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De Koning, Kees

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Introduction

Savings and debts are two of the main characteristics of the economy in the U.S. and elsewhere. On the one side there are government taxes and spending levels. On the other side are the households' savings levels, be it in home equity, in pension savings, in shares and bonds or in other bank related savings. The U.S. government decides on tax levels; households decide on how to allocate their income after tax across consumption, personal savings in home equity, in pensions and if any money is left over, in stocks and other investments. Over time, the total level of such household assets can fluctuate greatly.

Life would be simple if the U.S. government would take out of the national income precisely the amount that it spends. Of course, this is not the case for obvious reasons of economic management. Between 2006 and 2022 the U.S. Government debt level has risen from 62.26% of GDP in Q1 2006 to 124.67% in Q1 2022.

In the U.S., total pension assets level stands at $27.6 trillion and total net home equity currently amounts to $29.04 trillion. In 2022, the expected GDP level is $23.4 trillion.

During the Great Recession resulting from the Global Financial Crisis, the collective of US households' homeowners lost $6.1 trillion in home equity levels between Q4 2005 and Q1 2012. This loss represented 42.4% of the peak value of $14.375 trillion which was reached by Q4 2005. Furthermore, only by Q2 2016 were households in a financial in position to have "resaved" the $6.1 trillion. This whole period of home equity loss and the subsequent recovery period spanned more thana decade and as I will argue, could have been a less dramatic loss, followed by a much shorter recovery.

Many economic commentators focus strongly on the immediate future rather than on the longer-term trends and we repeatedly fail to learn from the past or even the recent past.

Central banks the world over have given priority to buy up government debt and mortgage debt securities: Quantitative Easing.

Why is it that U.S. home equity levels are not used to help steer the U.S. out of a recession? Is it because the homeowner is an individual rather than the collective of households?

A more effective method would be to acquire a small percentage of a household's home equity at times when the U.S. needs an economic boost. A 0% charge might be the best option.

1. A lesson from the past and the present.

The Federal Reserve publishes a statistic that measures the household' owners' equity in real estate level[1]. In Q4 2005 this level was $14.375 trillion. By Q1 2012 the level had dropped to $8.277 trillion. The recovery took to Q1 2016 when the level was measured at $14.051 trillion. The most recent figure shows a continuous growth to $29.036 trillion by Q2 2022. These statistics imply some very important lessons. The first one is that households lost practically $6.1 trillion in home equity between Q4 2005 and Q1 2012 or 42% of home equity values. The second one is that the recovery back to the starting position in 2005 took over 11 years before the same level of Q4 2005 was reached.

The current situation is a totally different one. By Q2 2022, the owner's equity in real estate reached the level of $29.036 trillion. On top of this the Fed also publishes data on the total financial assets of pension funds.[2] The most recent data showed that by Q3 2021 the total assets of pension funds were $27.093 trillion.

These two savings categories alone add up to $56.129 trillion. The U.S. GDP for 2022 is estimated at $23.4 trillion. In other words, these two categories of savings by U.S. households are now nearly 2.4 times the 2022 GDP level. By including the recent total values of U.S. stocks of $49 trillion, the multiple becomes even greater; but there will have been significant double counting as some values may already have been included in the pension savings levels. The U.S. government expenditure for 2022 (Federal, State and Local) is estimated to reach $9.32 trillion or 40.3% of GDP.

One could compare the U.S. GDP level with the level of direct and indirect savings in the U.S. held by its households. The stark reality is that home equity levels and pension savings together are worth $56.219 trillion with a GDP of $23.4 trillion and a total U.S. Government expenditure level of $9.32 trillion. With households' financial holdings standing at over 6 times U.S. government expenditure level, one may query how effective a fiscal and interest rate setting can be.

The need to acquire a home or rent one, does not depend on the level of interest rates. Shelter is needed for anyone living in the U.S. The second need is to provide for the retirement period by building up reserves. Again, such accumulation of funds is influenced by interest rates and rate changes, but the need remains a priority for all Americans.

The question the Federal reserve and the U.S. Government need to resolve together is how relevant the U.S. Government expenditure level is when compared to the total savings levels.

[1] https://fred.stlouisfed.org/series/OEHRNWBSHNO
[2] https://www.federalreserve.gov/releases/z1/202111209/html/1117.htm

Does it matter whether U.S. government expenditure is 40.3% of GDP, when total household savings levels are at least 6 times this figure? Perhaps a move to utilize some of the accumulated savings, especially the ones in home equity is an option.

A first consideration could be which of the two savings categories would be the easiest to utilize as a stimulator of economic growth. Savings in Defined Benefit pension funds are normally linked to a collective of households rather than to an individual. Taking out funds early to enhance economic growth levels reduces the available funds when life expectancy levels stay at the same level or improves.

Defined contribution plans may be a somewhat easier target, but again the purpose of the savings is to accumulate reserves for a life in the future without having to earn an income through employment. In the U.S. households have a right to withdraw 25% of their accumulated pensions from the age of 55. This is an-age related withdrawal and not an economic cycle linked one.

2. A home equity withdrawal scheme

The group of homeowners' occupiers represents a direct link between the home and the funds accumulated over time to acquire the home. Hence this link makes it easier to provide funds to such households as and when the economic situation requires such moves.

What is clear from the above data is that the U.S. government is no longer in the best position to stimulate its economy any more than it does already. With an amount of government expenditure of well over 40% of GDP, any major changes would need further tax increases at a time when households are already confronted with relatively high taxation levels. To avoid higher taxes -which would be unwelcome and likely cause a higher unemployment rate- a different solution is needed and in the opinion of this author can be found in home equity.

The high level of home equity of just over $29 trillion, allows the U.S. and its citizens to utilize some of the wealth on a temporary basis as and when the Federal Reserve decides that increased spending levels would help the U.S. economy to get out of a threatening recession. Even a modest injection of total home equity savings -modest in relation to the $29 trillion of home equity- of, for instance, $2 trillion would be a major boost for U.S. households and for the U.S. economy. The cash injection could be funded on a Quantitative Easing basis by the Federal Reserve system and administered by the three-state owned financial institutions: Fannie Mae, Freddy Mac, and Ginny Mae. In return, these financial institutions could receive a government guarantee for the credit risks that they might run if households would fail to "resave" the amounts taken out under the scheme. If the past is any guidance to the future, during the period 2012 and 2016 U.S. households managed to save over $6 trillion in home equity. Perhaps savings for a household's own benefit works better than having to pay higher taxes.

The key to this proposal is that households get to use some of their own savings at a 0% interest rate, something the private markets cannot offer. The result is likely to lead to more spending by these households over and above the government's spending levels at a time of a threatening recession. There should be no future tax claim on the participating households for such type of advance. Unlike, the 25% pension fund withdrawal option at the age of 55, which is age related, the proposed home equity withdrawal scheme is a recession prevention scheme.

There are a few considerations to address. The first one is to enable that most U.S. homeowners are given a chance to stay in their own home when a recession is looming as is currently forecasted by senior economists in the U.S.

The second objective is to create a scheme which at the same time supports household's ability to temporarily spend more of their own accumulated home equity savings. Such an objective is highly preferable as compared to the methods used in the aftermath of the 2006 and subsequent years of recession and eventual recovery.

The Fed publishes the U.S. unemployment rates[3]. By December 2006, the U.S. unemployment rate was 4.4%; by December 2009 this level had increased to 9.9%. It only returned to 4.4% in March 2017.

Why did it take so long? The answer can be found in the manner the markets operated. Private sector lenders had the upper hand in managing the recovery of U.S. home mortgage lending. Their aim was to recover as much of the outstanding mortgage debt as was possible, and as quickly as possible. How or whether households would survive was not one of their main considerations. Their profit motive did not coincide with the interests of the affected households and in retrospect this free for all recovery method caused the recovery period to be extended to over 10 years.

Pension fund managers on the other hand were and are aiming to create the best possible portfolio not just for one family but for many households together. Their aim was and is to increase their assets under management and hope to make the results beat inflation levels.

The choice is and was between home equity savings and the outstanding mortgage debt levels. If a system is adopted that provides cash on a temporary basis at 0% interest rate, based on the level of home equity for the bottom 60-70% of households by income level, then such system is likely to avoid the downward pressures that the financial sector exerted during the years of the Great Recession.

It is vital that the savings level in home equity achieves priority over the debt level. This can be achieved in the following manner:

[3] https://fred.stlouisfed.org/series/UNRATE

1. The Fed agrees to be the funds provider to the three State owned banks at 0% interest rate. These banks are Freddy Mac, Fanny Mae, and Ginny Mae (Quantitative Easing Home Equity or QEHE).

2. The U.S. government agrees to guarantee to the three state owned banks that it will reimburse possible future losses in relation to this home equity portfolio.

3. Households can apply for such home equity facility with the three U.S. Government owned institutions: Freddy Mac, Fanny Mae, and Ginny Mae. These banks will check the level of home equity from each homeowner. The homeowner needs to be the occupier of the home.

4. The homeowner agrees to start a resaving's process to recover the equity taken out the home when the Fed gives the signals to the above three state owned banks that the temporary advance period is over. A reasonable period of resaving is agreed between the beneficiary and the state-owned banks.

5. Households with an annual income level of $ 100,000 or more may not be considered for this scheme. However, a more detailed state by state level needs to be developed, reflecting the costs of living for households in different states and for different genders.

3. The macro-economic benefits of such scheme

The difference between this scheme and an additional government borrowing scheme is that in the latter case, U.S. government borrowing levels need to increase further to around 50-60% of GDP. Such borrowings are not costs free. Future taxation levels will need to go up to reduce the government debt levels.

In the case of the Home Equity Withdrawal Scheme, as it would be funded by Quantitative Easing Home Equity, the government debt does not increase. Not only that, but households can use some of their accumulated savings in home equity for discretionary spending. The latter will stimulate economic growth levels, without any increase in government debt levels. On the contrary, the U.S. Government will benefit from the extra cash injection into the economy in an indirect manner.

There are other positive economic factors in using savings made in the past and used in the present. The advantage of allowing those households -those who do not have the luxury of having a wide variety of savings- temporary access to some of their home equity savings will help to stimulate the U.S. economy. The U.S. Census Bureau[4] publishes regular updates on the state of the U.S. housing markets. The number of owner-occupied homes in the U.S. is 92.546 million according to the latest data. A significant proportion still have a mortgage. This

[4]https://www.census.gov/quickfacts/fact/table/US

fact requires a discussion between the U.S. government with the collective of mortgage lenders with the aim to sign an agreement that these lenders will receive for a period the interest only due payments. It may be pointed out to these lenders that doing so they help the U.S economy to recover and thereby their outstanding mortgage risk profile.

4. Some conclusions

The priority given to debt holders (mortgage lenders) during the previous financial crisis led to a deep recession and a prolonged recovery period of over 10 years. In economic terms, the householders' equity rights were subordinated to lender/financial sector liability driven actions. A much faster economic recovery could have been achieved if involved parties: mortgage lenders, homeowners, the U.S. Government, and the Federal Reserve had made use of householders' equity on a temporary basis to shorten the adjustment period and render the home equity value loss, less acute. There is no set home equity level in a society to be strived for; but home equity should at least be treated as a type of savings that can help a country out of a recession period. Hindsight should be used to improve decision making in navigating the economic outlook.

The latest IMF forecast for the U.S. is for a lower level of GDP growth from 2.9% down to 1.7% for this year and for a GDP growth of 1% in 2023. The possible policy action of helping households to use some of their home equity savings and bring this more in line with economic needs could make a major difference to where the actual GDP growth in 2023 ends up with. Recognizing that home equity is a savings product rather than a loan would be a good first step. Other countries outside the U.S. might also benefit from such shift in economic management.

Kees De Koning
Chorleywood U.K.

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Various years

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Financial assets of U.S. pension funds

3. https://fred.stlouisfed.org/series/UNRATE
Unemployment rates in the U.S.

4. https://www.census.gov/quickfacts/fact/table/US

Owner occupied homes in the U.S.