

How 'houses as ATMs' feed a recession

December 24 2019



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For most Americans, their home is their most valuable asset, so it makes sense to borrow against the equity to obtain cash. In lean times, that money can be spent on consumption, which keeps the economy humming along. But if housing values and personal incomes don't rise, borrowers might find themselves struggling to repay the debt.

That's what happened a decade ago when the [housing market](#) collapsed. New research from Wharton finance professor Nikolai Roussanov shows that the pattern wasn't particular to the Great Recession. Looking back 30 years, Roussanov and his co-authors found a cyclical pattern of refinancing before each recessionary period. The findings are presented in their latest paper, "Houses as ATMs: Mortgage Refinancing and Macroeconomic Uncertainty," which is forthcoming in the *Journal of Finance*.

"The notion of using houses as ATMs is the idea of homeowners using mortgage refinancing or home equity loans or [home](#) equity lines of credit to literally take cash out of their homes, meaning to borrow against their housing collateral or the equity that they have accumulated in their homes," explains Roussanov. "They are then using that cash for spending or maybe paying off credit card balances, maybe even putting it towards other types of investments such as stocks or bonds and so on."

He adds, "People had borrowed a lot against their homes when [house prices](#) were rising. And when house prices collapsed, they ended up having these unsustainably large debt burdens, which forced them to cut their consumption spending, which probably contributed to the recession and maybe added to the severity of the Great Recession."

More information: HUI CHEN et al. Houses as ATMs: Mortgage Refinancing and Macroeconomic Uncertainty, *The Journal of Finance* (2019). [DOI: 10.1111/jofi.12842](https://doi.org/10.1111/jofi.12842)

Provided by University of Pennsylvania

Citation: How 'houses as ATMs' feed a recession (2019, December 24) retrieved 25 April 2024 from <https://phys.org/news/2019-12-houses-atms-recession.html>

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