AMERICA'S HOUSEHOLD BALANCE SHEET

The State of Lending in America & its Impact on U.S. Households

M William Sermons

December 2012

CENTER FOR RESPONSIBLE LENDING

www.responsiblelending.org

America's Household Balance Sheet

This section presents a picture of the overall financial status of consumers today in terms of income, spending, debts, and wealth. It is based on data from the Consumer Expenditure Survey, the Survey of Consumer Finances and other national data sources. These sources reveal that **since 2000, American families have faced declining real incomes because of high unemployment and stagnant wages, as well as a higher cost of living that has led to greater debt levels and declining assets and wealth.**

Over the past decade, American families have struggled to resist losing economic ground, a situation exacerbated by the deep recession and slow recovery. Many families have experienced a precipitous loss of wealth because of the housing crash, which was sparked by high-risk subprime mortgages. Others have been targeted by lenders and brokers offering high-cost, often deceptive loan products, that leave them worse off. In many cases these borrowers could have qualified for better, more affordable products. High unemployment and underemployment, stagnant wages for the employed, increasing non-discretionary expenses, and limited access to responsible credit have also contributed to significant losses for the typical household. The result is a loss of wealth by households of all races and unprecedented wealth disparities between white households and African-American or Hispanic households (Kochhar, Fry, & Taylor, 2011). All of this comes at a time when the American worker has delivered consistently increasing productivity with little increase in compensation to show for it (Fleck, Glaser, & Sprague, 2011).

After households pay for housing, utilities, food, health care, debt payments, and other expenses, the typical U.S. family has just $100 left each month.

The impact of these economic circumstances has been devastating for the typical American household. The most recent available data from the Consumer Expenditure Survey and the Survey of Consumer Finances show that the typical American household has very little economic breathing room (Table 1). After households pay for housing, utilities, food, health care, debt payments (not including mortgage or auto payments), and other expenses, the typical U.S. family has just $100 left each month. This is enough, perhaps, to meet their expected monthly obligations, but not nearly enough to manage a major unexpected expense or to save for college, retirement, or a down payment for a home purchase.

Table 1. Financial Snapshot of a Typical American Household[1]

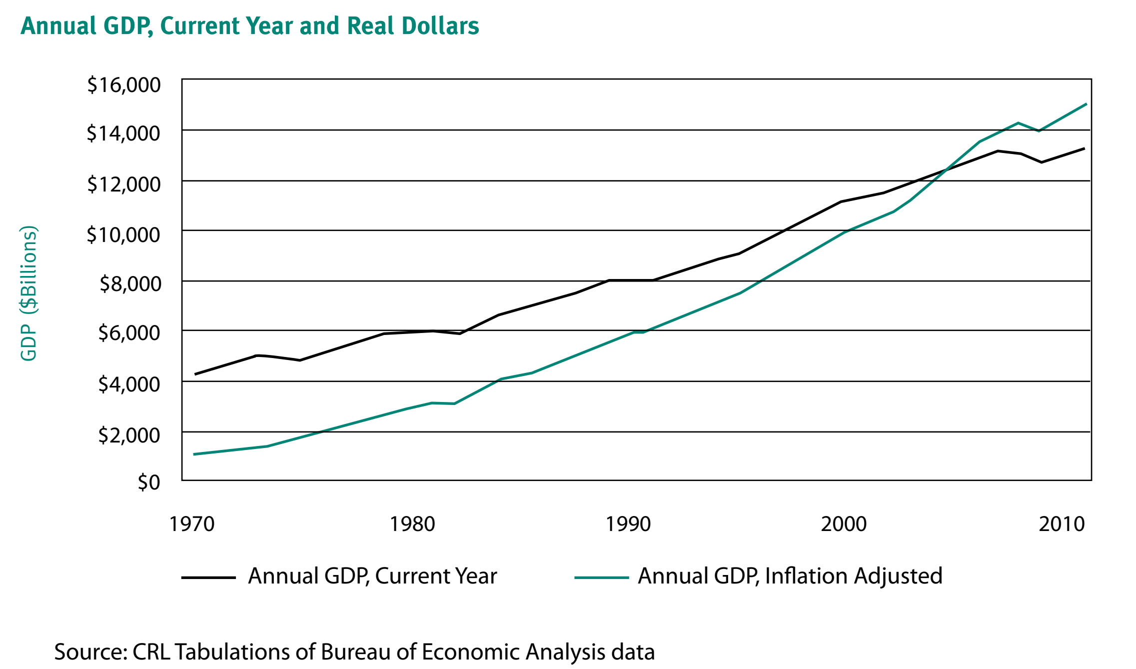
Item	Value ($)
Yearly Income[2] (less taxes and insurance/pension contributions)	$41,516
Annual non–discretionary expenses	$(37,651)
• Housing (including upkeep and operation)	(11,455)
• Transportation	(7,160)
• Food	(5,596)
• Utilities	(3,603)
• Health Care	(3,068)
• Education (including reading)	(594)
• Other expenses (excluding alcohol, tobacco, entertainment)	(6,175)
Annual debt payments (excluding mortgage and auto)	($2,658)
Discretionary annual income	$1,207
Loss in home value, 2007 to 2010	$(19,622)
Loss in total net worth, 2007 to 2010	$(21,000)

The stagnant finances of American households are no surprise given the dismal performance of the U.S. economy since the middle of the last decade. Figure 1 shows the gross domestic product (GDP), the most commonly-used summary metric of U.S. economic health, from 1970 to 2011 in real (inflation-adjusted) dollars and nominal (non-inflation-adjusted) dollars. The flat real GDP growth and slow nominal growth since 2005 stands out from the trend of generally increasing GDP of the last 40 years. The 16.5% real growth between 2000 and 2010 is less than half the growth rate in each of the prior three decades. The decline in real and nominal GDP from 2007 to 2009 represented the first nominal decline in GDP in 60 years and the largest real decline since the Bureau of Economic Analysis began keeping statistics in 1929.

1 Income, expenses, net worth, and home values from 2010 Consumer Expenditure Survey (Bureau of Labor Statistics, 2000-10) and 2007 and 2010 Survey of Consumer Finances Chartbook (Federal Reserve, 2012) for households in the middle income quintile in both surveys. Loss in home values is an average for those with and without holdings.

2 Yearly income was based on data from the 2010 Consumer Expenditure Survey, Bureau of Labor Statistics (2000-10). From the 2010 income after taxes for the middle quintile of earners, personal insurance and pension contributions were subtracted to get the yearly income in the table.

Figure 1. U.S. Annual Gross Domestic Product, Current Year and Real Dollars, 1970 to 2011.



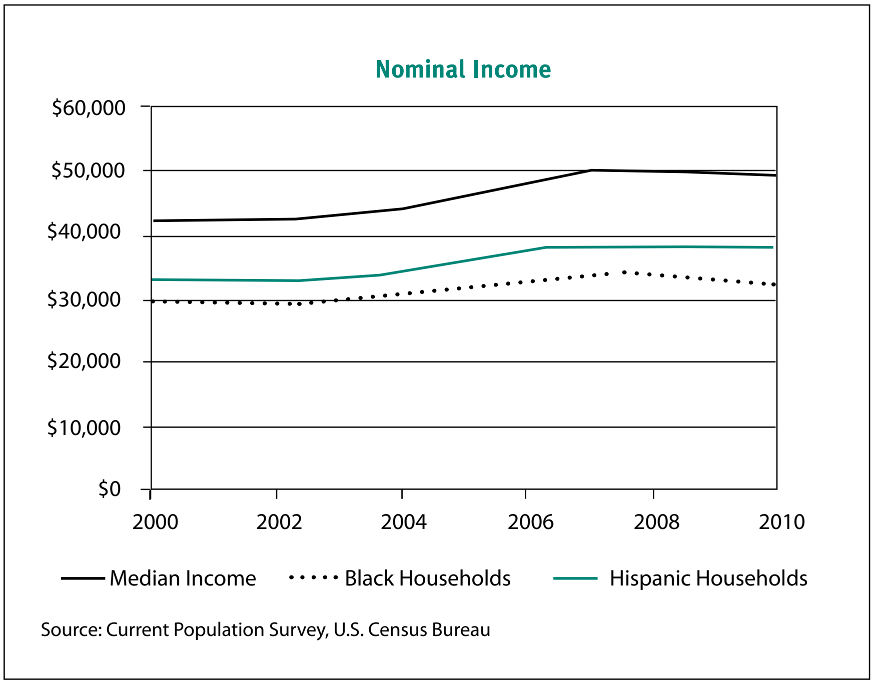
The primary cause of the decline in U.S. GDP was a decrease in consumer expenditures on goods and services, which accounts for about 70% of total U.S. economic activity (Bureau of Economic Analysis, 2012). The economic growth in the decades preceding and years following the recession of 2007–2009 was largely driven by increases in household consumption of goods and services. In order for the U.S. economy to grow again, individual households must find themselves in a position to increase their spending. This will be difficult as long as households continue to face stagnant incomes, increasing expenses, increasing levels of debt, and declining net worth.

Stagnant and Declining Incomes

The typical American family relies on the wages of one or two workers to pay rent, buy food and clothing, commute to and from work, pay for routine and emergency medical care, and otherwise meet their basic needs. Those who can afford to do so also use their wages to build wealth through home ownership, save for retirement, or send their children to college. Having incomes that keep pace with the rising costs of these basic and aspirational needs is essential to the future economic health of the American family.

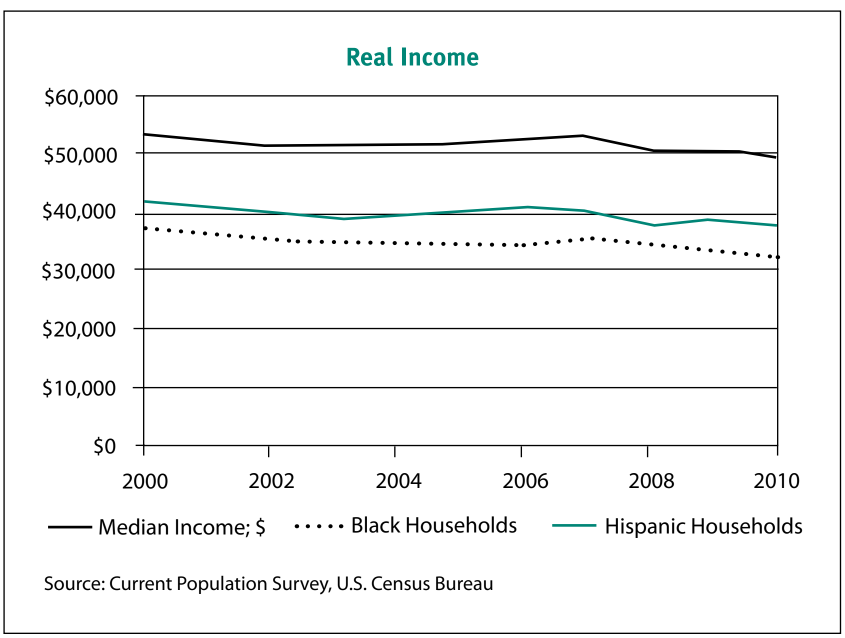
Though vital to Americans' current and future well–being, income growth (or even stability) has not occurred during the last decade. Although the typical household did bring in more nominal income in 2010 relative to 2000 (see Figure 2), all of the income growth was in the years leading up to the recession of 2007 to 2009. Nominal incomes declined throughout the years of the recession and continued to decline as the decade concluded.

Figure 2. U.S. Household Nominal Income, 2000 to 2010.



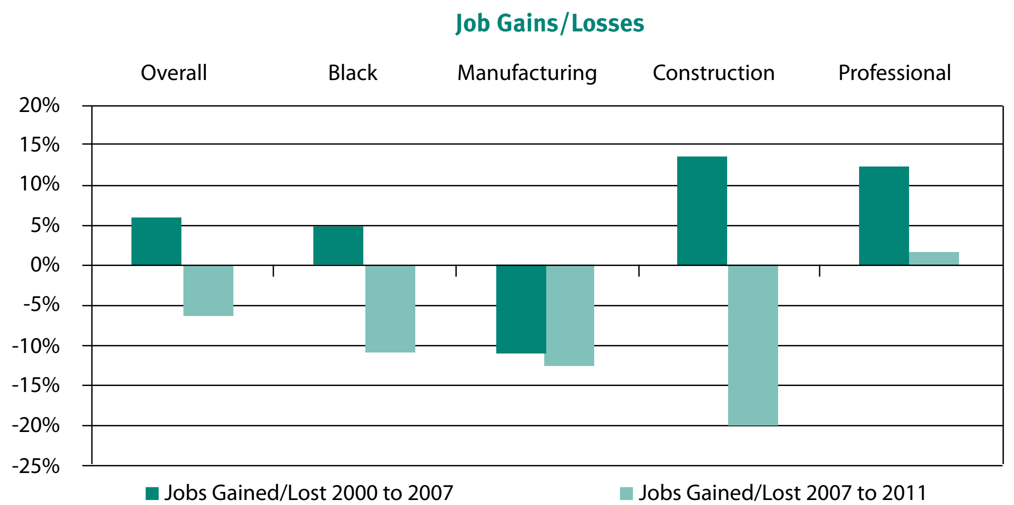
Moreover, nominal income growth paints too rosy a picture of income trends. **When controlling for inflation (see Figure 3), the typical household really had less annual income at the end of the decade than it did at the beginning.** What looked like income "growth" using nominal income at the beginning of the decade was actually a period of stagnant income and ultimately declining income at the end of the decade, when looking at real wages. And though workers made less as the decade progressed, their productivity increased by 20% (Jank & Owens, 2012). Workers appear to be benefitting less from productivity gains than in prior periods.

Figure 3. U.S. Household Real Income, 2000 to 2010.



Declines in income were particularly pronounced for African-American and Hispanic families. One reason for this is the disproportionate impact of job losses on African-American and Hispanic workers. While overall job gains from 2000 to 2007 were erased by the recession, African-American workers lost more than twice the number of jobs between 2007 and 2011 that they gained during the pre-recession part of the decade (see Figure 4). Industries upon which many African-American and Hispanic workers have relied for well-paying, stable employment—namely, manufacturing and construction—suffered job losses of 10% and 20%, respectively. And although the losses in construction followed a boom in the earlier part of the decade, job losses in manufacturing began well before the recession.

Figure 4. U.S. Job gains/losses by sector, 2000 to 2007 and 2007 to 2011.



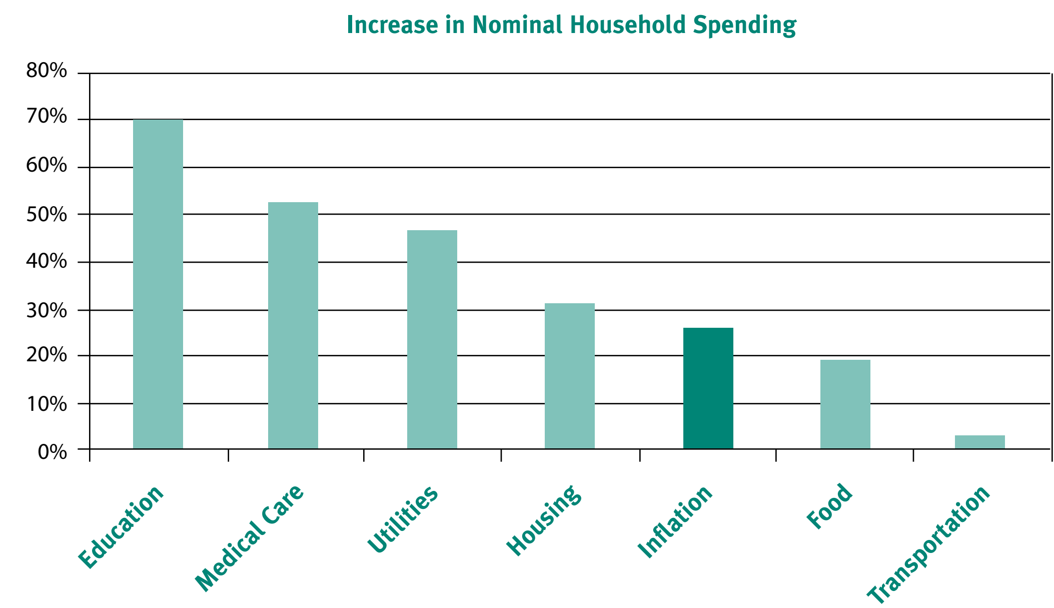
Source: CRL tabulation of Bureau of Labor Statistics employment data

Unemployment reached historic levels for workers of all ages during the recession, but changes in the level of participation in the labor market varied dramatically by age. Participation by workers 16–24 declined throughout the decade, and those declines accelerated during the recession. In contrast, participation by adults over 55 increased through all but the last years of the recession. Declines in retirement resources and lost wealth possibly kept older workers in the labor force longer than earlier cohorts of older workers (BLS, 2010). This longer-than-expected labor participation among older adults, combined with job losses across several sectors, helps to explain the higher unemployment and declining labor participation of younger workers.

Increasing Cost of Living

The declining real incomes of the last decade would not have been so hard on families if the cost of maintaining a household had also remained unchanged. While families would not have had resources to improve their standard of living, they would have at least been able to consume at the same level year after year. Instead, families were faced with increases in basic non-discretionary expenses like food, housing, transportation, medical care, and utilities (Figure 5) with no growth—or sometimes even decreases—in income to pay for these items.

Figure 5. Increase in nominal U.S. household spending by category, 2000 to 2010.



Source: Consumer Expenditure Survey, U.S. Bureau of Labor Statistics

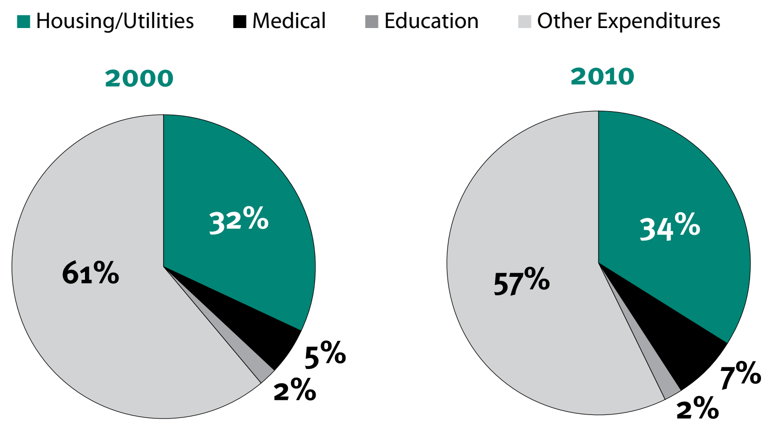
Education expenses were the fastest-growing category during this period, growing at over 2.5 times the rate of inflation from 2000 to 2010. And education costs were growing at a time when families were placing more emphasis on the value of a college degree. Most Americans view a college degree as "absolutely necessary" and the average in-state tuition has doubled in the last 25 years, creating an expense that is equal to almost 20% of a family's pre-tax income (Warren & Warren, 2004). For more information, see the student lending chapter of *State of Lending*.

Medical expenses have increased at twice the rate of inflation and have the potential to wreak havoc on household finances because they often are unexpected. In their study *Unfairness in Life and Lending,* Harvard researchers find that more than half of all low- and middle-income households attribute a portion of their credit card debt to medical expenses and that 60% of bankruptcies are medically-related.

Together, increases in the costs of medical care, education, and housing/utilities took up a larger fraction of household expenses in 2010 than they did in 2000 (see Figure 6). This has caused households to adjust and reduce their spending in other areas, such as clothing, housewares, entertainment, dining out, and personal care.[3] One consequence of the increasing costs of maintaining households has been that household formation has declined and the practice of households doubling-up, or living with friends, extended family, or other non-relatives due to economic hardship has increased over 50% from 2005 to 2010 (National Alliance to End Homelessness, 2012).

3 CRL analysis of *Consumer Expenditure Surveys* (BLS, 2000-10) shows that households reduced spending on clothing, housewares, entertainment, dining out, and personal care from 2008 to 2010.

Figure 6. Proportion of U.S. Household Expenditures for Housing/Utilities, Medical Expenses, Education, and other Expenses, 2000 and 2010



Source: Consumer Expenditure Survey, 2000 & 2010, U.S. Bureau of Labor Statistics.

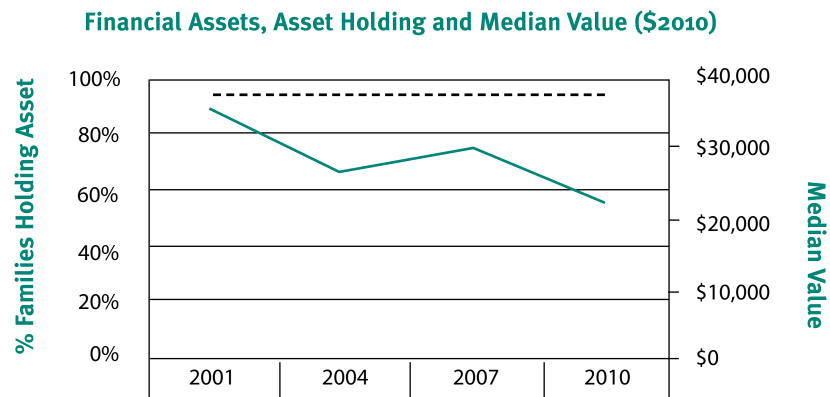
Declining Assets

While the majority of household expenses are covered by wages and social security or other retirement income, households also may rely on their assets to help meet financial obligations. This may include financial assets such as stocks, bonds, checking or savings accounts, and various forms of retirement accounts, as well as non-financial assets, such as a home or an automobile that can be sold or liquidated in some other way (e.g., through a home equity line of credit) in order to cover household obligations.

The decline in home prices has harmed millions of US households. Financially struggling homeowners often have been unable to sell their homes or refinance, and many have lost their home to foreclosure. Millions of others have lost some or all of the equity they had in their homes.

Data show that the recession depleted household assets. University of Michigan researchers found that households lost value in their homes and other financial assets and also used financial assets to deal with income loss (Stafford, Chen, & Schoeni, 2012). A review of the asset data in the Survey of Consumer Finances shows the same pattern. Figures 7 and 8 show the trend in asset holdings and the median value of held assets for the years 2001, 2004, 2007, and 2010. The data show that inflation-adjusted financial asset values have declined sharply since 2001, from $34,400 to $21,500, with the two declines from 2001 to 2004 and from 2007 to 2010 representing the largest percentage and absolute declines in financial asset values since the survey began in 1989.

Figure 7. U.S. Household Financial Asset Holding and Values, 2001 to 2010.

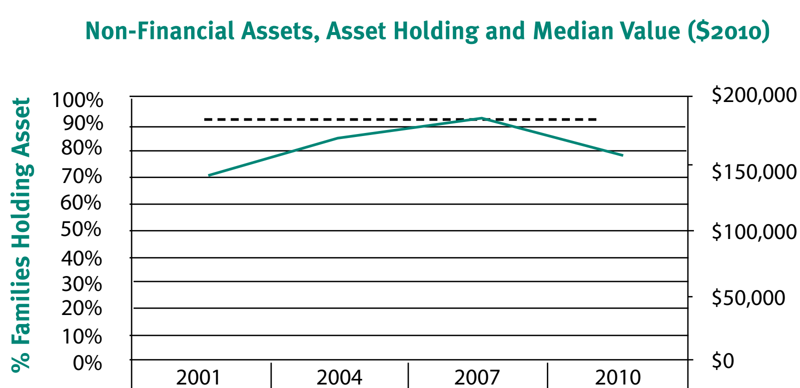


	2001	2004	2007	2010
% of Families	93.4%	93.8%	93.9%	94.0%
Value	$34,400	$26,600	$30,200	$21,500

Source: 2010 Survey of Consumer Finances Chartbook

The data also show that while non-financial assets increased in value through 2007, these values declined sharply from 2007 to 2010.

Figure 8. U.S. Household Nonfinancial Asset Holdings and Values, 2001 to 2010.

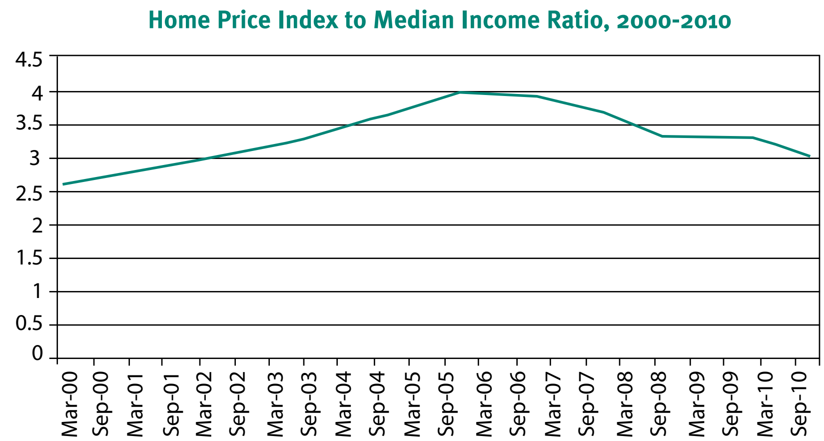


	2001	2004	2007	2010
% of Families	90.7%	92.5%	92.0%	91.3%
Value	$139,600	$170,600	$185,900	$154,600

Source: 2010 Survey of Consumer Finances Chartbook

As Figures 9 and 10 reveal, home values drove the rise and fall in non-financial assets from 2001 to 2010. The figures show how home values increased in the years leading up to the housing crisis and then fell precipitously beginning in early 2007. Home prices indexed to income fell by roughly 25% from their peak in 2006.

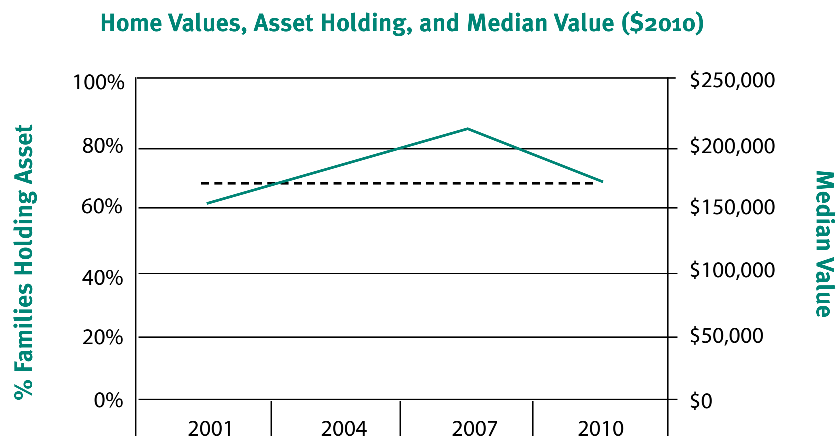
Figure 9. U.S. Home Prices Relative to Income, 2000-2010



Source: Zillow Price to Income Index. http://www.zillow.com/blog/research/2012/06/29/comparingprice-to-income-ratios-to-affordability-across-markets/

From 2007 to 2010, the median value of primary residences dropped from $209,500 to $170,000.

Figure 10. U.S. Household Home Holdings and Values, 2001 to 2010.



	2001	2004	2007	2010
--- % of Families	67.7%	69.1%	68.6%	67.3%
— Value	$151,300	$184,700	$209,500	$170,000

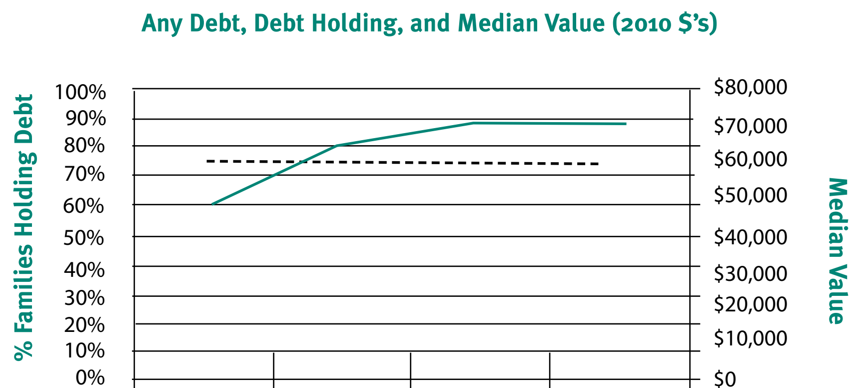
Source: 2010 Survey of Consumer Finances Chartbook

The decline in home prices has harmed millions of U.S. households, often in significant ways. Financially struggling homeowners many times have been unable to sell their homes even at lower prices or refinance into more affordable loans, and many have lost their homes through foreclosure. Since 2007, 10.9 million homes have gone into foreclosure, displacing families and launching them into short- and long-term financial devastation (for more information, see the mortgage chapter of *State of Lending*). In addition, millions of other homeowners have lost some or all of the equity they had in their homes prior to the crisis (Bocian, Smith, & Li, 2012). And the impact has been greater for African-American and Hispanic households, as described later in this report.

Increasing Levels of Debt

In the face of falling incomes, increasing expenses, and declining asset values, American households have responded in two ways. First, they reduced their spending: In inflation-adjusted terms, the average spending of households with incomes in the middle quintile of earners declined by 5% from $43,200 in 2000 to $41,200 in 2010 (BLS, 2000-10). Second, households took on additional debt. Figure 11 shows that median household debt values increased from 2001 to 2007 and then remained flat from 2007 to 2010.

Figure 11. U.S. Household Debt Holdings and Values, 2001 to 2010.



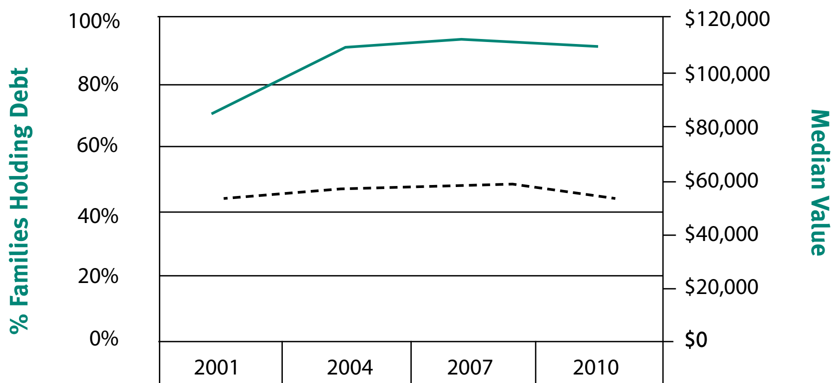
	2001	2004	2007	2010
---- % of Families	75.1%	76.4%	77.0%	74.9%
—— Value	$47,700	$63,800	$70,600	$70,700

Source: 2010 Survey of Consumer Finances Chartbook

Much of the increases in debt burden in the decade came in the form of larger mortgages, as the cost for new homes climbed between 2000 and 2007. Figure 12 shows increases in mortgage debt and the size of those mortgages between 2001 and 2004. The increases from 2001 to 2004, both in the percentage of households with mortgages and the median value of those mortgages, are the largest documented three-year increases since the Survey of Consumer Finances began in 1989. And while home values declined from 2007 to 2010, the value of the mortgages remained high, eating away at the net worth of American families.

Figure 12. U.S. Household Mortgage Debt Holdings and Values, 2001 to 2010.

Mortgages, Debt Holding, and Median Value ($2010)



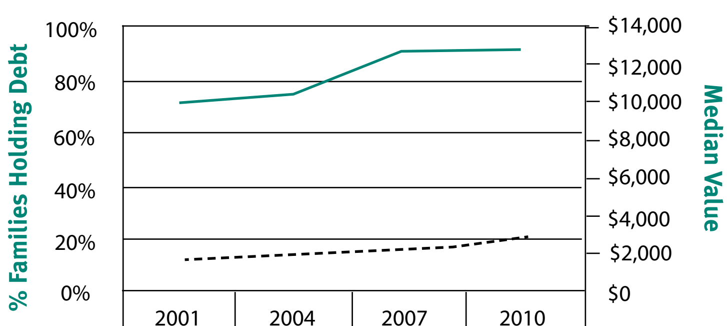
	2001	2004	2007	2010
--- % of Families	44.6%	47.9%	48.7%	47.0%
—— Value	$85,800	$109,300	$112,100	$109,600

Source: 2010 Survey of Consumer Finances Chartbook

Another area where debt has increased dramatically is student loans. In 2001, one in eight households had an educational installment loan. By 2010, one in five had such a loan. Over that same period, the median size of those loans increased from $9,700 to $13,000. That student loans and mortgages accounted for much of the rise in debt levels from 2001 to 2010 is unsurprising. Families chose to incur the kinds of debts that they reasonably expected to pay off in the form of increased future earnings from college degrees and increased home values and equity. The ongoing employment and housing crises mean that these investments have yet to pay off for many who made them. This holds particularly true for those in younger generations. Research by the Pew Research Center, for example, confirms that while student indebtedness has increased for all age groups since 2004, it has risen most sharply for households headed by someone under the age of 44 (Fry, 2012).

Figure 13. U.S. Household Student Loan Holdings and Values, 2001 to 2010.

Education Installment Loans, Debt Holding, and Median Value

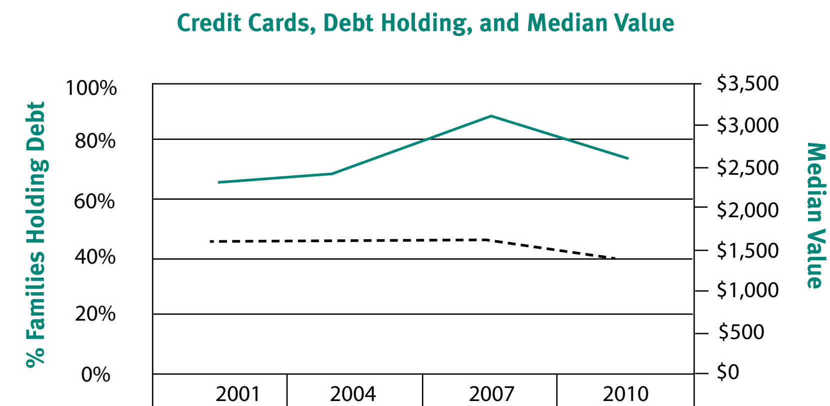


	2001	2004	2007	2010
--- % of Families	11.8%	13.3%	15.2%	19.2%
—— Value	$9,700	$10,400	$12,600	$13,000

Source: 2010 Survey of Consumer Finances Chartbook

While student loans and mortgages are areas where households increased their levels of debt, families have deleveraged in other areas in the years since 2009. As Figure 14 shows, fewer households had credit card balances in 2010 than in 2001. In fact, fewer households had balances than at any other time since before 1989. The size of consumers' credit card balances also decreased between 2007 and 2010, the only decrease since 1989.

Figure 14. U.S. Household Credit Card Holdings and Values, 2001 to 2010.

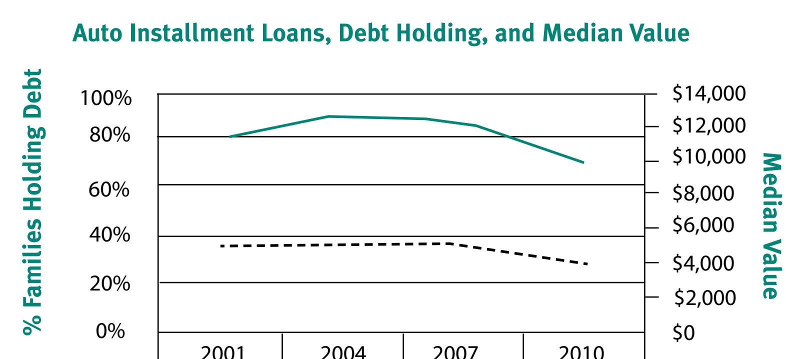


	2001	2004	2007	2010
- - - Holding	44.4%	46.2%	46.1%	39.4%
—— Value	$2,300	$2,500	$3,100	$2,600

Source: 2010 Survey of Consumer Finances Chartbook

Although the credit card deleveraging occurred because of the financial crisis, Figure 15 shows that the deleveraging of auto loans began earlier in the decade, as households responded to their deteriorating income situations by buying used cars instead of new ones and holding onto their cars for longer periods of time (Krishner, 2012). More information about auto lending and auto lending abuses can be found in the Auto Loans section of *State of Lending*.

Figure 15. U.S. Household Auto Loan Holdings and Values, 2001 to 2010.



	2001	2004	2007	2010
- - - % Families	35.0%	35.6%	34.9%	30.2%
—— Value	$11,200	$12,500	$12,100	$10,000

Source: 2010 Survey of Consumer Finances Chartbook

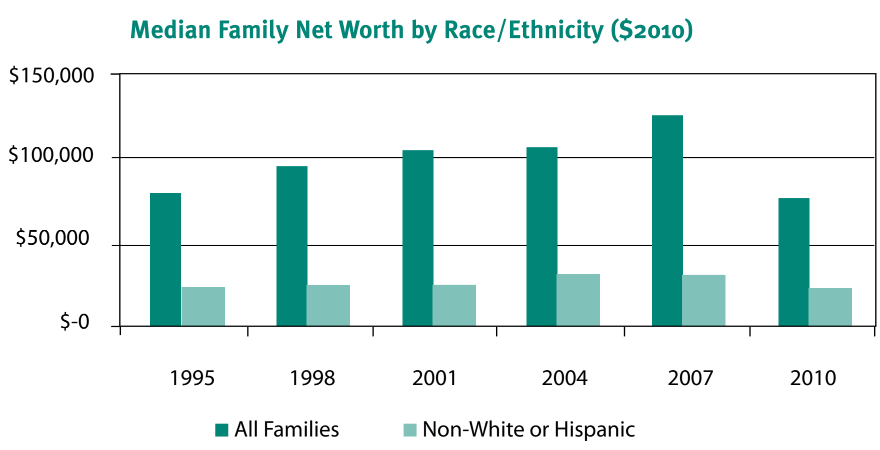
Declining Wealth

The financial health of American families deteriorated from 2000 to 2010 as result of the declining real income, increasing expenses, declining asset values, and increased mortgage and student loan debt. Household net worth is a useful measure of the financial health and capacity of American families. Figure 16 shows that **median family net worth increased for all families each three-year period from 1995 through 2007 and then decreased in 2010 to pre-1995 levels.**

The recession and slow recovery have led to declining net worth for the average U.S. household and a disproportionate decline for African-American and Hispanic households.

While the Survey of Consumer Finances (used in Figure 16) provides limited data with which to compare declines for non-white households, the Pew Research Center used different data sources and found much larger declines from 2005 to 2009 in net worth for African-American (53% decline) and Hispanic (66% decline) households relative to white households (16% decline). Pew also found that the decline in wealth from 2005 to 2009 resulted in the largest documented wealth gaps between African-American and white households and between Hispanic and white households since the Census Bureau began publishing wealth estimates in 1984 (Kochhar et al, 2011). These data reveal that the recession and slow recovery have led to declining net worth for the average U.S. household and a disproportionate decline for African-American and Hispanic households.

Figure 16. U.S. Household Net Worth by Race/Ethnicity



Source: 2010 Survey of Consumer Finances Chartbook

In addition to the differential impact across racial and ethnic groups, there are other demographic differences in the level of decline of household wealth. A review of the wealth data in the 2010 Survey of Consumer Finances by family type and age shows that households on the cusp of retirement and couples with children were particularly hard-hit by the wealth declines between 2007 and 2010. The largest losses were among households headed by those aged 55–65, who lost almost $90,000 and couples with children, who lost over $60,000 (41%) in wealth in three years (Federal Reserve, 2012). These are households that may have been counting on that wealth to fund college education for their children or a stable retirement.

Conclusion

America's Household Balance Sheet describes the overall financial status of U.S. households today, but much more of the story remains to be told. Subsequent chapters of CRL's *State of Lending* report describe the mortgages, credit cards, checking accounts, and other financial products that households have used navigate the treacherous economic terrain of the past decade and their impact on household financial wealth and stability. Rebuilding the tenuous financial balance sheets of American households will require access to safe and affordable credit along with strong protections to prevent predatory lending practices. In each of the following sections, we offer our perspective on how to achieve these two important goals.

REFERENCES

Bocian, D.G., Smith, P., & Li, W. (2012). *Collateral damage: The spillover costs of foreclosures*. Retrieved from Center for Responsible Lending website: http://www.responsiblelending.org/mortgage-lending/research-analysis/collateral-damage.pdf

Fleck, S., Glaser, J., & Sprague, S. (2011). *The compensation-productivity gap: a visual essay*. Retrieved from Bureau of Labor Statistics website: http://www.bls.gov/opub/mlr/2011/01/art3full.pdf

Fry, R. (2012). *A record one-in-five households now owe student loan debt*. Retrieved from Pew Research Center website: http://www.pewsocialtrends.org/2012/09/26/a-record-one-in-five-households-now-owe-student-loan-debt/

Jank, S., & Owens, L. (2012). *Inequality in the United States: Understanding inequality with data*. Retrieved from Stanford Center on Poverty and Inequality website: http://www.stanford.edu/group/scspi/ slides/Inequality_SlideDeck.pdf

Kochhar, R., Fry, R., & Taylor, P. (2011). *Wealth gaps rise to record highs between white, blacks and hispanics*. Retrieved from Pew Research Center website: http://www.pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/

Krishner, T. (January 14, 2012). Average age of vehicles hits record 10.8 years. *Bloomberg Business News*. Retrieved from http://www.businessweek.com/ap/financialnews/D9SAPKJ00.htm

National Alliance to End Homelessness. (2012). *State of homelessness 2012: The demographics of homelessness*. Retrieved from National Alliance to End Homelessness website: http://www.endhomelessness.org/library/entry/soh-2012-chapter-three-the-demographics-of-homelessness

Stafford, F., Chen, B., & Schoeni, R. (2012). *Mortgage distress and financial liquidity: How U.S. families are handling savings, mortgages and other debts* (Panel Study of Income Dynamics: A national study of socioeconomics and health over lifetimes and across generations, Technical Series Paper #12-02). Retrieved from Survey Research Center, Institute for Social Research, University of Michigan website: http://psidonline.isr.umich.edu/Publications/Papers/tsp/2012-02_MortgageDistress.pdf

U.S. Bureau of Economic Analysis. (2012). *GDP and the economy*. Retrieved from http://www.bea.gov/scb/pdf/2012/10%20 October/1012_gdpecon.pdf

U.S. Bureau of Labor Statistics. (2000-2010). *Consumer expenditure survey*. Retrieved from http://www.bls.gov/cex/

U.S. Bureau of Labor Statistics. (2010). *Record unemployment among older workers does not keep them out of the job market* (Issues in Labor Statistics). Retrieved from: http://www.bls.gov/opub/ils/pdf/opbils81.pdf

U.S. Federal Reserve. (2012). *Survey of consumer finances*, 2010 chartbook. Retrieved from http://www.federalreserve.gov/econresdata/scf/files/2010_SCF_Chartbook.pdf

Warren, E., & Warren, A. T. (2004). *The two-income trap: Why middle-class parents are going broke*. New York, NY: Basic Books.