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

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Clinton Key

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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.
“The average wealth of homeowning 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

- 0
- 500,000
- 1,000,000
- 1,500,000
- 2,000,000
- 2,500,000
- 3,000,000

2006
2007
2008
2009
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

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Debts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquid</strong></td>
<td>Checking</td>
<td>Credit</td>
</tr>
<tr>
<td></td>
<td>Savings</td>
<td>Credit cards</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other consumer debt</td>
</tr>
<tr>
<td><strong>Housing</strong></td>
<td>House value</td>
<td>Housing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mortgage(s)</td>
</tr>
<tr>
<td><strong>Physical</strong></td>
<td>Other property</td>
<td>Other physical</td>
</tr>
<tr>
<td></td>
<td>Business</td>
<td>Debt to business</td>
</tr>
<tr>
<td></td>
<td>Cars</td>
<td>Car(s)</td>
</tr>
<tr>
<td></td>
<td>Other vehicles</td>
<td>Other vehicles</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>Mutual funds</td>
<td>Education</td>
</tr>
<tr>
<td></td>
<td>CDs</td>
<td>Student debt</td>
</tr>
<tr>
<td></td>
<td>Savings bonds</td>
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<td></td>
<td>Other bonds</td>
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<tr>
<td></td>
<td>Stocks</td>
<td></td>
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<tr>
<td></td>
<td>Brokerage accts.</td>
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</tr>
<tr>
<td></td>
<td>Annuities</td>
<td></td>
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<tr>
<td><strong>Retirement</strong></td>
<td>IRA</td>
<td>Misc.</td>
</tr>
<tr>
<td></td>
<td>401(k)</td>
<td>Other lines of credit</td>
</tr>
<tr>
<td></td>
<td>Pension</td>
<td>Margin loans</td>
</tr>
<tr>
<td><strong>Misc.</strong></td>
<td>Life insurance</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>Personal debt owed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Business debt owed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other (Cash, valuables)</td>
<td></td>
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</tbody>
</table>
Asset-Holding Patterns by Wealth

The chart illustrates the proportion of 2007 assets across different quintiles of 2007 net worth. The quintiles are:

1. **Bottom 20%**
2. **Middle 20%**
3. **Top 20%**

Assets are categorized into several types:

- Miscellaneous
- Retirement Savings
- Financial Assets
- Physical Assets
- Home value
- Transaction accounts

The chart shows the distribution of assets across these categories for each quintile.
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
Proportion Losing Net Worth, by Race

<table>
<thead>
<tr>
<th>Race</th>
<th>Lose net worth</th>
<th>Lose at least 10%</th>
<th>Lose at least 25%</th>
<th>Lose at least 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black</td>
<td></td>
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<tr>
<td>Hispanic</td>
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<tr>
<td>Other</td>
<td></td>
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Change in Net Worth 2007-2009, in U.S. Dollars

2007 to 2009 Change by 2007 Networth

- Change in non-equity net worth
- Change in home equity
Percentage Change in Net Worth 2007-2009

Percent change by 2007 net worth

- Bottom quintile
- 20th-40th
- Middle quintile
- 60th-80th
- Top quintile

% change in non-equity net worth

% change in 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

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