Discussion of "Moving to a Job: The Role of Home Equity, Debt, and Access to Credit" by Demyanyk, Hryshko, Luengo-Prado and Sorensen

Discussant: Albert Saiz

University of Pennsylvania

Main points in the paper

- **Empirically:**
- **Use data from credit card companies and mortgage backed securities to assess if households with negative equity are more likely to move**
- **Conclude that they are but….**
- **…not more so when local unemployment is higher**
- **Describe as no evidence of lock-in effect**
- **Calibrated dynamic model does not yield lock-in either**

Assessment

- **Amazing, “Big-Brotherish” data sets**
- **Good empirical implementation**
- **Good idea to study interaction of lock-in with employment conditions**
- **Preliminary paper**
- **My comments are ideas geared to future work**

Data

- **Equifax – Credit Data (origin)**

- **Corelogic, LP – Mortgage Data (origin)**

- **Selection of small subsamples (15% and 10%)**
  - Training sample
  - Out of sample predictions or robustness

- **Credit records and SS:**
  - Immigrants (big deal in many of the crashing markets)
  - Younger households

Data

- **Would like to see more details on how moves are constructed:**
    - Guessing from changes in address
    - Would be nice to provide references on quality of such inference
    - Especially for household under bankruptcy, foreclosure, divorce, etc…
- **Would like to see (MANY) more comparisons between the credit and the MBS data**

Specification

- **3 groups with respect to housing equity**
  - Negative (<0)
  - 0-25%
  - More
- **Option value for people below 0 (say 0 to -15%)**
- People who are definitely below water may want to default and move more!

- **Equity = Estimated Value – Initial Mortgage(s)**
- But can change equity by refinancing, HELOC: mistakes?
- **Initial mortgage value may be related to probability of moving**
- optimally find discontinuity in rules qualifying for FHA?

(endogeneity of initial equity food for thought, although using evolutions of average values is really nice here)

Interpretation

- Negative equity (high mortgage balance) oftentimes associated with lower probability of moving
- This is what other have called lock-in effect: clarify semantics?
- Not strong evidence that lock-in is stronger in bad times (credit data at state level indicates somewhat more mobility in bad times with negative equity)
- Authors conclude that there is not “marginal” lock-in in bad times

My Main Issue

- **In the current sample negative equity has been inextricably linked with major economic recession**
- **Not sure we can meaningfully separate negative equity from local economic shocks (variance)**
- **Certain we cannot meaningfully separate negative equity timing with broad national shock**
  - Unemployment is high everywhere
  - Not sure that moving from 9 to 11% unemployment makes a difference in this environment
  - Experience from Great Depression
  - Macro evidence on home sales
  - Quality of job matches

Model

- Probably want to mention Stein (1995) liquidity effects and/or loss aversion
- Not clear it addresses the main question, since assumes constant unemployment probabilities
- More about steady-state lock in than "marginal" lock in!
- Introduce a local business cycle
- **Covariance between local and national shocks**
- Can I push you to structurally estimate with the data and model moments
- Perhaps want to separate empirical part from theory

All in all very interesting project and dream data:

GOOD LUCK!