



National Council of La Raza Roundtable

Why Did Latino Families Lose So Much Wealth?

July 13, 2015

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Center for Household Financial Stability

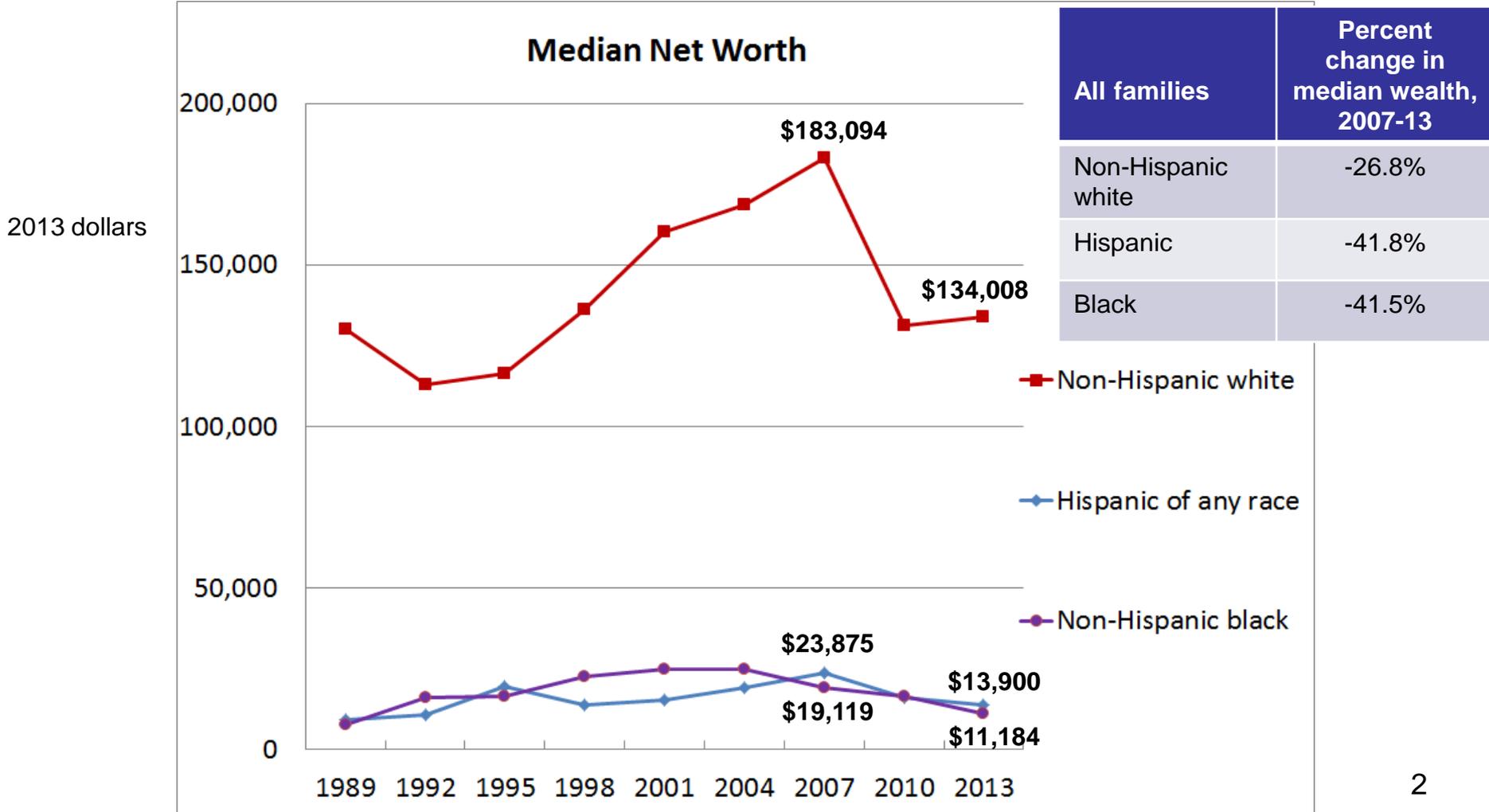
Federal Reserve Bank of St. Louis

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**These comments do not necessarily represent the views of the
Federal Reserve Bank of St. Louis or the Federal Reserve System.**

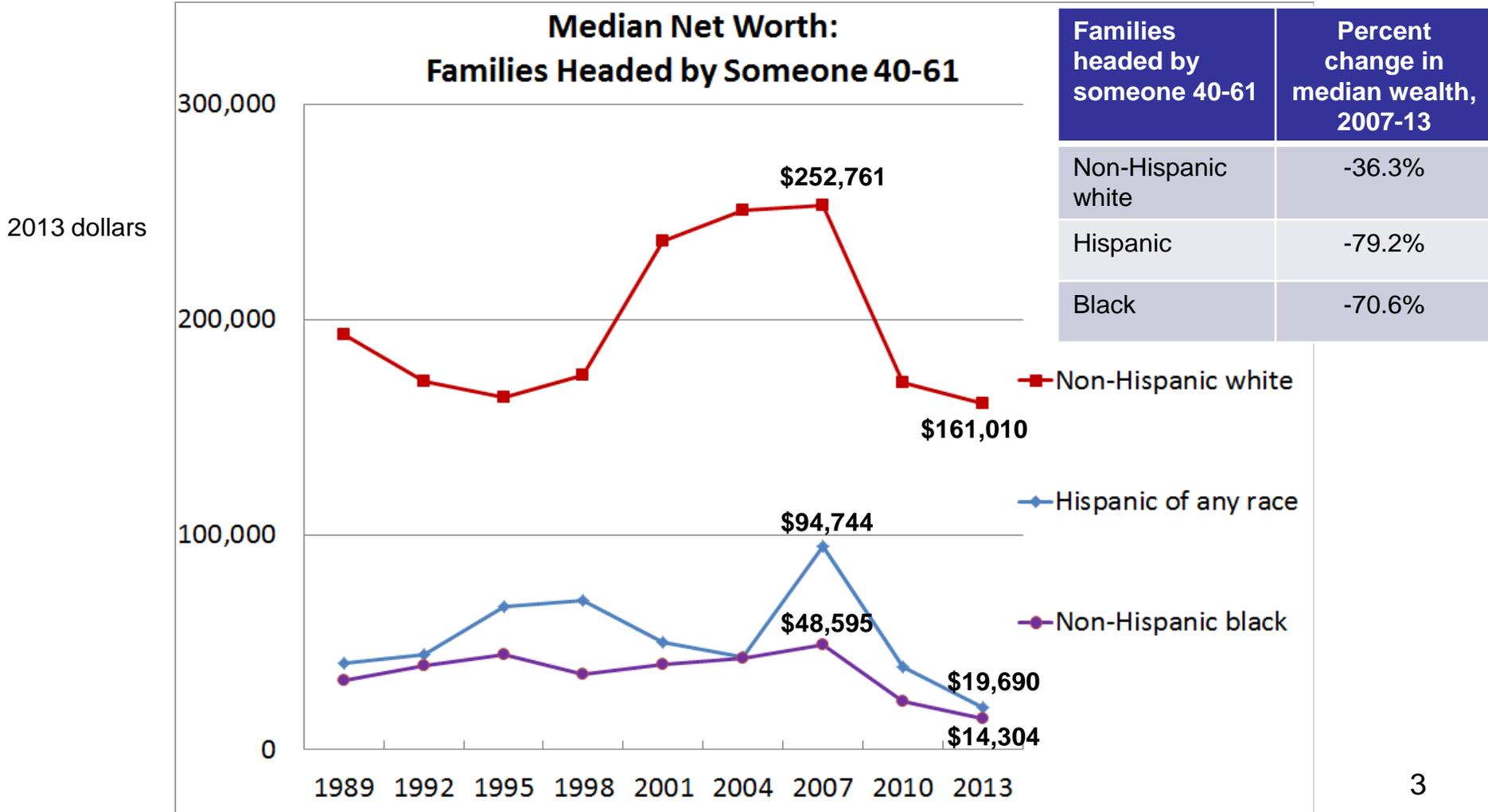


Hispanic and Black Families Suffered Large Wealth Losses During 2007-13





Middle-Aged Hispanic and Black Families Were Hit Even Harder





Education Did Not Protect Black and Hispanic Families

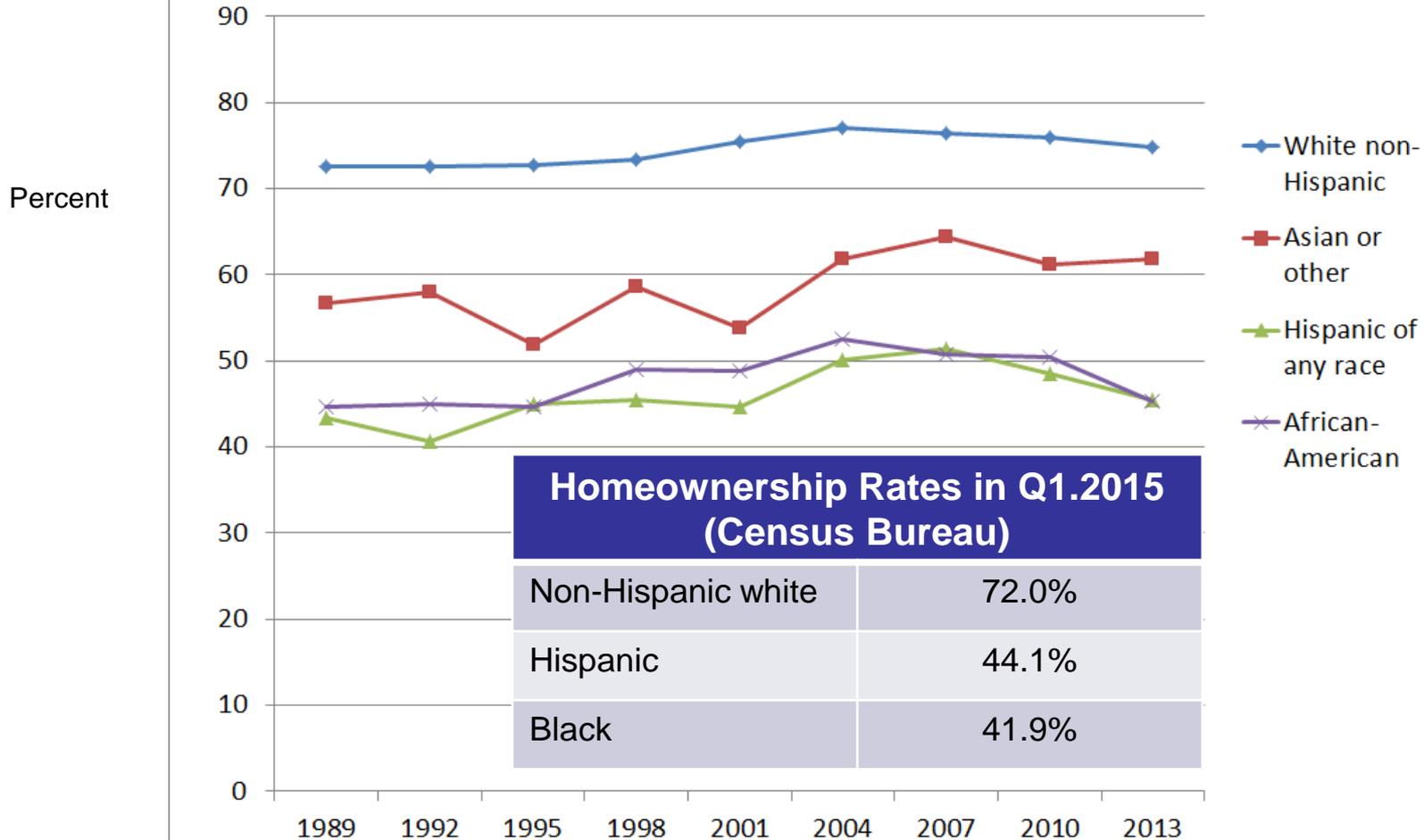
Median Net Worth of Middle-Aged Families (40-61) by Race, Ethnicity and Education

Source: Survey of Consumer Finances	Median net worth in 2007 (2013 dollars)	Median net worth in 2013 (2013 dollars)	Percent change, 2007-13
All families	\$201,342	\$106,094	-47.3%
Non-Hispanic whites	252,761	161,010	-36.3
Non-Hispanic blacks	48,595	14,304	-70.6
Hispanics	94,744	19,690	-79.2
Non-Hispanic whites			
Graduate or professional degree	725,326	571,780	-21.2
2- or 4-year college degree	380,201	272,360	-28.4
High-school diploma or GED	163,647	85,420	-47.8
Less than high school	37,163	23,440	-36.9
Non-Hispanic blacks			
Graduate or professional degree	292,780	33,446	-88.6
2- or 4-year college degree	209,545	40,560	-80.6
High-school diploma or GED	41,353	12,918	-68.8
Less than high school	2,291	4,400	92.1
Hispanics			
Graduate or professional degree	1,151,764	597,640	-48.1
2- or 4-year college degree	323,759	44,700	-86.2
High-school diploma or GED	71,686	24,920	-65.2
Less than high school	22,522	2,412	-89.2



A Clue: Homeownership Rates Declined Most Among Hispanic and Black Families

Homeownership Rates by Race or Ethnicity of Family Head





Why Did Latino Families Lose So Much Wealth?

- **Our approach: The demographics of wealth**
 - When you were born.
 - How much education you have.
 - Your race or ethnicity.
- **From demographics to wealth**
 - Financial health.
 - Balance-sheet choices.
 - Idiosyncratic effects.
- **The roles of homeownership and debt in Hispanic and black families' balance sheets**
 - High asset concentrations in housing and durable goods.
 - High debt-to-asset ratios.
 - The housing bubble and bust were disastrous for many.



Wealth

- **How we define wealth**

- **Wealth = Net Worth**

- **Net Worth = Assets – Liabilities**

- **Assets = Tangible assets + Financial assets + Business assets**

- **Liabilities = Mortgage debt + Non-mortgage debt**

- **We adjust all wealth figures for inflation to make them comparable to 2013.**

- **Data: Federal Reserve's Survey of Consumer Finances.**



Defining Demographics

- **Demographics**

- **Demos = people**

- **Graphic = written or recorded**

- **Demographics = the science of vital social statistics**



The Demographics of Wealth

- **What we mean by the “demographics of wealth”**
 - **We measure and analyze how the vital statistics of people, families and groups of people affect their financial choices and outcomes.**
 - **The vital statistics we study that affect your income, financial decisions and wealth accumulation include:**
 - **Your year of birth and your current age.**
 - **Your level of education.**
 - **Your race or ethnicity.**



1) Your Demographic Endowments

- **When you were born**
 - **Your generation (Greatest, Silent, Baby Boom, Gen X, Gen Y)**
 - **Your age when we observe you in the data**
- **Your highest level of education**
 - **Less than a high-school diploma**
 - **A high-school diploma, GED or vocational training**
 - **A two- or four-year college degree**
 - **A post-graduate or professional degree**
- **Your race or ethnicity**
 - **Non-Hispanic white**
 - **Non-Hispanic black**
 - **Non-Hispanic Asian**
 - **Hispanic of any race**



2) Assessing Financial Capability: Your “Financial-Health Score”

- **Did you save any money last year?**
- **Did you miss any payments on any obligation last year?**
- **Did you have a balance on your credit card after the last payment was due?**
- **Including all of your assets, was more than 10 percent of the value in the form of safe and highly liquid assets?**
- **Is your total monthly debt service less than 40 percent of your monthly after-tax income?**

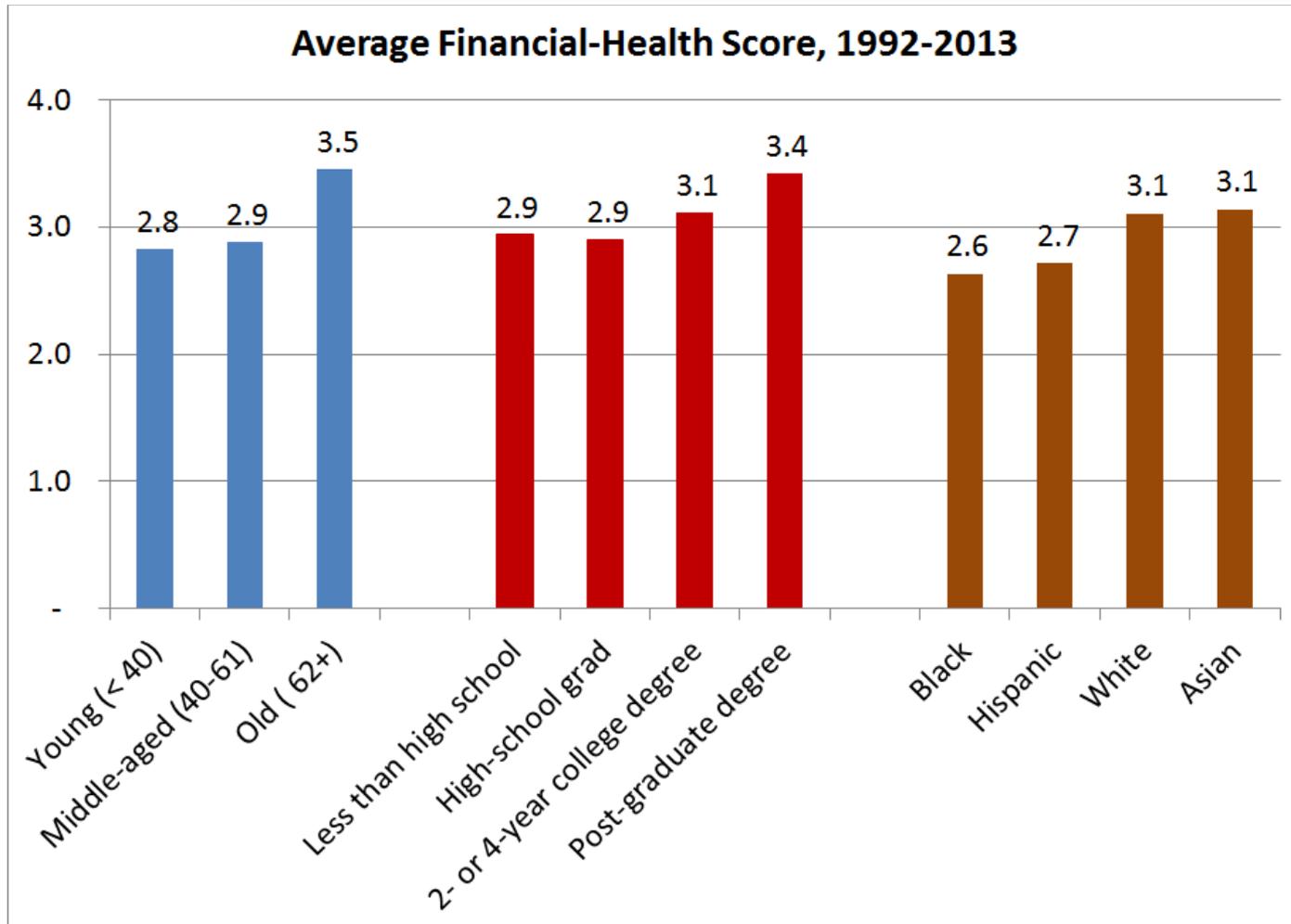


2) *Assessing Financial Capability: Your “Financial Health Score”*

Questions in the Financial-Capability Index	Scoring	Mean score in 8 SCF waves, 1992-2013
1. Did you save any money last year?	Yes = 1, No = 0	0.56
2. Did you miss any payments on any debt in the last year?	No = 1, Yes = 0	0.84
3. Did you have a balance on your credit card after the last payment was due? (Other screens if no card.)	No = 1, Yes = 0	0.44
4. Including all of your assets, was more than 10% of the value in liquid assets?	Yes = 1, No = 0	0.27
5. Is your total debt service less than 40% of your income?	Yes = 1, No = 0	0.91
Total score	0 to 5 possible	3.01



Financial-Health Scores Along Three Demographic Dimensions



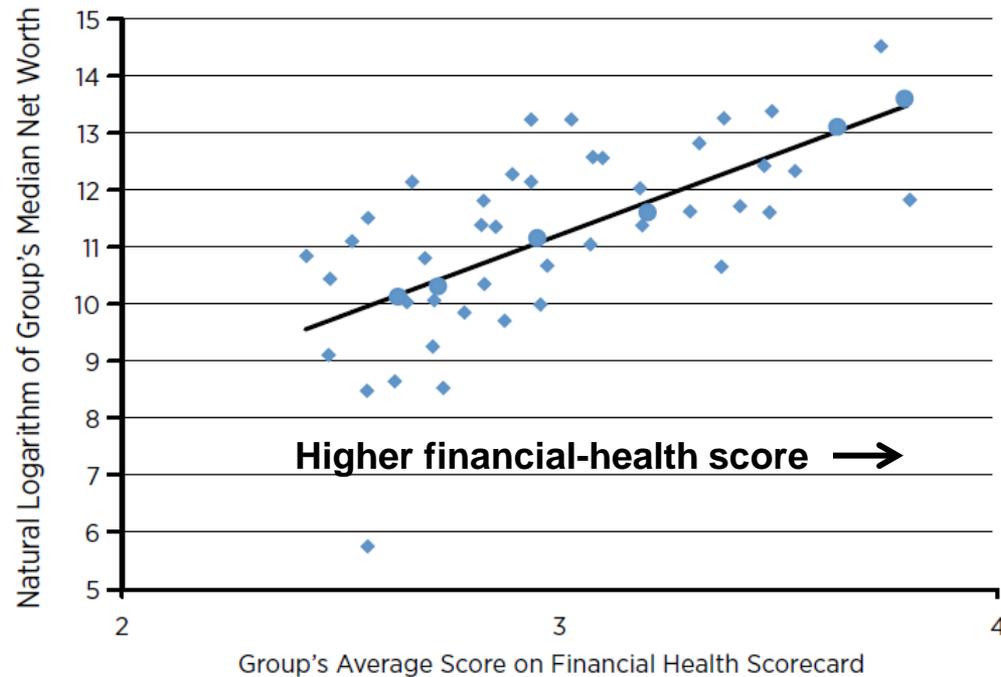


Financial Health Predicts Wealth

Scatterplot of Net Worth vs. Score on Financial Health Scorecard

Each dot represents one of 48 groups of families based on:

- 3 age brackets
- 4 education levels
- 4 racial/ethnic groups



SOURCE: Federal Reserve Board's Survey of Consumer Finances and our calculations. The simple correlation coefficient is 0.67. Enlarged round markers in this chart represent groups highlighted in Table 2.

<https://www.stlouisfed.org/publications/in-the-balance/issue10-2014/five-simple-questions-that-reveal-your-financial-health-and-wealth>



3) Balance-Sheet Choices Translate Financial Capability into Outcomes

- **A person's demographic characteristics predict:**
 - **Everyday financial decision-making: Your financial health.**
 - **Your choice of financial assets and liabilities: Your balance sheet.**

- **Balance-sheet choices shape financial outcomes.**
 - **We define risky balance sheets as having:**
 - **A low level of liquid assets**
 - **High concentration of your assets in a house, cars, other “things”**
 - **High level of debt (leverage)**
 - **Groups of families or individuals most likely to choose risky balance sheets (and have low financial-health scores) are:**
 - **Young**
 - **Less-educated**
 - **Black or Hispanic**



4) *Outcomes: How Are Demographics Related to Wealth Accumulation?*

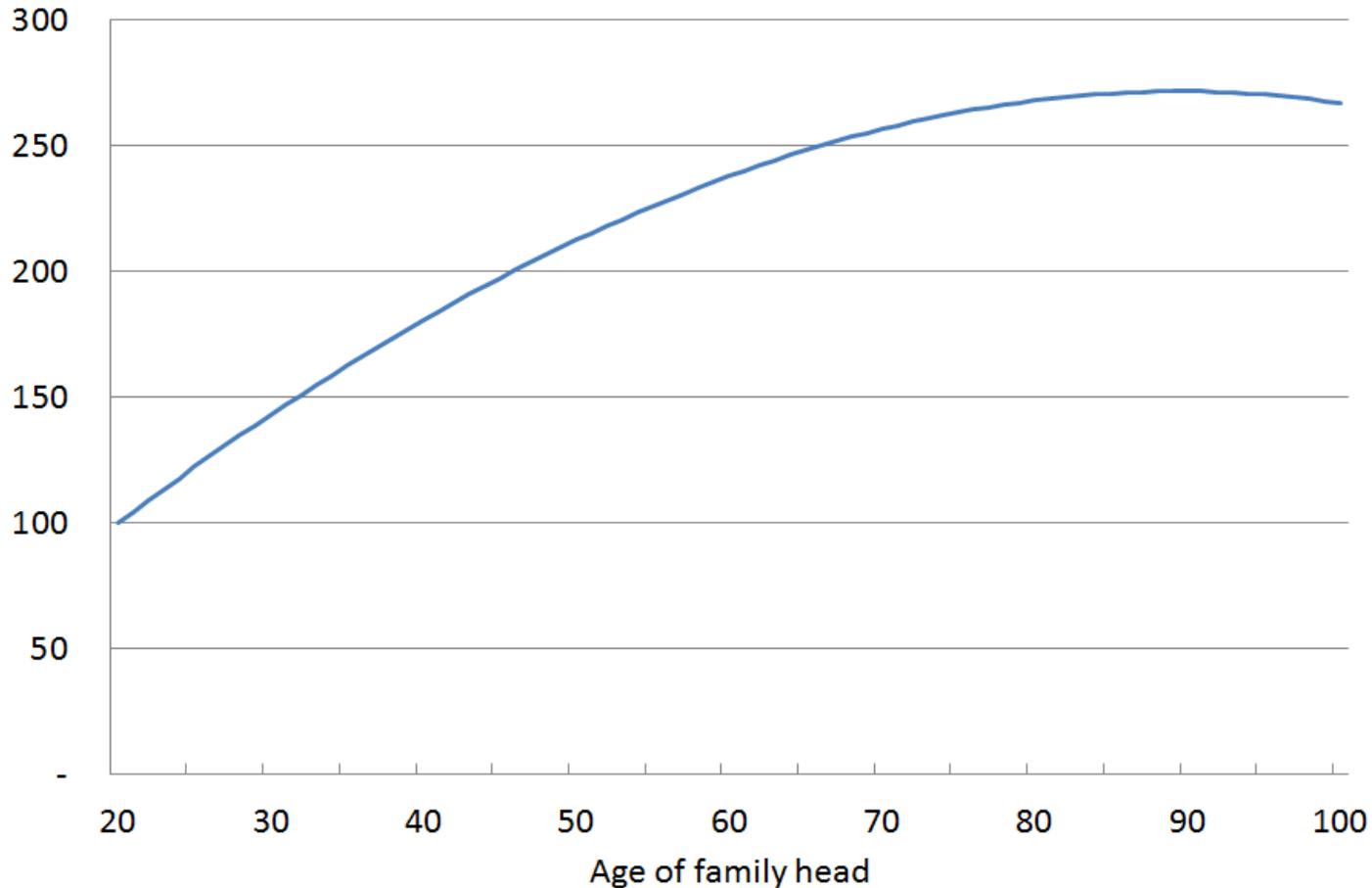
Demographic variable	<u>Average effect <i>ceteris paribus</i>, 1989-2013</u>	<u>Changes between 1989 and 2013</u>
	<i>Evidence: Wealth regression</i>	<i>Evidence: Charts below</i>
<u>Age</u>	W increases at a decreasing rate.	W increased for 62+, decreased for < 62.
<u>Birth year</u>	Increases until about 1940, then decreases until 1970.	Appears to be a robust finding across samples.
<u>Educational attainment</u>	Virtually no wealth accumulation w/out college.	W increased for college grads, decreased o/wise.
<u>Race or ethnicity</u>	White > Asian > Black = Hispanic	B & H increased rapidly until 2004, then crashed; W & A more moderate.



Regression Evidence: Age

Estimated Effect of Age on Standardized Wealth

Wealth at
age 20
equals 100



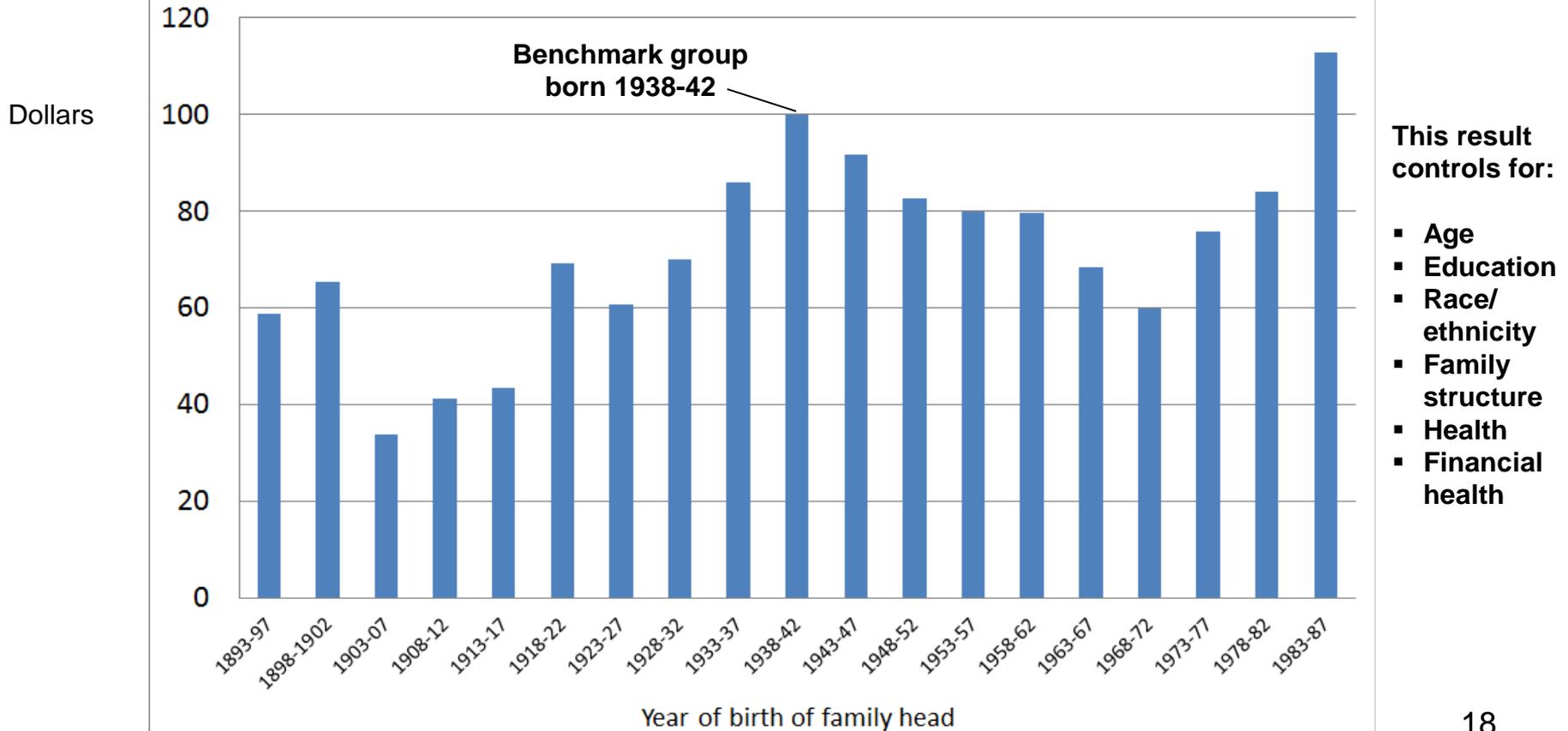
**This result
controls for:**

- Education
- Race/
ethnicity
- Birth year
- Family
structure
- Health
- Financial
health



Regression Evidence: Birth Year

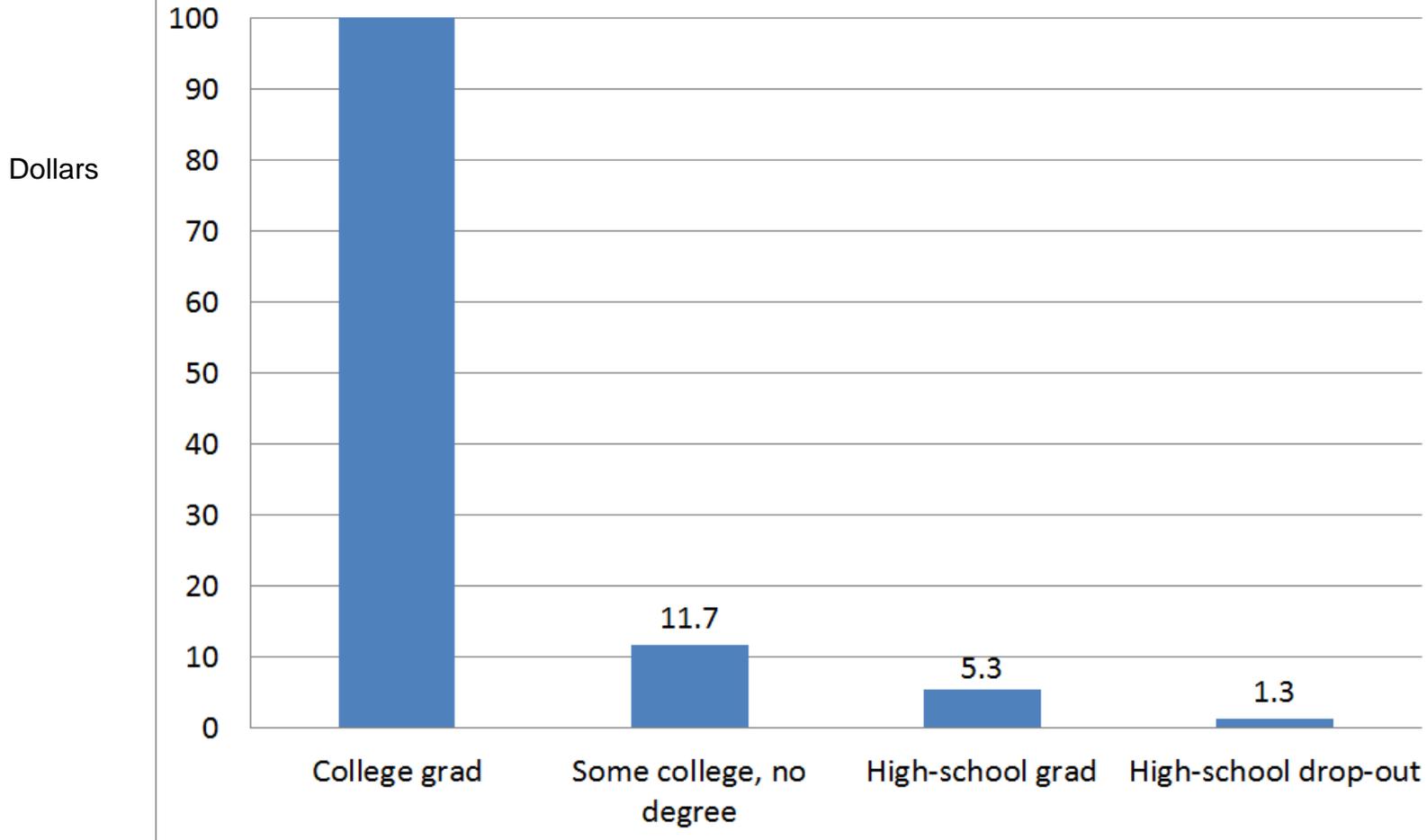
**Wealth per \$100 Owned by A Family Headed By Someone
Born 1938-42**





Regression Evidence: Educational Attainment

Wealth Per \$100 Owned By A College Graduate



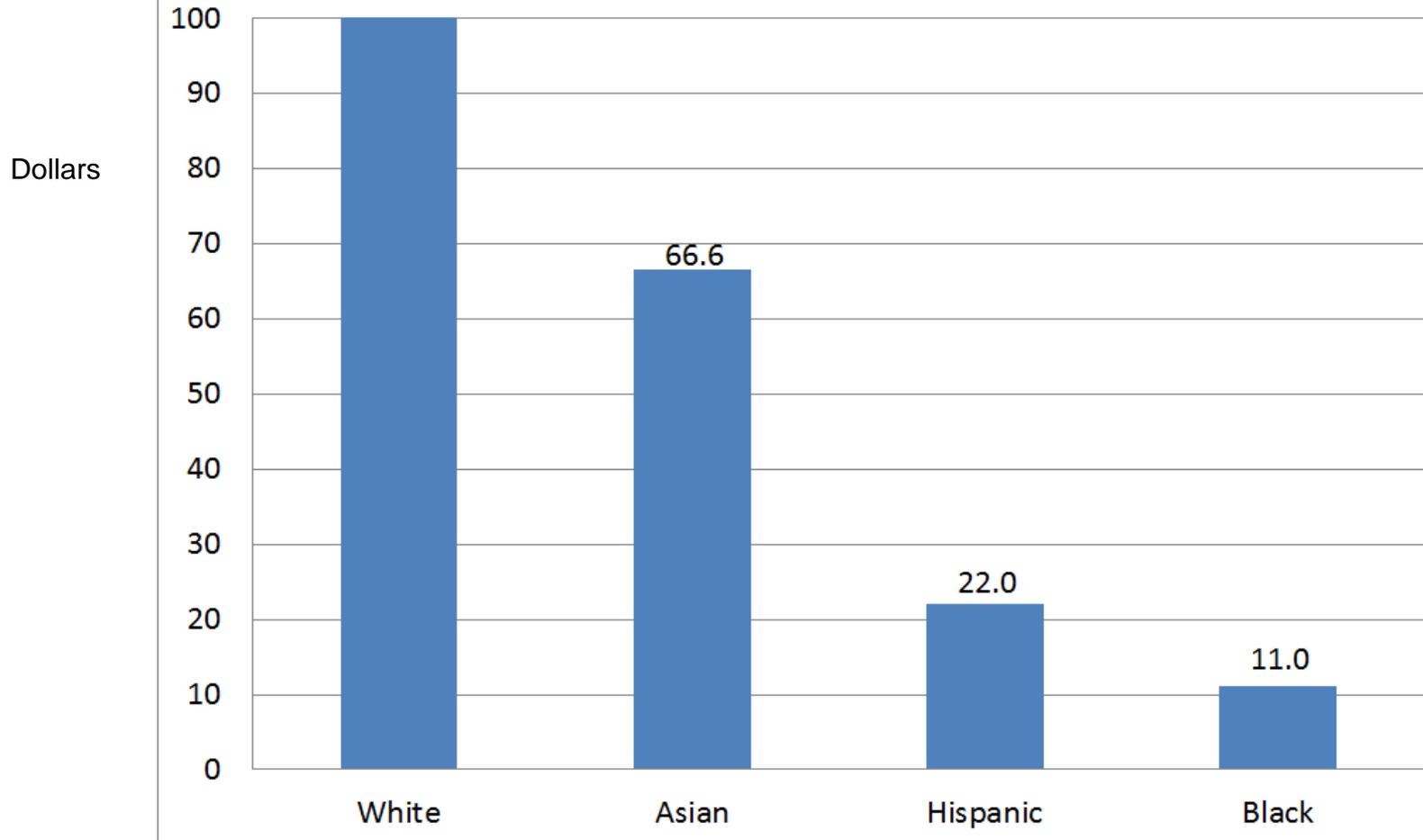
This result controls for:

- Age
- Race/ethnicity
- Birth year
- Family structure
- Health
- Financial health



Regression Evidence: Race and Ethnicity

Wealth Per \$100 Owned By A White Family

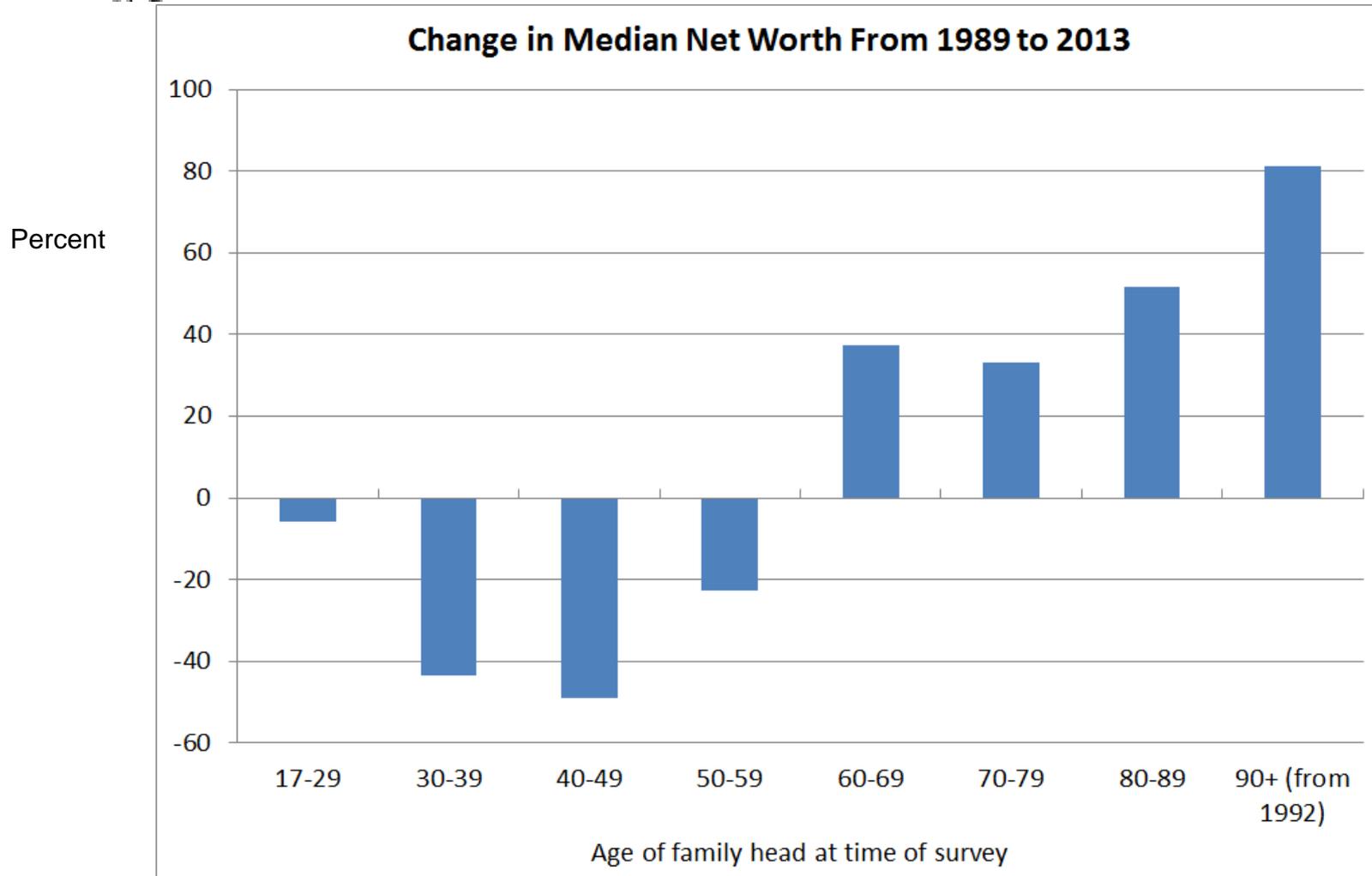


This result controls for:

- Age
- Education
- Birth year
- Family structure
- Health
- Financial health



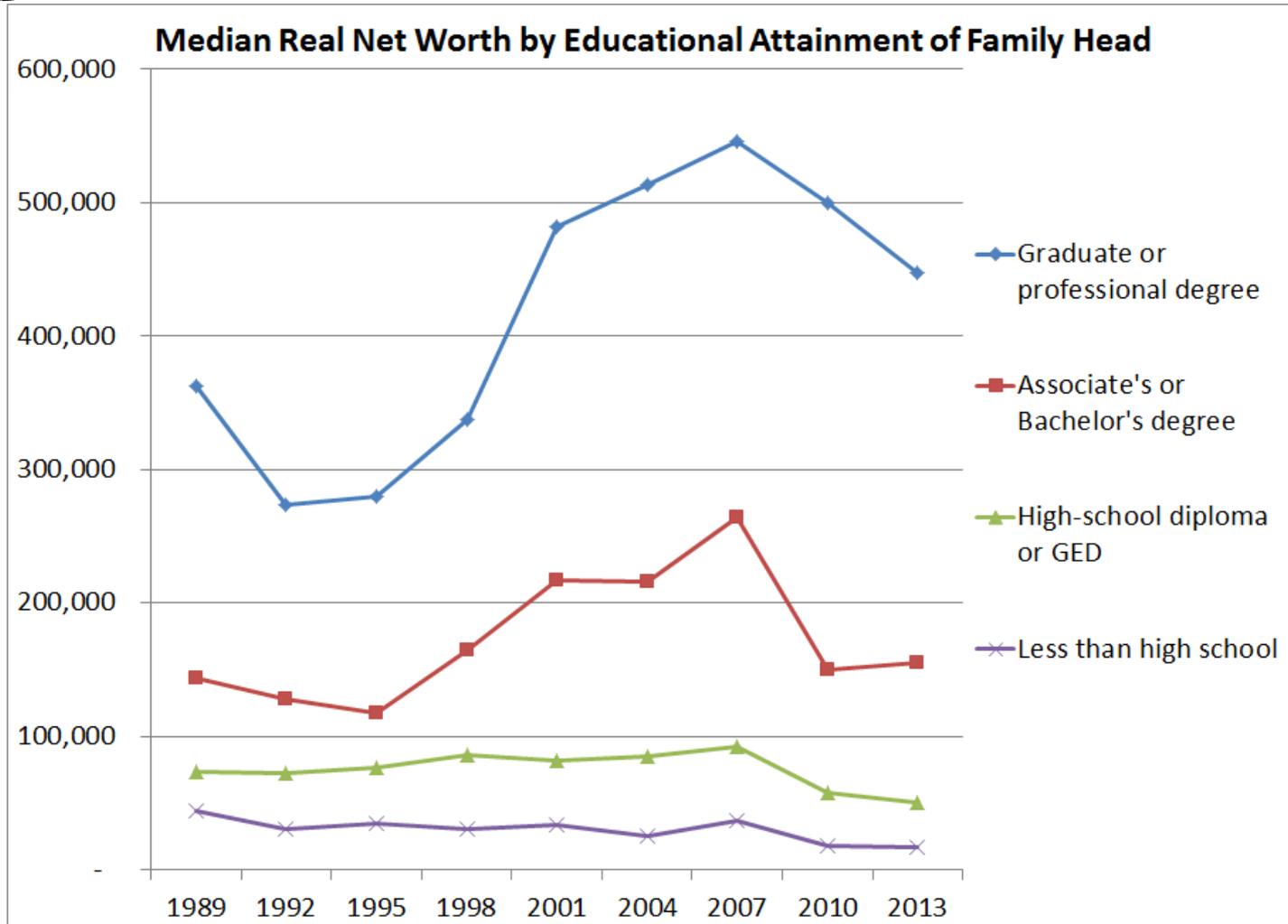
All Age Groups 60+ Are Richer Now; All Age Groups Under 60 Are Poorer



Source: Federal Reserve Board, Survey of Consumer Finances



Changes in Wealth By Educational Attainment



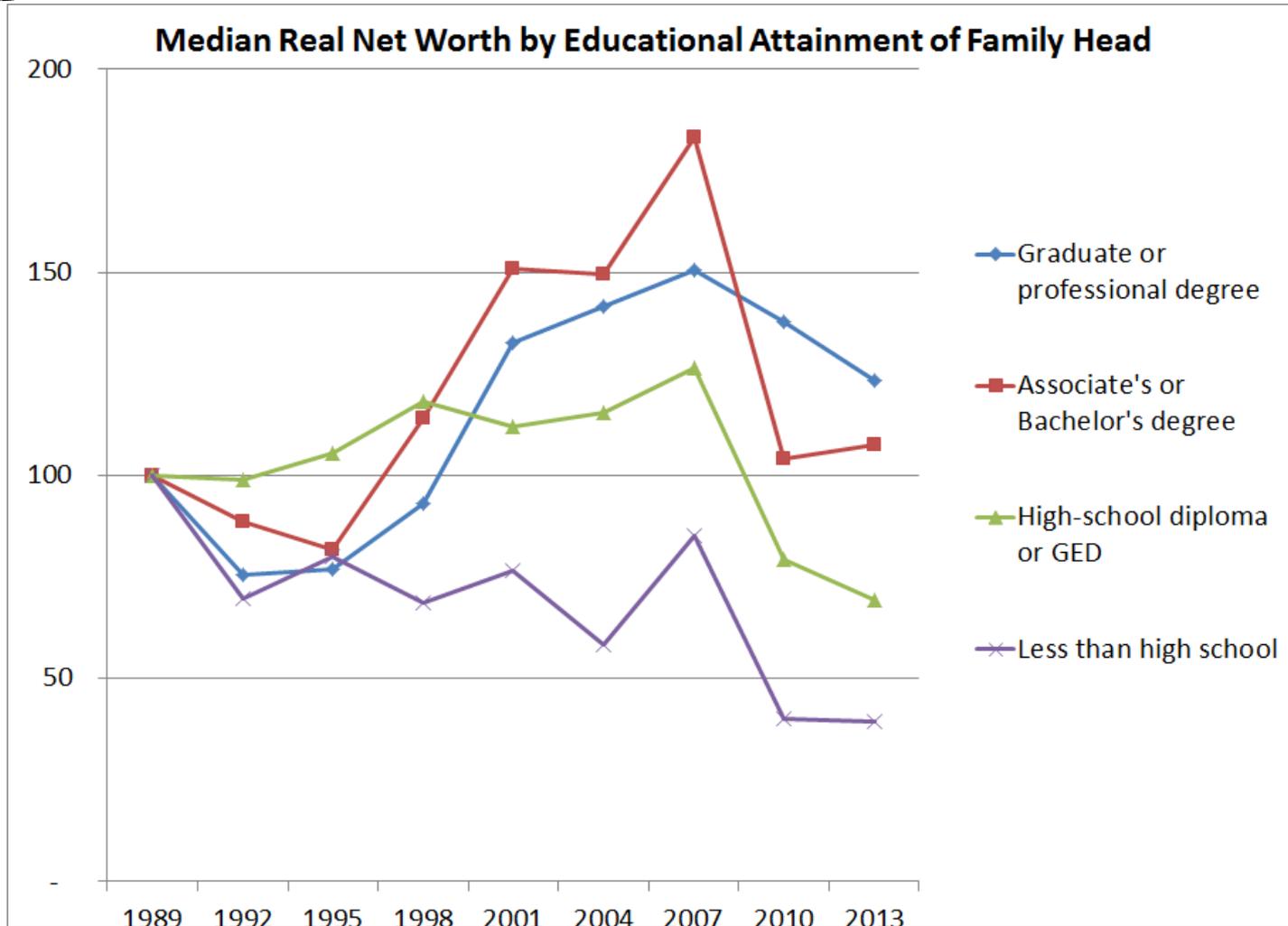
Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

Source: Federal Reserve Board, Survey of Consumer Finances



Only College-Graduate Medians Are Higher Now Than in 1989

Index levels equal 100 in 1989

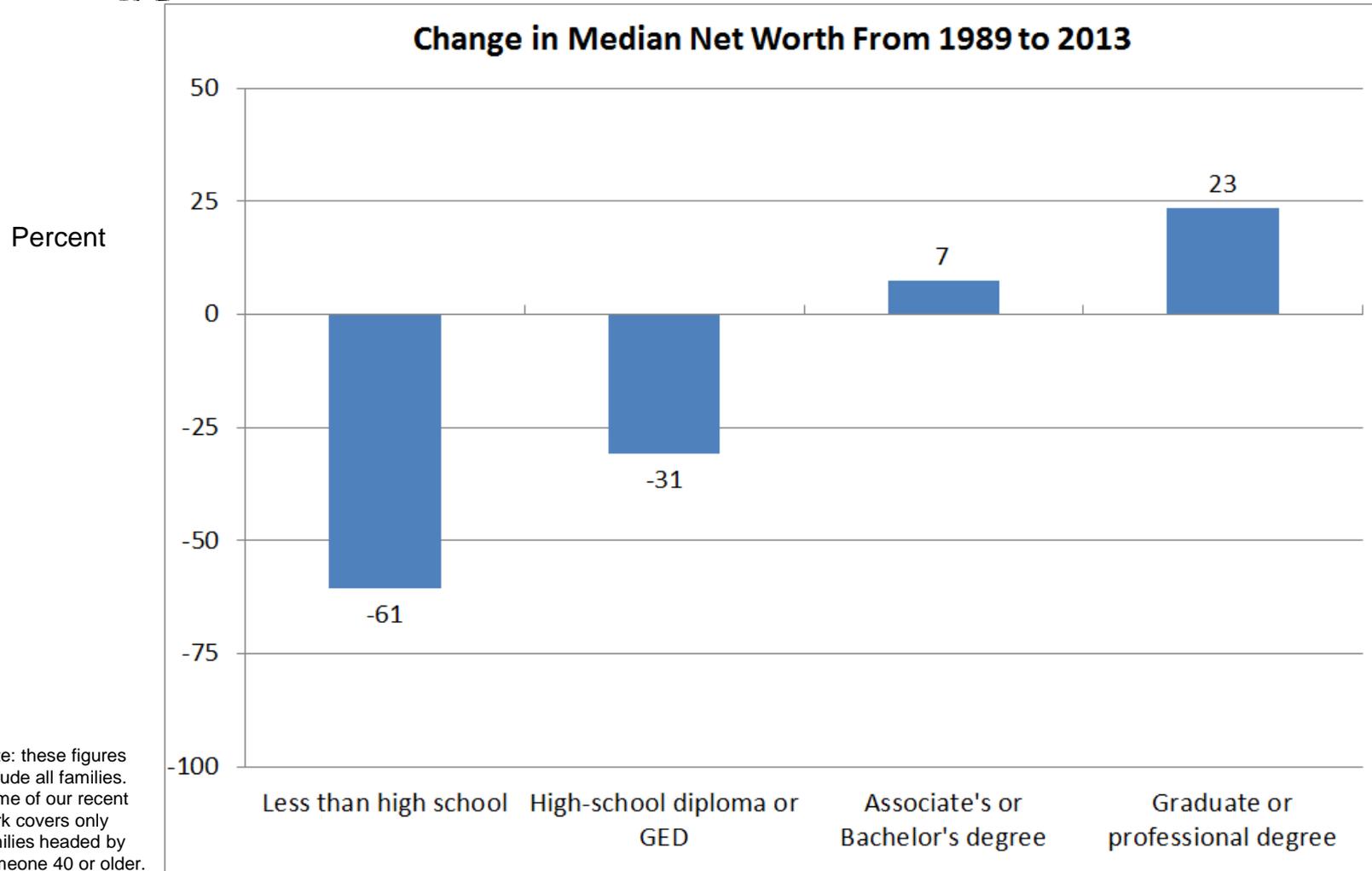


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Source: Federal Reserve Board, Survey of Consumer Finances



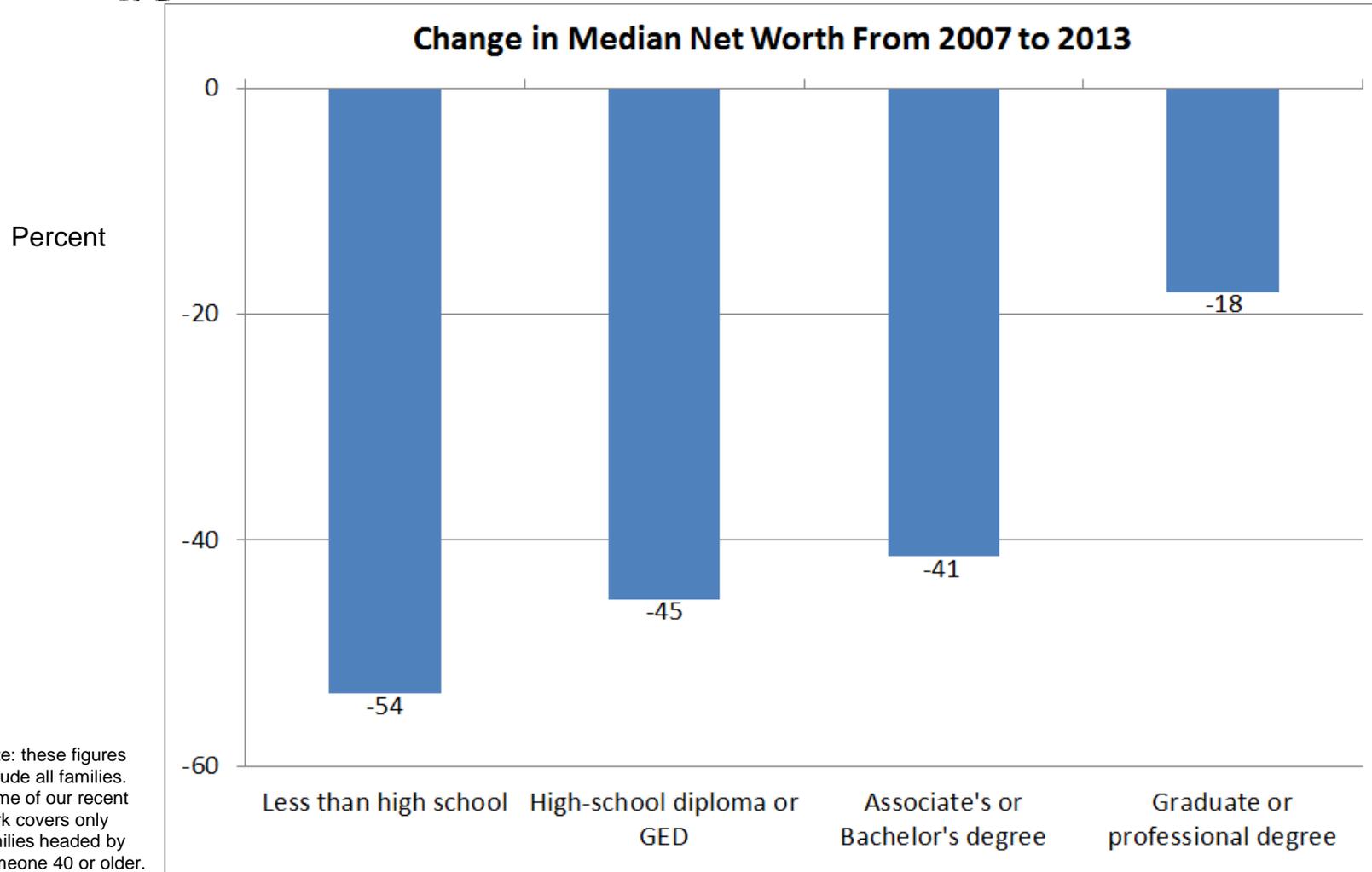
Only College-Graduate Medians Are Higher Now Than in 1989



Source: Federal Reserve Board, Survey of Consumer Finances



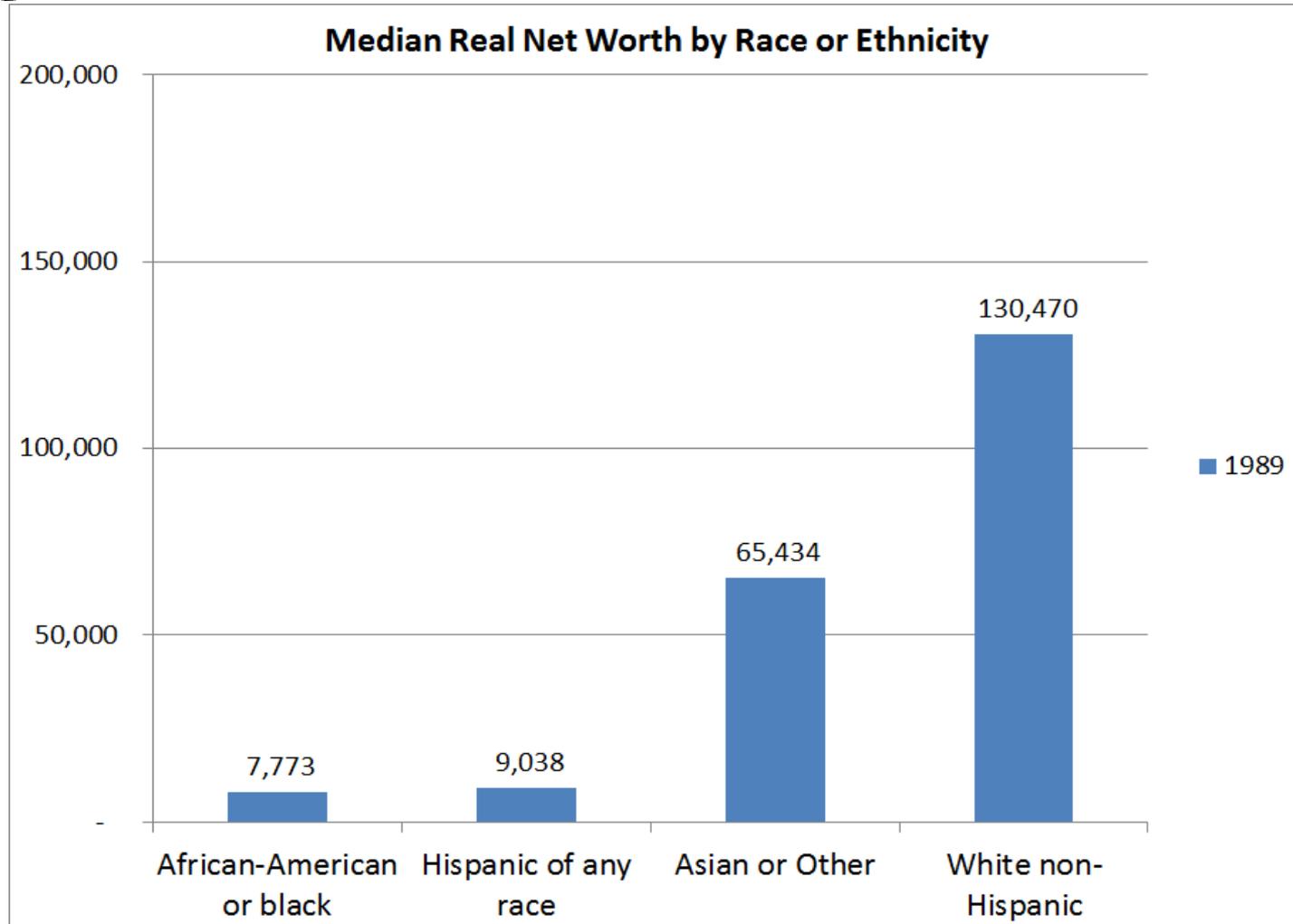
College-Grad Medians Declined Less After 2007



Source: Federal Reserve Board, Survey of Consumer Finances



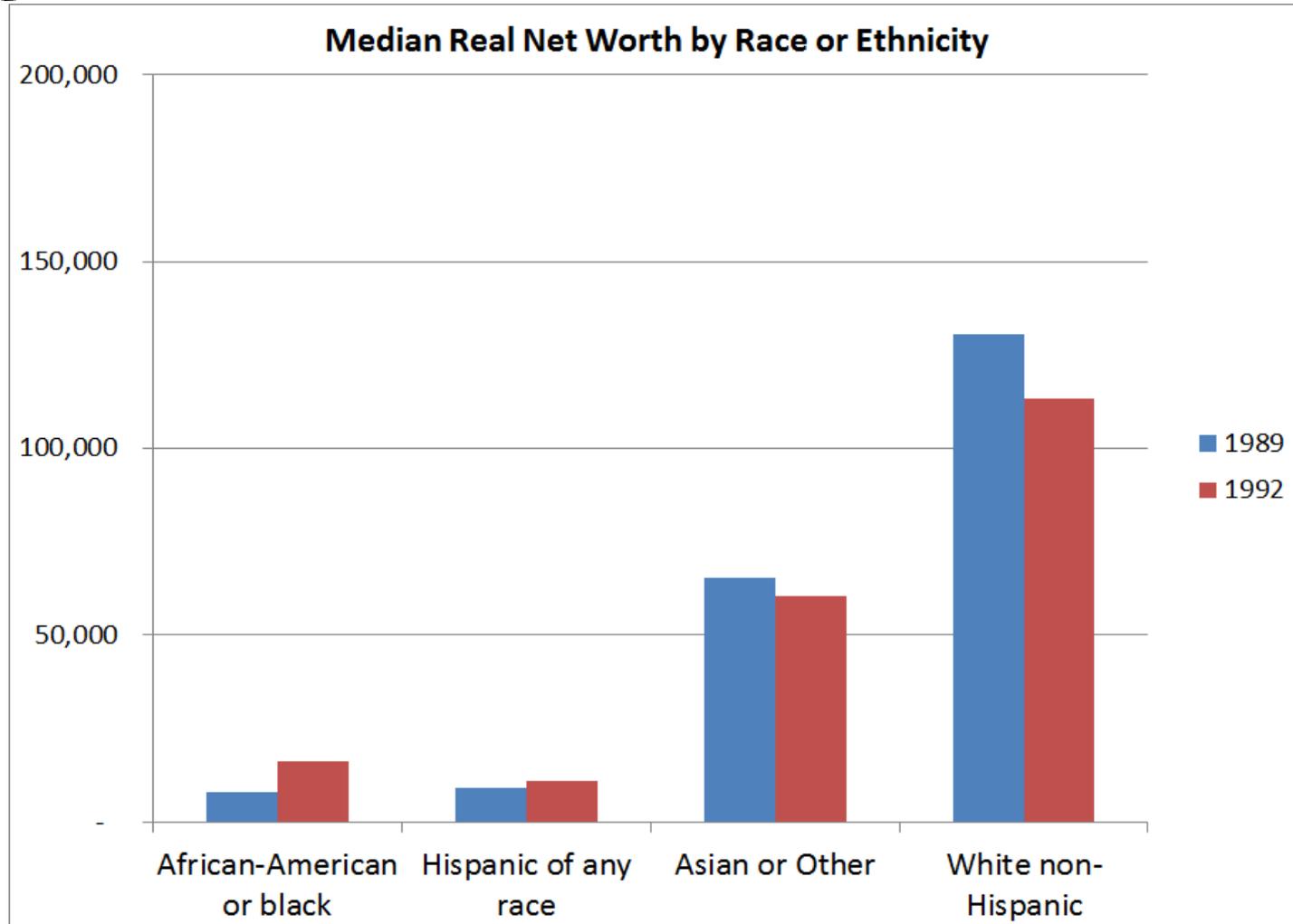
Wealth Gaps by Race or Ethnicity Were Huge in 1989



Source: Federal Reserve Board, Survey of Consumer Finances



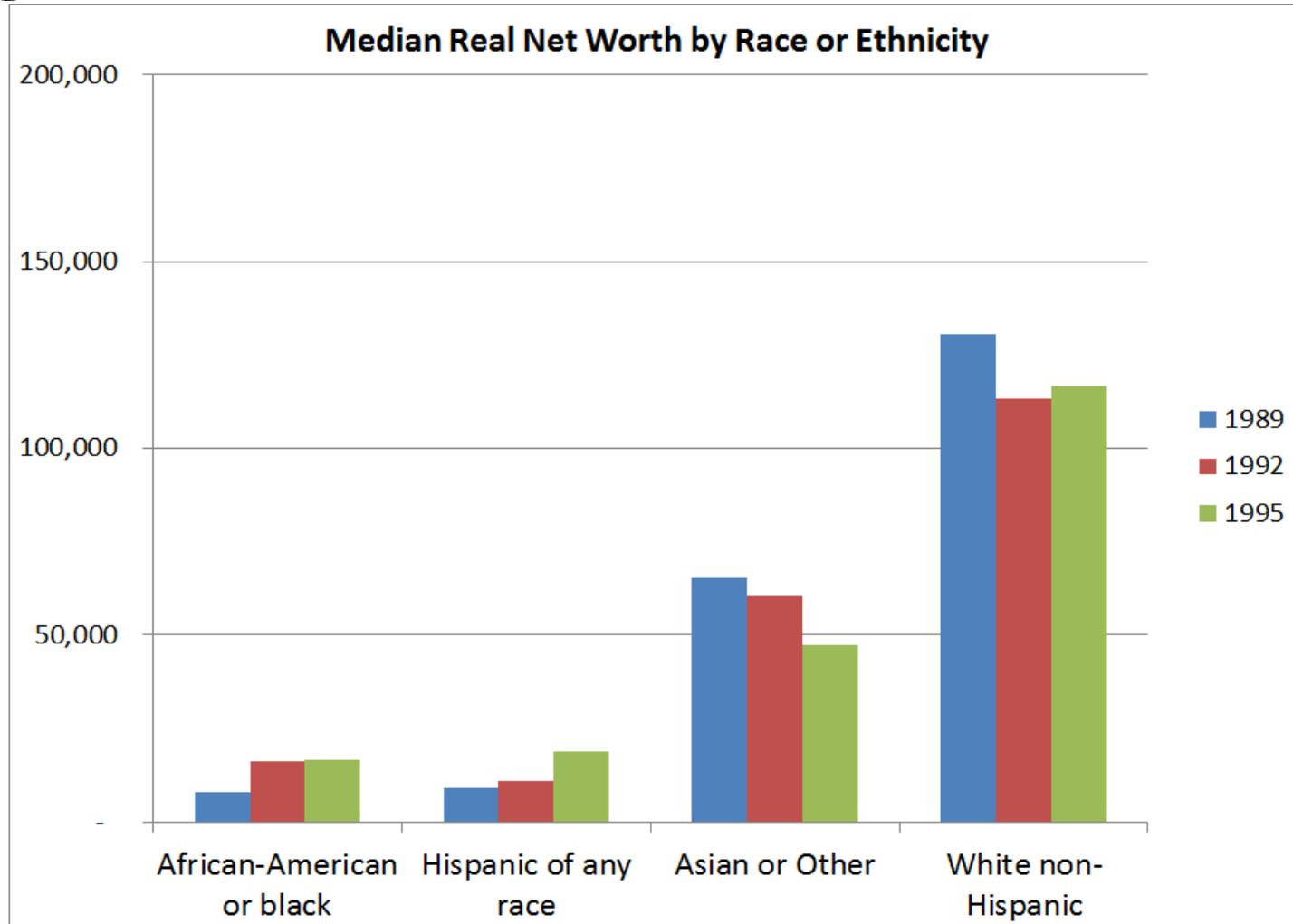
The Changing Distribution of Wealth By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



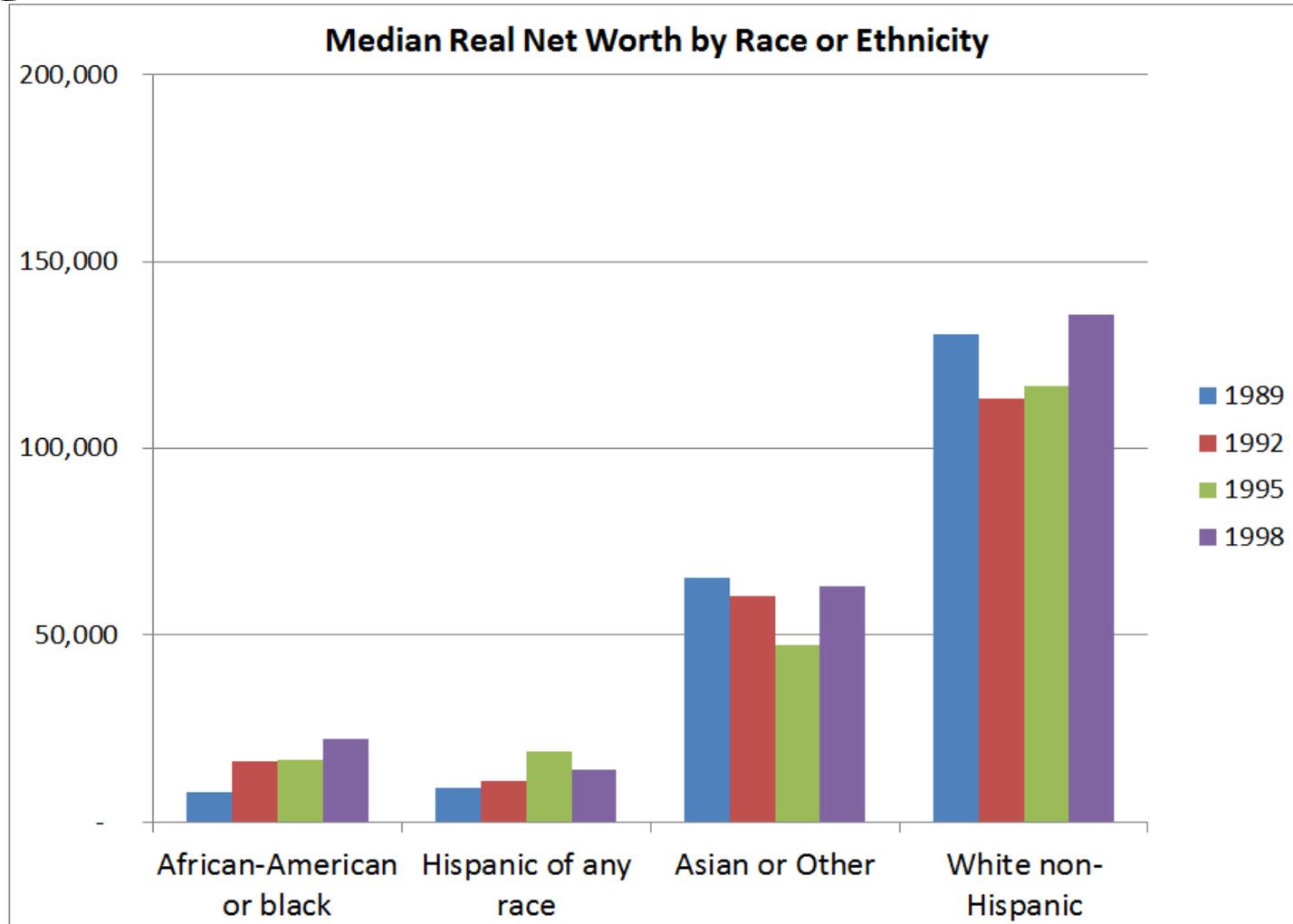
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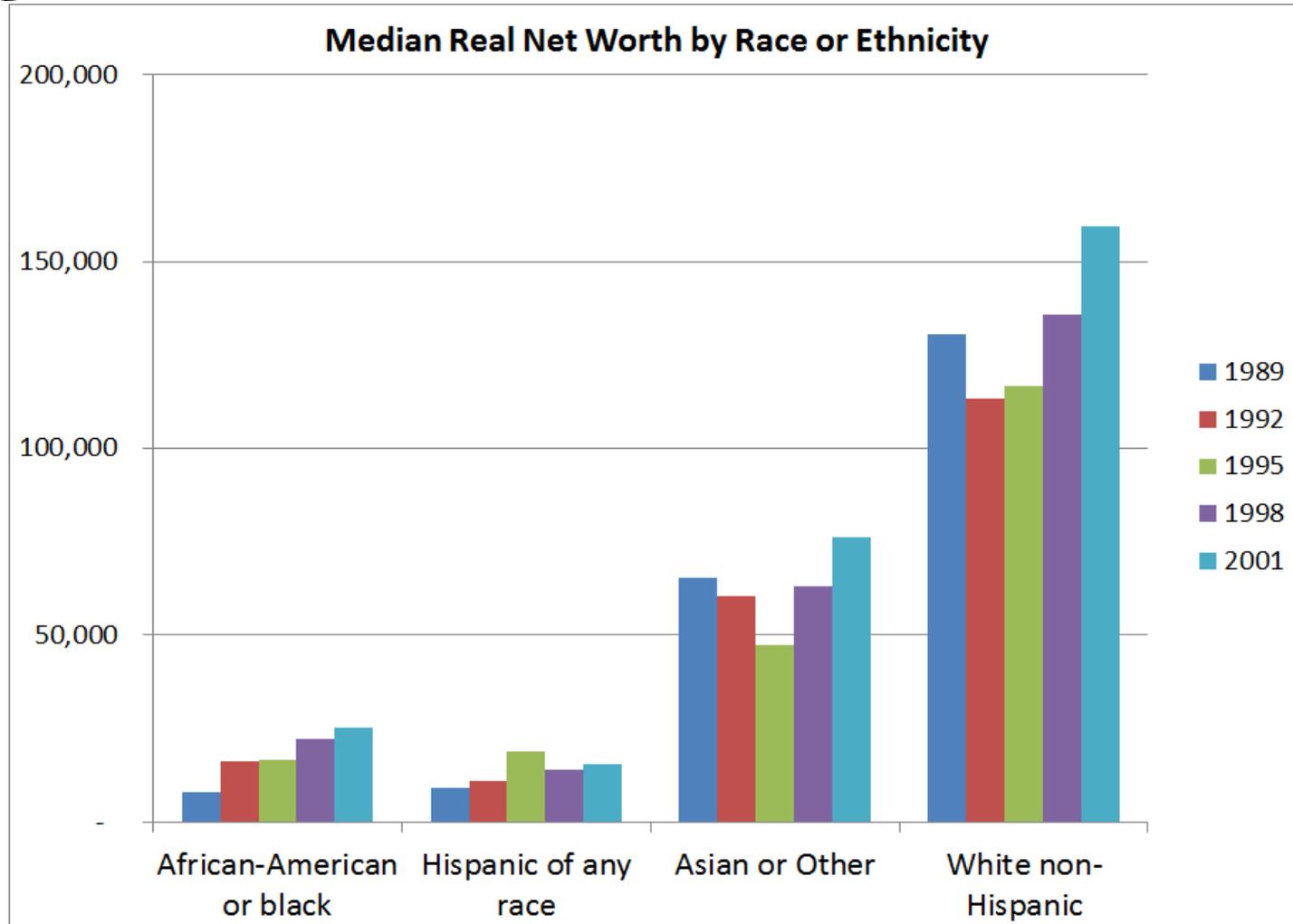
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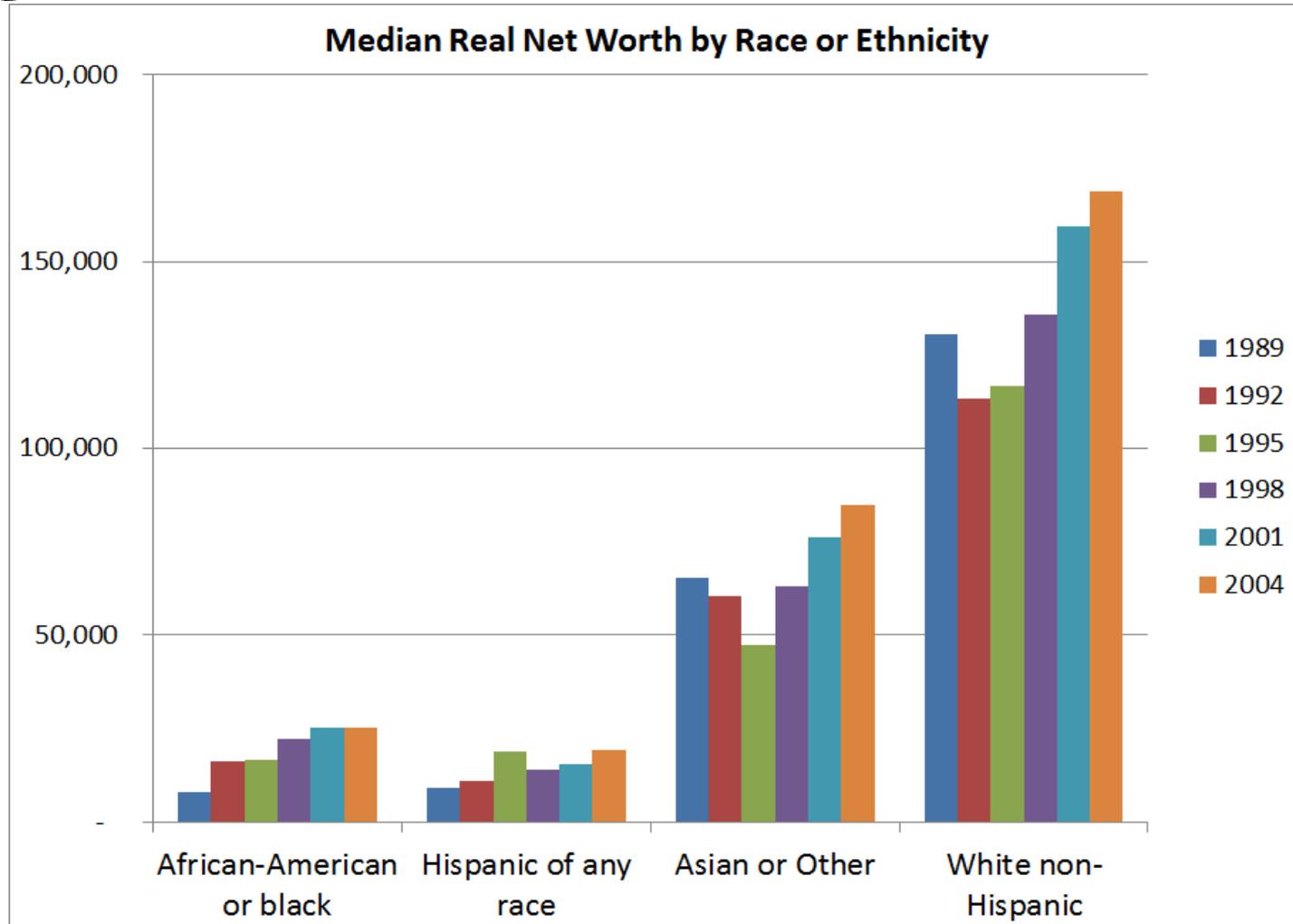
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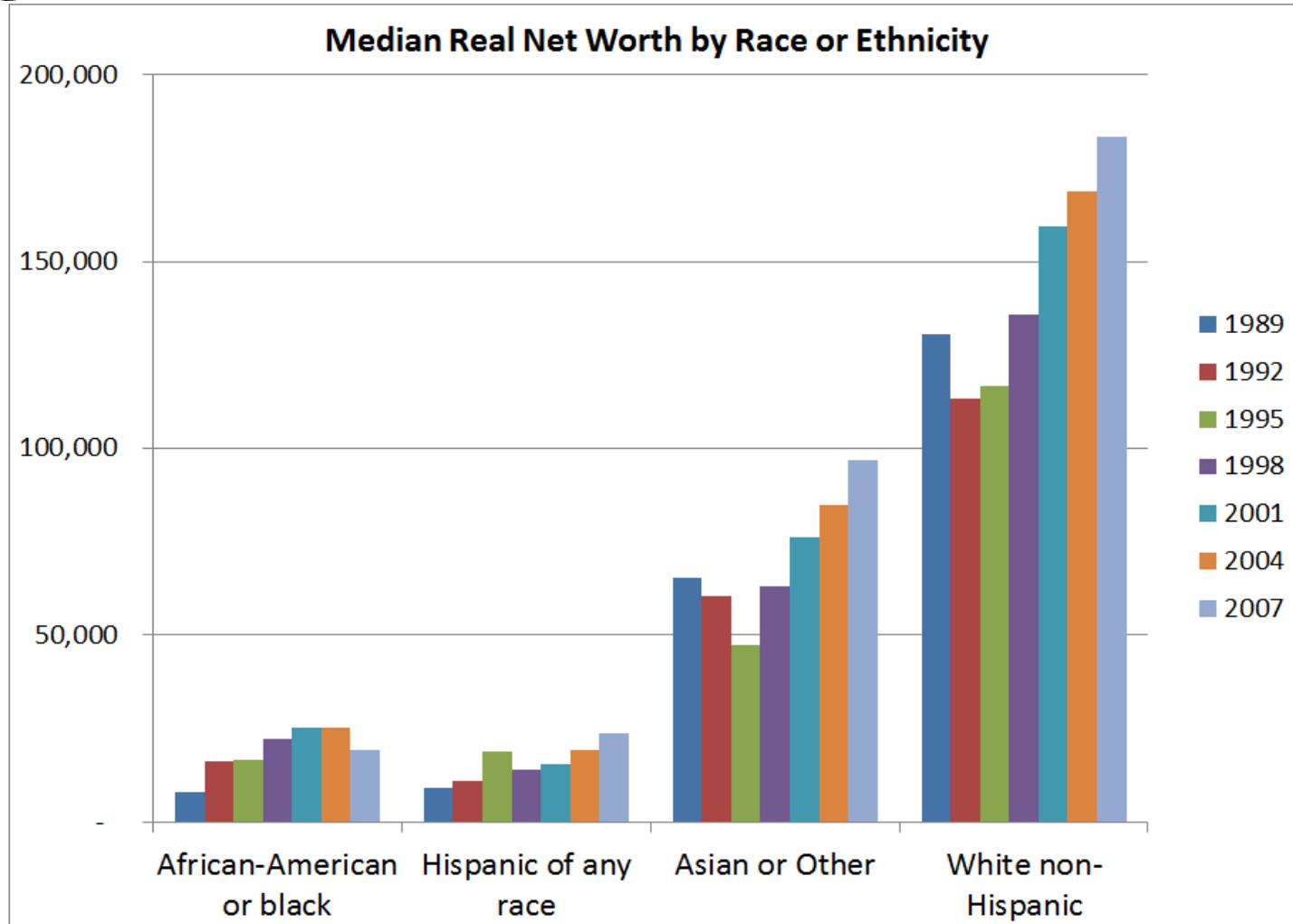
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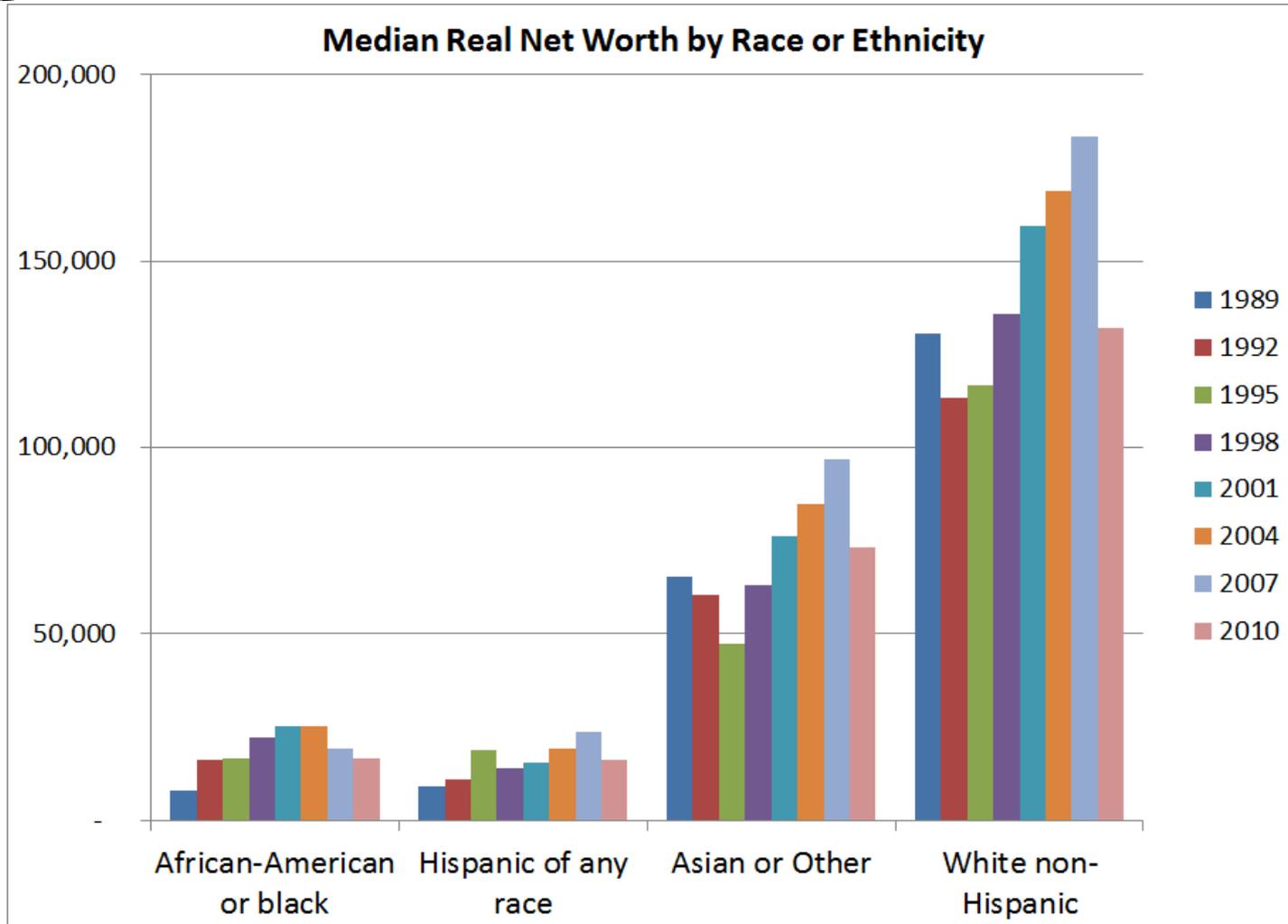
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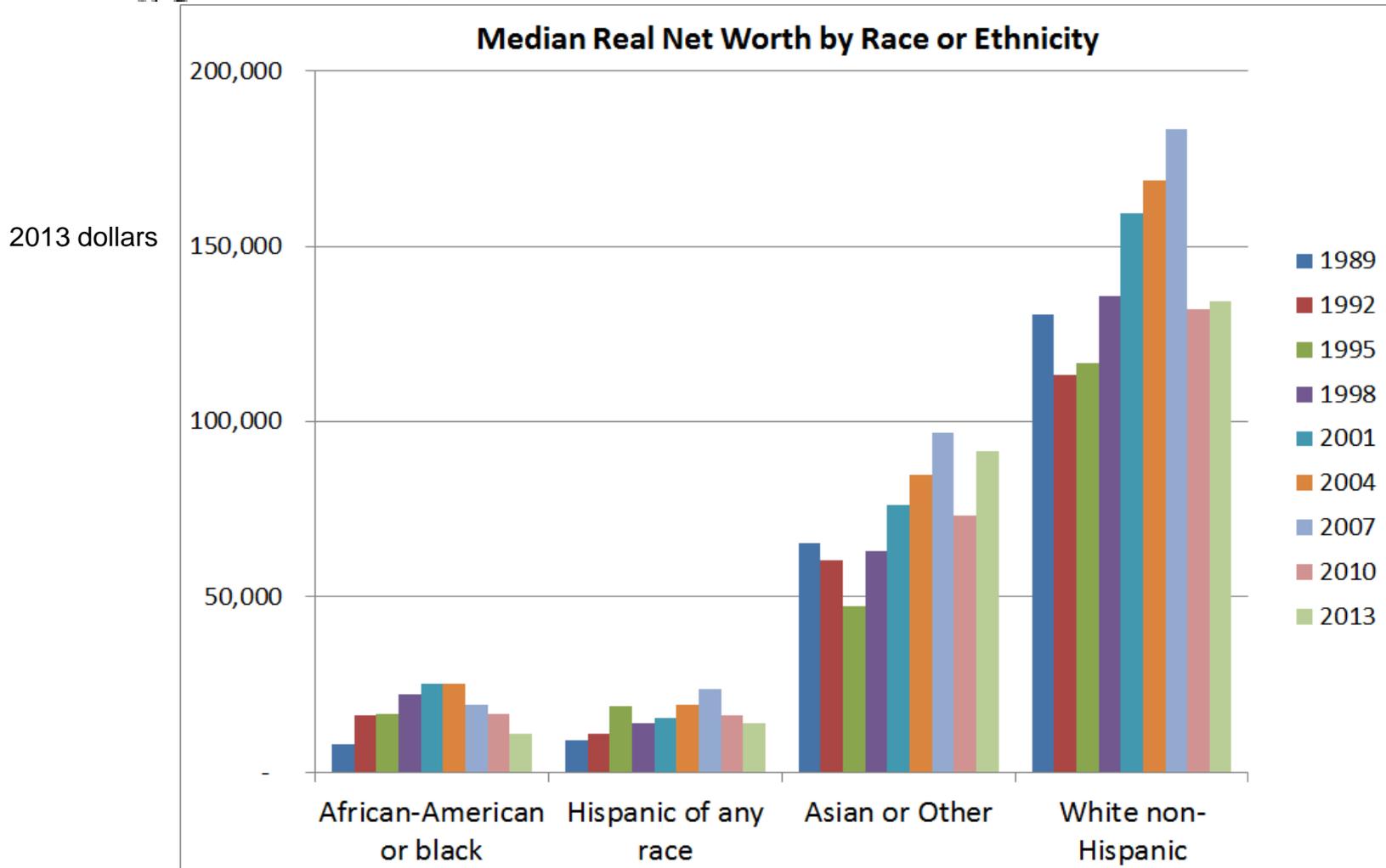
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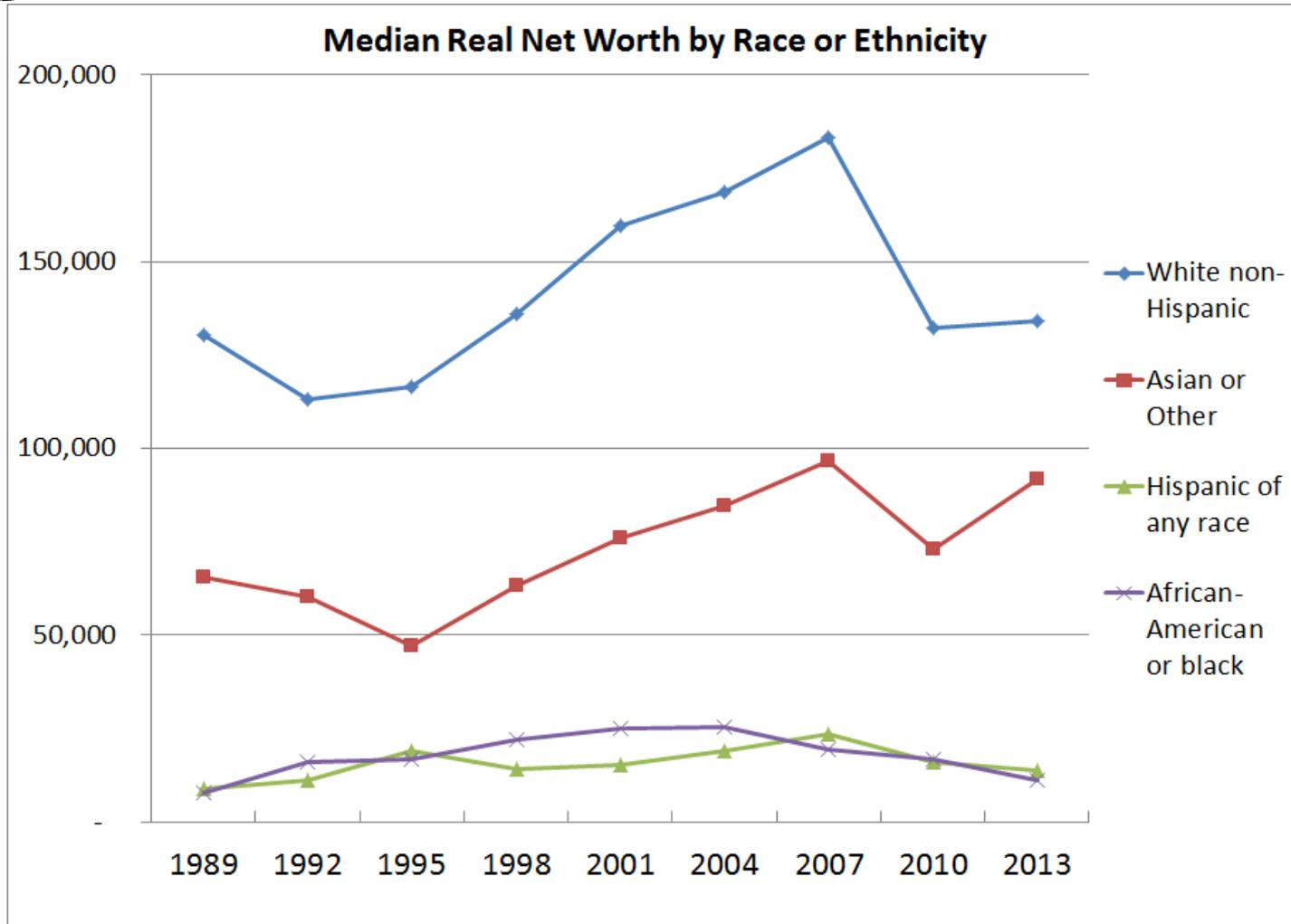
The Changing Distribution of Wealth By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



Evolution of the Wealth Gap By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



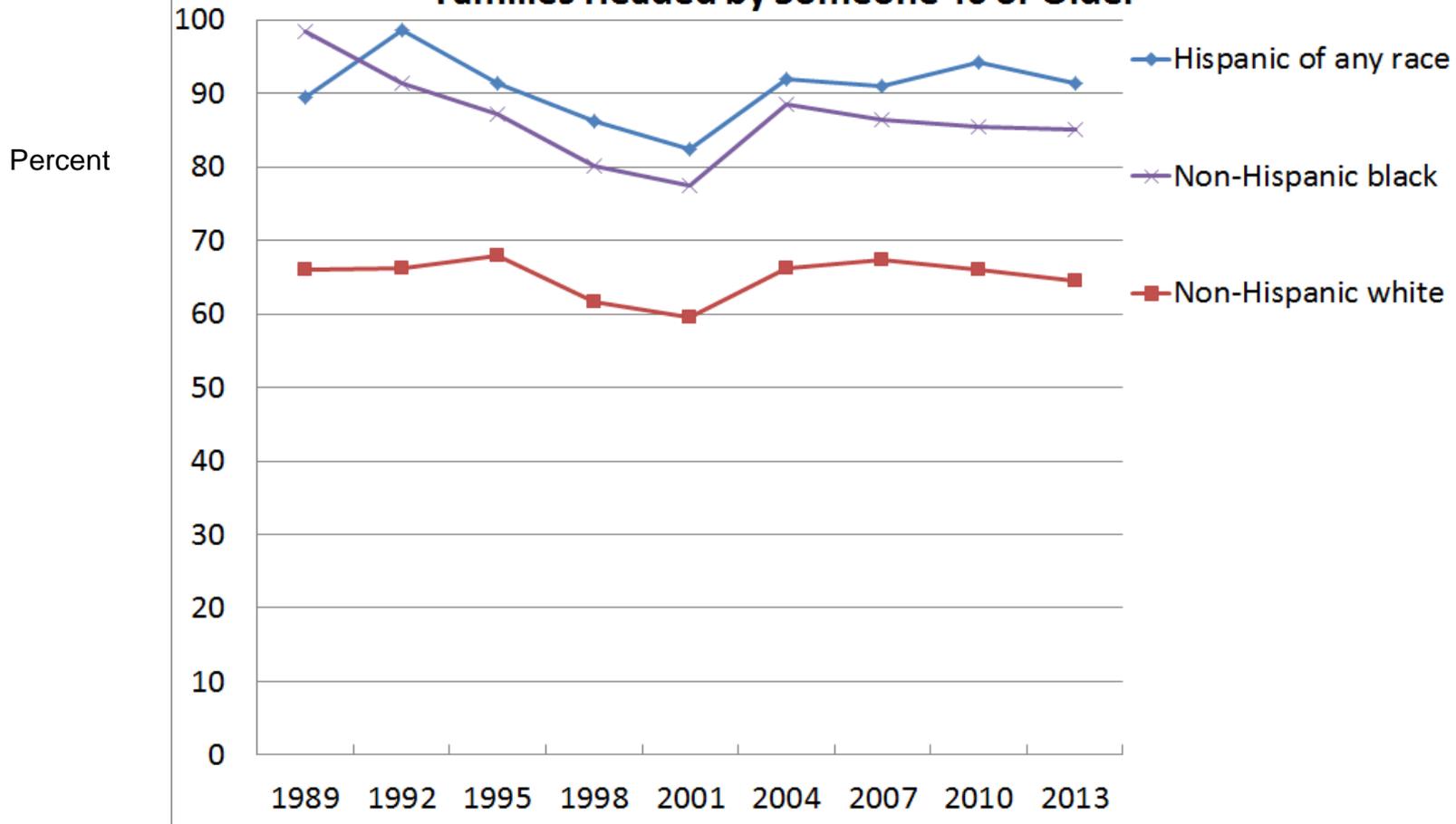
How Did Homeownership and Debt Contribute to Large Wealth Losses?

- **High asset concentrations in housing and durable goods.**
- **High debt levels.**
- **Result: The housing boom and bust affected Hispanic and black families more than whites.**
- **Additional factors**
 - **Predatory lending.**
 - **Neighborhood effects in house-price declines.**



About 90% of Adult Black and Hispanic Assets Are Housing and Durable Goods

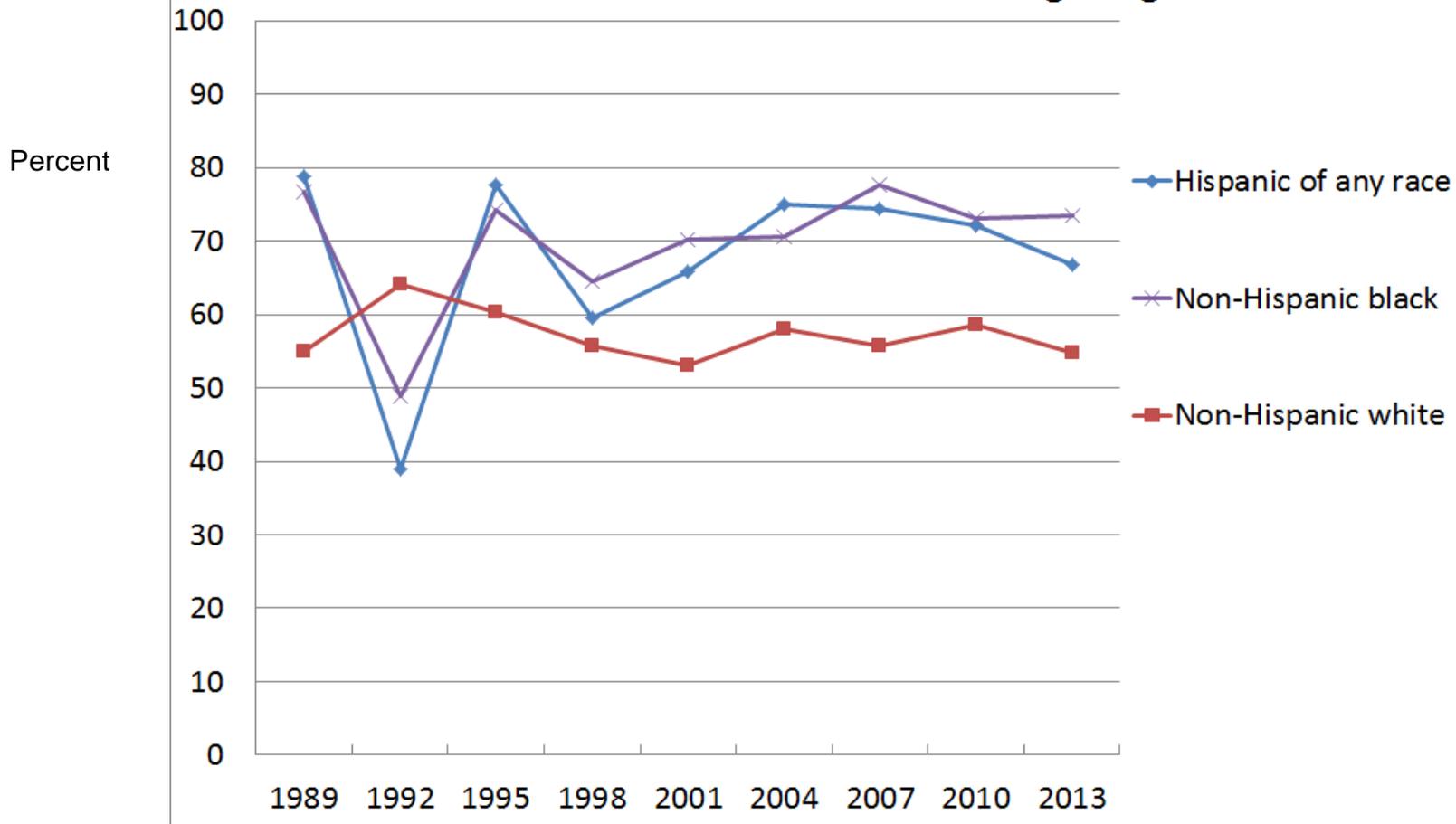
**Median Ratio of Tangible Assets to Total Assets:
Families Headed by Someone 40 or Older**





About 70% of College-Grad Black and Hispanic Assets Are Tangible Assets

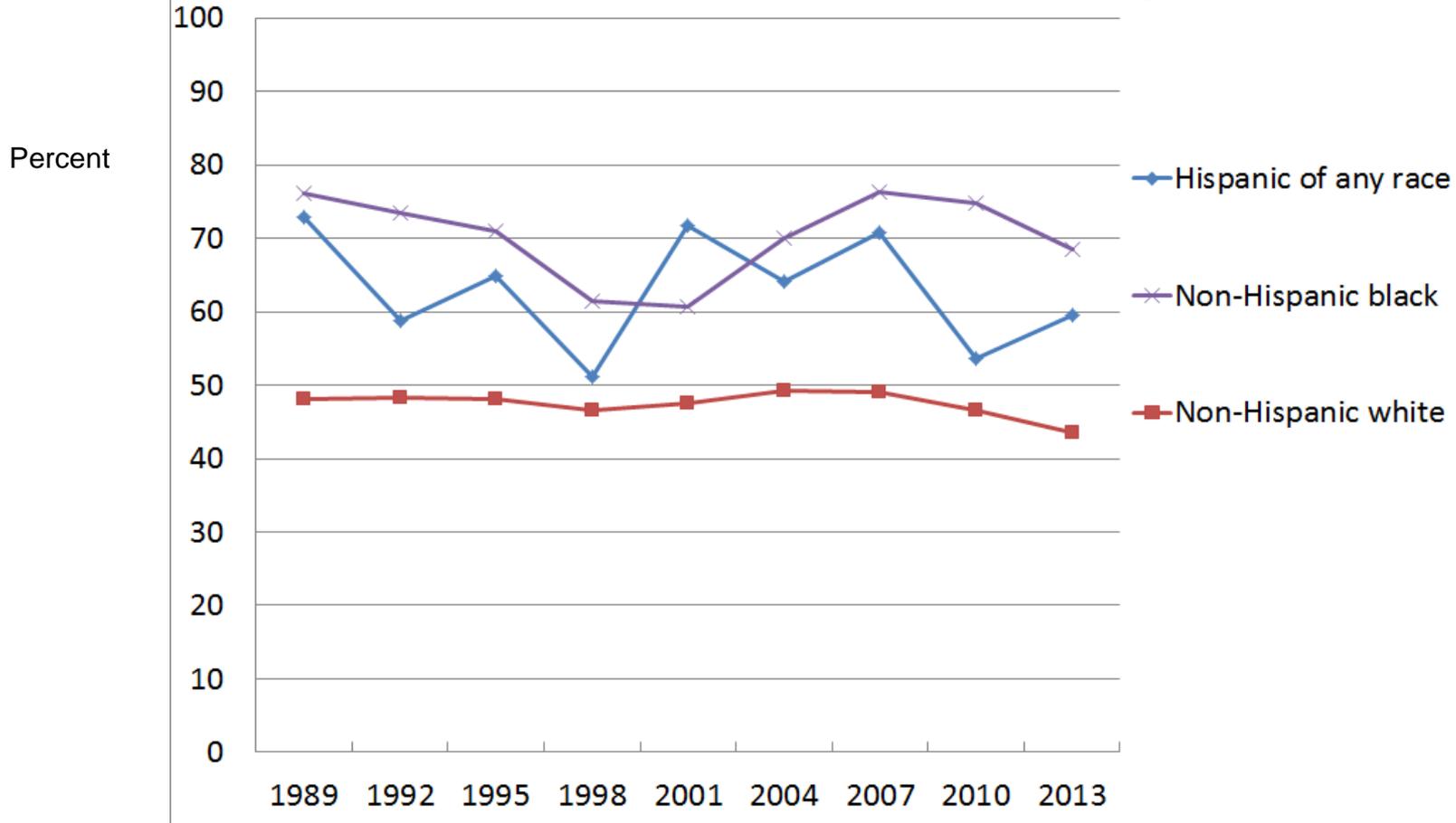
**Median Ratio of Tangible Assets to Total Assets:
Families 40 or Older with 2- or 4-Year College Degree**





60-70% of Post-Graduate Black and Hispanic Assets Are Tangible Assets

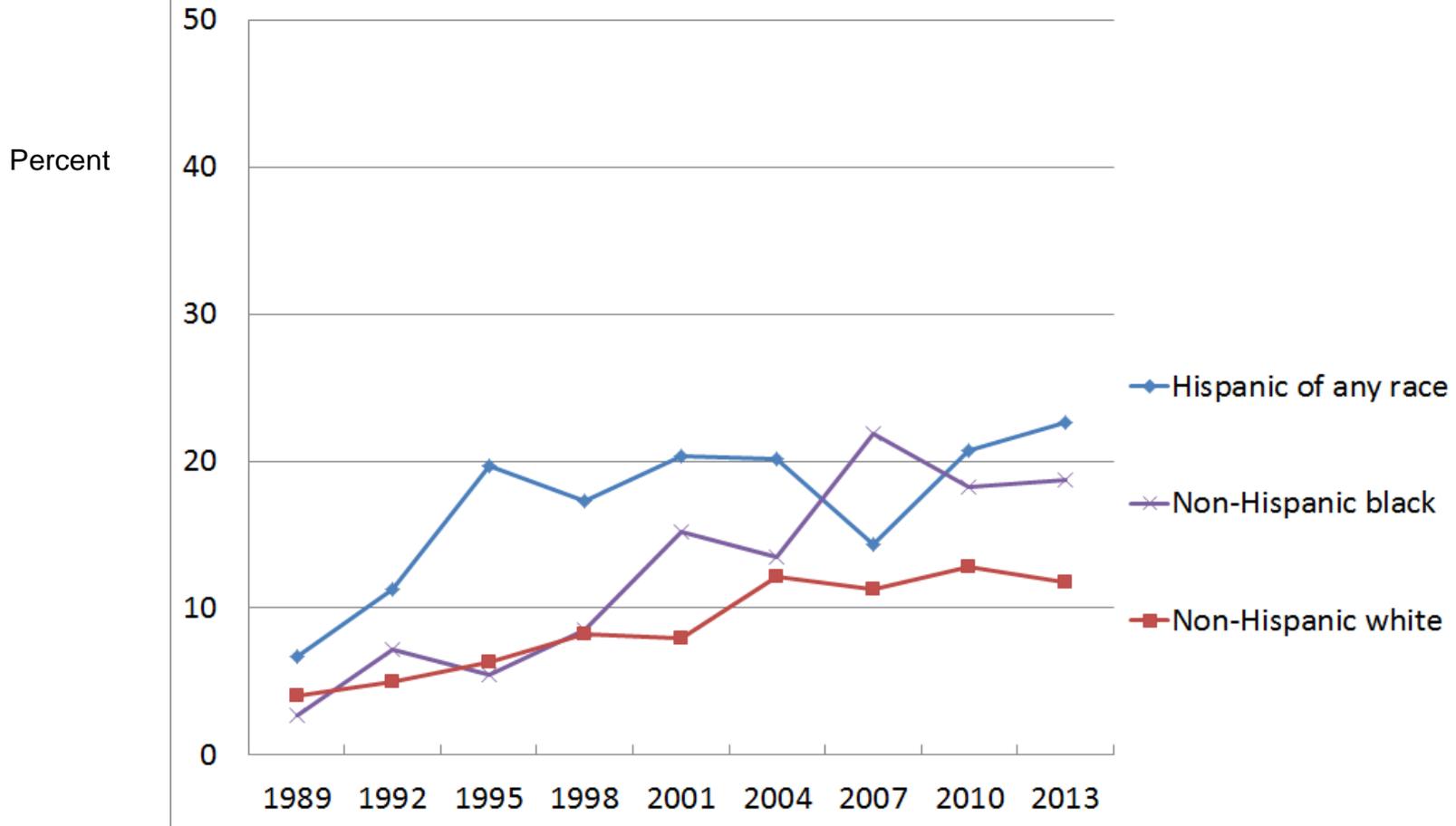
**Smoothed Median Ratio of Tangible Assets to Total Assets:
Families 40 or Older with Post-Graduate Degrees**





Black and Hispanic Adult Families Had/Have High Debt Burdens

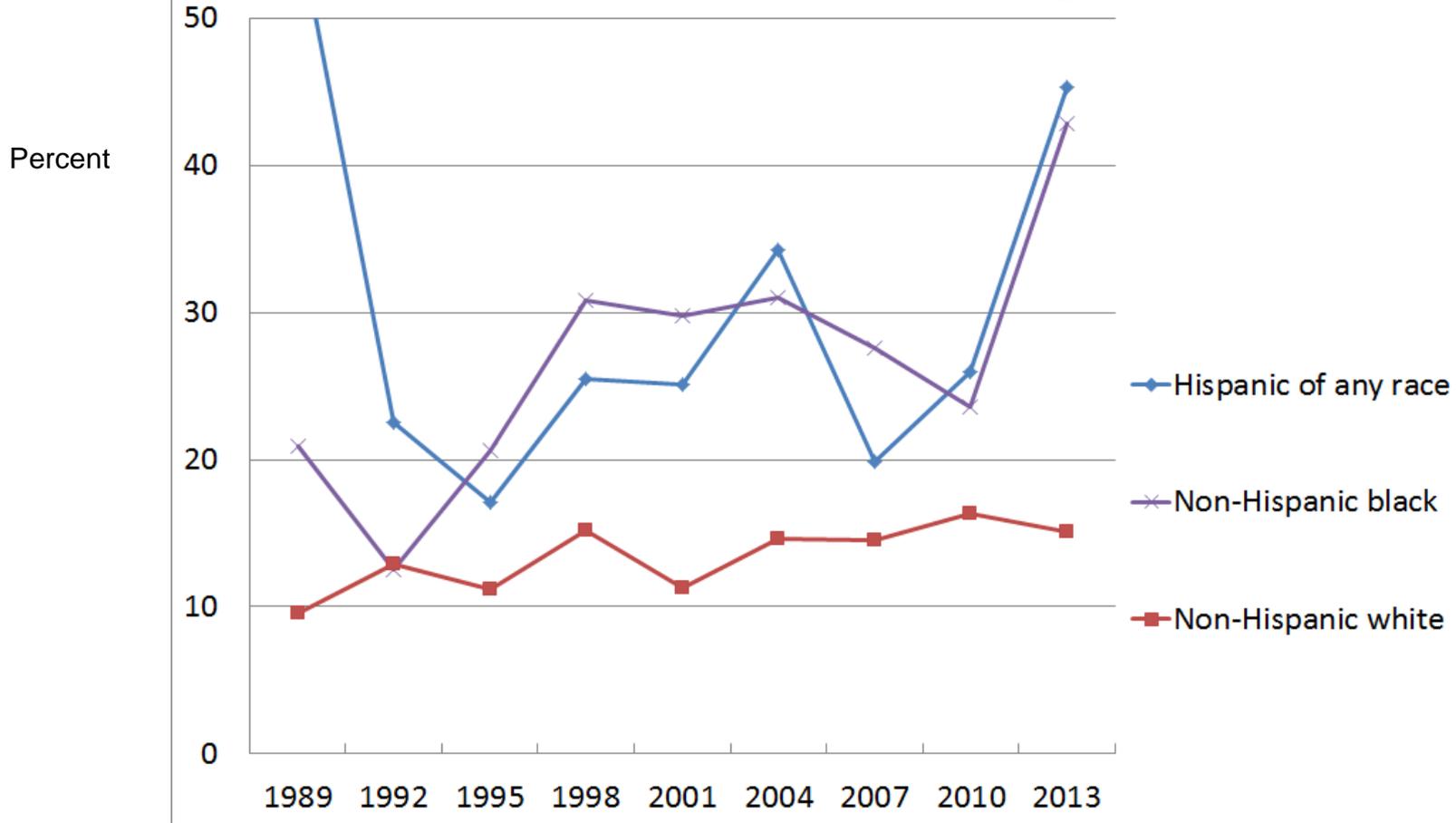
**Median Ratio of Total Debt to Total Assets:
Families 40 or Older**





College-Educated Black and Hispanic Families Have Very Large Debts

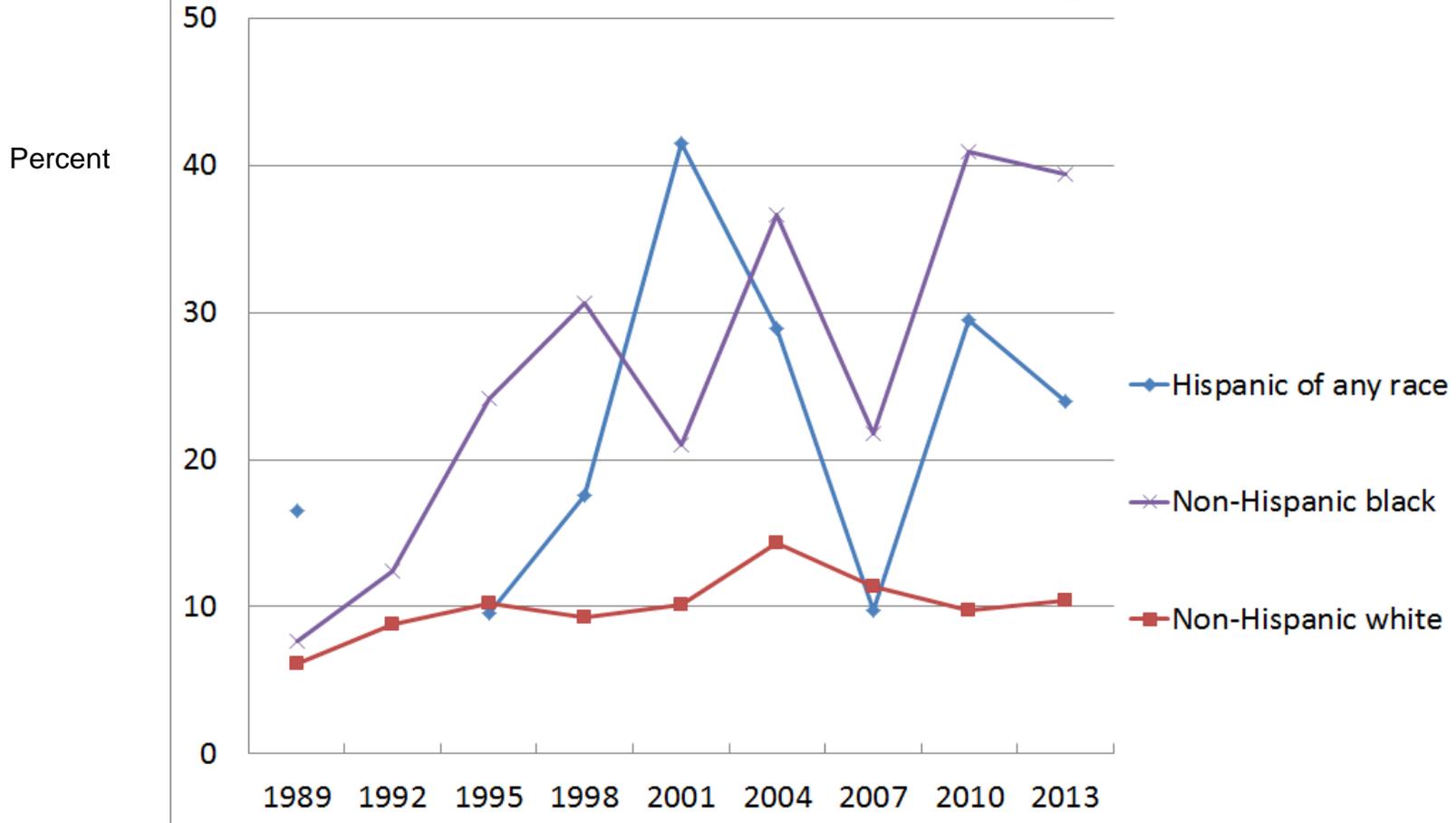
**Median Ratio of Total Debt to Total Assets:
Families 40 or Older With 2- or 4-Year College**





High Debt Burdens for Black and Hispanic Post-Graduate Families, Too

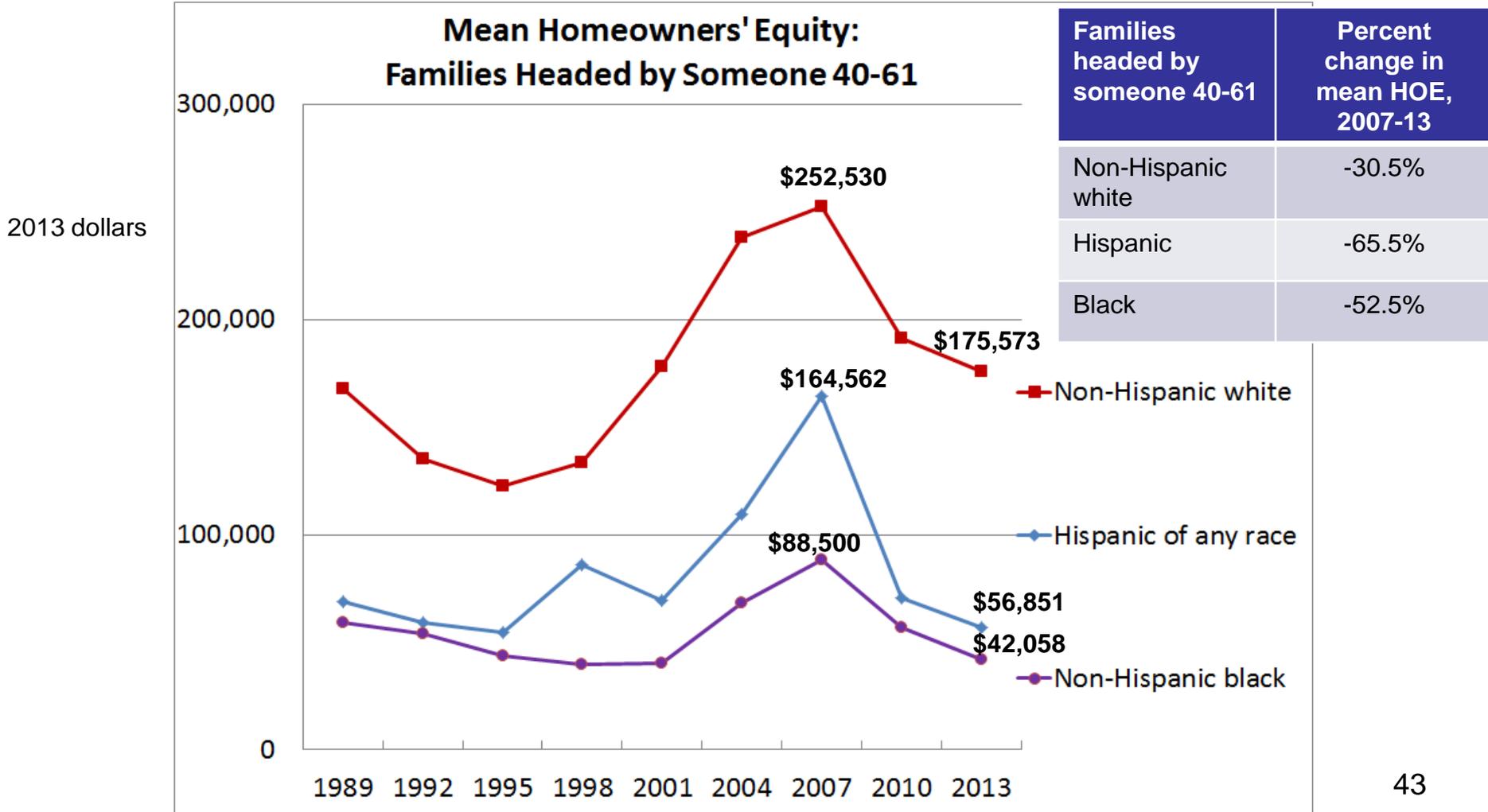
**Median Ratio of Total Debt to Total Assets:
Families 40 or Older With Post-Graduate Degrees**





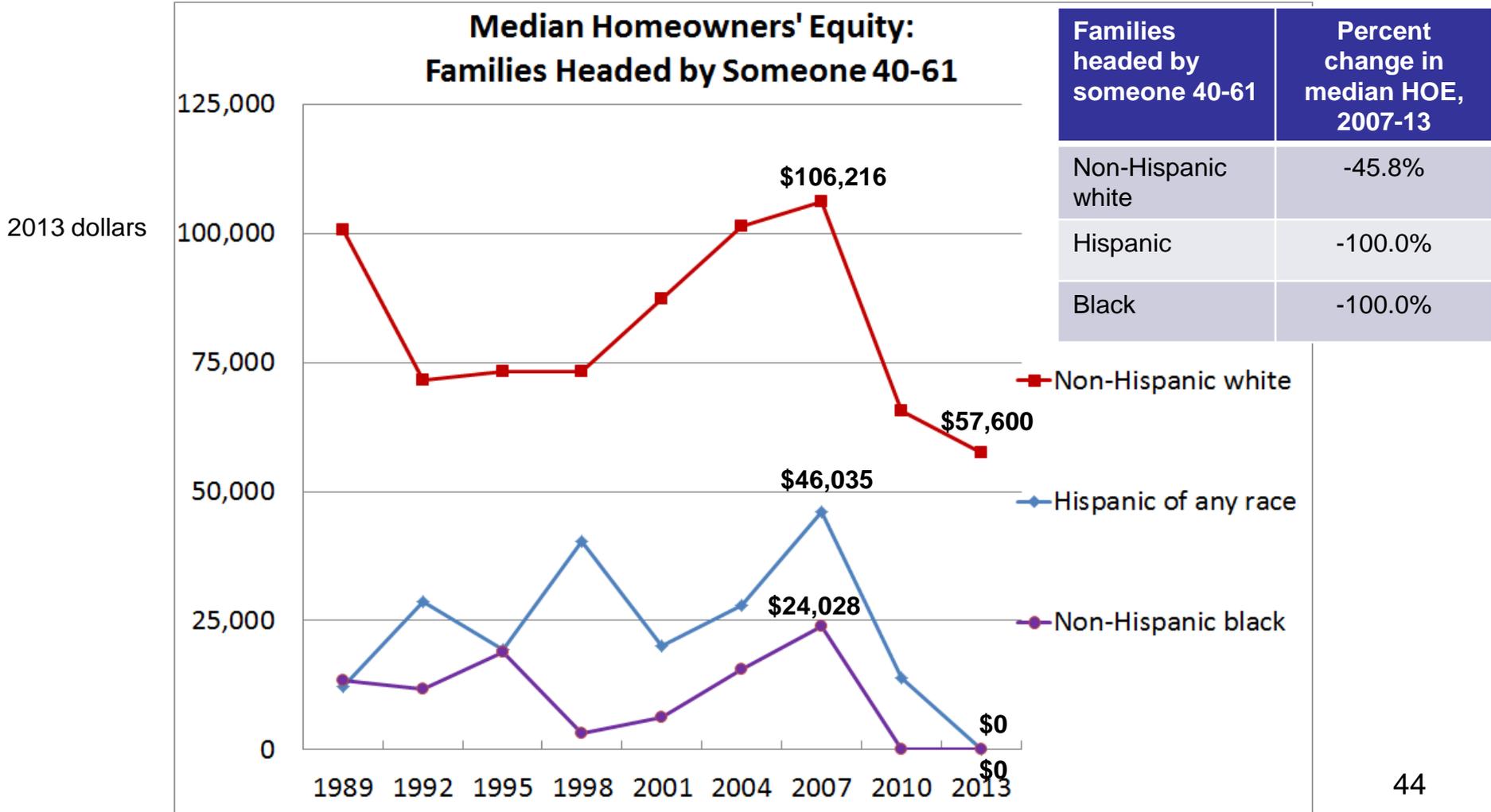
Average Black and Hispanic Homeowners' Equity Losses Twice As Large As Whites'

Equity Losses Twice As Large As Whites





Median Middle-Aged Black and Hispanic Families No Longer Homeowners





In Sum: Housing and Debt Were Dominant Factors in Hispanic, Black Wealth Losses

- **Hispanic and black families were highly exposed to the housing boom and bust.**
- **Predatory lending and concentrated foreclosures made the cycle even more violent.**
- **Education provided no protection to Hispanic and black families against wealth losses.**



For More Information

Center for Household Financial Stability

Federal Reserve Bank of St. Louis

www.stlouisfed.org/household-financial-stability



Researching Family Balance Sheets to Strengthen Families and the Economy | stlouisfed.org/hfs