

NOVEMBER 14, 2022

# Conference on Diversity, Equity and Inclusion in Economics, Finance, and Central Banking

Discussion of  
Does Monetary Policy Narrow or Widen the Racial Gap in  
the U.S.? Evidence From the Housing Market

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## Why Do We Care Monetary Policy and Racial Inequality?

- In the U.S., the Federal Reserve System has been given a dual mandate: pursuing the economic goals of maximum employment and price stability.
- A bill in the Senate for consideration (FRREEA, June 2022): “The Federal Reserve System shall exercise all duties and functions in a manner that fosters the elimination of disparities across racial and ethnic groups with respect to employment, income, wealth, and access to affordable credit”

# What Do We Know About Monetary Policy and Racial Inequality?

- Literature (currently thin, but growing)

	Labor Income	Wealth (non-housing)	Wealth (housing)	Inflation
Bartscher-Kuhn-Schularick-Wachtel (2022)	V	V	V	
Lee-Macaluso-Schwartzman (2022)	V			V
Bergman-Matsa-Weber (2022)	V			
Nakajima (2022)	V	V		

- This paper: extensive margin of home ownership
  - (exit) foreclosure rate
  - (entry) home purchase price and mortgage origination interest rate
- We need more evidence!

## Summary

- After tightening monetary policy shocks,

	foreclosure rate	home purchase price	mortgage origination interest rate
racial gap	↑	↑	↓

- The paper rationalize this seemingly counter-intuitive finding with increases the prepayment risk of white households.
- My Discussion
  - 1 Robustness of the Finding
  - 2 Quantitative Importance of Prepayment Risk

## Comment 1: Robustness of the Finding

- With FF (federal funds rate) and LSAP (large-scale asset purchase), racial gap in mortgage origination interest rate increase, decrease, or stays the same depending on lags.

Table 2: Monetary Policy on Racial Gap in Mortgage Interest Rate

MP Lags	1	3	6	12
Black*FF	0.032*** (0.010)	0.008 (0.006)	-0.003 (0.004)	-0.005* (0.003)
Black*FG	-0.015*** (0.005)	-0.010*** (0.003)	-0.014*** (0.002)	-0.012*** (0.002)
Black*LSAP	-0.029* (0.018)	-0.003 (0.012)	-0.002 (0.010)	0.021*** (0.007)

- Why? Hard to pin down, but it may be related to different time periods each shock cover.

## Comment 1: Robustness of the Finding

- Remind that monetary policy shocks from 1991 to 2019 covers the following three periods (Swanson, 2021):
  - ① pre-ZLB period, Jul 1991 to Dec 2008
  - ② ZLB period, Jan 2009 to Nov 2015
  - ③ post-ZLB period, Dec 2015 to Jun 2019
- During pre-ZLB period, LSAP shock was small (set to zero in this paper). During ZLB and post-ZLB period, FF shock was small (set to zero in this paper).
- Q1: Do we expect the same relationship before and after financial crisis? What do you get when you use FG shock before and after 2008?
- Q2: Do we expect the same relationship with different monetary policy shocks?

## Comment 2: Quantitative Importance of Prepayment Risk

- This paper's story: increase in prepayment risk was large enough to compensate increase in default risk
- How large was it? Even without considering monetary policy, do we know amount of prepayment risk premium in mortgage origination interest rates?
- Currently, that “quantitative” statement is missing.
- One idea: In 2013, the CFPB put forth rules that went into effect on January 10, 2014. The CFPB rules prohibit prepayment penalties for most residential mortgage loans.
- Did it increase mortgage origination interest rates significantly? Do you find stronger relationship after 2014?

## Concluding Thoughts

- Traditionally, macroeconomists and monetary policymakers held the view that racial inequities were outside our purview.
- Again, we need more examination on the topic that has for a long time received little attention.
- This paper provides important findings that deserve further discussions in academic and policy community.