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## Policy Perspectives on Fostering Consumer Financial Health

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*\* These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors.*

# A Balance Sheet Perspective on Consumer Financial Health

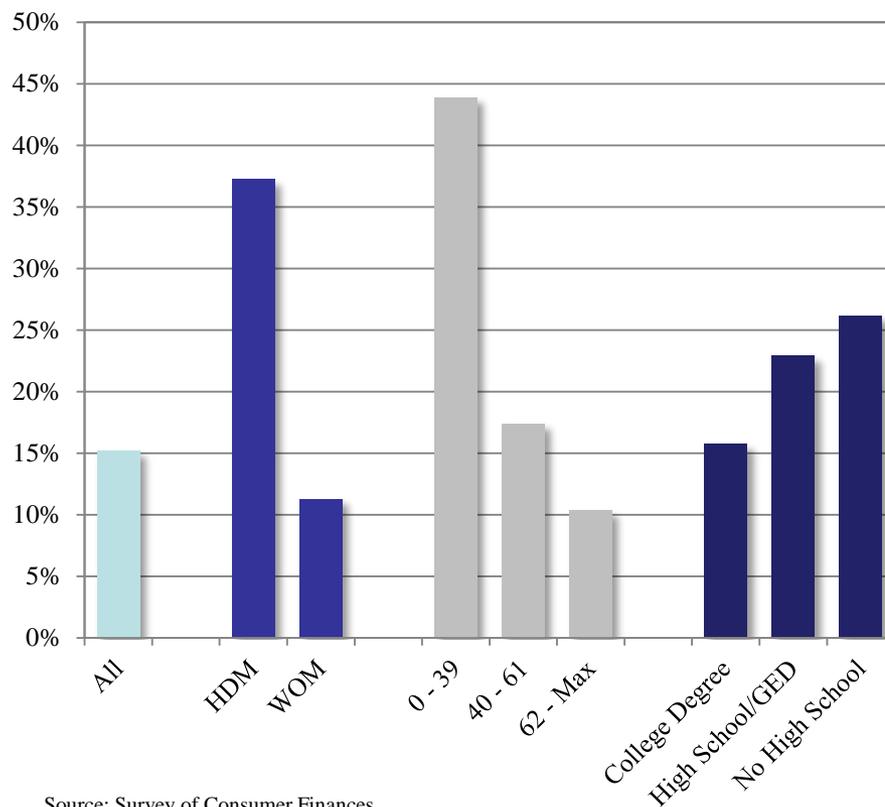
- \* Access to quality financial services is the *sine qua non* of a healthy balance sheet.
  
- \* Balance sheets offer new insights into the financial health of families and performance of the U.S. economy – balance sheets matter in ways that income and wages may not.
  
- \* The Great Recession was a “balance sheet recession.” Four balance sheet “failures” over the last decade:
  - Highest rate of homeownership ever recorded—69% in 2004
  - Highest concentration of wealth in homeownership since at least 1952, when data began—33% in 2005
  - Highest personal debt-to-income ratio since at least 1952, when data began—132% in 2007
  - Lowest personal saving rate since 1934—1.5% in 2005

# Who Lost Wealth in the Great Recession?

## Net Worth by Age, Race and Education

(Emmons and Noeth, 2013)

Percentage Losses In Mean Net Worth 2007-2010



Source: Survey of Consumer Finances  
HDM: Historically Disadvantaged Minorities  
WOM: White or Other Minority

### ➤ Younger families

- Under 40: -43.9%
- Age 40-61: -17.4%

### ➤ Historically disadvantaged families

- African-American and Hispanic (HDM): -37.2%
- Whites, Asians and other minorities (WOM): -11.2%

### ➤ Less-educated families

- Less than high school degree: - 26.1%
- High school grads: -22.9%

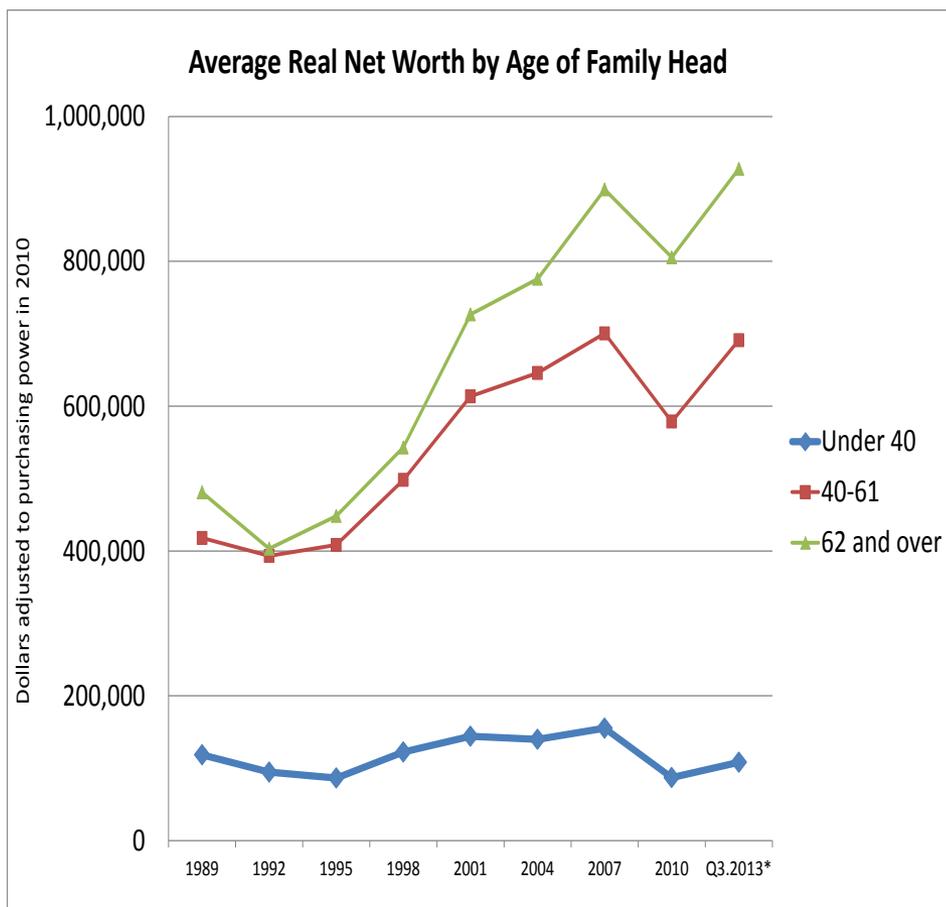
# Thrivers vs. Strugglers

(Emmons and Noeth, 2013)

	Share of Population	Share of Net Worth Since 1989
Thrivers (Older, white/Asian, better educated)	25%	Increased from 45% to 67%
Strugglers (Younger, non-white/Asian, less educated)	75%	Decreased from 55% to 33%

# Younger Families Have Been Most Affected

(Emmons and Noeth, 2013, 2014)



*Why do younger families have relatively weak balance sheets?*

- Over investment in homeownership
- Greater reliance on student loans
- Happen to follow the “luckiest” generations

# Strategies to Strengthen Family Balance Sheets

- \* New framework: *From asset building to balance sheets*
  
- \* Overall public policy goal: *Broaden or “democratize” capital ownership*
  
- \* Overall family balance sheet goal: *Diversify*
  - Build emergency savings.
  - Invest in college and retirement accounts; own a stake in the growing parts of the economy.
  - Start saving and investing as early in life as possible.
  - Lead up to buying a home; don’t start there.
  - Consider demographic drivers, not just income, in targeting public resources.

# Major Trends and Challenges Affecting Family Balance Sheets

- Increasing income and expense volatility (U.S. Financial Diaries; Dynan *et al.*)
- Debt overhang and prolonged recovery (Sufi and Mian; Emmons and Noeth)
- Family structure, especially the rise of single-parent households (Putnam; Wilcox)
- Returns to capital v. returns to labor; growing income and wealth inequality (Piketty; Stiglitz; Chetty, Saez; Krueger, etc.)
- Managing downside risk at both the family and public policy levels (Boshara)