142***	0.141***
		(0.015)	(0.015)	(0.015)	(0.015)
ln(Household income)		0.100***	0.099***	0.095***	0.095***
		(0.007)	(0.007)	(0.007)	(0.007)
Parent: Number of moves					0.002
					(0.005)
Constant	0.416***	-1.584***	-1.620***	-1.771***	-1.763***
	(0.011)	(0.127)	(0.130)	(0.133)	(0.136)
Year fixed effect	N	Y	Y	Y	Y
State fixed effect	N	Y	Y	Y	Y
Observations	9,944	9,944	9,944	9,944	9,944
R^2	0.029	0.288	0.291	0.293	0.294

Source: Panel Study of Income Dynamics.

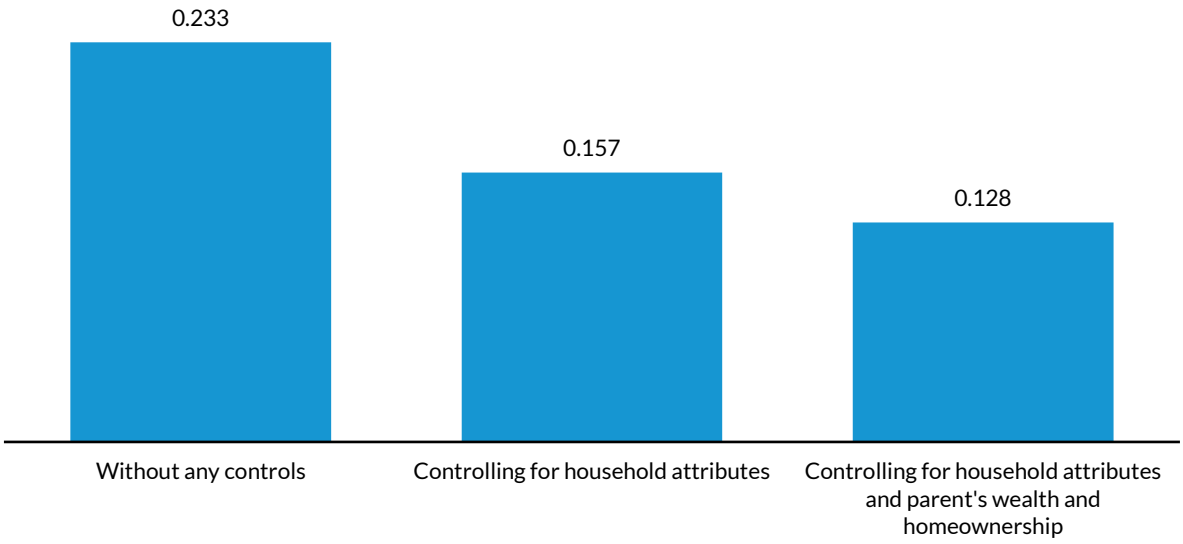
Notes: All regressions are weighted by household weights provided by the Panel Study of Income Dynamics. Standard errors are clustered by household ID. The numbers in the parenthesis are standard errors.

*** $p < 0.01$; ** $p < 0.05$.

Table 1 demonstrates that the difference in the white-black homeownership rate of young adults decreases as more control variables are added to the regression. Figure 6 visualizes the results. The black-white homeownership gap decreases from 23.3 percentage points to 15.7 percentage points once the control variables are included. It further decreases to 12.8 percentage points when we include parental homeownership rate and wealth. This means that parental variables explain about 12.4 percent ((15.7−12.8/23.3)) of the homeownership gap between black and white young adults.

FIGURE 6

How Parental Homeownership and Wealth Affect the Black-White Homeownership Gap among Young Adults, 1999–2015



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Source: Panel Study of Income Dynamics.

Parents' Homeownership Stability and Wealth Threshold: Black versus White

Table 2 further investigates whether parental homeownership stability and wealth affect young adults' homeownership. We include the same control variables as columns 2 to 4 in table 1. In column 1 of table 2, we categorize parents into five groups based on their tenure transitions: (1) those who remained renters between 1999 and 2015 (reference category), (2) those who remained homeowners, (3) those who switched from owning to renting, (4) those who switched from renting to owning, and (5) those who made more than one transition between owning and renting. In column 2, we classify parents into three

groups according to their wealth: (1) those with wealth less than $100,000 (reference category), (2) those with wealth between $100,000 and $200,000, and (3) those with wealth above $200,000.

Column 1 demonstrates that only young adults with parents who remained owners during the whole sample period are statistically more likely to be homeowners than young adults whose parents who were renters the entire period. For the other three groups, we find a young adult's likelihood of owning does not differ from those whose parents never owned a home. This suggests that the children of stable homeowners may have a more positive view toward owning a home or receive more information about obtaining a home from their parents. Our housing stability measure likely also captures parents' financial stability. Parents in a stable financial situation can more easily support their children's home purchase.

Column 2 shows that young adults with parental wealth greater than $200,000 are significantly more likely to be homeowners than those with parental wealth less than $100,000. But young adults whose parents have wealth between $100,000 and $200,000 are no more likely to be homeowners than those whose parents have wealth below $100,000, suggesting that parents need to have a threshold amount of wealth to financially support their child's homeownership.

TABLE 2

How Parental Homeownership Stability and Wealth Affect Young Adults' Homeownership

Variables	(1)	(2)
Parent: Stayed owner	0.060**	
	(0.030)	
Parent: Owner to renter	0.008	
	(0.038)	
Parent: Renter to owner	0.028	
	(0.034)	
Parent: Frequent transition	0.035	
	(0.034)	
$100K < parent wealth ≤ $200K		0.015
		(0.019)
$200K < parent wealth		0.071***
		(0.017)
Parent own		0.055***
		(0.019)
ln(Parent wealth)	0.016***	
	(0.004)	
Controls	Y	Y
Year fixed effect	Y	Y
State fixed effect	Y	Y
Observations	9,944	9,944
R^2	0.294	0.294

Source: Panel Study of Income Dynamics.

Notes: All regressions are weighted by household weights provided by the Panel Study of Income Dynamics. Control variables include age, sex, marital status, education, presence of children, and household income. Standard errors are clustered by household ID. The numbers in the parenthesis are standard errors.

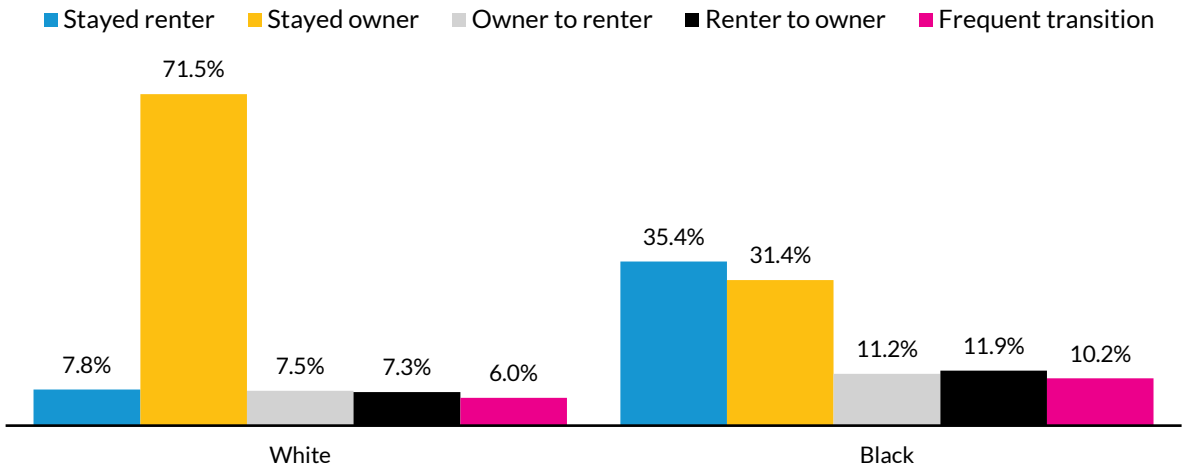
*** $p < 0.01$; ** $p < 0.05$.

These findings suggest a persistent gap in homeownership unless we develop new policies. To further understand how parental wealth and homeownership status is associated with young adults' homeownership disparities, we compare parental homeownership stability and wealth for black and white parents. We focus on these two groups because the PSID oversamples these households and thus we have a sufficient sample size to obtain statistical accuracy.

Black parents are less likely to be homeowners than white parents and less likely to remain homeowners (figure 7). Among white parents, 71.5 percent remained homeowners from 1999 to 2015, compared with 31.4 percent of black parents. Black parents are more likely to move in and out of homeownership, which appears to weaken the relationship between parents' homeownership and their child's homeownership.

FIGURE 7

Parental Homeownership Stability: Black versus White

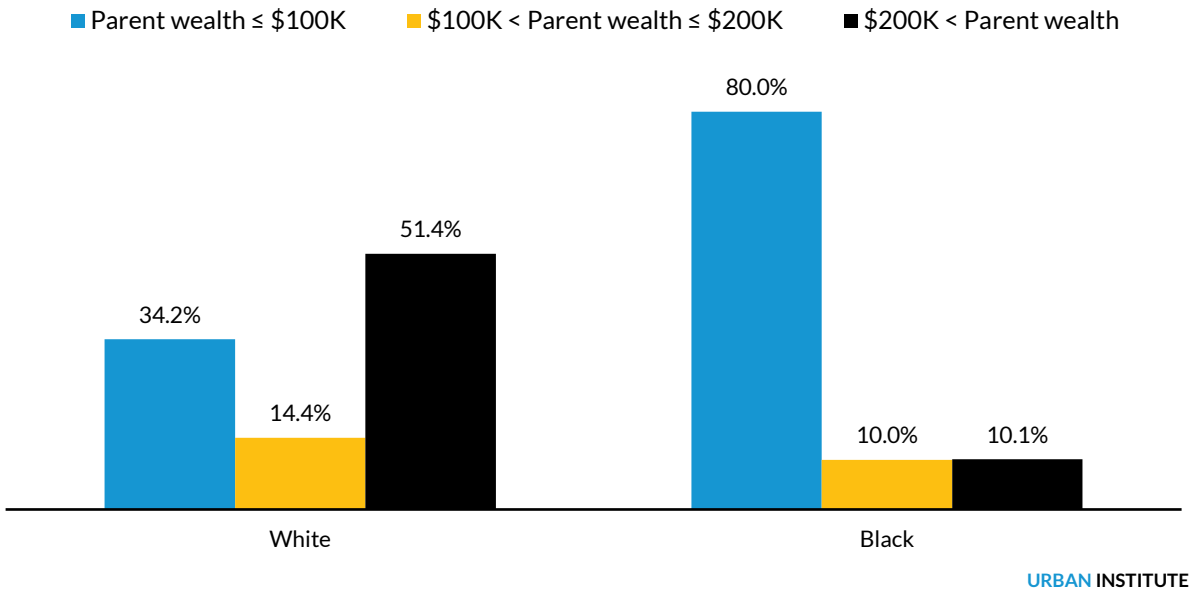


Source: Panel Study of Income Dynamics.

Furthermore, we find that parents need to have a threshold level of wealth to support their children's home purchase: 51.4 percent of white young adults have parents with wealth above $200,000, compared with 10.1 percent of black young adults (figure 8). This suggests that black parents' wealth is not likely to be enough to provide financial support for their child's homeownership.

FIGURE 8

Parental Wealth Brackets: Black versus White



Source: Panel Study of Income Dynamics.

Parental Influence across Location and Time

The impact of parental wealth and homeownership on a young adult's homeownership can differ by location and time. Because of differing housing costs, the down payment required for buying differs across cities. Credit conditions also change. Credit tightened following the housing market crisis. Obtaining mortgages became more difficult for young adults who, on average, have lower credit scores, income, and wealth. These differences can affect the impact of parents' homeownership and wealth on a young adult's homeownership.

For the locational analysis, we use the geocoded PSID data and merge the median price of house sales from CoreLogic for each city by each time period. Table 3 shows that the relationship between parental homeownership and child homeownership and parental wealth and child homeownership remains similar to the results in table 1 after the city-level median house price is controlled for. Children of homeowners are 4.1 percentage points more likely to be homeowners, and a 1 percent increase in parental wealth increases the likelihood of a young adult's homeownership by 0.017 percentage points, after controlling for socioeconomic and demographic characteristics. Also, young adults are less likely to be homeowners in expensive cities. A 1 percent increase in the city-level house prices decreases a young adult's likelihood of owning by 0.049 percentage points (appendix table A.2).

TABLE 3

How Parental Homeownership and Wealth Affect Young Adults' Homeownership, by Housing Cost

Variables	(1)
Parent own	0.041*
	(0.024)
ln(parent wealth)	0.017**
	(0.005)
ln(house price)	-0.045**
	(0.022)
Controls	Y
Year fixed effect	Y
State fixed effect	Y
Observations	7,004
R^2	0.300

Source: Panel Study of Income Dynamics.

Notes: All regressions are weighted by household weights provided by the Panel Study of Income Dynamics. Control variables include age, sex, marital status, education, presence of children, and household income. Standard errors are clustered by household ID. The numbers in the parenthesis are standard errors.

** p <0.05; * p <0.1.

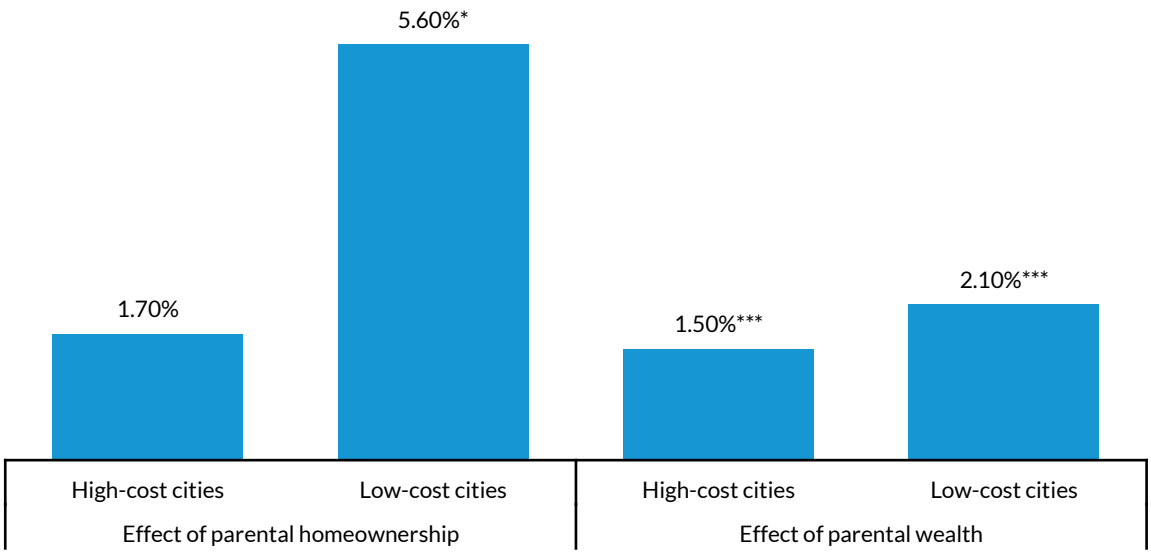
We further divide the sample in three and run the same regression as table 3. The 2015 inflation-adjusted median house price in our sample is $150,000, so we use that number to classify high- and low-

cost cities. The remaining young adults live in small cities or rural areas where house price data are not available. Figure 10 shows that parental influence on young adults' homeownership varies by location. Being a homeowner's child increases a young adult's likelihood of owning by 5.6 percentage points in low-cost cities, but this likelihood decreases to 1.7 percentage points in high-cost cities. The homeownership impact is statistically insignificant in high-cost cities. In expensive cities, knowing the benefits of homeownership and having more information about the process may have less impact than in low-cost cities, as it is more difficult to afford a home in high-cost cities.

An increase in parental wealth significantly increases the likelihood of a young adult's homeownership in both high- and low-cost cities. The coefficient is larger in low-cost cities (0.021 versus 0.015). Because the down payment required for homebuying is lower in low-cost cities, parents' financial support can have a greater influence on a child's homeownership.

FIGURE 10

How Parental Homeownership and Wealth Affect Young Adults' Homeownership, by Location and House Prices



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Source: Panel Study of Income Dynamics.
*** $p < 0.01$; * $p < 0.1$.

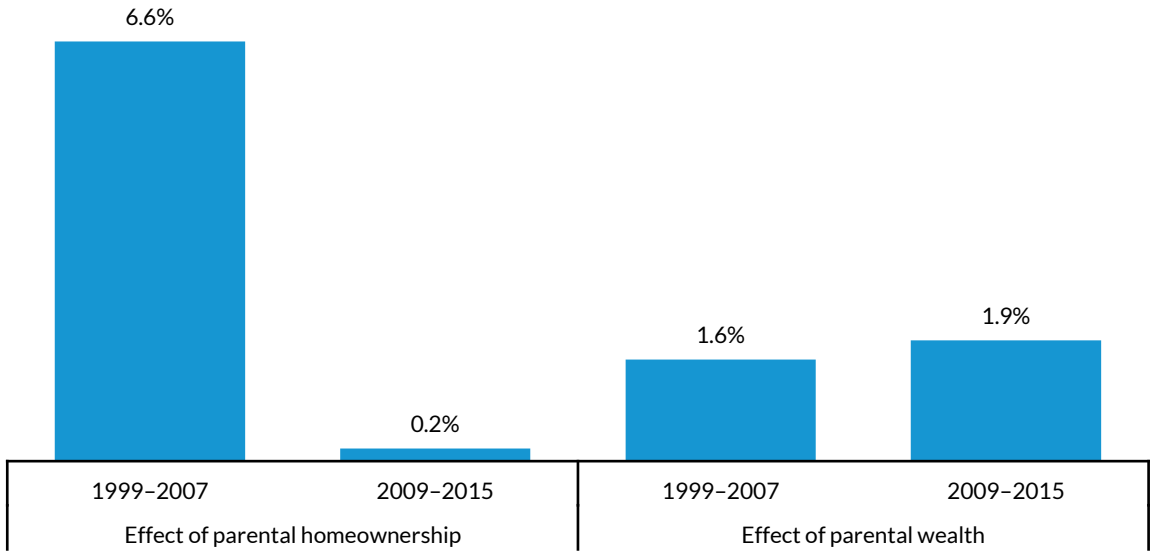
Finally, we divide our sample into two parts: 1999 to 2007 and 2009 to 2015. The earlier years include the boom period, when credit conditions relaxed and accessing the mortgage market was easier for young potential homebuyers. Following the bust, credit conditions tightened, and obtaining mortgages became more difficult. Our results show that the relationship between parents'

homeownership and young adults' homeownership was large and significant during the boom, but the relationship weakened to almost zero during the bust. Like the results in figure 8, having a homeowner parent can have less influence when obtaining a mortgage becomes more difficult.

In contrast, the impact of parental wealth is larger in the latter years. This is in line with previous studies (Begley, forthcoming; Lee et al. 2018) that find that parental wealth's influence on young adults' homeownership became larger during the Great Recession, when young adults faced greater constraints to borrowing in the mortgage market and the availability of a parental contribution, financing, or guarantee became more important to becoming a homeowner.[2]

FIGURE 11

How Parental Homeownership and Wealth Affect Young Adults' Homeownership, by Time Period (Boom and Bust)



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Source: Panel Study of Income Dynamics.

Conclusion and Policy Recommendations

This research finds that parental homeownership and wealth have significant influence on young adults' tenure choices. Young adults are more likely to own a home if their parents are homeowners and are wealthier. Because homeownership is an important tool for building future wealth, the intergenerational transfer of homeownership could further reinforce racial and ethnic wealth disparities.

Homeownership stability matters. Young adults with stable homeowner parents are most likely to be homeowners. This result is particularly concerning for black families, as the homeownership rate among black households headed by 45-to-64-year-olds (who are most likely to be parents of young adults ages 18 to 34) significantly dropped over the past 15 years.[3]

The strong relationship between parental wealth and homeownership suggests that parental financial support can be critical for their child to access homeownership, as many young adults do not have sufficient resources to afford a down payment or meet underwriting standards for a mortgage. As house prices increase (especially at the lower end of the market, where young adults are more likely to buy, and in areas with limited housing supply) amid the tight credit market, young adults are likely to face greater difficulties accessing homeownership than past generations. And the lower levels of black homeownership and wealth mean that black young adults are least likely to receive financial support from their parents. This support can be outright transfers for down payment assistance, as well as the parent cosigning the loan with their child. This essentially gives the lender recourse to the parent if the young adult does not pay.

Without adequate policies in place, the stark differences in homeownership across race and ethnicity is not likely to converge. Stronger measures are necessary on the policy side. Here are three we believe would be effective.

Improve young adults' understanding of homeownership. Many young adults view the down payment as the most critical barrier to homeownership attainment (Choi et al. 2018). But many of them do not have accurate information about the down payment requirement and are unaware of available down payment assistance. Almost 40 percent of young renters believe the minimum down payment is 20 percent (ASA and NAR 2017). But Federal Housing Administration loans require only 3.5 percent down, and the government-sponsored enterprises have programs that require only 3 percent down. Also, most first-time homebuyers qualify for down payment assistance from nonprofit organizations or state housing finance agencies. Most renters are not familiar with these programs.

Fannie Mae (Home Counselor Online) and Freddie Mac (Loan Product Advisor) provide online housing counseling for loan applicants. But this does not help potential homeowners who assume they do not qualify. We need better ways to help young people get accurate information about qualifying to buy a home (including available assistance). There is a tendency to present this information in high school courses, but for homebuying (in contrast to information about appropriate use of credit and budgeting), high school is probably too early. Two- and four-year colleges are increasingly adding

financial skills to their credit and noncredit offerings, often focusing on better use of student loans. Understanding homeownership could be part of these curricula, especially for older students.

Financial services providers—including traditional providers and the mobile-based providers that are attracting significant interest from millennials—can educate their customers about how to become homeowners and to do it sustainably. These providers know more about their customers' finances than any third party and can tailor information, goals, savings products, and incentives to meet millennials' needs, especially if they work with, for example, providers of down payment assistance.

Thinking about the process of moving people from renter to owner status as "homeownership preparation," and not as "housing counseling," can enhance the breadth and effectiveness of assistance. Theodos, Stacy, and Monson (2015) studied the work of Homewise in New Mexico, which offers this type of counseling, and has found their approach effective in extending sustainable homeownership to households (including younger households) who were not initially ready to purchase a home.

Introduce a tax-free account to save for a down payment. Like college savings plans, Congress and states—especially those with significant income taxes—could enact a tax-free account to save for a down payment. This would encourage savings for homeownership. This would need to be capped (at, say, $25,000) so it does not become a tax loophole for those who are wealthy and would save anyway. Savings for homeownership could be further bolstered with a governmental match or partial match in the form of a refundable tax credit. To limit the costs and maximize the effectiveness of a match, the match should have an income cutoff, perhaps expressed as a share of area median income or a metric based on area median income and median house price. This matching is similar to that used in Individual Development Accounts, which are special savings accounts that provide a dollar-to-dollar (or greater) match to the deposits of low- and moderate-income households. The savings and the matched funding can be used when purchasing a home. The tax-free account can be especially beneficial for young adults who will not receive parental support for a down payment.

Expand the credit box to more creditworthy borrowers. Altering mortgage underwriting criteria in ways that expand the credit box without a significant increase in risk is long overdue and would especially help young adults, with the benefits going disproportionately to borrowers who lack parental support. The government-sponsored enterprises and Federal Housing Administration are currently using outdated FICO models. FICO and Vantage models have been updated to score more borrowers with greater accuracy. More importantly, many borrowers (disproportionately minorities) do not use credit, do not have a credit score, and are consequently squeezed out of the market. For these people, credit information can be obtained by the monthly payments they make, such as rental payments, and

payments for telecommunication and utility bills. These are not included in credit scores. Technological advances can allow this information to be harnessed from bank statements and "counted" toward credit.

Other reforms are more straightforward. Currently, when two borrowers jointly apply for a mortgage, lenders use the lower of the two credit scores. This forces some families to apply for a mortgage with only one income, because the credit score of the second income earner is too low. Additionally, mortgage applications often undercount income. Income is generally considered only if it is consistent and the borrower has been in the same job or industry for two years. Borrowers who are particularly affected by this undercount include those who work partly on commission, those who are self-employed, those who have not held their job long enough, and those who always have a second or seasonal income. In multigenerational families, who are disproportionately minorities, there are household members whose income is not counted in a mortgage application. Again, bank statements can be used to capture household income more accurately and thereby increase mortgage approval of young potential homebuyers.

Although some of these changes can be made without any increase in risk to the lender, others—such as reliance on less-than-steady income—may increase risk. This calls for combining underwriting changes with consideration of risk mitigators, such as increased escrows or automatic savings vehicles that build up a reserve account for emergencies.

Appendix

TABLE A.1

How Parental Homeownership and Wealth Affect Young Adults' Homeownership: Logit (Marginal Effect)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Black	-0.234	-0.167	-0.153	-0.144	-0.141	-0.137	-0.139
	(11.11)***	(8.82)***	(7.87)***	(7.16)***	(6.99)***	(6.74)***	(6.87)***
Hispanic	-0.112	0.001	0.009	0.02	0.02	0.021	0.021
	(3.09)***	(0.03)	(0.30)	(0.63)	(0.62)	(0.67)	-0.65
Others	-0.069	-0.005	-0.007	-0.006	-0.007	-0.005	-0.006
	(1.00)	(0.07)	(0.09)	(0.09)	(0.09)	(0.07)	(0.09)
Parent own			0.086		0.056		0.068
			(4.41)***		(2.66)***		(3.27)***
ln(parent wealth)				0.02	0.014	0.014	
				(4.71)***	(3.13)***	(3.06)***	
Parent: Stayed owner						0.092	
						(2.69)***	
Parent: Owner to renter						0.049	
						-1.14	
Parent: Renter to owner						0.068	
						(1.68)*	
Parent: Frequent transition						0.079	
						(1.96)**	
$100K < parent wealth ≤ $200K							0.011
							(0.59)
$200K < parent wealth							0.055
							(3.28)***
Age		0.021	0.02	0.02	0.02	0.02	0.02
		(12.08)***	(11.97)***	(11.79)***	(11.76)***	(11.73)***	(11.68)***
Female		-0.077	-0.078	-0.076	-0.077	-0.077	-0.077
		(4.67)***	(4.72)***	(4.67)***	(4.70)***	(4.71)***	(4.68)***
Married		0.089	0.086	0.087	0.085	0.084	0.084
		(4.67)***	(4.60)***	(4.62)***	(4.59)***	(4.53)***	(4.53)***
Divorced, separated, widowed		0.04	0.039	0.043	0.041	0.04	0.041
		(1.56)	(1.50)	(1.66)*	(1.58)	(1.51)	(1.55)
High school		0.099	0.091	0.089	0.087	0.086	0.086
		(3.03)***	(2.77)***	(2.70)***	(2.62)***	(2.57)**	(2.62)***
College		0.11	0.097	0.087	0.084	0.083	0.082
		(3.42)***	(2.98)***	(2.63)***	(2.56)**	(2.50)**	(2.50)**
Child exist		0.11	0.112	0.119	0.118	0.118	0.118
		(8.12)***	(8.32)***	(8.87)***	(8.81)***	(8.79)***	(8.83)***
log(HH income)		0.132	0.13	0.125	0.125	0.125	0.126
		(11.92)***	(11.84)***	(11.41)***	(11.47)***	(11.45)***	(11.53)***
Parent: Number of moves					-0.001	0.000	-0.001
					(0.18)	(0.01)	(0.30)
Year fixed effect	N	Y	Y	Y	Y	Y	Y
State fixed effect	N	Y	Y	Y	Y	Y	Y
Observations	9,932	9,932	9,932	9,932	9,932	9,932	9,933

Source: Panel Study of Income Dynamics.

Notes: All regressions are weighted by household weights provided by the Panel Study of Income Dynamics. Standard errors are clustered by household ID. The coefficients are marginal effects, and the numbers in the parenthesis are *t*-statistics.

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$.

TABLE A.2

How Parental Homeownership and Wealth Affect Young Adults' Homeownership by Housing Cost (OLS and Logit)

Variables	(1) OLS	(2) Logit–marginal effect
Age	0.023***	0.021***
	(0.002)	(10.41)
Female	-0.125***	-0.110***
	(0.018)	(6.00)
Black	-0.130***	-0.14***
	(0.025)	(5.70)
Hispanic	0.029	0.043
	(0.038)	(1.09)
Others	-0.104	-0.123
	(0.080)	(1.48)
Married	0.144***	0.136***
	(0.021)	(6.40)
Divorced, separated, widowed	0.076**	0.087**
	(0.030)	(2.86)
High school	0.061	0.071*
	(0.038)	(1.81)
College	0.088**	0.092**
	(0.039)	(2.36)
Child exist	0.124***	0.104***
	(0.017)	(6.49)
ln(income)	0.104***	0.134***
	(0.009)	(9.65)
ln(parent wealth)	0.017**	0.014**
	(0.005)	(2.75)
Parent own	0.041*	0.054***
	(0.024)	(2.22)
Parent: Number of moves	0.007	0.004
	(0.005)	(0.74)
ln(median house price)	-0.047**	-0.054**
	(0.022)	(2.52)
Year fixed effect	Y	Y
State fixed effect	Y	Y
Observations	7,004	6,991
R^2	0.3	

Source: Panel Study of Income Dynamics.

Notes: OLS =ordinary least squares. All regressions are weighted by household weights provided by the Panel Study of Income Dynamics. Standard errors are clustered by household ID. The numbers in the parenthesis in the OLS regression are standard errors. The coefficients for logit regression are marginal effects, and the numbers in the parenthesis are *t*-statistics.

*** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$.

Notes

[1] Because the PSID has conducted its survey biannually since 1997, our sample includes all odd-numbered years from 1999 through 2015.

[2] Our study uses the level of homeownership as the dependent variable for each time period. In other words, for each year, young adults who own homes are categorized as 1 and young adults who rent are categorized as 0. Begley (forthcoming) and Lee and coauthors (2018) use transition to homeownership between two periods as their dependent variable. They choose a sample of people who do not own homes in a certain year and classifies those who become homeowners in the next period as 1 and those who do not become homeowners as 0. The latter method provides a more accurate examination of how parental wealth affects households to become homeowners, but the small sample size increases the measurement error.

[3] Laurie Goodman, Alanna McCargo, and Jun Zhu, "A Closer Look at the Fifteen-Year Drop in Black Homeownership," *Urban Wire* (blog), Urban Institute, February 13, 2018, https://www.urban.org/urban-wire/closer-look-fifteen-year-drop-black-homeownership.

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