Is Housing Wealth an "ATM"? The Relationship Between Household Wealth, Home Equity Withdrawal, and Saving Rates

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Notes

1. Goldman Sachs (2006) is a typical example of analysis that posited a strong link between HEW and U.S. consumption. Duca (2006) argued that the increasing reliance of U.S. households on HEW in the first part of the decade explains why the saving rate has fallen so far.

2. In an earlier version of this paper, we discussed whether the observed declines in saving rates in the four countries under consideration were mere statistical artifacts or real phenomena after adjusting for the effects of inflation, capital gains taxes, and imputed rents (Klyuev and Mills, 2006). Although we found

Kingdom, and the United States (Australia was not included in the sample). Borrowers may also seek to reduce interest costs by refinancing unsecured consumer credit through cheaper secured debt, especially if interest on mortgage debt is tax-advantaged relative to unsecured debt (as it has been in the United States since the Tax Reform Act of 1986).

7. This study examined the degree to which HEW as a proportion of disposable income was related to a constructed indicator of mortgage market completeness in eight European Union countries from 1990 to 2002.

8. In the United States, according to Freddie Mac data, as a proportion of the loan, average fees and points charged on a 30-year fixed rate mortgage fell from 2.5 percent in 1984 to 0.6 percent in 2005. Although the inclusion of

11. This analysis uses comparable definitions across countries; hence it does not necessarily reproduce national accounts definitions.

12. In addition, the Dutch National Bank surveys households in the Netherlands annually to assess their use of HEW (van Els, van den End, and van Rooij, 2005). In 2003, respondents said that increases in secured debt were used predominantly for home improvement (70 percent), followed by saving and investment (10 percent), consumption (8 percent), and repayment of other debt (6 percent).

13. Stock variables are entered as averages of end-of-period and beginning-of-period values.

and loans secured by housing. Financial net worth is the difference between financial assets and unsecured debt.

19. The regression on quarterly data included a lagged dependent variable, because otherwise residuals exhibited mild autocorrelation. Coefficients on HEW were not significant in a quarterly regression that omitted the lagged dependent variable.

20. One reason for that result is the high correlation between net housing wealth and HEW. Indeed, when the latter is excluded from the equation, the coefficient on the former becomes –0.016, but still remains insignificant. HEW remains insignificant in regressions in which net housing wealth is excluded and net financial wealth is used in place of net worth.

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Additional information

*Vladimir Klyuev is an economist with the IMF Western Hemisphere Department. Paul Mills is a senior economist with the IMF Monetary and Capital Markets Department. The authors gratefully acknowledge comments and contributions by Tamim Bayoumi, Kornélia Krajnyák, Sam Ouliaris, an external referee, and seminar participants at the IMF and at the Durham University Think Tank on Housing Wealth; help with data provided by the Reserve Bank of Australia and

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