



Re-inventing Older Communities
Tools to Achieve Greater Equity and More Inclusive Growth

Building a Healthy Household Balance Sheet

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Building A Healthy Household Balance Sheet

- **The Center for Household Financial Stability**
- **What is a healthy household balance sheet?**
- **Why does it matter for older communities?**
- **Tools to strengthen household balance sheets**



The St. Louis Fed's Center for Household Financial Stability

- **A research and policy initiative of the Federal Reserve Bank of St. Louis: www.stlouisfed.org/hfs.**
- **Our analytical framework: Isolate the demographic drivers of household financial choices and outcomes**
 - **Age: Life-cycle and birth-year cohort effects**
 - **Educational attainment: The impact of genetic and social endowments**
 - **Race and ethnicity: The roles of culture, privilege, and cumulative advantage or disadvantage**



What Is A Healthy Household Balance Sheet?

- **Characteristics of a healthy balance sheet**
 - Adequate liquid assets (or access to low-cost credit) to handle emergencies
 - Broad asset diversification to withstand asset-price volatility, such as the housing crash
 - Low or no debt to avoid financial distress
- **Characteristics of an unhealthy balance sheet**
 - Low or no liquid assets
 - No access to low-cost credit
 - No or undiversified assets
 - High ratios of debt to income or assets



The Connection Between Household Balance Sheets and Older Communities

- **Residents of older communities typically include...**
 - **More older and sometimes younger people than in newer communities**
 - **More people without college degrees**
 - **More members of historically disadvantaged minorities, including African Americans and Hispanics**

- **Our research focuses precisely on the balance sheets of these groups, whose (non-elderly) members are...**
 - **More economically vulnerable (job and income insecurity)**
 - **More financially fragile (financial insecurity)**
 - **More likely to benefit from building stronger household balance sheets**



The Payoffs

- **Weak balance sheets lead to...**
 - **Financial insecurity or default, which can destroy families and harm children.**
 - **Communities weakened by clustered foreclosures.**
 - **The worst financial and economic crisis since the Great Depression.**

- **Stronger household balance sheets in older communities can lead to...**
 - **Economic stability and upward mobility for families and children.**
 - **More stable and resilient communities.**
 - **A growing economy with widespread prosperity.**



Economically Vulnerable Groups Have Few Liquid Assets

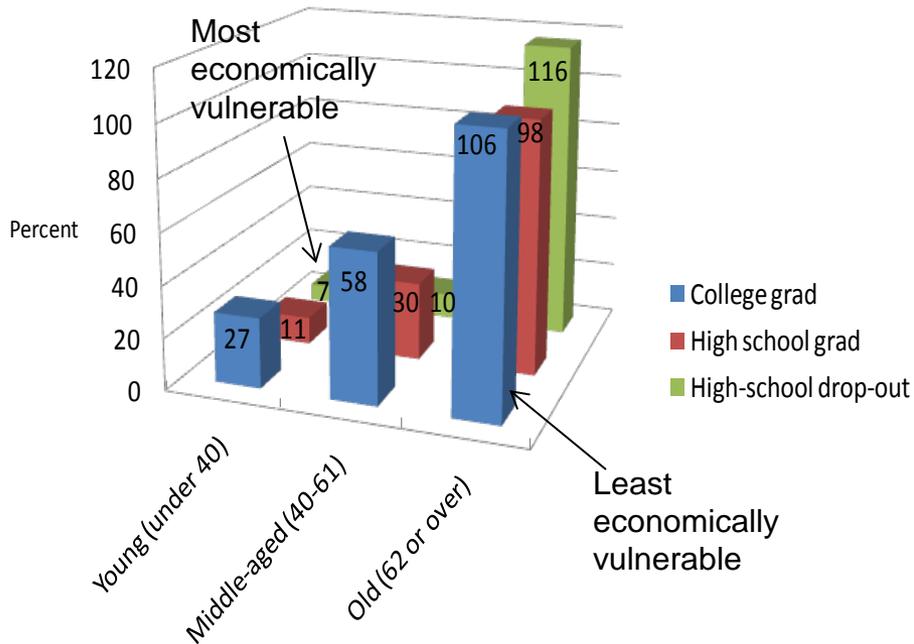
Demographic Influences on Balance Sheets

Demographic group	<i>Marginal effect of belonging to a demographic group on:</i>		
	Safe and liquid assets relative to annual income	Share of assets invested in housing	Ratio of total debt to total assets
Young families (< 40 years old)	-16%age pts vs. mid -82%age pts vs. old		
High-school drop-out families	-16%age pts vs. HS -34%age pts vs. coll		
African-Americans and Hispanics	-20%age pts vs. whites and Asians		

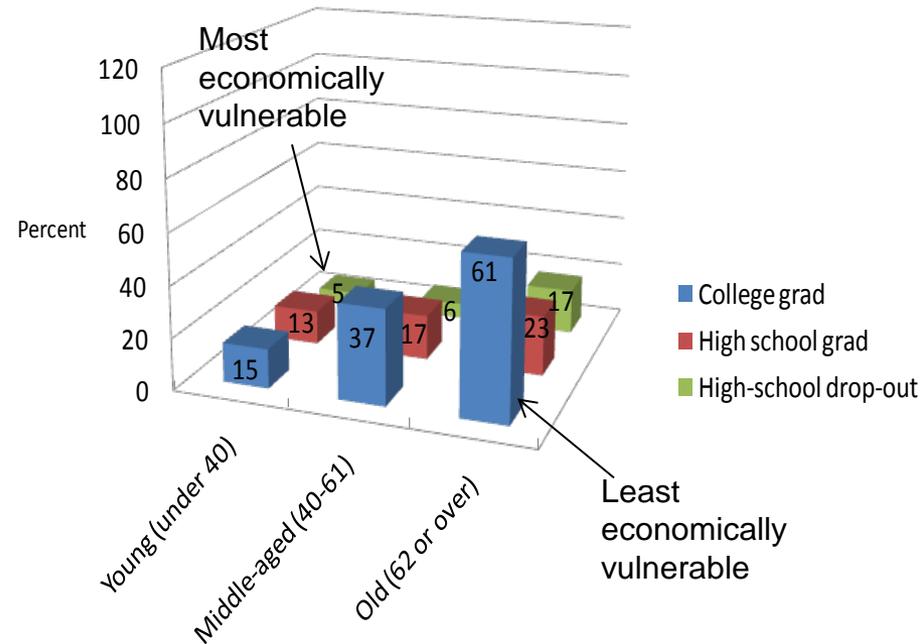


Ratio of Safe and Liquid Assets to Income

Ratio of Safe Liquid Assets to Family Income in 2007 Among Whites, Asians, and Other Non-Disadvantaged Minorities



Ratio of Safe Liquid Assets to Family Income in 2007 Among African-Americans and Hispanics





Economically Vulnerable Groups Are Concentrated in Housing

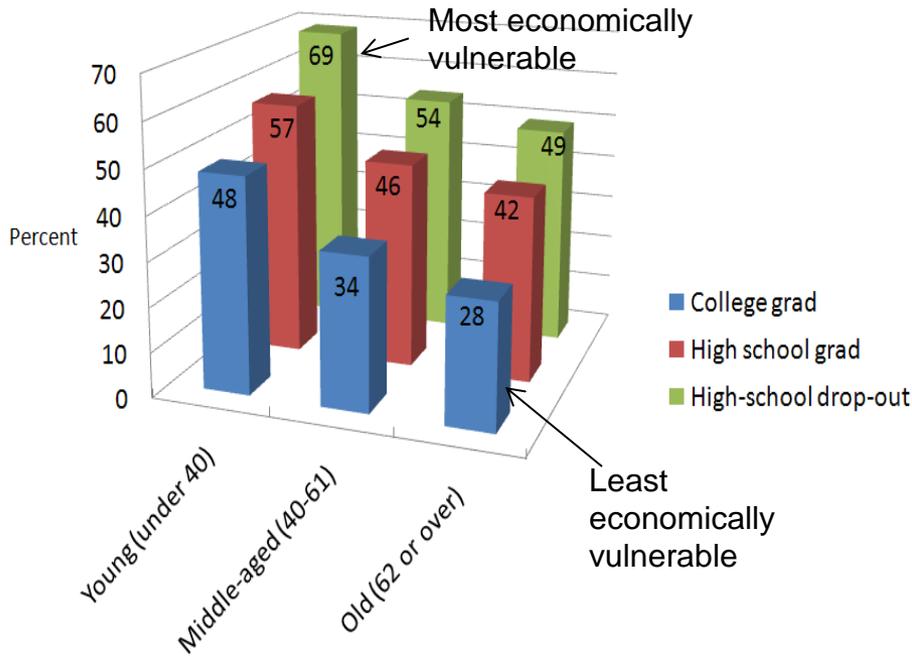
Demographic Influences on Balance Sheets

Demographic group	<i>Marginal effect of belonging to a demographic group on:</i>		
	Safe and liquid assets relative to annual income	Share of assets invested in housing	Ratio of total debt to total assets
Young families (< 40 years old)	-16%age pts vs. mid	+13%age pts vs. mid	
	-82%age pts vs. old	+16%age pts vs. old	
High-school drop-out families	-16%age pts vs. HS	+9%age pts vs. HS	
	-34%age pts vs. coll	+22%age pts vs. coll	
African-Americans and Hispanics	-20%age pts vs. whites and Asians	+14%age pts vs. whites and Asians	

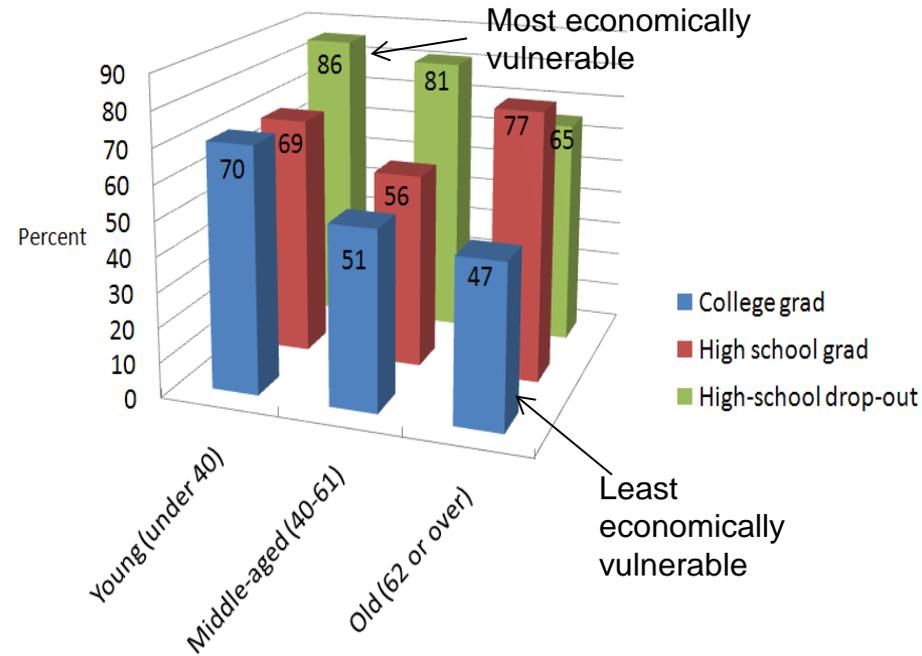


Residential Real-Estate Portfolio Shares

Residential Real-Estate Portfolio Shares in 2007 Among Whites, Asians, and Other Minorities



Residential Real-Estate Portfolio Shares in 2007 Among African-Americans and Hispanics





Economically Vulnerable Groups Owe A Lot of Debt

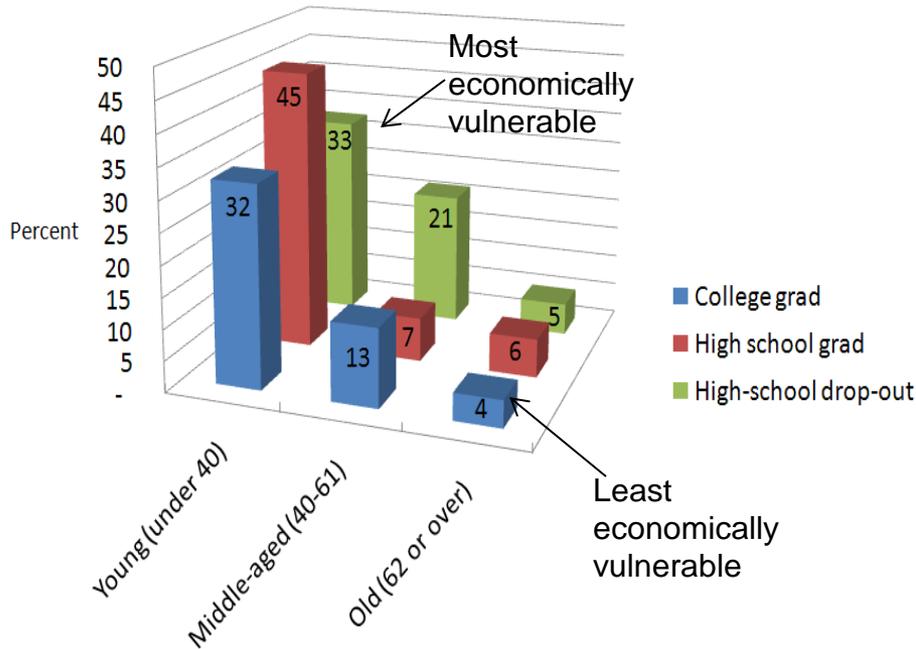
Demographic Influences on Balance Sheets

Demographic group	<i>Marginal effect of belonging to a demographic group on:</i>		
	Safe and liquid assets relative to annual income	Share of assets invested in housing	Ratio of total debt to total assets
Young families (< 40 years old)	-16%age pts vs. mid	+13%age pts vs. mid	+32%age pts vs. mid
	-82%age pts vs. old	+16%age pts vs. old	+50%age pts vs. old
High-school drop-out families	-16%age pts vs. HS	+9%age pts vs. HS	-4%age pts vs. HS
	-34%age pts vs. coll	+22%age pts vs. coll	-1%age pts vs. coll
African-Americans and Hispanics	-20%age pts vs. whites and Asians	+14%age pts vs. whites and Asians	+7%age pts vs. whites and Asians

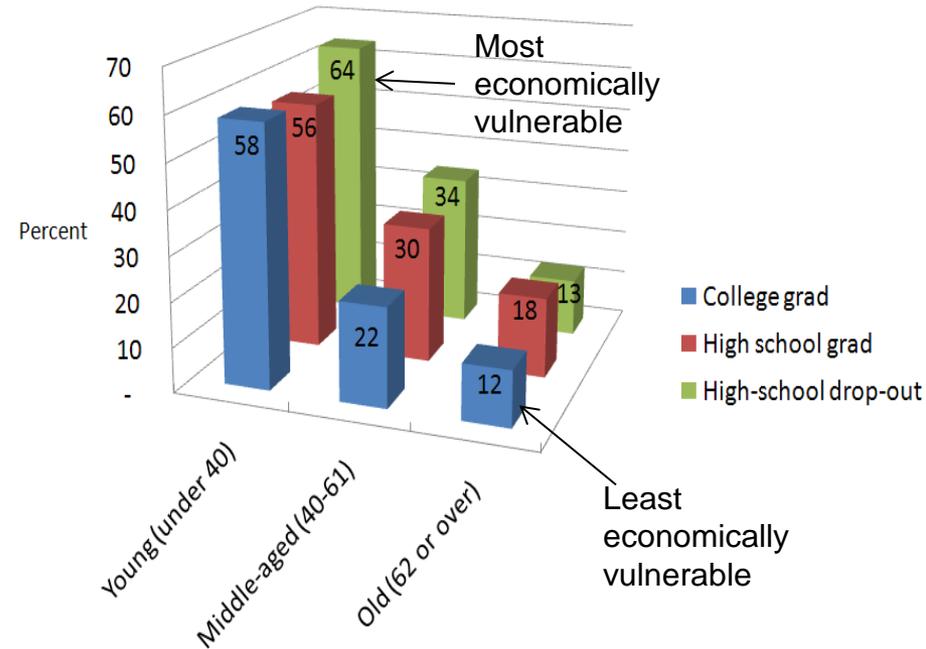


Ratio of Total Debt to Total Assets

Ratio of Total Debt to Total Assets in 2007 Among Whites, Asians, and Other Non-Disadvantaged Minorities



Ratio of Total Debt to Total Assets in 2007 Among African-Americans and Hispanics





First Step: Construct A Simple Household Balance Sheet

Net-Worth Calculation Worksheet

An important step in gaining financial control is to calculate your net worth (assets - debts). Every year, your net worth should be tabulated to review your progress and compare it with your financial goals. In addition, a net-worth statement is a valuable aid in planning your estate and establishing a record for loan and insurance purposes.

Assets (What You Own)

Cash:

Cash On Hand _____

Checking Account _____

Savings Accounts _____

Money Market Funds _____

Cash Value of Life Insurance _____

Other _____

Real Estate/Property:

Home _____

Land _____

Other _____

Investments: (*Market Value*)

Certificates of Deposit _____

Stocks _____

Bonds _____

Mutual Funds _____

Annuities _____

IRAs _____

401(k), 403(b), 457 Plans _____

Pension Plan _____

Other _____

Personal Property: (*Present Value*)

Automobiles _____

Recreational Vehicle/Boat _____

Home Furnishings _____

Appliances and Furniture _____

Collections _____

Jewelry and Furs _____

Other _____

Total Assets _____

Liabilities (What You Owe)

Current Debts:

Household _____

Medical _____

Credit Cards _____

Department Store Cards _____

Back Taxes _____

Legal _____

Other _____

Mortgages:

Home _____

Land _____

Other _____

Loans:

Bank/Finance Company _____

Bank/Finance Company _____

Automobile _____

Recreational Vehicle/Boat _____

Education _____

Life Insurance _____

Personal (from family or friends) _____

Other _____

Total Liabilities _____

Total Assets Minus Total Liabilities = Net Worth _____



Tools to Strengthen Household Balance Sheets

- **Develop a plan to increase liquid assets**
 - Best approach—regular saving in a bank or credit union
 - Low-interest savings account pays off in the long run
 - Learn how to improve your credit score
- **Diversify asset holdings**
 - Everyone should own financial assets, such as mutual funds
 - Homeownership is the result of a strong balance sheet, not the source
- **Keep borrowing to a minimum**
 - Save and build liquid assets to minimize need to borrow
 - Anticipate borrowing needs and shop for a good loan
 - Repay loans diligently—paying down debt is one of the best ways to save and build a healthy balance sheet!