Why Did Young Families Lose So Much Wealth During the Crisis? The Role of Homeownership

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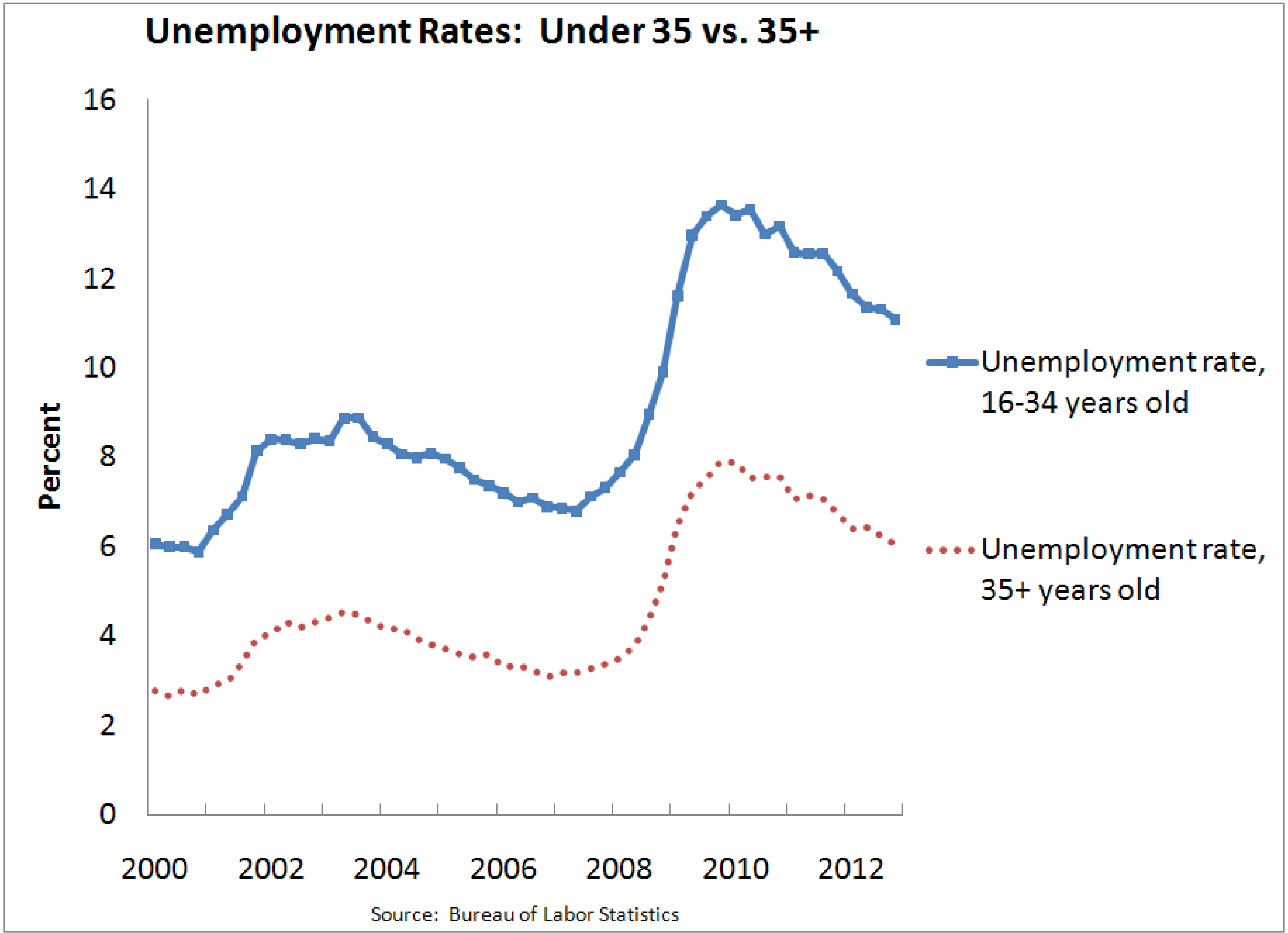
- **As a group, young families were unusually highly concentrated in housing with high balance-sheet leverage before the crisis.**

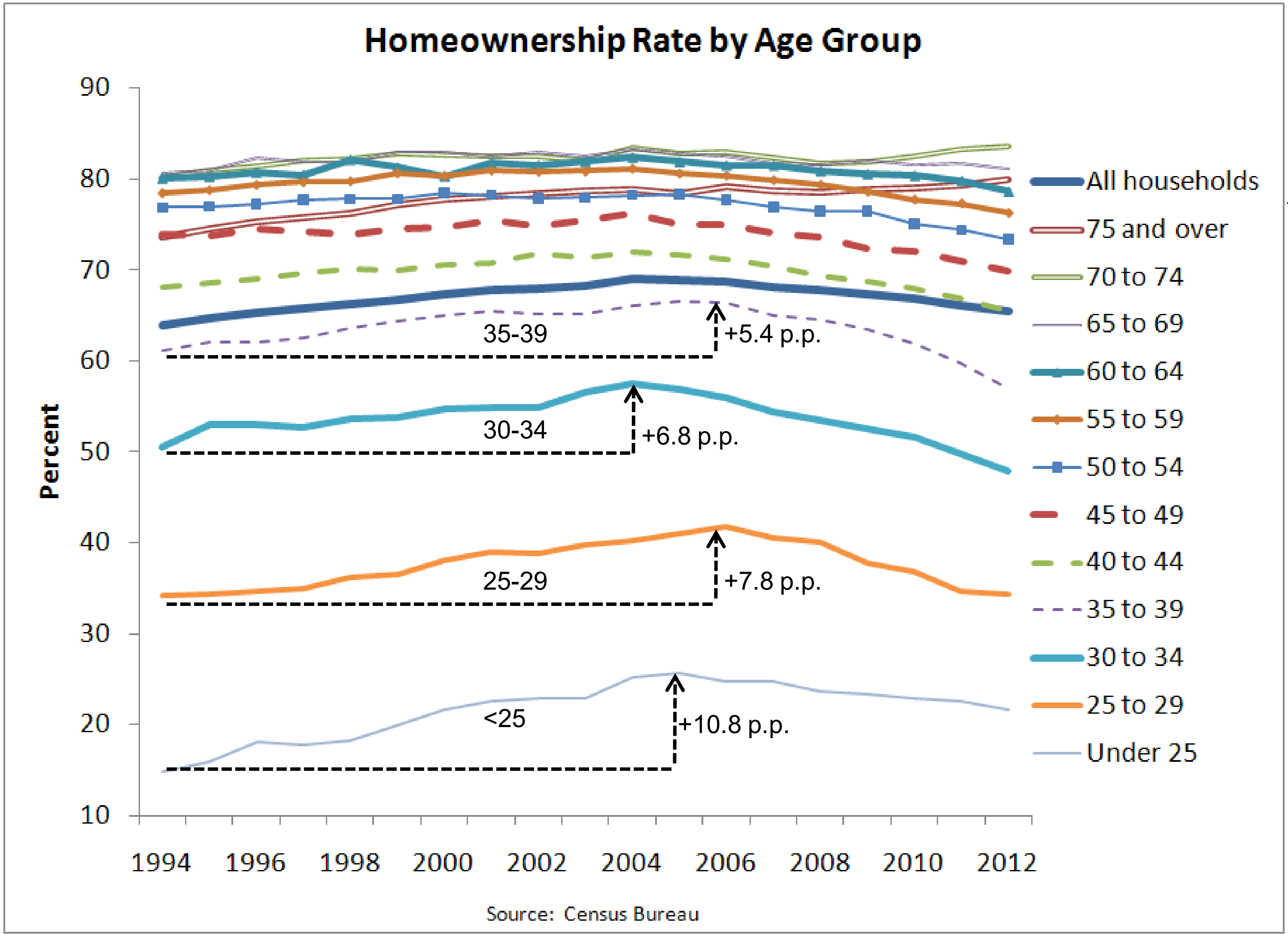
- **Large house-price declines therefore hit young families' balance sheets especially hard.**
  - **Large decline in value of largest asset.**
  - **Multiplicative effect on net worth through leverage.**

- **Large negative wealth impact of homeownership was common across young families of all races, ethnicities, and education levels.**

Young Workers are Economically Vulnerable



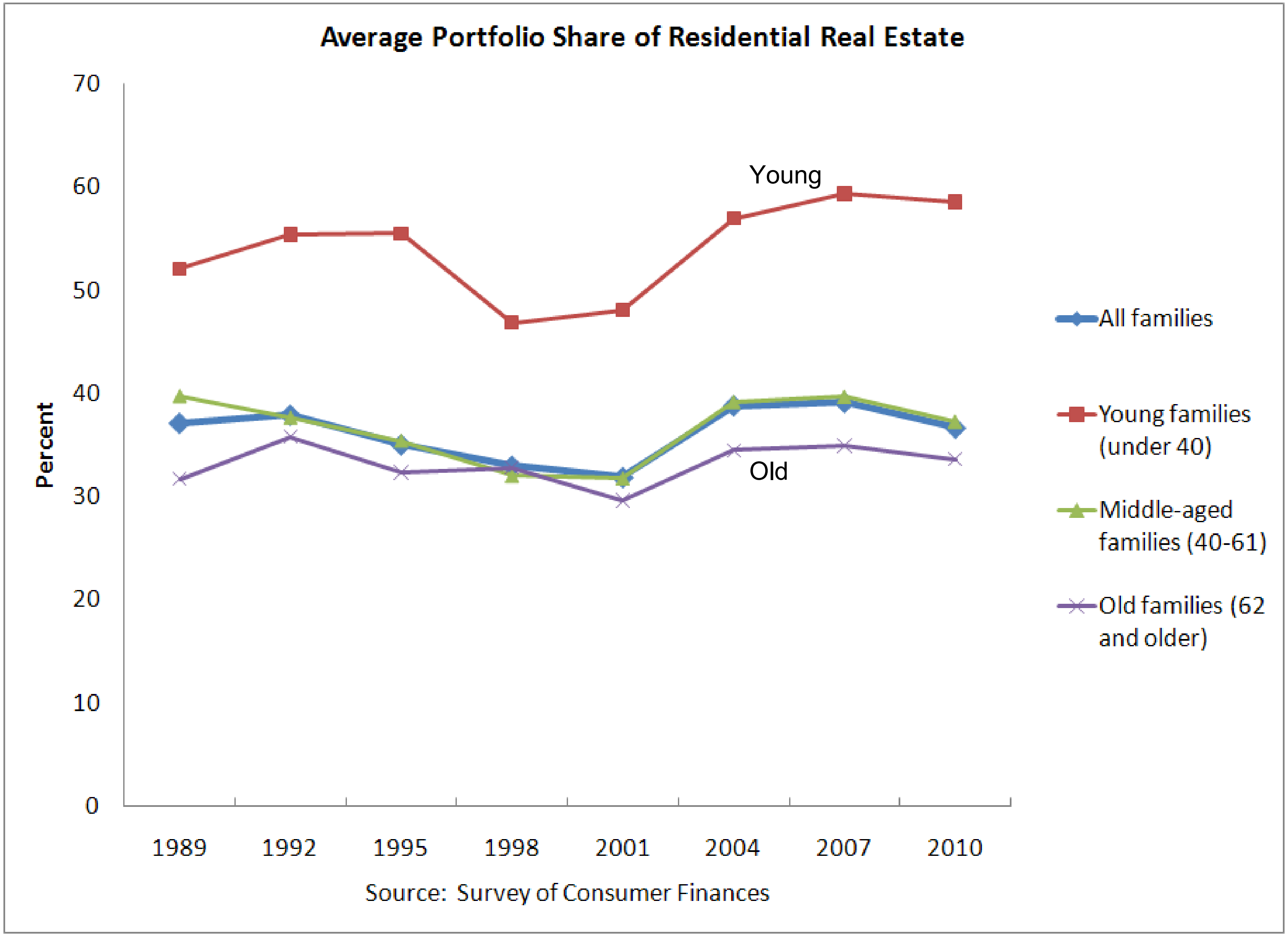
Homeownership Rates Increased Most Among Young Families



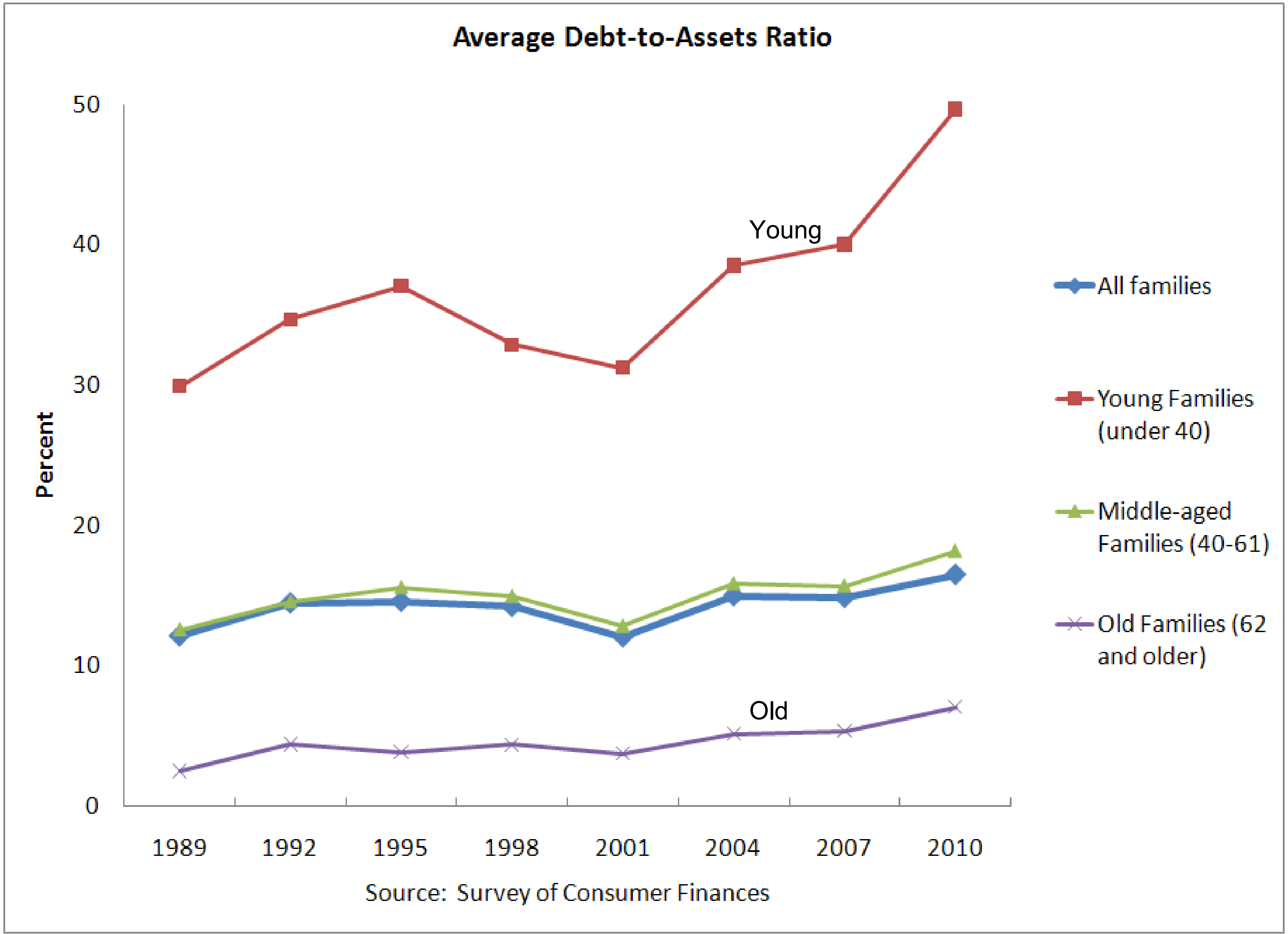
Overall homeownership rate, 1994-2004:

+5.0 percentage points

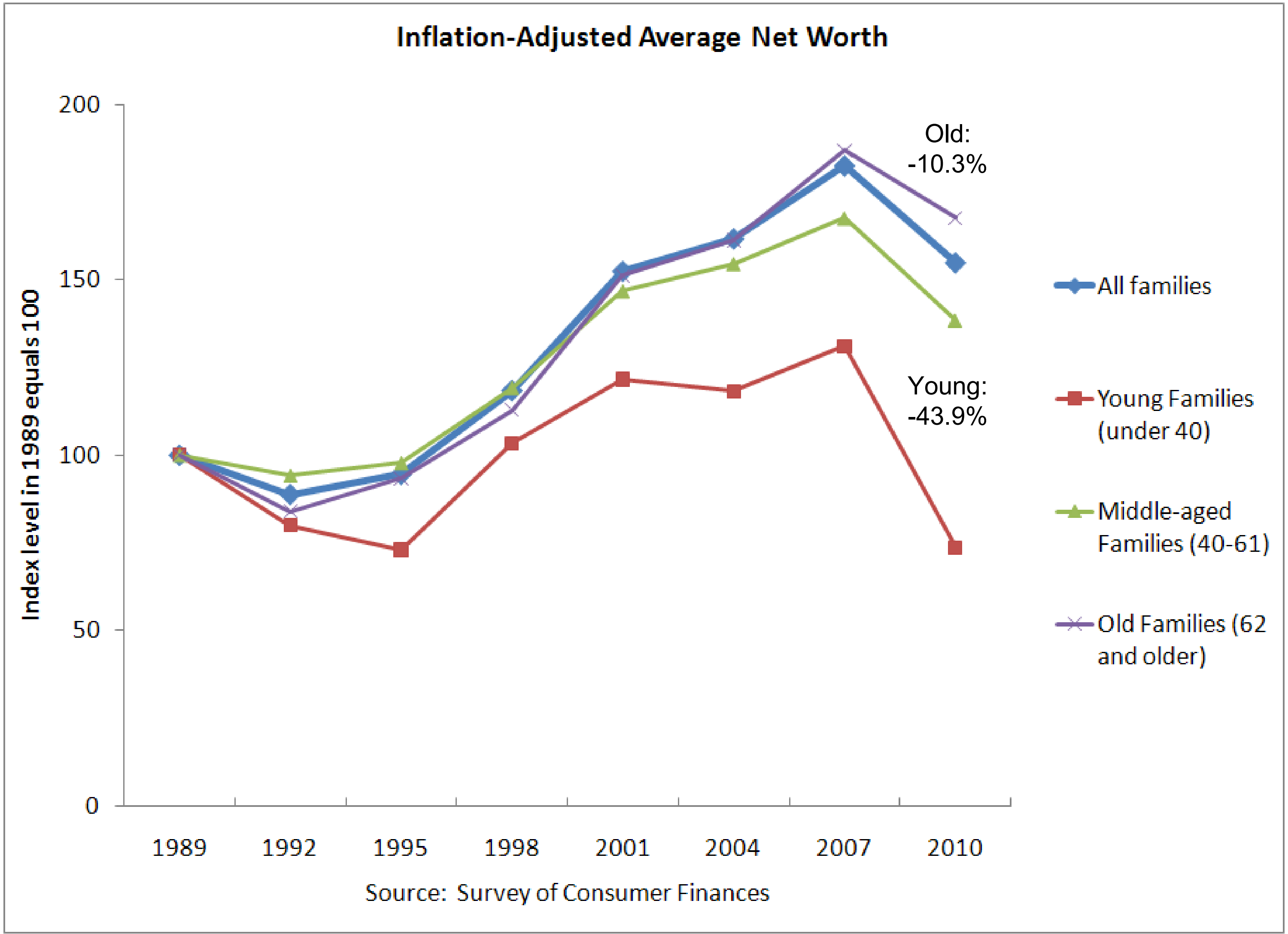
The Average Young Family's Portfolio Was Unusually Concentrated in Housing



The Average Young Family Had Very High Balance-Sheet Leverage



Result: Young Families Lost the Most Wealth During the Crisis

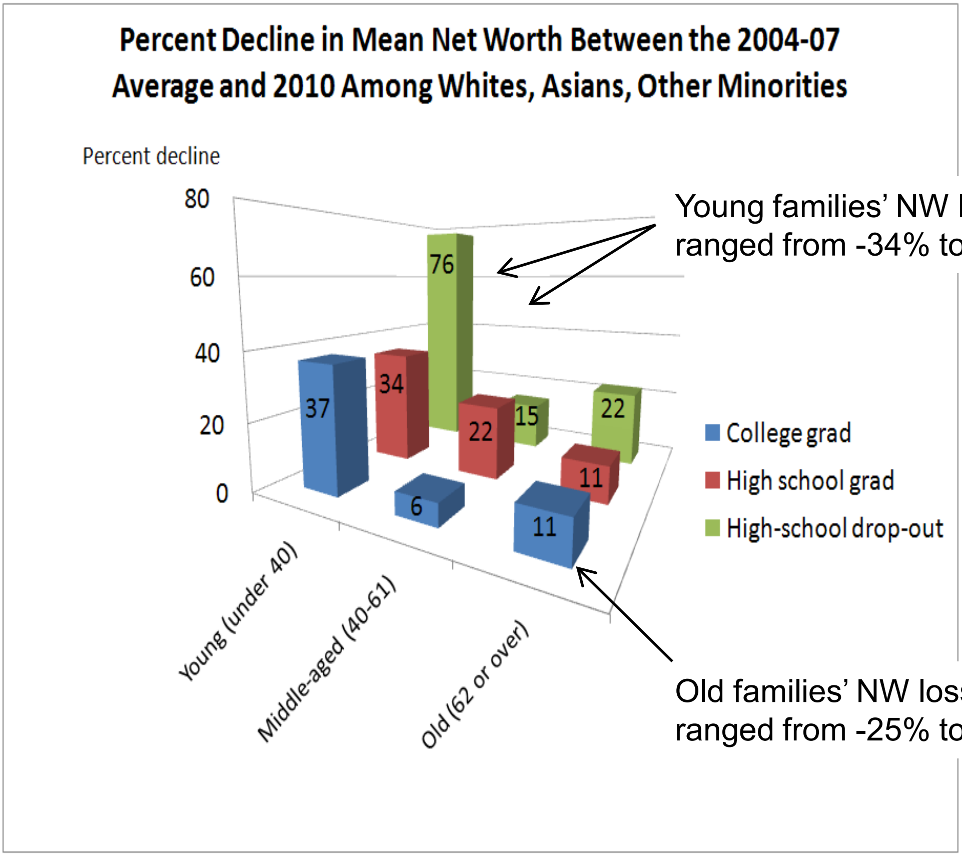


Young Families Lost Much Larger Share of Wealth, Primarily Due to Housing

	Young (< 40)	Middle-aged (40-61)	Old (62+)
Average change in net worth, 2007-10 (inflation-adjusted)	-$68,071	-$121,847	-$92,748
Average percent change in net worth, 2007-10 (infl. adj.)	-43.9%	-17.4%	-10.3%
Average 2007-10 change in residential real estate as fraction of total 2007-10 net-worth change	74.9%	53.2%	39.6%

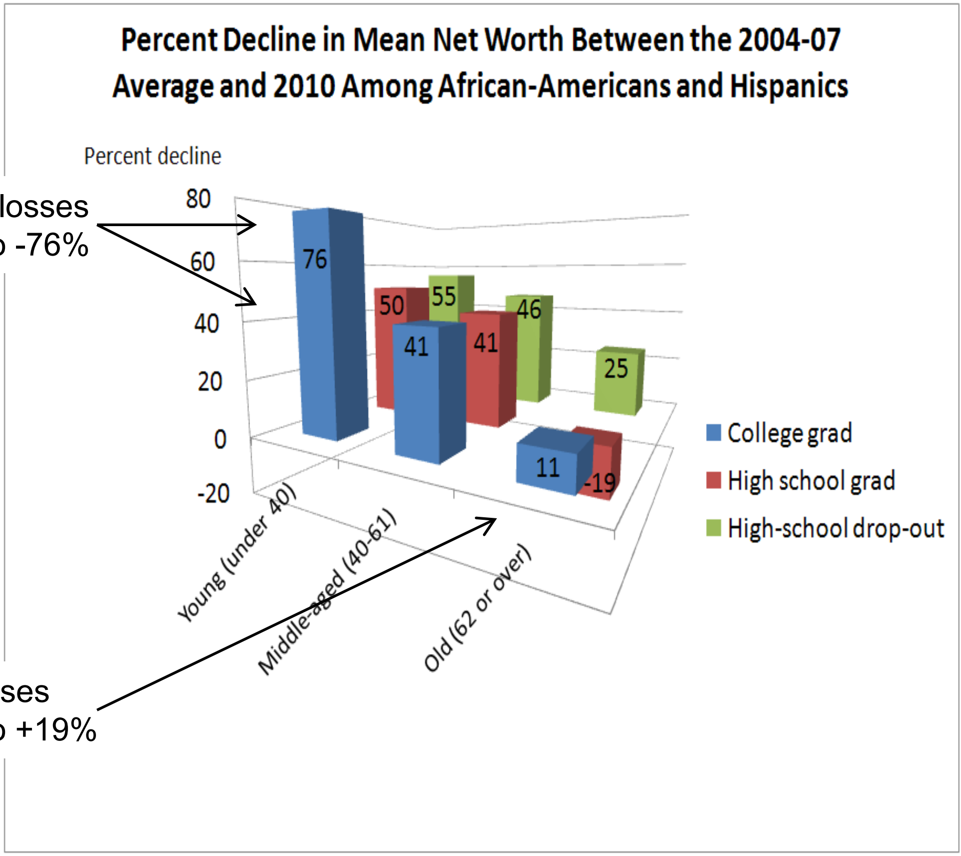
Source: Emmons and Noeth, 2013

African-Americans and Hispanics Lost More Wealth Overall, But Youth Dominates



Young families' NW losses ranged from -34% to -76%

Old families' NW losses ranged from -25% to +19%



Regression #1: Young Families' Home-ownership Rate Abnormally High in 2007

	Logistic Regression: Dependent Variable = Have Residential Real Estate Assets	Demographic	Idiosyncratic	Both
		(1)	(2)	**(3)**
	Intercept	1.547***	0.831***	**1.563*** **
Education	Less-than-high school dummy (High school or GED omitted)	-0.622***		**-0.608*** **
Education	College grad dummy (High school or GED omitted)	0.831***		**0.655*** **
Age	Age under 40 dummy (aged 40-61 omitted)	-1.677***		**-1.776*** **
Age	Age 62 or older dummy (aged 40-61 omitted)	0.398***		**0.317*** **
Race/ ethnicity	Member of historically disadvantaged minority dummy (white or non-disadvant. minority omitted)	-1.056***		**-1.095*** **
Idiosync	Married deviation		0.740***	**0.805*** **
Idiosync	Number of kids deviation (Normalized)		0.174***	**0.193*** **
Idiosync	Square root of income deviation (Normalized)		0.837***	**0.814*** **
Idiosync	Saved within the last year dummy deviation		0.331***	**0.354*** **
Year	1995 Dummy (1992 omitted)	0.073	0.853***	**0.091**
Year	1998 Dummy (1992 omitted)	-0.135*	0.645***	**-0.123**
Year	2001 Dummy (1992 omitted)	-0.136*	0.661***	**-0.075**
Year	2004 Dummy (1992 omitted)	-0.064	0.721***	**0.006**
Year	2007 Dummy (1992 omitted)	-0.059	0.747***	**-0.035**
Young/yr	1995 Interacted with Young (1992 omitted)	0.054	-1.746***	**0.117**
Young/yr	1998 Interacted with Young (1992 omitted)	0.079	-1.795***	**0.119**
Young/yr	2001 Interacted with Young (1992 omitted)	0.136	-1.780***	**0.122**
Young/yr	2004 Interacted with Young (1992 omitted)	0.117	-1.771***	**0.129**
Young/yr	**2007 Interacted with Young (1992 omitted)**	0.263**	-1.640***	**0.334** **
	Number of observations	25889	25885	25885
	Unweighted Regressions using RII techniques. *, **, and *** signify significance at .1, .05, and .01 levels, respectively. The deviation variables are deviations from weighted mean within the smallest demographic subgroup for age, race, and education level.			

Regression #2: Young Families' RRE Concentration Abnormally High in 2007

	Tobit Regression: Dependent Variable = Real Estate Portfolio Share	Demographic	Idiosyncratic	Both
		(1)	(2)	(3)
	Intercept	0.369***	0.286***	**0.375*** **
Education	Less-than-high school dummy (High school or GED omitted)	-0.027***		**-0.030*** **
Education	College grad dummy (High school or GED omitted)	-0.020***		**-0.020*** **
Age	Age under 40 dummy (aged 40-61 omitted)	-0.191***		**-0.195*** **
Age	Age 62 or older dummy (aged 40-61 omitted)	-0.006		**0.002**
Race/ ethnicity	Member of historically disadvantaged minority dummy (white or non-disadvant. minority omitted)	-0.125***		**-0.129*** **
Idiosync	Married deviation		0.155***	**0.153*** **
Idiosync	Number of kids deviation (Normalized)		0.036***	**0.037*** **
Idiosync	Square root of income deviation (Normalized)		-0.011***	**-0.012*** **
Idiosync	Saved within the last year dummy deviation		0.012**	**0.010**
Year	1995 Dummy (1992 omitted)	-0.003	0.054***	**-0.007**
Year	1998 Dummy (1992 omitted)	-0.030***	0.028**	**-0.031*** **
Year	2001 Dummy (1992 omitted)	-0.036***	0.022*	**-0.035*** **
Year	2004 Dummy (1992 omitted)	0.009	0.067***	**0.012**
Year	2007 Dummy (1992 omitted)	0.019*	0.076***	**0.017**
Young/yr	1995 Interacted with Young (1992 omitted)	0.021	-0.179***	**0.024**
Young/yr	1998 Interacted with Young (1992 omitted)	-0.017	-0.223***	**-0.014**
Young/yr	2001 Interacted with Young (1992 omitted)	0.005	-0.202***	**0.006**
Young/yr	2004 Interacted with Young (1992 omitted)	0.019	-0.192***	**0.017**
Young/yr	**2007 Interacted with Young (1992 omitted)**	0.041*	-0.167***	**0.047** **
	_Sigma	0.422***	0.413***	**0.411*** **
	Observations	25889	25885	25885
	Censored	6728	6728	6728

Unweighted Regressions using RII techniques. *, **, and *** signify significance at .1, .05, and .01 levels, respectively.
Deviations from weighted mean within the smallest demographic subgroup for age, race, and education level.

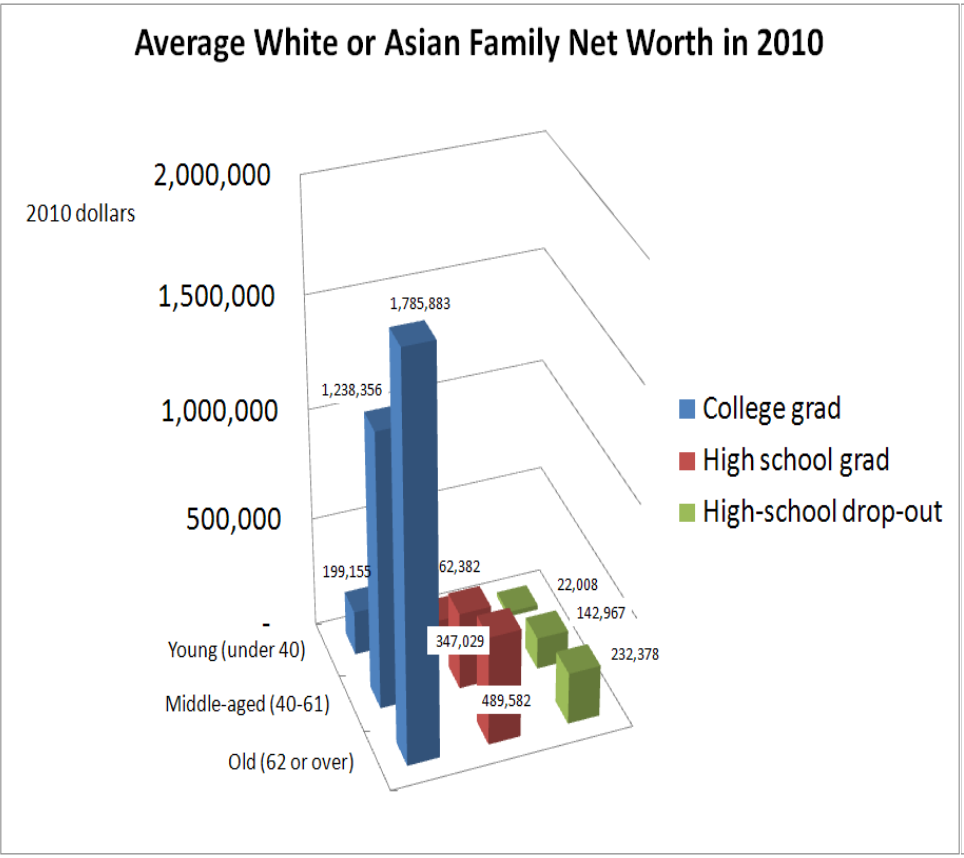
Regression #3: All Families' Leverage Abnormally High in 2004-07; Young the Highest

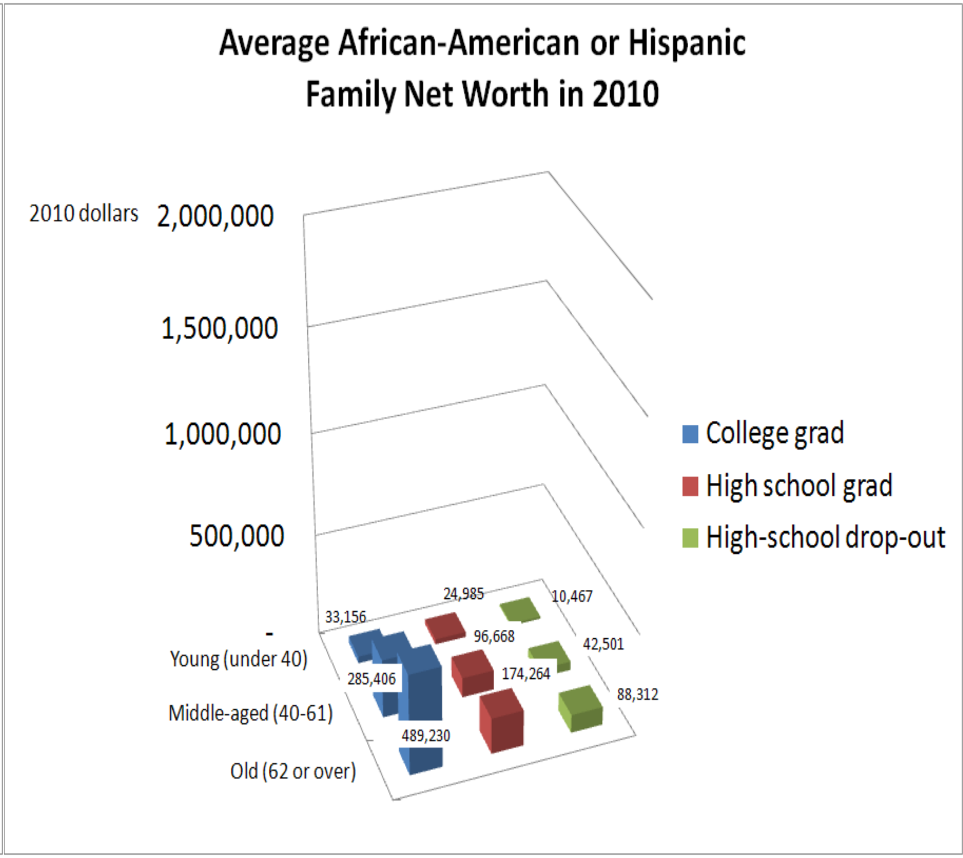
	Tobit Regression: Dependent Variable = Debt to Asset Ratio	Demographic	Idiosyncratic	Both
		(4)	(5)	(6)
	Intercept	0.142***	0.175***	**0.173*** **
Education	Less-than-high school dummy (High school or GED omitted)	-0.070***		**-0.076*** **
Education	College grad dummy (High school or GED omitted)	-0.053***		**-0.033*** **
Age	Age under 40 dummy (aged 40-61 omitted)	0.368***		**0.347*** **
Age	Age 62 or older dummy (aged 40-61 omitted)	-0.428***		**-0.405*** **
Race/ ethnicity	Member of historically disadvantaged minority dummy (white or non-disadvant. minority omitted)	0.100***		**0.087*** **
Idiosync	Married deviation		-0.007	**0.000**
Idiosync	Number of kids deviation (Normalized)		0.028***	**0.023*** **
Idiosync	Square root of income deviation (Normalized)		-0.026***	**-0.020*** **
Idiosync	Saved within the last year dummy deviation		-0.164***	**-0.167*** **
Year	1995 Dummy	0.031	-0.120***	**0.031**
Year	1998 Dummy	0.023	-0.114***	**0.022**
Year	2001 Dummy	0.009	-0.131***	**0.001**
Year	2004 Dummy	0.068***	-0.061***	**0.069*** **
Year	2007 Dummy	0.076***	-0.067***	**0.075*** **
Young/yr	1995 Interacted with Young	-0.051	0.441***	**-0.054**
Young/yr	1998 Interacted with Young	0.012	0.495***	**0.013**
Young/yr	2001 Interacted with Young	-0.006	0.481***	**-0.000**
Young/yr	2004 Interacted with Young	-0.036	0.439***	**-0.041**
Young/yr	**2007 Interacted with Young**	0.048	0.542***	**0.047**
	_Sigma	0.754***	0.759***	0.745***
	Observations	25115	25111	25111
	Censored	6371	6369	6369
	Unweighted Regressions using RII techniques. *, **, and *** signify significance at .1, .05, and .01 levels, respectively. Deviations from weighted mean within the smallest demographic subgroup for age, race, and education level.			

Implications for the Future

- Many young families compounded their inerent economic vulnerability with risky financial choices.
  - Rapid increase in homeownership rates.
  - Highly concentrated in housing.
  - High balance-sheet leverage.
- The financial damage inflicted by the crisis on young families will take years to heal and will affect the entire housing market and the economy.
- Age-based housing and financial counseling may be appropriate.

Appendix: Pre-Crisis Wealth Disparities Were Re-inforced by Crisis Losses





Appendix: Ratio of African-American or Hispanic Wealth to Non-Minority Wealth