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## Locked in the House: Do Underwater Mortgages Reduce Labor Market Mobility?

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Colleen Donovan (https://papers.ssrn.com/sol3/cf\_dev/AbsByAuth.cfm?per\_id=696832)  
Freddie Mac

Calvin Schnure (https://papers.ssrn.com/sol3/cf\_dev/AbsByAuth.cfm?per\_id=1665882)  
Nareit

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### Abstract

The collapse of the housing boom led to an unprecedented number of homeowners who are “underwater,” that is, owe more on their mortgage than their homes are worth. These homeowners cannot move without incurring significant losses on their homes, possibly causing a “lock-in” effect reducing geographic mobility. This raises concerns that a reduction in labor market mobility may hamper the ability to move to accept employment in another geographic market, degrading labor market efficiency and contributing to higher structural unemployment.


This paper examines housing market turnover and finds significant evidence of a lock-in effect. The lock-in, however, results almost entirely from a decline in within-county moves. As local moves are generally within the same geographic job market, this decline is not likely to affect labor market matching. In contrast, moves out-of-state, which are more likely to be in response to new employment opportunities, show no decline, and in fact are higher in counties with greater house price declines. Housing market lock-in does not appear to have degraded the efficiency of the labor market and does not appear to have contributed to a higher unemployment rate.

**Keywords:** House prices, Home ownership, Unemployment, Underwater Mortgages, Labor Market Mobility

**JEL Classification:** E24, J60, R23

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