Discussion of "Monetary Policy and Racial Inequality in Housing Markets"

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Summary of the paper

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Estimates racial disparities in housing transactions, house prices, and labor outcomes in response to monetary policy.

- ▶ **Main Finding:** House prices and net purchases for minority groups are more sensitive to monetary policy.
  - HPI response to a 25bps rate increase: 10% decrease for White households versus 15% for Black and Hispanic households.
  - Even larger disparities in net purchases: positive/zero effect for White households versus a negative 10-15% effect for minority groups.

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  - HPI response to a 25bps rate increase: 10% decrease for White households versus 15% for Black and Hispanic households.
  - Even larger disparities in net purchases: positive/zero effect for White households versus a negative 10-15% effect for minority groups.
- ▶ **Mechanism:** Minority employment is more responsive to monetary policy.
  - No evidence on disparities in MP pass-through to mortgage rates or foreclosures.
- ▶ **Importance of neighborhood:** Similar results for White households in minority neighborhoods.

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  - In a balanced sample, we would expect around 12.2k observations instead of 8.5k (i.e., 30% missing).
    - Endogenous missing observations could pose challenges for LP.
  - p10 (p50) of # of observations: 4 (20) for minorities vs. 100 (400) for Whites.
    - Giacoletti (2021) shows significant individual-level house price volatility, introducing noise to the constructed measure (consistent with evidence in Appendix Figure C.3).
  - Distress sales (foreclosures and short sales) significantly impact race-specific measures due to low # of observations and higher probability of distress sales.

Alternative HPI Construction and the Base Sample

HPI:

- ▶ Estimate ZIP-code level HPI using CoreLogic data, excluding distressed sales.
- ▶ Construct race-specific MSA-level measure using weighted average of the homeowner population (not residents) of each race within ZIP codes.
  - Consistent with Figure 2, weights based on total population overestimate minority transactions shares due to a 25-30% homeownership gap.

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Measures of Transaction:

- ▶ Restricting to observations with both purchase and sale records seems overly restrictive.
  - • Fewer "transactions" over time, by design.
- ▶ Net purchases as LHS is also tricky. It changes mostly for two reasons: new construction and inter-racial transactions.
  - • both of these can be tested more directly.
- ▶ I would start with purchases, independent of whether a sale is observed.

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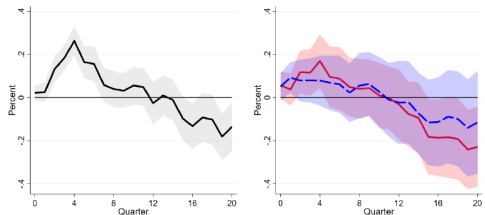- ▶ I would start with purchases, independent of whether a sale is observed.

Ensure main results are based on a balanced sample (or at least include it as a key robustness check).

MPS_{orth} vs. MPS and the Employment Mechanism
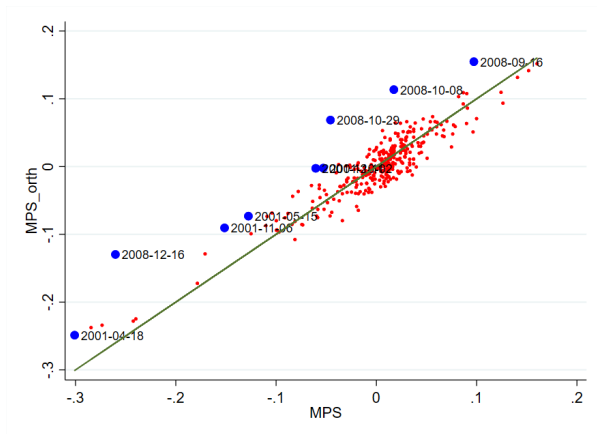

(b) Home price
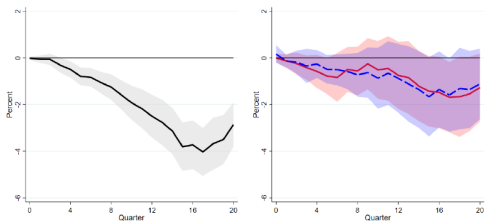
(c) Employment

Point estimate (White)   Point estimate (Black - White)   Point estimate (Hispanic - White)
CI 95% (White)   CI 95% (Black - White)   CI 95% (Hispanic - White)

MPS_{orth} vs. MPS and the Employment Mechanism

- ▶ Blue dots represent FOMC meetings with $|MPS - MPS_{orth}| > 5bps$.
- ▶ The reversal in employment results appears largely driven by the blue dots (and perhaps rightly so).
- ▶ House price results for MPS are half of those for MPS_{orth}.
  - • Suggests that employment may not be the only factor.

Other Mechanisms: Static and Dynamic Regional Differences

▶ Prior literature shows that regions with more inelastic housing supply respond more to monetary policy (Fischer et al. 2021, Aastveit and Anundsen 2022).

▶ In Biljanovska et al. (2024), we find that regions with more overvalued housing markets are more sensitive to MP.
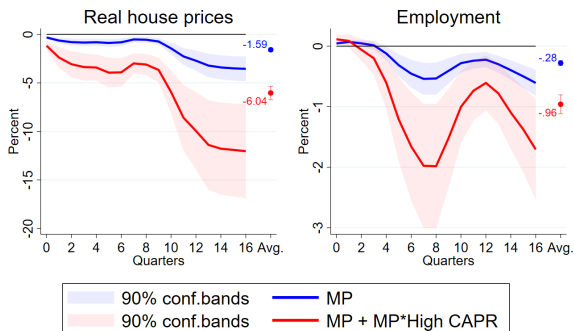
Financial Channel Mechanism

▶ The paper shows no disparities in the impact of MP on new mortgage
  rates.
  - CoreLogic mortgage rate data is relatively sparse.
  - Gerardi et al. (2023) show significant racial disparities in refinancing
    responses to MP shocks.
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    for minorities. Extensive margin can play an important role.

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▶ Foreclosure results need to be revisited
  - Currently, LHS is log(foreclosures), which is likely missing for most observations, especially for minorities.
  - One alternative is to use the share of housing in foreclosure as the LHS.

Other comments

▶ I prefer Δi as the main specification.
  - MPS is more closely related to the change in rates.
  - Reduced form results are also closer to those with Δi.
    ■ E.g., gradual buildup of house price response to MPS in reduced form or Δi specification vs. muted response in the first 10 quarters in level specification.

▶ How important is the joint estimation of dynamics for all races?

▶ Ideas for future: Endogenous amplification of segregation driven by the excess cyclicality of minority jobs in the labor market.

Conclusion

▶ Very interesting paper on the excess sensitivity of minority housing transactions and house prices to monetary policy.

▶ Convincing evidence that labor market disparities are at the core of the problem.

▶ Would like to see the results for a balanced panel with:
  - Alternative HPI
  - Housing purchases, independent of observing sales
  - Controls for the interaction of static and dynamic characteristics of location with MP
  - Further investigation into the financial channel.