

AARP Public Policy Institute

A First Look at Older Americans and the Mortgage Crisis*

This first ever analysis of data on the mortgage crisis by age shows a surprisingly significant impact on older Americans. The data shows more than 684,000 homeowners aged 50 and over were either delinquent in mortgage payments or actually in foreclosure at the end of 2007. The analysis also finds older African Americans and Hispanics have higher foreclosure rates than whites of any age. Older Americans have less time and ability to recover from financial losses associated with a foreclosure, and losing a home jeopardizes their long-term financial security.

SUMMARY

Conventional wisdom is that most older Americans have built significant equity in their homes or have paid off their mortgages. The reality is that while many are secure in their homes, hundreds of thousands of others are not.

For Americans age 50 and over, losing a house represents a loss from which there is limited time to recover, and for some a recovery may be impossible given their age and limited incomes.

To date there have been no studies on how Americans age 50 and over have fared during the housing and mortgage market crises. Traditional sources of information on subprime lending, such as the Home Mortgage Disclosure Act (HMDA) database, or mortgage delinquencies, such as the National Delinquency Survey conducted by the Mortgage Bankers Association (MBA),

do not have information on borrowers' age.

To quantify and understand the impact of the mortgage crisis on older Americans, AARP purchased data from Experian, one of the three large U.S. credit bureaus. The data is a 2.5 million person random sample pulled from the credit bureau's larger database on December 31, 2007. Foreclosure data in the sample covers the six-month period from July through December, 2007. Of the 2.5 million mortgage holders in the random sample purchased by AARP, about 1 million are age 50 or over.

Key findings from the study:

- Americans age 50 and over represent about 28 percent of all delinquencies (30 to 180 days late) and foreclosures in the current crisis.

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INSIGHT on the Issues

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- Over 684,000 older Americans (age 50 and over) were either delinquent or in foreclosure at the end of 2007. Of these, nearly 50,000 were in foreclosure or had already lost their homes.
- African Americans age 50 and over hold 6.8 percent of all first mortgages held by this age group, but represent 14.4 percent of all foreclosures in this age group. Hispanics age 50 and over hold 7.5 percent of all first mortgages held by this age group, but represent 15.9 percent of all foreclosures in this age group. Older African Americans and Hispanics have higher foreclosure rates than whites of all ages.
- Older Americans with subprime first mortgage loans are nearly 17 times more likely to be in foreclosure than Americans of the same age with prime loans. They are over 8 times more likely to be delinquent than Americans age 50 and over with prime loans.
- For Americans over the age of 50, a loan-to-value ratio that exceeds 100% is associated with foreclosure rates that are roughly double the national rate for consumers in this age group.
- States where overall foreclosure rates are the highest are the same states where older owners have high foreclosure rates: California, Colorado, Florida, Nevada and Michigan.
- Americans age 50 and over hold about 41 percent of all first mortgages.

This first report explores questions related to how the current mortgage crisis is affecting Americans age 50 and over. Later reports will look more closely at what factors make this group of older Americans vulnerable to delinquency and foreclosure.

DATA SOURCES

Data on the impact of the mortgage crisis on different age groups is not available from the usual housing databases. For example, HMDA and MBA data do not have an age variable. While the American Housing Survey (AHS) does have homeowner age and detailed information on outstanding mortgages, it does not have any information on mortgage delinquency or foreclosure. To find appropriate age information AARP purchased data from Experian, one of the three large credit bureaus.

AARP purchased a 2.5 million person random sample from Experian's much larger database. Of the sample of 2.5 million mortgage holders, about 1 million are age 50 or older. Attributes such as delinquency status are a snapshot taken on the date of December 31, 2007, while foreclosures occurred at any time during the six-month period ending on December 31, 2007. This particular sample does not include historical data, nor does it shed light on what has happened in mortgage markets since December, 2007.

Experian's data examine how different classes of consumers by age, race/ethnicity and credit score are impacted by mortgage delinquencies and foreclosures. These data are different in many ways from widely publicized MBA data which assess the performance of individual loans.

In order to validate AARP's dataset we ran some comparisons with MBA results for end-December, 2007. The Experian foreclosure rates are lower than those reported by the MBA for the end-December timeframe: 0.39% nationwide in the Experian dataset, versus 0.83% reported by the MBA. Differences between the two datasets are to be expected, however. First, the Experian dataset covers consumers compared to the MBA dataset which covers loans. Second, the Experian foreclosure data cover a period that saw rates rise from July to December, 2007, while the MBA dataset covers the later period from September to December, 2007. Other differences may arise from different reporting and collection procedures.

The MBA and Experian state-level data are highly correlated for 30-day and 60-day delinquencies (0.93 and 0.92, respectively), and somewhat lower but still well correlated for foreclosure starts (0.81). In short, the Experian dataset tracks MBA foreclosure rates closely, although at lower levels.

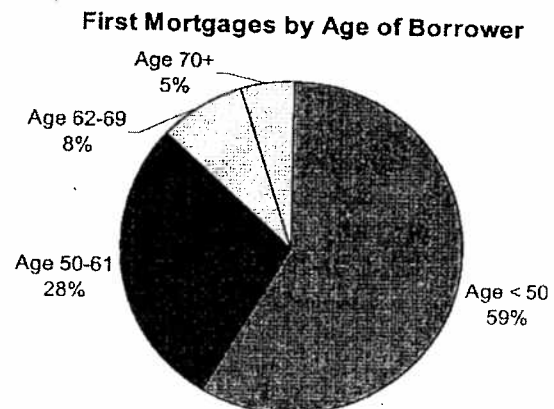
The Experian dataset includes variables on age, VantageScore (credit score), loan-to-value, ethnicity, income, marital status, and other credit and demographic variables. The dataset also includes some information on prime versus subprime loans.

In particular, using reports from HUD and Inside Mortgage Finance we were able to identify lenders specializing in either prime or subprime loans. With this information we were able to link consumers to these prime or subprime specialists, and create subgroups of consumers with either prime and subprime loans. We couldn't, however, distinguish loan type for lenders that offer both types of loans (e.g. Citigroup).

Therefore we do not have a complete universe of subprime loans and cannot answer questions such as "what percent of subprime loans are extended to Americans age 50 and over?" We can, however, look at the differential impact of prime versus subprime loans on borrowers within the identified lending company subgroups.

FINDINGS

Americans age 50 and over hold about 41 percent of all first mortgages. As defined in the database purchased by AARP, first mortgages may include loans on residential, vacation and investment properties, depending somewhat on conventions followed by reporting institutions.



Foreclosure Rates. The foreclosure rate among American first mortgage holders age 50 and over in the sample is 0.24%. This compares to a rate of about 0.50% among Americans under the age of 50, and to a nation-wide average of 0.39%. (See table 1.)

Age	Foreclosure Rate
Age < 50	0.50%
Age 50-61	0.26%
Age 62-69	0.21%
Age 70+	0.20%
Total Age 50+	0.24%
Total Age 62+	0.20%
United States Average	0.39%

Foreclosure Totals. About 634,000 Americans age 50 and older are between 30 and 180 days late on a first mortgage. About 50,000 in this age group are in foreclosure or real-estate-owned. In all, about 684,000 Americans are either delinquent on a mortgage, in foreclosure or lost their homes during the period. (These figures have been adjusted for sample share, which is confidential, and by several other technical factors to arrive at total population figures.) Older Americans constituted about 28 percent of all delinquencies and foreclosures,

and about one quarter of all foreclosures, during the six-month period ending in December, 2007. (See table 2.)

Race/Ethnicity. The dataset also includes foreclosure rates (although not delinquencies rates) for various demographic groups. African Americans age 50 and over hold 6.8 percent of all first mortgages in this age group but represent 14.4 percent of all foreclosures in this age group. Hispanics age 50 and over hold 7.5 percent of all first mortgages in this age group but represent 15.9 percent of all foreclosures in this age group.

Foreclosure rates are higher for African-American and Hispanic homeowners than for Caucasian homeowners, in all age brackets. Among mortgage holders age 50 and over, African American and Hispanic borrowers both have foreclosure rates of 0.51 percent, compared to a rate of 0.19 percent for Caucasians.

One telling comparison is that the foreclosure rates for older African American and Hispanic age groups are generally higher than the foreclosure rate for Caucasians under the age of 50. Thus while the elderly generally have lower foreclosure rates than younger

	Number of Consumers Delinquent (30, 60, 90, 180 days late)	Number of Consumers in Foreclosure	Total Consumers Delinquent or in Foreclosure	Age Group in Foreclosure as Percent of All Foreclosures	Age Group Delinquent or in Foreclosure as Percent of All Delinquencies/Foreclosures
Age < 50	1,604,719	145,300	1,750,019	74.4%	71.9%
Age 50-61	470,519	36,500	507,019	18.7%	20.8%
Age 62-69	99,275	8,560	107,835	4.4%	4.4%
Age 70+	64,282	4,920	69,202	2.5%	2.8%
Total Age 50+	634,075	49,980	684,055	25.6%	28.1%
Total Age 62+	163,557	13,480	177,037	6.9%	7.3%
Total All Ages	2,238,794	195,280	2,434,074	100.0%	100.0%

Table 3
Foreclosure Rates by Age and Race/Ethnicity (First Mortgages)

Age	Caucasian	African American	Hispanic	Other
<50	0.36%	1.07%	1.11%	0.48%
50-61	0.20%	0.53%	0.57%	0.30%
62-69	0.17%	0.52%	0.38%	0.21%
70 and up	0.15%	0.42%	0.36%	0.30%
50+	0.19%	0.51%	0.51%	0.28%
United States	0.29%	0.80%	0.93%	0.41%

households, rates among elderly minorities are quite high. (See table 3.)

Impact of Subprime Loans. Having a subprime loan is associated with higher delinquency and foreclosure rates for all age groups, but the impact of subprime lending appears to fall disproportionately heavily on older (age 50 and over) Americans. Older holders of subprime first mortgages are 17 times more likely to be in foreclosure than older holders of prime loans. For consumers under age fifty, the comparable multiple is about 13. (See table 4.)

The database allows us to analyze how outcomes differ among consumers who took loans from either prime or subprime specialists. This was done by identifying

Table 4
Having a Subprime Loan Increases Chances of Delinquency or Foreclosure, Relative to Prime Loans, by a Multiple of...

Age	30 Days Delinquent	60 Days Delinquent	90-180 Days Delinquent	Foreclosure
<50	5.3	6.9	9.4	12.6
50-61	7.5	9.7	12.0	16.2
62-69	9.3	11.5	17.0	15.0
70 and up	9.0	9.2	15.2	21.5
50 and up	8.0	10.3	13.3	16.8
U.S. Average	6.3	8.2	11.0	14.4

groups of lenders that specialize in prime and subprime loans. We assume that all loans made by companies that specialize in prime loans are prime loans, and that all loans made by companies that specialize in subprime loans are subprime loans. The database does not, however, allow the separate identification of loans as either prime or subprime. Therefore it is not possible to determine the rates at which older Americans take up either type of loan.

Impact of Loan-to-Value Ratio. House prices have fallen dramatically in a number of American housing markets over the past year. For some borrowers this increases the incentive to default, while for others this closes off the ability exit from high mortgage burdens by refinancing or selling the house. For older Americans in particular, it may be that living on a fixed income makes it impossible to sustain high debt levels, while at the same time falling house prices makes it impossible to get out from under the mortgage.

Having a mortgage loan amount greater than the value of one's house (a loan-to-value ratio greater than 100%) is associated with increased foreclosure rates

for all age groups, but the impact is larger for older Americans. For Americans over the age of 50, a loan-to-value ratio that exceeds 100% is associated with a foreclosure rate that is roughly double the national rate. (See table 5.)

Table 5

Having a Loan-to-Value Ratio Greater than 100% Increases the Chances of Delinquency or Foreclosure by a Higher Multiple for Older Americans

Age	Foreclosure Rate Among Consumers with LTV > 100%	Foreclosure Rate Among All Consumers	Multiple
<50	0.85%	0.50%	1.7
50-61	0.54%	0.26%	2.1
62-69	0.33%	0.21%	1.6
70 and up	0.45%	0.20%	2.3
50 and up	0.49%	0.24%	2.0
US Average	0.72%	0.39%	1.8

CONCLUSION

Over 684,000 Americans age 50 and over were either delinquent or in foreclosure at the end of 2007. While foreclosure rates on first mortgages are lower for borrowers over 50 than for borrowers under 50, Americans age 50 and over represent about 28 percent of all delinquencies (30 to 180 days late) and foreclosures in the current crisis. Among mortgage holders age 50 and over, African American and Hispanic borrowers both have foreclosure rates of 0.51 percent, compared to a rate of 0.19 percent for Caucasians. Older Americans appear particularly vulnerable to house price declines and to subprime loans.

The impact of a foreclosure is often more significant for older households as they have less time and ability to recover the financial losses associated with a foreclosure. The problem is likely growing, as homeowners increasingly carry mortgage debt into their retirement

years. By 2007, 53 percent of all owners with a head of household age 50 or older had a mortgage, up from 34 percent just two decades ago.¹

In this analysis we have offered some highlights from the new dataset. The

Experian dataset offers several opportunities for future research. In particular, it is possible within the dataset to examine home equity and home equity line of credit loans separately. Additional variables, such as VantageScores (credit scores) and income, may help to explain why some older Americans are in foreclosure and others are not. In addition, the dataset breaks out states and certain metropolitan statistical areas (MSAs), although some areas may have small observation counts. We welcome comments and suggestions on this research as it proceeds.

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¹ William Apgar, Joint Center for Housing Studies, Harvard University, presentation at AARP forum, September 19, 2008.