Why Did Latino Families Lose So Much Wealth?

July 13, 2015

William R. Emmons
Center for Household Financial Stability
Federal Reserve Bank of St. Louis
William.R.Emmons@stls.frb.org

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

Source: Federal Reserve Board, Survey of Consumer Finances

<table>
<thead>
<tr>
<th></th>
<th>Percent change in median wealth, 2007-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>All families</td>
<td></td>
</tr>
<tr>
<td>Non-Hispanic white</td>
<td>-26.8%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>-41.8%</td>
</tr>
<tr>
<td>Black</td>
<td>-41.5%</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances
Triennial survey data, 1989-2013
Middle-Aged Hispanic and Black Families Were Hit Even Harder

Median Net Worth: Families Headed by Someone 40-61

<table>
<thead>
<tr>
<th>Families headed by someone 40-61</th>
<th>Percent change in median wealth, 2007-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Hispanic white</td>
<td>-36.3%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>-79.2%</td>
</tr>
<tr>
<td>Black</td>
<td>-70.6%</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances

Triennial survey data, 1989-2013

2013 dollars
**Education Did Not Protect Black and Hispanic Families**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All families</strong></td>
<td>$201,342</td>
<td>$106,094</td>
<td>-47.3%</td>
</tr>
<tr>
<td>Non-Hispanic whites</td>
<td>252,761</td>
<td>161,010</td>
<td>-36.3%</td>
</tr>
<tr>
<td>Non-Hispanic blacks</td>
<td>48,595</td>
<td>14,304</td>
<td>-70.6%</td>
</tr>
<tr>
<td>Hispanics</td>
<td>94,744</td>
<td>19,690</td>
<td>-79.2%</td>
</tr>
<tr>
<td><strong>Non-Hispanic whites</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Graduate or professional degree</td>
<td>725,326</td>
<td>571,780</td>
<td>-21.2%</td>
</tr>
<tr>
<td>2- or 4-year college degree</td>
<td>380,201</td>
<td>272,360</td>
<td>-28.4%</td>
</tr>
<tr>
<td>High-school diploma or GED</td>
<td>163,647</td>
<td>85,420</td>
<td>-47.8%</td>
</tr>
<tr>
<td>Less than high school</td>
<td>37,163</td>
<td>23,440</td>
<td>-36.9%</td>
</tr>
<tr>
<td><strong>Non-Hispanic blacks</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Graduate or professional degree</td>
<td>292,780</td>
<td>33,446</td>
<td>-88.6%</td>
</tr>
<tr>
<td>2- or 4-year college degree</td>
<td>209,545</td>
<td>40,560</td>
<td>-80.6%</td>
</tr>
<tr>
<td>High-school diploma or GED</td>
<td>41,353</td>
<td>12,918</td>
<td>-68.8%</td>
</tr>
<tr>
<td>Less than high school</td>
<td>2,291</td>
<td>4,400</td>
<td>92.1%</td>
</tr>
<tr>
<td><strong>Hispanics</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Graduate or professional degree</td>
<td>1,151,764</td>
<td>597,640</td>
<td>-48.1%</td>
</tr>
<tr>
<td>2- or 4-year college degree</td>
<td>323,759</td>
<td>44,700</td>
<td>-86.2%</td>
</tr>
<tr>
<td>High-school diploma or GED</td>
<td>71,686</td>
<td>24,920</td>
<td>-65.2%</td>
</tr>
<tr>
<td>Less than high school</td>
<td>83,583</td>
<td>6,148</td>
<td>91.8%</td>
</tr>
</tbody>
</table>
A Clue: Homeownership Rates Declined Most Among Hispanic and Black Families

Homeownership Rates by Race or Ethnicity of Family Head

Homeownership Rates in Q1.2015 (Census Bureau)

<table>
<thead>
<tr>
<th>Race</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Hispanic white</td>
<td>72.0%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>44.1%</td>
</tr>
<tr>
<td>Black</td>
<td>41.9%</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of St. Louis

Federal Reserve Board, Survey of Consumer Finances

Triennial survey data, 1989-2013
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

- 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”

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

Average Financial-Health Score, 1992-2013

- Young (<40)
- Middle-aged (40-61)
- Old (>62)
- Less than high school
- High-school grad
- Post-graduate degree
- Black
- Hispanic
- White
- Asian
Financial Health Predicts Wealth

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.

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?

<table>
<thead>
<tr>
<th>Demographic variable</th>
<th>Average effect <em>ceteris paribus</em>, 1989-2013</th>
<th>Changes between 1989 and 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age</strong></td>
<td>W increases at a decreasing rate.</td>
<td>W increased for 62+, decreased for &lt; 62.</td>
</tr>
<tr>
<td><strong>Birth year</strong></td>
<td>Increases until about 1940, then decreases until 1970.</td>
<td>Appears to be a robust finding across samples.</td>
</tr>
<tr>
<td><strong>Educational attainment</strong></td>
<td>Virtually no wealth accumulation w/out college.</td>
<td>W increased for college grads, decreased o/wise.</td>
</tr>
<tr>
<td><strong>Race or ethnicity</strong></td>
<td>White &gt; Asian &gt; Black = Hispanic</td>
<td>B &amp; H increased rapidly until 2004, then crashed; W &amp; A more moderate.</td>
</tr>
</tbody>
</table>

*Evidence: Wealth regression*  
*Evidence: Charts below*
Regression Evidence: Age

Wealth at age 20 equals 100

This result controls for:
- Education
- Race/ethnicity
- Birth year
- Family structure
- Health
- Financial health

**Estimated Effect of Age on Standardized Wealth**
Regression Evidence: Birth Year

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

Benchmark group born 1938-42

This result controls for:
- Age
- Education
- Race/ethnicity
- Family structure
- Health
- Financial health
Regression Evidence: Educational Attainment

This result controls for:
- Age
- Race/ethnicity
- Birth year
- Family structure
- Health
- Financial health

Wealth Per $100 Owned By A College Graduate

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>College grad</td>
<td>100</td>
</tr>
<tr>
<td>Some college, no degree</td>
<td>11.7</td>
</tr>
<tr>
<td>High-school grad</td>
<td>5.3</td>
</tr>
<tr>
<td>High-school drop-out</td>
<td>1.3</td>
</tr>
</tbody>
</table>
Regression Evidence: Race and Ethnicity

This result controls for:
- Age
- Education
- Birth year
- Family structure
- Health
- Financial health

<table>
<thead>
<tr>
<th>Race</th>
<th>Wealth Per $100 Owned by a White Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>100</td>
</tr>
<tr>
<td>Asian</td>
<td>66.6</td>
</tr>
<tr>
<td>Hispanic</td>
<td>22.0</td>
</tr>
<tr>
<td>Black</td>
<td>11.0</td>
</tr>
</tbody>
</table>
All Age Groups 60+ Are Richer Now; All Age Groups Under 60 Are Poorer

Change in Median Net Worth From 1989 to 2013

Source: Federal Reserve Board, Survey of Consumer Finances
Changes in Wealth By Educational Attainment

Median Real Net Worth by Educational Attainment of Family Head

Source: Federal Reserve Board, Survey of Consumer Finances

2013 dollars

Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.
Only College-Graduate Medians Are Higher Now Than in 1989

Source: Federal Reserve Board, Survey of Consumer Finances

Index levels equal 100 in 1989

Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.
Only College-Graduate Medians Are Higher Now Than in 1989

Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.
College-Grad Medians Declined Less After 2007

The chart shows the change in median net worth from 2007 to 2013 for different education levels:

- Less than high school: -54 percent
- High-school diploma or GED: -45 percent
- Associate's or Bachelor's degree: -41 percent
- Graduate or professional degree: -18 percent

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
Wealth Gaps by Race or Ethnicity Were Huge in 1989

Median Real Net Worth by Race or Ethnicity

<table>
<thead>
<tr>
<th>Race or Ethnicity</th>
<th>1989 Median Real Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>African-American or black</td>
<td>7,773</td>
</tr>
<tr>
<td>Hispanic of any race</td>
<td>9,038</td>
</tr>
<tr>
<td>Asian or Other</td>
<td>65,434</td>
</tr>
<tr>
<td>White non-Hispanic</td>
<td>130,470</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances

2013 dollars
The Changing Distribution of Wealth By Race or Ethnicity

Median Real Net Worth by Race or Ethnicity

- African-American or black
- Hispanic of any race
- Asian or Other
- White non-Hispanic

Source: Federal Reserve Board, Survey of Consumer Finances
The Changing Distribution of Wealth By Race or Ethnicity

Median Real Net Worth by Race or Ethnicity

2013 dollars

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
The Changing Distribution of Wealth By Race or Ethnicity

Median Real Net Worth by Race or Ethnicity

2013 dollars

Source: Federal Reserve Board, Survey of Consumer Finances
The Changing Distribution of Wealth By Race or Ethnicity

Median Real Net Worth by Race or Ethnicity

- African-American or black
- Hispanic of any race
- Asian or Other
- White non-Hispanic

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
The Changing Distribution of Wealth By Race or Ethnicity

Median Real Net Worth by Race or Ethnicity

Source: Federal Reserve Board, Survey of Consumer Finances
The Changing Distribution of Wealth By Race or Ethnicity

Median Real Net Worth by Race or Ethnicity

Source: Federal Reserve Board, Survey of Consumer Finances
Evolution of the Wealth Gap By Race or Ethnicity

Median Real Net Worth 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

Source: Federal Reserve Board, Survey of Consumer Finances

Triennial survey data, 1989-2013
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

Source: Federal Reserve Board, Survey of Consumer Finances

Triennial survey data, 1989-2013
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

Source: Federal Reserve Board, Survey of Consumer Finances
Triennial survey data, 1989-2013
Black and Hispanic Adult Families Had/Have High Debt Burdens

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

Percent

Source: Federal Reserve Board, Survey of Consumer Finances
Triennial survey data, 1989-2013
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

Source: Federal Reserve Board, Survey of Consumer Finances
Triennial survey data, 1989-2013
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

Source: Federal Reserve Board, Survey of Consumer Finances

Triennial survey data, 1989-2013
Average Black and Hispanic Homeowners’ Equity Losses Twice As Large As Whites

Source: Federal Reserve Board, Survey of Consumer Finances
Triennial survey data, 1989-2013

<table>
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<tr>
<th>Families headed by someone 40-61</th>
<th>Percent change in mean HOE, 2007-13</th>
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<td>-30.5%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>-65.5%</td>
</tr>
<tr>
<td>Black</td>
<td>-52.5%</td>
</tr>
</tbody>
</table>

Mean Homeowners’ Equity:
Families Headed by Someone 40-61

Non-Hispanic white
Hispanic of any race
Non-Hispanic black

Source: Federal Reserve Board, Survey of Consumer Finances
Median Middle-Aged Black and Hispanic Families No Longer Homeowners

Families headed by someone 40-61

Percent change in median HOE, 2007-13

- Non-Hispanic white: -45.8%
- Hispanic: -100.0%
- Black: -100.0%

Source: Federal Reserve Board, Survey of Consumer Finances

Triennial survey data, 1989-2013
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