FEDERAL RESERVE SYSTEM COMMUNITY DEVELOPMENT RESEARCH CONFERENCE
RESILIENCE & REBUILDING FOR LOW-INCOME COMMUNITIES:
RESEARCH TO INFORM POLICY AND PRACTICE
APRIL 11-12, 2013

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

Presenter: William Emmons, Federal Reserve Bank of St. Louis

William Emmons is an assistant vice president and economist at the Federal Reserve Bank of St. Louis. He conducts research and policy analysis and speaks frequently on the economy, housing and mortgage markets, banking, financial markets, financial regulation, and household financial conditions. Emmons has been with the St. Louis Fed since 1995. He also serves as an adjunct professor of finance at the John M. Olin Business School at Washington University in St. Louis. Prior to those positions, he was on the faculty of the Amos Tuck School of Business at Dartmouth College. Emmons received a PhD in finance from the J.L. Kellogg School of Management at Northwestern University and bachelor's and master's degrees from the University of Illinois at Urbana-Champaign.

Coauthor: Bryan Noeth, Federal Reserve Bank of St. Louis

Summary and Findings: Using the Federal Reserve Board Survey of Consumer Finances, we document a boom in homeownership and mortgage borrowing among young families in the years leading up to the financial crisis. Many young households subsequently lost a great deal of wealth during the downturn compared to middle-aged and older households on a percentage basis. We find that about three-quarters of the average young family's wealth decline between 2007 and 2010 was due to its exposure to residential real estate. For middle-aged and older households, housing losses contributed about 53 percent and 40 percent of the total, respectively. Regression data suggest that young households, on average, were unusually highly concentrated in housing and had extremely high debt burdens at the peak of the boom.

Implications for Policy and Practice: Our findings show that young families, which we define as those headed by someone under 40, were affected by the boom and bust in housing and mortgage markets more than older age groups. Even before the boom, young families that chose to become homeowners typically had higher balance-sheet leverage and greater portfolio concentration in housing than older homeowners, making them more vulnerable to a housing-market decline. We find that the boom amplified the extent and degree of exposure by young families to a housing bust, which, in the event, was the most devastating since the Great Depression. This research provides strong evidence that young families are particularly vulnerable to housing cycles and precrisis trends increased that exposure. The work, therefore, provides an empirical foundation on which to construct homeownership policies and counseling strategies that will enhance young families' financial stability through future cycles.