



Center for Social Development

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Washington University in St. Louis

Homeownership, the Great Recession, and Wealth: Evidence from the Survey of Consumer Finance

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Presented at
The Federal Reserve Bank of St. Louis

6 February 2013



The American Dream: Homeownership

- **Home equity:** Key component of household balance sheets
- **Homeownership:** For most people, the largest investment of their life
 - Represents 60% of wealth of America's middle-class
 - Among renters, 72% say owning a home is a top priority in their future plans.

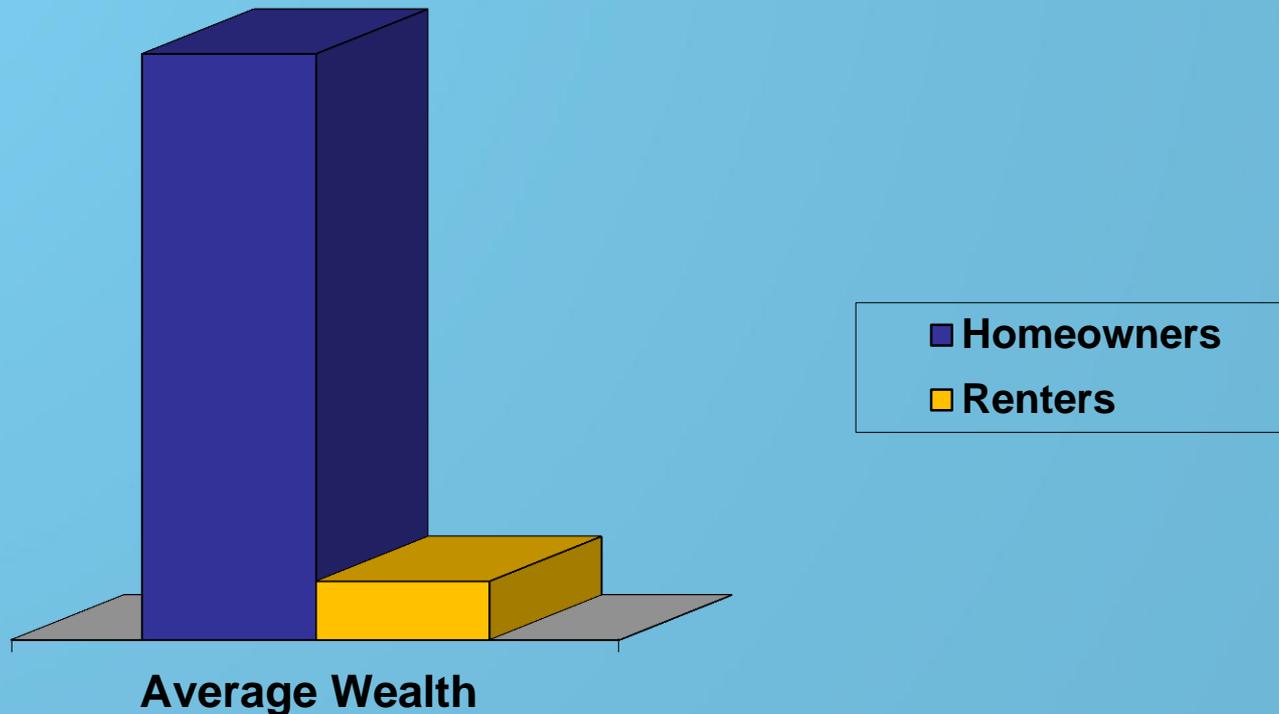




Economic Benefits of Homeownership

“The average wealth of homeownership households is ten times that of renter households...”

— Rohe & Watson (2007)





Social Benefits of Homeownership

- **Individual:** Improved life satisfaction, health outcomes
- **Family:** Greater participation in labor force, higher education levels among children
- **Community:** Better upkeep, more property upgrades, increased stability and civic engagement





Housing Crisis: 2006-2008

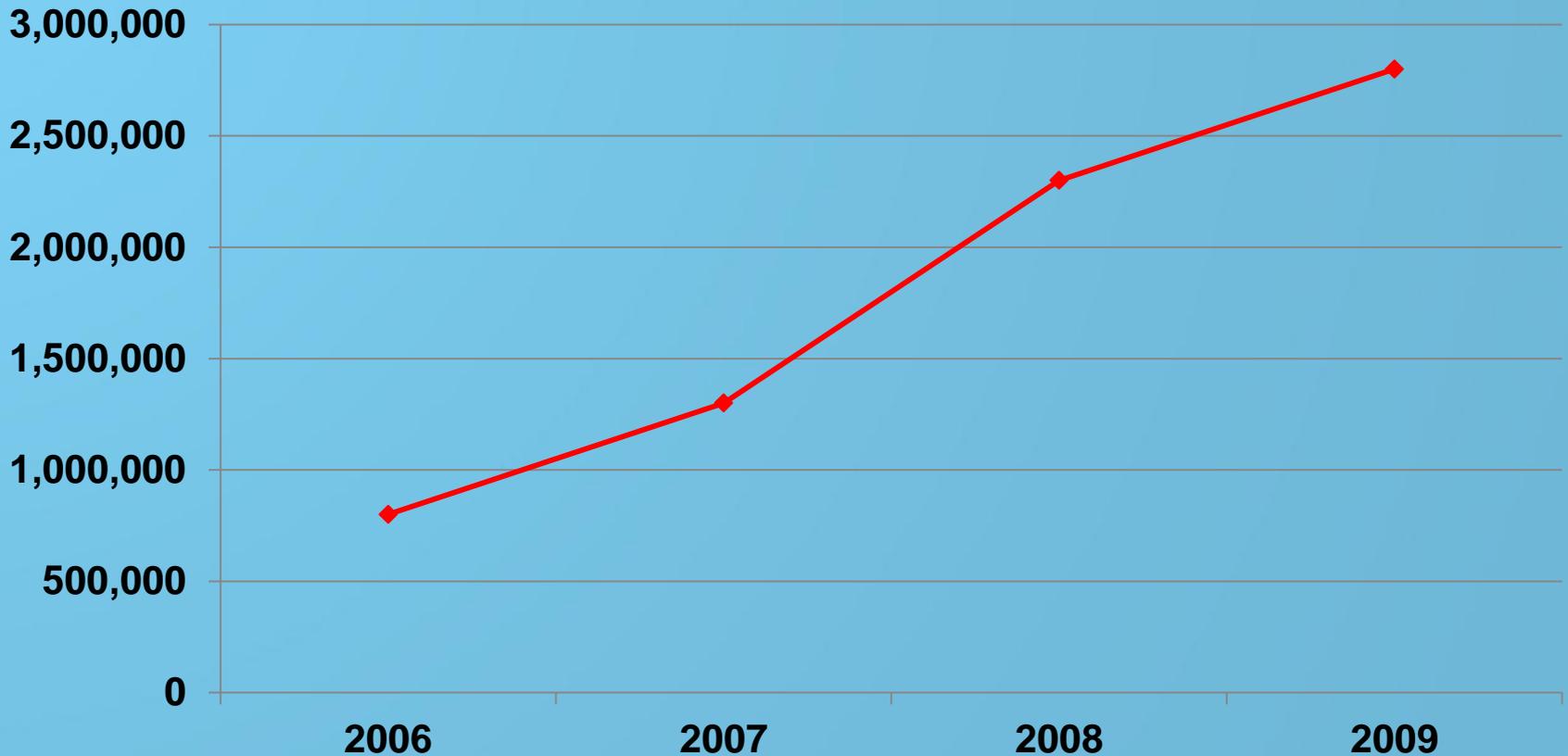
- Predatory lending
- High-risk products
 - Low & no down-payment
 - Adjustable rates
- Improper lending process
 - Fraud
 - Failure to document resources





Foreclosure Levels Between 2006 & 2009

Properties Filed for Foreclosure





Owning a Home – a Safe Investment?

- Even in the midst of the housing crisis, home equity has remained a major part of the balance sheet.
- But, many are now skeptical about homeownership as a safe investment.
- This study examines wealth trajectories of distinct segments of homeowners during 2007-2009.





Present Study –Method & Analysis

- Survey of Consumer Finances (SCF)
- 2007– 2009 panel
- Wealth (net worth) loss or gain
- Trajectories examined by homeowner segment
 - “Typical homeowners” (25th – 75th percentile)
 - Racial/ethnic category
 - 2007 wealth category
 - Renters vs. owners comparison



Characteristics of SCF data

- 90% response rate
- Potential follow-up response bias
 - Those with better trajectories might be more likely to respond.
- Missing values imputed
 - 5 complete-information implicates
- 2009 data not representative of 2009 population

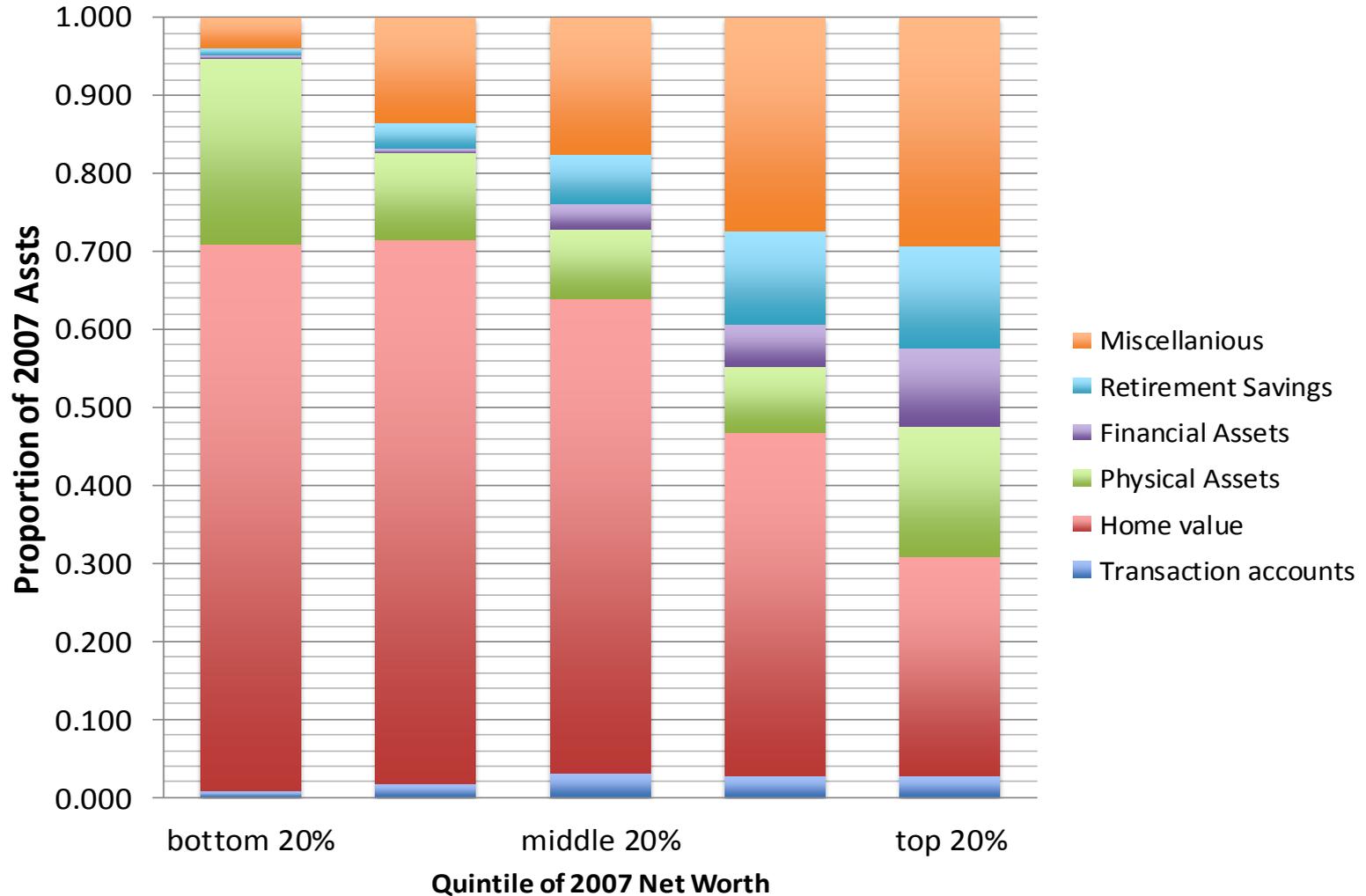


Measuring Wealth in the SCF

Assets		Debts	
Liquid	Checking Savings	Credit	Credit cards Other consumer debt
Housing	House value	Housing	Mortgage(s)
Physical	Other property Business Cars Other vehicles	Other physical	Debt to business Car(s) Other vehicles
Financial	Mutual funds CDs Savings bonds Other bonds Stocks Brokerage accts. Annuities	Education	Student debt
Retirement	IRA 401(k) Pension	Misc.	Other lines of credit Margin loans Other
Misc.	Life insurance Personal debt owed Business debt owed Other (Cash, valuables)		



Asset-Holding Patterns by Wealth





Typical Household Balance Sheets

In 2007

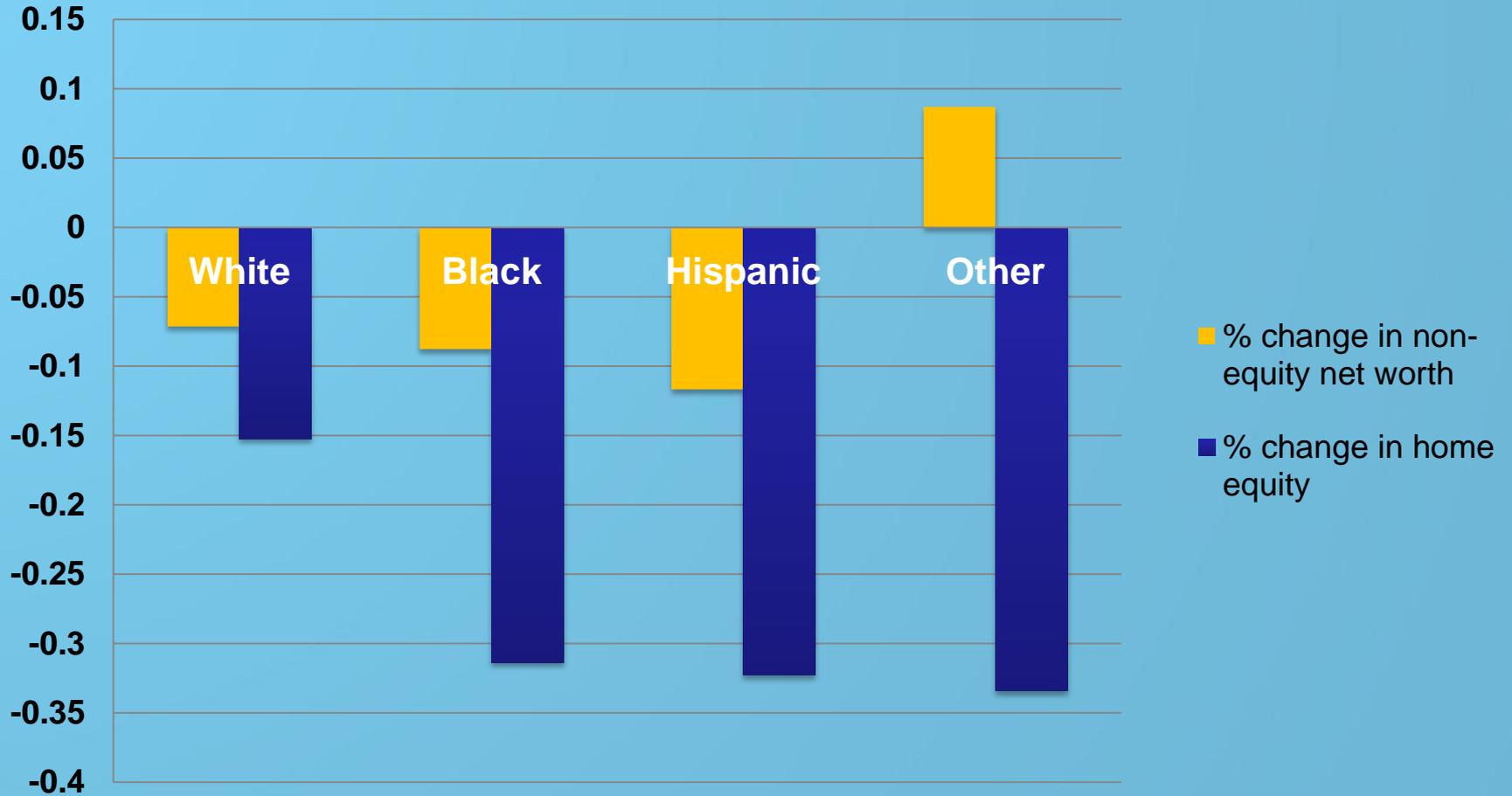
- Assets and debts heavily concentrated in owned home
- Few financial or retirement assets
- Low levels of liquid assets

From 2007 to 2009

- Big decline in house value
- Big decline in value of financial and retirement assets
- Little change in debt levels

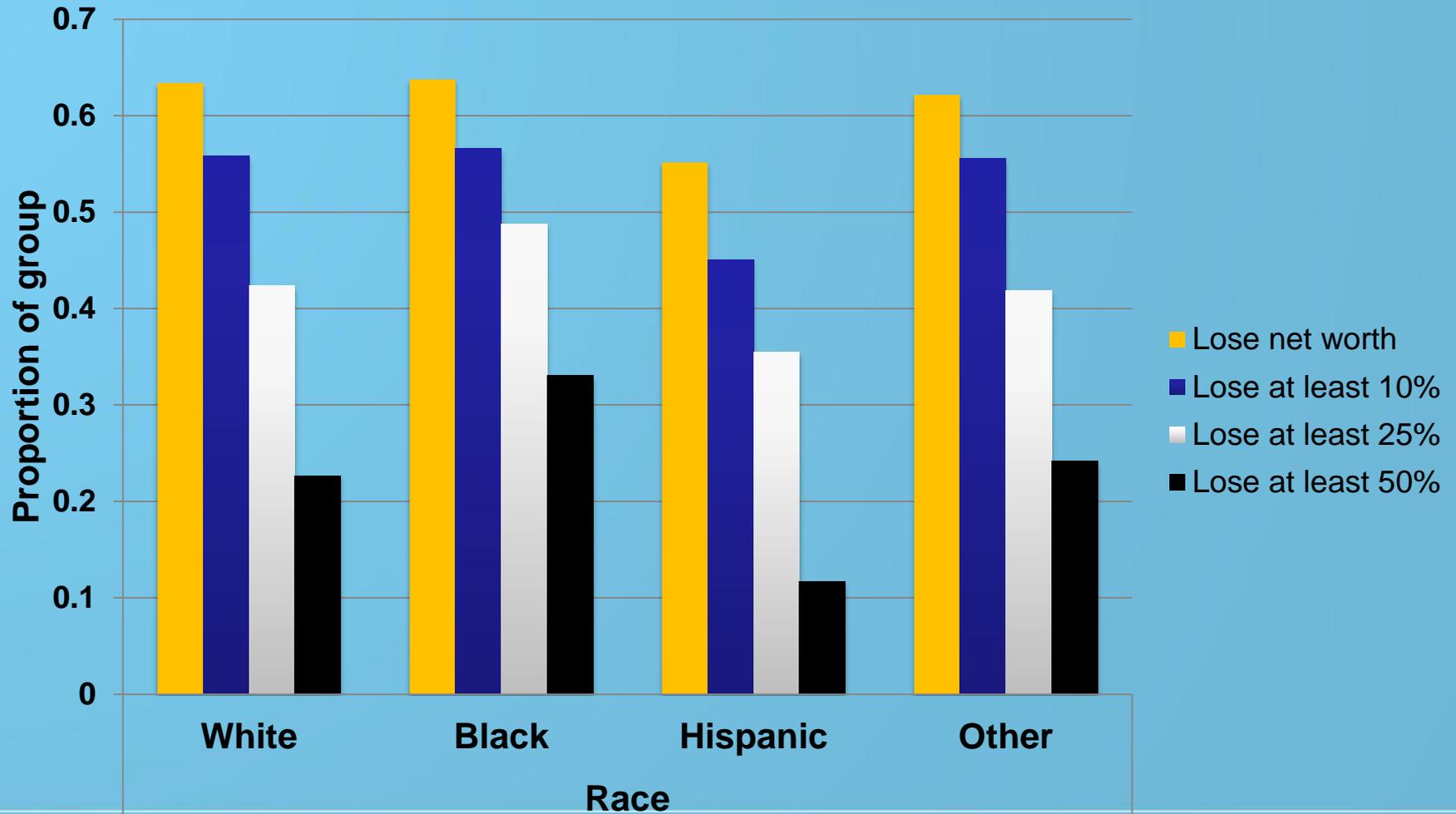


Percent Change from 2007-9, by Race





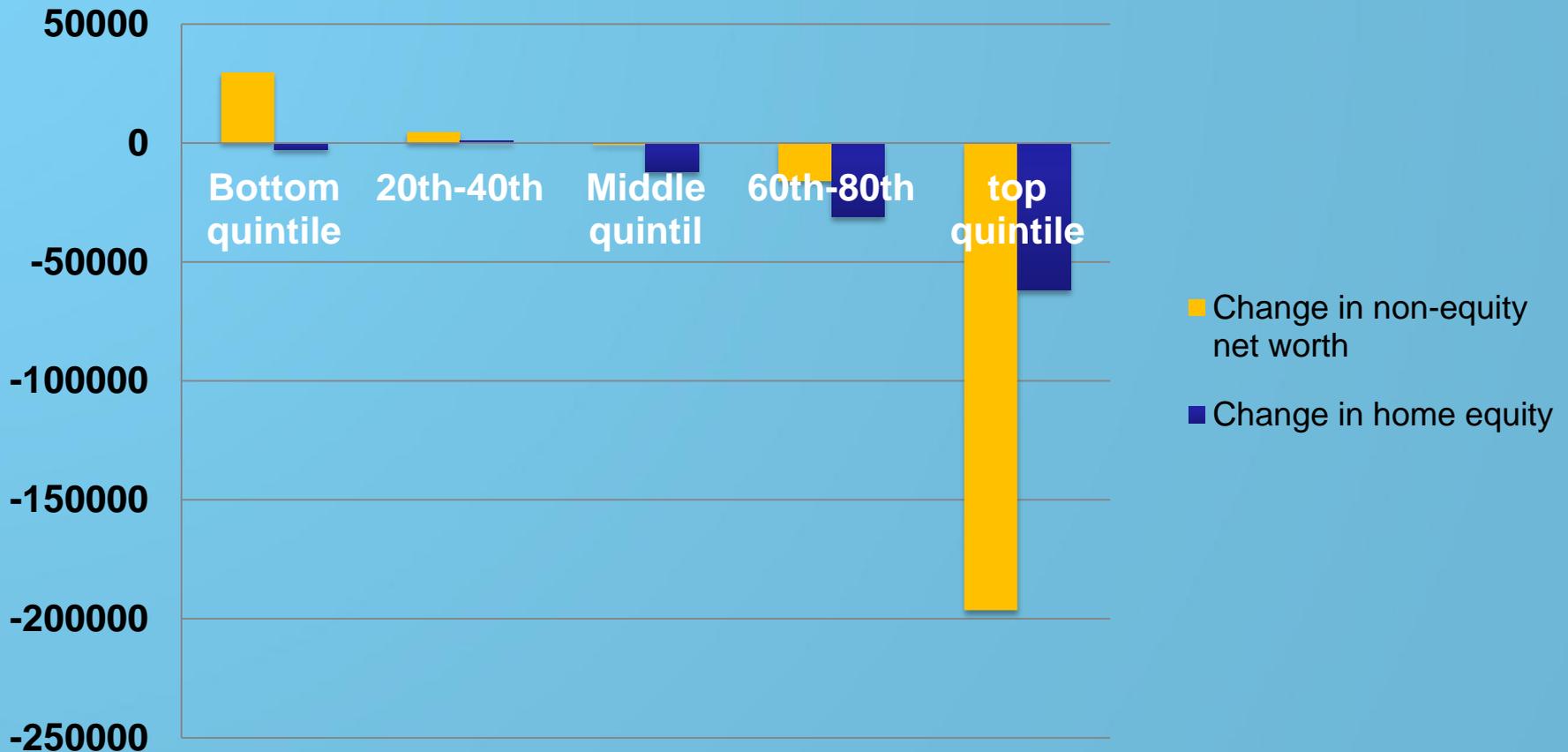
Proportion Losing Net Worth, by Race





Change in Net Worth 2007-2009, in U.S. Dollars

2007 to 2009 Change by 2007 Networth





Percentage Change in Net Worth 2007-2009

Percent change by 2007 net worth





Wealth Mobility 2007-2009

- About 75% of households remained in same quintile
- Less than 2% moved more than one quintile
- Overall, despite churn of the Great Recession, relative wealth was stable



Owners vs. Renters Comparison

	Owners	Renters
Median 2007 wealth	\$382,890	\$15,560
Median wealth change 2007 to 2009 (nominal)	-\$33,780	\$0
Median wealth change 2007 to 2009 (percentage)	-11.3%	-3.0%
Percentage who lost net worth	60.4%	49.0%
Percentage who lost at least 10%	51.2%	45.2%
Percentage who lost at least 25%	36.2%	40.3%
Percentage who lost at least 50%	17.3%	32.9%



Discussion

- Heterogeneity in balance sheet composition and trajectory
- Home equity dominates the balance sheet *before, during, and after* the recession
- Households with more exposure suffer bigger losses
- Loss in housing value may have different implications from loss of financial assets



Discussion

- Effects of the Great Recession not experienced equally across homeowner segments
 - Race/ethnicity
 - Net Worth
- Some change, little mobility



Policy Implications

- Housing finance and mortgage products matter
- Consumer protections matter
- Support may benefit historically disadvantaged populations in particular
- Diversifying household's balance sheets might reduce exposure to loss



Questions?

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