

Remaking Retirement

Debt in an Aging Economy

EDITED BY

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Chapter 6

Mortgage Foreclosures and Older Americans: A Decade after the Great Recession

Lori A. Trawinski

Much has been written about the foreclosure crisis that gripped the United States and the rest of the world, leading up to and following the Great Recession. Much has changed since then: the US economy has recovered, unemployment has fallen to its lowest level since the late 1960s, and home values have risen above pre-recession prices in most areas. On a national basis, foreclosure rates have decreased sharply. Despite these improvements, the question remains as to whether foreclosure rates have dropped for homeowners across all age groups. Answering this question matters because older homeowners who face foreclosure often lack the ability to recover. They may not be able to continue to work, and they also may lack financial sufficient resources to help them get back on their feet. Additionally, many people are unprepared for retirement.

Some financial advisors and various academics have suggested that the solution lies in helping people find ways to tap their home equity. This can be attractive, as for many people, their homes are their largest assets. Nonetheless, homes are not financial assets, and they can only be turned into money by selling them or taking out loans. Home equity loans typically require borrowers to make loan payments, carry homeowners insurance, and pay property taxes. Moreover, carrying debt at older ages has proven to be difficult for many families (Lusardi et al. 2020).

Mortgage Debt of Older Borrowers Has Risen

In the last three decades, a rising percentage of American families has carried mortgage debt into their retirement years (see Figure 6.1). AARP research using the Survey of Consumer Finances (SCF) shows that this increase has been highest for households age 75+. For example, in 1989, 6.3 percent of families age 75+ carried mortgage debt, while in 2016, the percentage was 26.5 percent, a more than fourfold increase. The percentage of households age 65–74 carrying mortgage debt also increased, from 21.8 percent to 38.8 percent over the same period.

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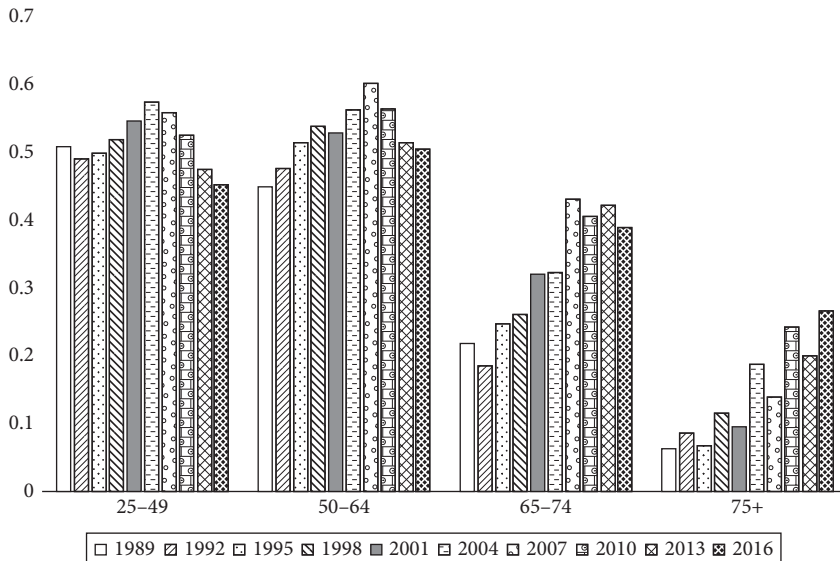


Figure 6.1 Percentage of families with mortgage debt by age group, 1989–2016

Source: AARP Public Policy Institute tabulation of Federal Reserve Survey of Consumer Finances 1989–2016

Not only did the incidence of mortgage debt increase, but the average amount of debt carried by older families also rose (see Figure 6.2). Increases in the amount of mortgage debt carried were highest for families headed by someone age 65–74, followed by families headed by someone age 75+. In other words, more families are carrying higher amounts of mortgage debt at older ages, a trend with the potential to threaten elderly financial security.

Although homeownership rates rise with age, not all households accumulate home equity. Historically low interest rates have led many homeowners to refinance their mortgages, in many cases taking out equity to use for consumption or other purposes. Instead of paying off their mortgages before retiring, increasing numbers of American families are carrying debt into retirement. Since many people face reduced income when they retire, this can lead to financial stress in retirement. In addition, many older people face financial shocks, such as the death of a spouse or increasing medical expenses as they age, ultimately rendering themselves unable to pay for their mortgages.

A recent study examining the increase in mortgage debt of older Americans found that households with below-median assets and those without pensions accounted for most of the time series rise in borrowing (Collins et al. 2018). Such households have fewer financial resources available to them, so tapping home equity may be the only way they can access funds for retirement expenses. This strategy is not without risk.

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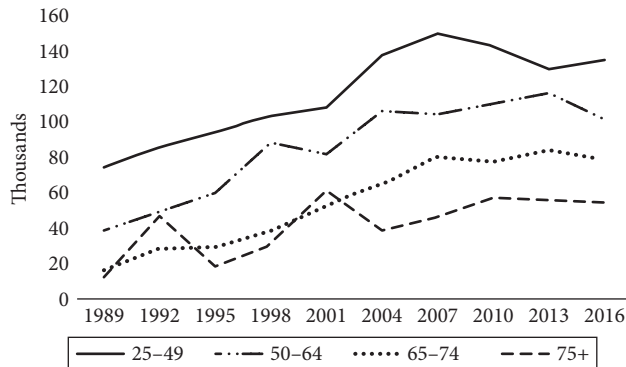


Figure 6.2 Median mortgage debt by age group

Note: Data presented in 2016 dollars.

Source: AARP Public Policy Institute tabulation of Federal Reserve Survey of Consumer Finances data, 1989–2016

Home Prices

As shown in Figure 6.3, US national home prices peaked in 2006, and then they returned to their peak in September 2017 (Boesel 2017). Yet these national gains were not realized in every area of the country; for instance, Arizona, Florida, Connecticut, and Nevada home prices had not recovered by the end of 2017. Some areas also faced devastating natural disasters such as floods, hurricanes, tornadoes, and fires, which can send loans into foreclosure and affect area home prices. Also, rising home prices need not equate to the ability to pay a mortgage. They can enable borrowers to tap home equity more easily, though they still must make payments on the loans to stay afloat.

Data and Methodology

In this chapter we build on our earlier foreclosure study (Trawinski 2012) using data obtained from CoreLogic, a provider of property, mortgage loan, and performance data. Data include first-lien forward mortgages for single-family owner-occupied properties. Loan performance data include prime and subprime loans. Property record data were merged with borrower demographic data to determine the age of the borrower.¹ The data were then matched with a loan servicing database to determine delinquency and foreclosure rates as of the end of December from 2007 to 2017.² Since some states have foreclosure timelines that are shorter than one year, the data may undercount the number of completed foreclosures. Over 12 million loans are included in the present study.³

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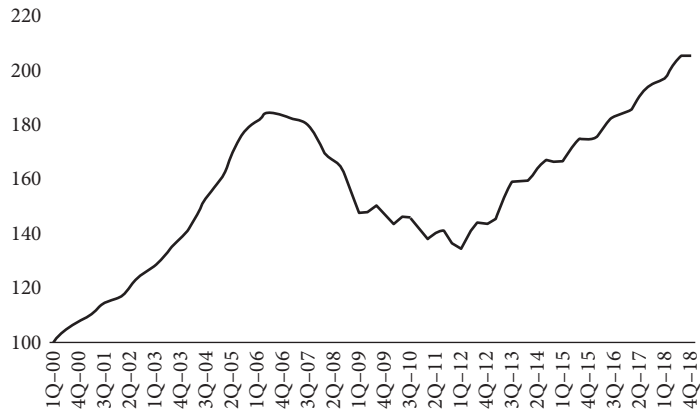


Figure 6.3 S&P/Case-Shiller Home Price Index: US National Composite

Note. Units: Index Jan 2000=100, not seasonally adjusted.

Source. S&P Dow Jones Indices LLC, S&P/Case-Shiller U.S. National Home Price Index [CSUSHPINSA], years indicated.

Delinquency and foreclosure defined

Delinquency data are based on the Mortgage Bankers Association definition of delinquency, and here we examine loans that are 90+ days delinquent and loans in foreclosure. Foreclosures are defined as loans in pre-foreclosure or auction-stage.⁴ Data include foreclosures initiated in the month of December as well as the inventory of loans already in the foreclosure process. Loans no longer in foreclosure are excluded from the inventory count, including short sales, deeds in lieu of foreclosure, and real-estate owned loans.

Findings

Foreclosure Rates of All Loans by Age Groups

Foreclosure rates of all loans, both prime and subprime, for borrowers below age 50 were higher than any other age group from 2007 to 2011 (see Figure 6.4). Beginning in 2012, however, a change can be seen, in that borrowers age 75+ had the highest foreclosure rates for the next five years. Overall, though, foreclosure rates decreased across all age groups from 2012 to 2017. By 2017, the foreclosure rate for borrowers younger than age 50 had fallen to the same rate as in 2007, 0.42 percent. By contrast, for borrowers age 50+, foreclosure rates remained above the 2007 level.

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90+ Day Delinquency

Loans that are 90+ days delinquent are likely to move into foreclosure and often provide an indication of the foreclosure pipeline. These delinquency rates fell across all age groups since 2010, although all ages experienced an increase in 90+ day delinquency from 2016 to 2017 (see Figure 6.5). Borrowers below age 50 have a higher 90+ day delinquency rate than older borrowers.

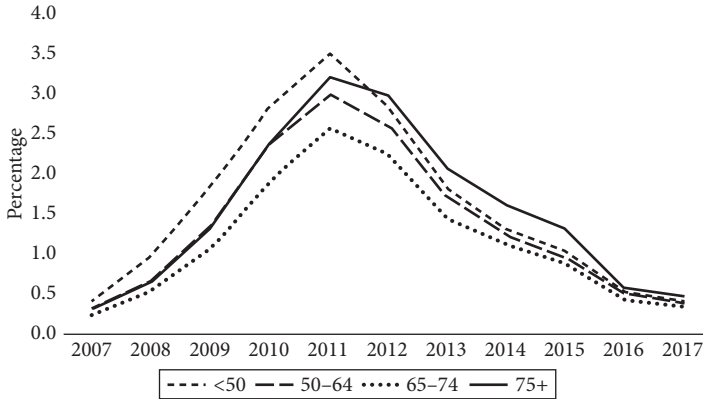


Figure 6.4 Foreclosure rates by age, 2007–17.

Source: AARP Public Policy Institute tabulation of CoreLogic Data.

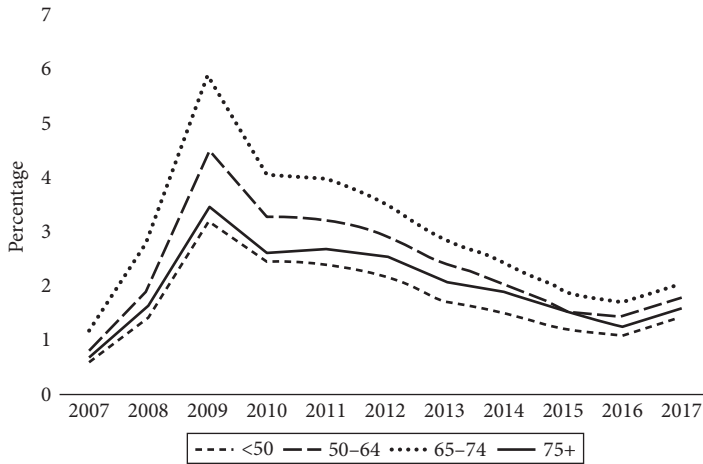


Figure 6.5 90+ day delinquency rates by age, 2007–17

Source: AARP Public Policy Institute tabulation of CoreLogic Data.

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Prime and Subprime Loan Performance

It is useful to examine the performance of prime loans and subprime loans separately, because they perform very differently. Prime loans are based on the credit rating of the borrower and they are usually fixed-rate or adjustable rate loans. Prime borrowers have credit ratings that are in the high end of the credit rating spectrum; prime loans have lower delinquency and foreclosure rates than subprime loans.

Prime loan delinquency and foreclosure rates are higher for borrowers under age 50 than for borrowers age 50+ (see Figure 6.6). Ninety-plus day delinquency rates peaked in 2009 for both age groups (at 4.9% for borrowers below age 50 and 3.4 percent for those age 50+), then fell from 2011 until 2016 before rising again in 2017. Foreclosure rates peaked for both age groups in 2011 (at 2.8% for borrowers below age 50% and 23% for those age 50+) and have been decreasing since then. Nevertheless, they still remain above the 2007 levels.

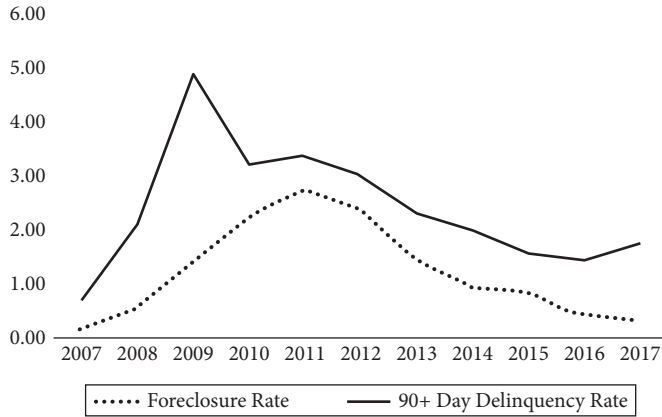
Subprime loans were designed for less creditworthy borrowers and usually carry higher interest rates and fees. As the subprime market evolved, however, loans were developed with features that made them risky for borrowers. These loans became less focused on the borrower's credit rating, and more influenced by loan features. Toxic loans such as no or low documentation loans, interest-only loans, negative amortization loans, and option-adjustable-rate mortgages (where the borrower makes payments that are not designed to pay down principal, so the loan balance increases over time), led to a surge in mortgage foreclosures (see Figure 6.7).

Subprime 90+ day delinquency rates peaked in 2009 at 23.9 percent for younger borrowers and 17.9 percent for borrowers age 50+; these rates were five times higher than the prime loan 90+ day delinquency rates for the same year. Foreclosure rates for subprime loans were approximately six times higher at their peak in 2001, at 17.1 percent for borrowers under age 50 and 12.9 percent for those age 50+. Foreclosure rates for subprime loans have now fallen below the 2007 levels for both age groups, but the 90+ day delinquency rates remain above 2007 levels.

Evidently, subprime loans continue to result in higher rates of foreclosure and delinquency. Perhaps even more troubling is the fact that these loans are not all legacy loans predating the passage of consumer protection laws enacted after the mortgage crisis: in fact, subprime loans are still being originated today. For example, \$18 billion of interest-only loans were originated in 2018 (Ivey 2019). It is becoming increasingly difficult to track subprime loan performance because the Mortgage Bankers Association (MBA) has discontinued providing loan performance broken out by prime and subprime categories. The MBA has argued that servicers now characterize prime and subprime

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Panel A. Borrowers below age 50



Panel B. Borrowers age 50+

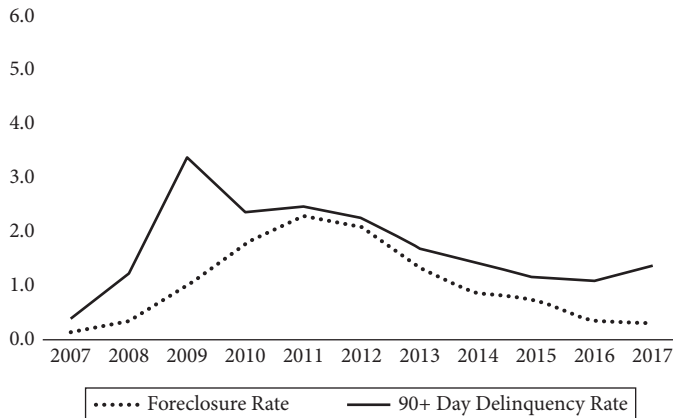


Figure 6.6 Prime loan 90+ day delinquency and foreclosure rates 2007–17

Source: AARP Public Policy Institute tabulation of CoreLogic Data.

loans differently from before, so they no longer collect these data (Thorne 2017). Unfortunately, this means that the main source of subprime loan performance data is no longer available on a quarterly basis.

Conclusion

Economic conditions have improved since the US mortgage market crisis, and home prices have recovered in many areas. Yet many more older

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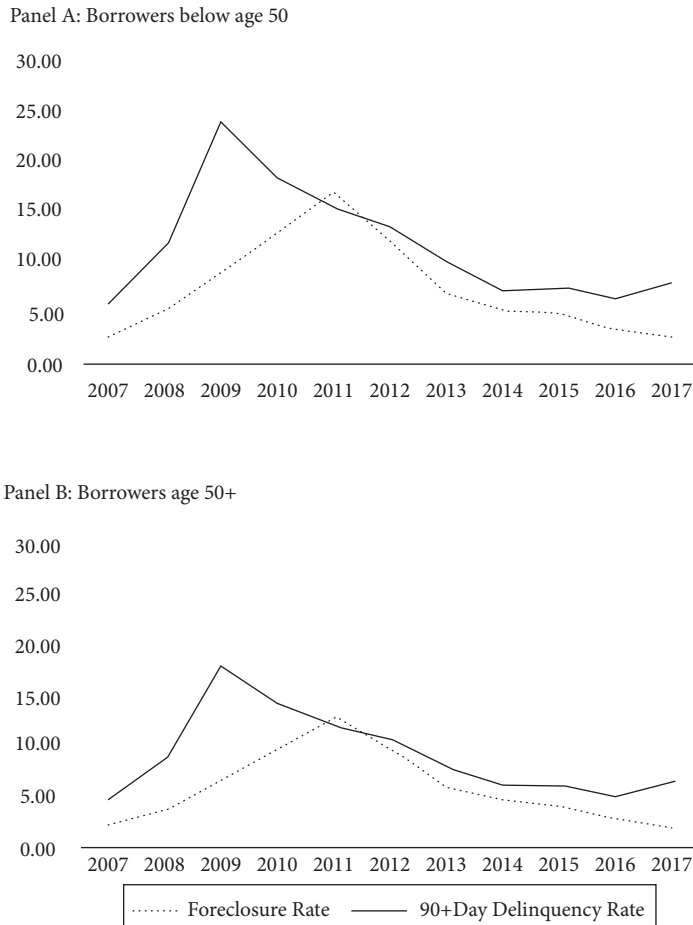


Figure 6.7 Subprime loan 90+ day delinquency and foreclosure rates 2007–17

Source. AARP Public Policy Institute tabulation of CoreLogic Data.

families have taken on greater mortgage debt than in the past, and they are increasingly carrying mortgage loans into retirement. Foreclosure rates for all loans have decreased to pre-recession levels for borrowers below age 50, while for borrowers age 50+, foreclosure rates in 2017 were higher than in 2007. This means that many older homeowners may face the loss of their homes, even though the economy has improved. For prime loans, foreclosure and 90+ day delinquency rates for both younger and older age groups remained higher in 2017 than 2007 levels. Subprime loan foreclosure rates

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were lower in 2017 than in 2007, but 90+ day delinquency rates were higher than in 2007. Subprime loans continue to go into foreclosure and delinquency at much greater rates than prime loans.

Academics and financial planners often point to home equity as a solution to the nation's retirement savings problem, yet tapping home equity is not without risk. Borrowers must be able to make loan payments, pay property taxes, and pay homeowners insurance. Even if they have equity, is still unlikely to be enough to fund 30 years of retirement. Recent changes in subprime data reporting by the Mortgage Bankers Association now make it more difficult to track subprime loan performance. Given the large role subprime loans played in the foreclosure crisis, it is vital to monitor developments in this sector. Although consumer protection laws have helped to eliminate some types of subprime loans, others remain. Regulators and consumers alike should be wary of reemerging trends in this sector.

Notes

1. The data used in this study are based on the age of the first borrower listed on the loan in most cases; the age of the second borrower is used if the first borrower is under age 50, but the second borrower is age 50+. Data on age were collected at the time of sale of the property.
2. Loans serviced by Fannie Mae and Freddie Mac are not included.
3. Data used in this study represent a large portion of first-lien mortgages, but they do not represent a statistically random sample of all mortgage loans outstanding.
4. Pre-foreclosure refers to loans that are in default where the lender has issued a public notice notifying the borrower of the lender's intent to begin the foreclosure process. Auction stage loans are where the lender has issued notice that the home will be sold at public auction on a specified date following the pre-foreclosure period.

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