CENTRAL TO AMERICA'S ECONOMY

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Freedom of Riding:
Transit's Ability to Increase Equity in All Sectors of Our Community
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Remarks of Ray Boshara
Federal Reserve Bank of St. Louis[1]
www.stlouisfed.org/hfs

My brief remarks will focus on the impact of lack of access to transit on family net worth. I direct the Center for Household Financial Stability (HFS) at the St. Louis Fed, which is researching family balance sheets—what a family saves, owns, and owes. I would like to make three points:

1. ***The most financially fragile families have the greatest need, but least access, to transit.***

- HFS research shows that younger, less-educated, and non-white families lost the most wealth from the Great Recession, have yet to fully recover it, and remain the most economically fragile going forward. These are, I'm sure, the very families most in need of transit but most likely not to have it.
- Part of our Center's agenda is to help these struggling families save, build wealth and pay down bad debts with the hope that, *inter alia*, they have better transportation options—ideally the ability to afford to live closer to public transit but also, if necessary, the ability to purchase and maintain a reliable car with good or no financing.

2. ***Reliance on a car can build or, increasingly, deplete family wealth.***

- The very families that need transit who must instead rely on an automobile are increasingly at risk of further losing their wealth.
- One of the big lessons from the 2008 financial crisis and now the student loan crisis is that you cannot pursue an asset—a home or an education—without also considering the quality and extent of debt you need to secure that asset. This is true for automobiles as well.

	Appreciating Assets	**Depreciating Assets**
Wealth-Building Debt	• Home, college education • Effect on net worth: positive	• Automobile • Effect on net worth: ???
Wealth-Depleting Debt	• Home, college education • Effect on net worth: ???	• Automobile • Effect on net worth: negative

[1] These are my own views, and not necessarily the views of the St. Louis Fed or the Board of Governors of the Federal Reserve System.

- Please see the chart above. As we try to build family net worth, we must consider whether assets are appreciating or depreciating, and whether debt is wealth-building or wealth-depleting. As the chart above shows, the effect of automobiles on family net worth is unclear.
- More specifically, from a net worth or balance sheet perspective, automobiles are problematic in three ways:
    1. *While automobiles can be wealth building (because they provide access to jobs, schools, better neighborhoods, etc.), they always depreciate.*
    2. *The high cost of financing a car.* According to the Center for Responsible Lending[2], total auto loan debt is second only to mortgage loan debt, and there are more auto loans than mortgages in the United States. CRL also reports that over 79% of auto loan volume is made through third-party indirect lenders that partner with dealerships, and that consumers who finance their cars through dealerships pay about 2.5% more interest; this adds up to $25.8 billion in additional hidden interest over the lives of their loans.
    3. *The increasing use of expensive, wealth-depleting car-title loans to help a growing number of families cover a financial emergency.* According to a recent Fed survey[3], when U.S. families are confronted with a $400 unexpected expense, nearly half (47%) would have to sell something, borrow, or simply not pay at all. More and more these economically fragile families are thus turning to car-title lenders to cover such emergency expenses. According to CRL, car-title loans generate nearly $2 billion in loans annually, with borrowers paying more than $4 billion in fees—twice the amount loaned. Moreover, CRL reports that 55% of car-title loans borrowers have taken out a pay-day loan as well, further depleting their wealth.

3. ***The costs of car ownership displace opportunities to invest in appreciating assets.***

- The Center for Neighborhood Technology (CNT)[4] found that, when looking for a place to live, considering housing and transportation costs *together* changes the picture of affordability significantly. In one of many studies CNT was involved in, the transportation costs savings from locating near transit outweighed the higher housing cost of living near transit, thus freeing up money to invest in appreciating assets, like an education or a home.
- CNT also reports that "proximity to high-capacity transit stops has been shown to increase property values, a phenomenon known as the 'transit premium.'"
- Moreover, transit areas appear to be more recession proof: CNT reports that, while there was a substantial decline in average residential sales prices in regions studied between 2006 and 2011, the decline in average residential sales prices within the transit shed was nearly 42 percent lower than in the region as a whole or the non-transit area. For struggling families—for whom their home is their major asset—retaining this level of equity would be significant in their efforts to protect and build family wealth.

[2] See http://www.responsiblelending.org/
[3] See http://www.federalreserve.gov/communitydev/shed.htm
[4] See http://www.cnt.org/