

Comments on “Exploring Differences in Household Debt across Euro Area Countries and the US”

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**ECB Conference on Household Finance and Consumption,
October 17-18 2013**

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Exploring Differences in Household Debt

- Careful, well-done comparison of household debt in the United States (using the 2010 SCF) and 11 euro area countries (using Wave 1 of the HSCF).
- Looks systematically at the propensity to hold debt (collateralized and non-collateralized).
- And amounts of debt held, conditional on holding debt.

Decomposing source of differences

- “Counter-factual” exercise using relatively new decomposition technique (re-centered influence function regressions (RIF)).
- Decompose differences between US and euro area countries into those arising from:
 - **Covariate effects:** differences in composition of household characteristics across countries (age, education, income, etc.).
 - **Coefficient effects:** differences in how these characteristics relate to differences in debt holdings in across countries (differences in *economic environments*).

Question: What do we mean by differences in economic environments?

- Can be the result of credit supply or demand factors:
 - US financial institutions are more likely to grant loans to certain types of households than are financial institutions in euro area countries.
 - US households more likely to want (or think they need) loans from financial institutions than are households in euro area countries.
 - Euro area households less likely to want (or think that they need) loans from financial institutions.

Differences in *environments* that can affect household borrowing

- Example: Treatment of pension wealth and wealth in retirement accounts.
 - Shift over time to portable, defined contribution pension plans in the U.S. raises typical U.S. household wealth as measured in the SCF because these types of thrift-type pensions are included.
 - Future values of defined benefit pensions are not.

Are these differences at play when results suggest greater responsiveness to financial wealth in some countries?

- Do households with significant wealth in thrift-type pension plans think of themselves as wealthier than ones expecting generous future defined benefit pensions (either occupational or government provided)?
- Affects interpretation of coefficient effects as well as covariate effects
- Challenge for researchers: tendency if decomposition results support “differences in environments” to stop there.

Explaining results for collateralized debt

- Household real assets as explanatory variable for having collateralized debt.
- Significant positive *coefficient* effects: US households are more likely to have collateralized debt.
 - US financial institutions are more likely to grant loans backed by collateral than are euro area financial institutions.

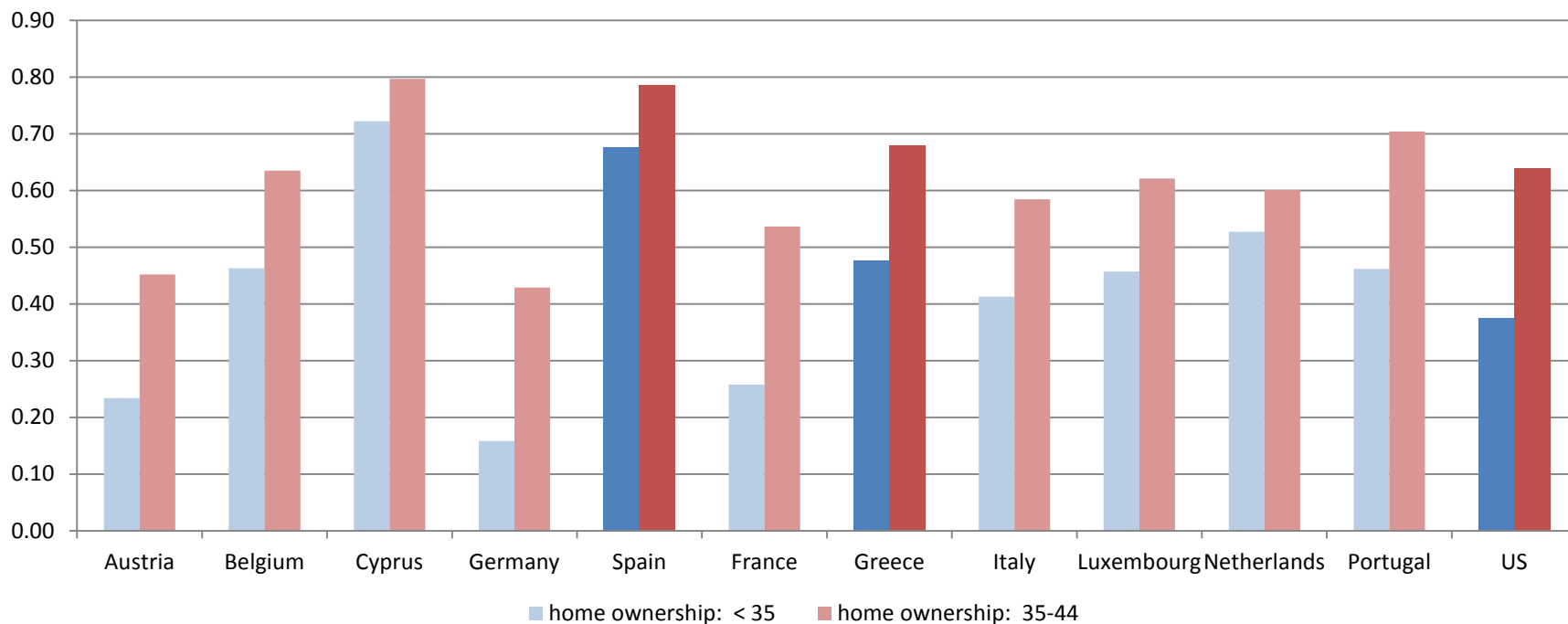
Collateralized debt (cont'd)

- Yet *covariate* effects indicate households in Luxembourg, Spain, Greece, and Cyprus would be even more likely (than are US households) to have collateralized debt if they were transplanted to the US.
- Why is it that Spain, Greece have negative *covariate* effects for collateralized debt?
 - When Spanish, Greek households are on average older, less educated, lower income and lower financial wealth?
 - Because they have higher real asset wealth.

Basically talking about home ownership

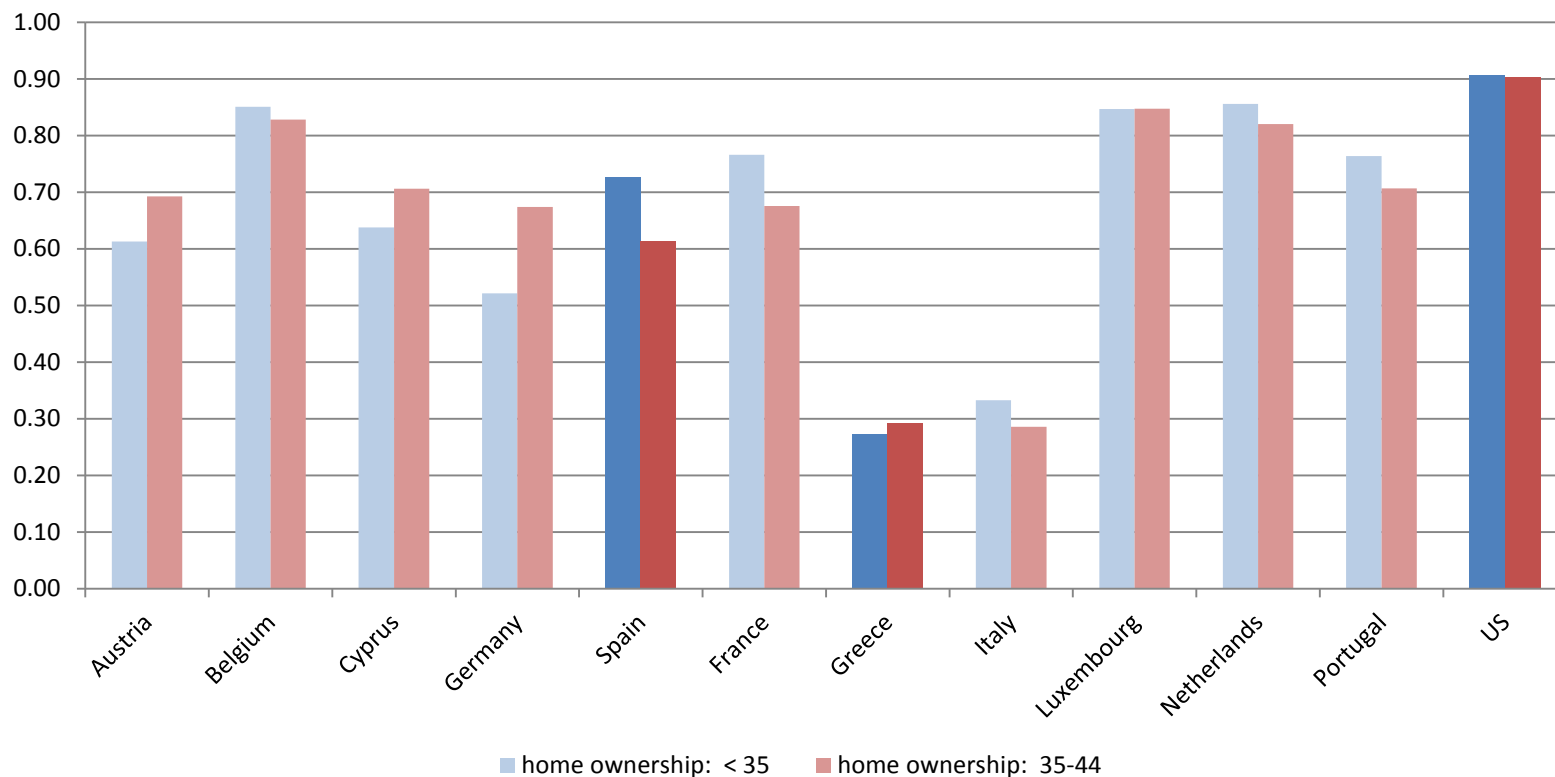
- Home ownership higher in many euro area countries than in the US, especially for young households.
- Home ownership rate remains higher across all ages for Spain and Greece.

Percent Homeowners, HFCS and SCF



- But young US homeowners are more likely to have mortgages than are euro area homeowners.

Percent Homeowners with mortgage, HFCS and SCF



Real assets and collateralized debt

- In presentation of the decomposition exercise, there's a seeming presumption
 - that euro area home-owner households would still want to be homeowners if they relocated to US.
 - and would take out mortgage loans if they did.
- Do we need to first understand what drives home ownership decision?

Why is home ownership rate lower in the US for younger households?

- Greater mobility of younger US households means less interest in acquiring houses when young?
- Greater interest in households in some euro area countries in accumulating wealth in the form of real assets unencumbered by debt?
- In addition to US financial institutions being more willing to extend credit to younger households? (although less so now than previously)
- Results tell us something about differences in economic environments, but it's often not clear just what they are telling us.

Results for noncollateralized debt

- Results are perhaps less surprising: “economic environment” in the US favors holding noncollateralized debt.
- and US households have characteristics that make them more likely to acquire debt.

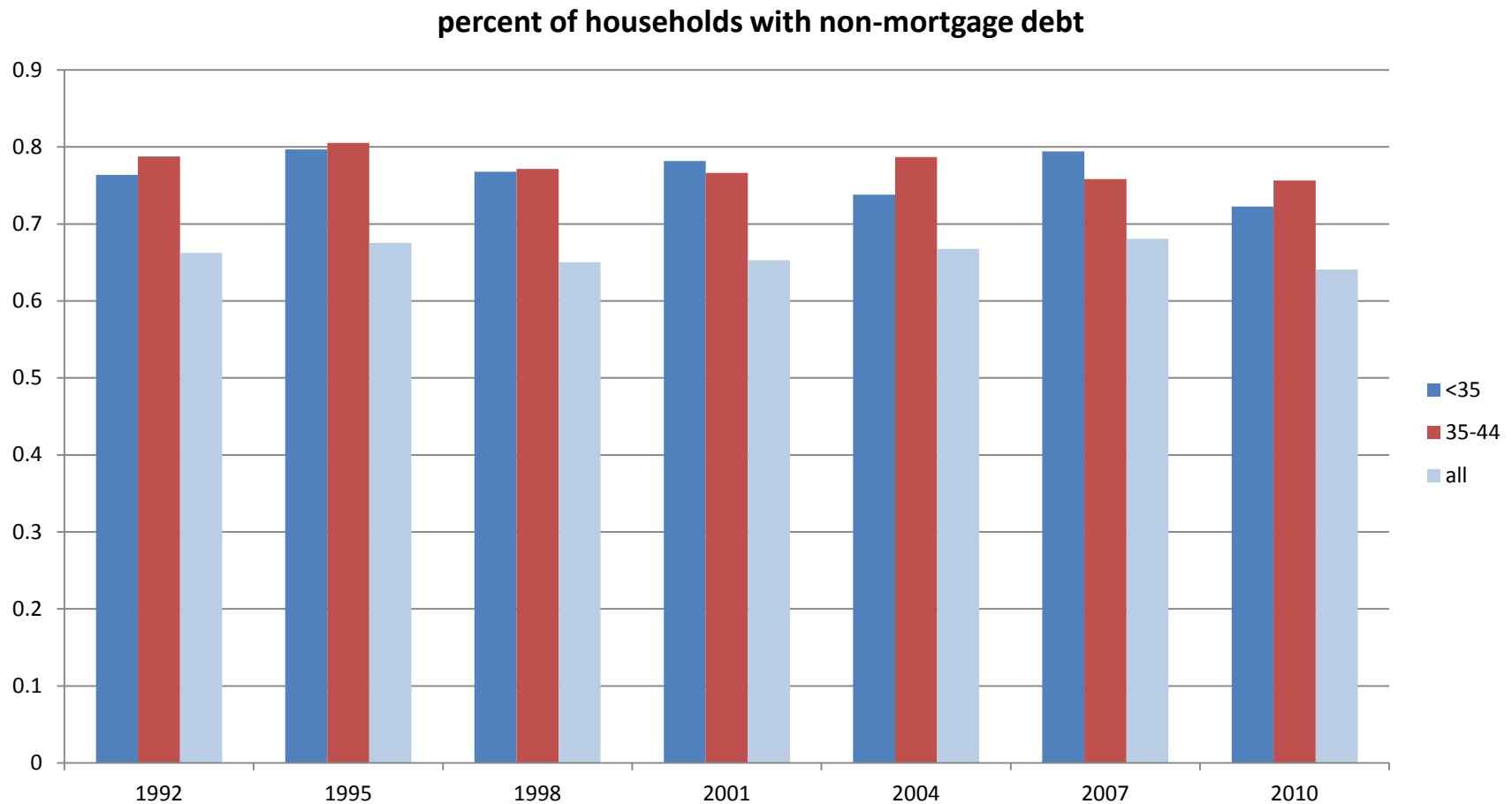
Significance of education

- Education significant for both covariate effects and coefficient effects (supporting higher prevalence of debt in the US).
 - US households are on average younger and more highly educated.
 - US financial institutions are more likely to regard education as signal of ability to repay non-collateralized debts than are euro area financial institutions.

Significance of education

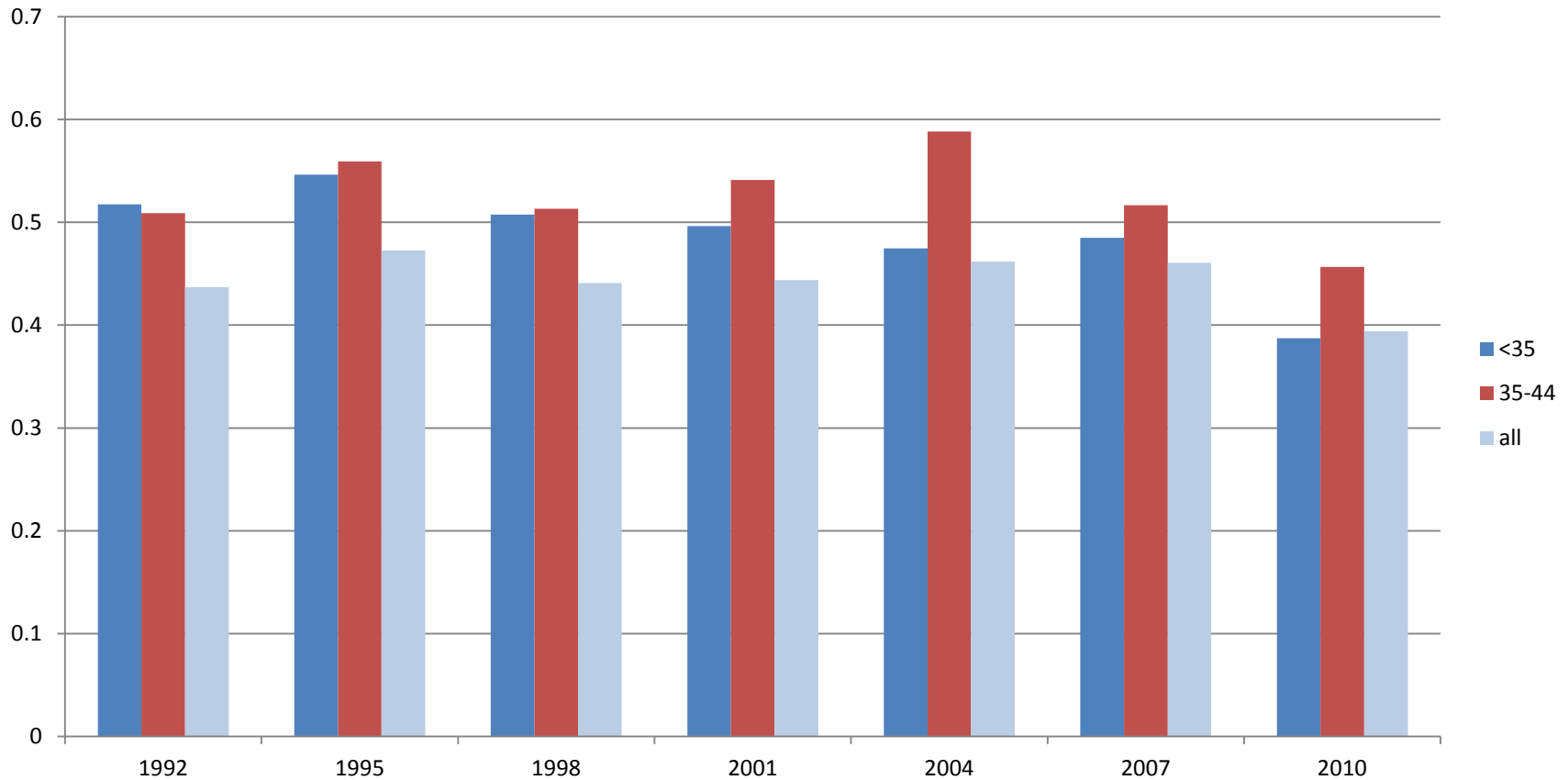
- But another factor is likely at play:
- Increasingly difficult for young people in the United States to attend college without a significant financial commitment.
- Rapid rise in student loan debt for US households with at least some college education.

Relatively stable percentages of US households with any non-mortgage debt 1992-2010



Declining percentage with outstanding credit card debt in 2010

percent of households with credit card debt



But rising share of younger college-educated with student loans

percent of households with college/some college education that have student loan debt



And typical amounts of student loan debt are substantial

Amount of student loan debt, for households with such debt

	Mean (2010 \$)	Median (2010 \$)
1992	12,408	5,609
1995	11,321	5,524
1998	17,368	9,337
2001	16,940	9,803
2004	19,348	10,586
2007	22,551	12,572
2010	25,865	13,000

Why has student loan debt risen?

- Both demand and supply factors likely at work.
- Financial institutions are willing to grant student loans.
- Idea that going to (the “right”) college “requires” taking out student loans is likely a factor.
- Again, in a situation where we want to think about what some of the differences in *economic environments* may mean.

Concluding remarks

- Overall, a great start to understanding differences in the interplay of household characteristics and economic situations in accounting for household indebtedness.
- Demonstrates the importance of doing systematic analysis using data collected under a consistent methodology.
- Challenge for us as researchers is to think a little more fully about what underlies some of the conclusions.