Snapshot of older consumers and mortgage debt

Office for Older Americans

Consumer Financial Protection Bureau

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1. Introduction

Rising mortgage debt is threatening the retirement security of millions of older Americans.

In general, older consumers are carrying more debt, including mortgage, credit card, and even student loan debt, into their retirement years than in previous decades.[1]

Mortgage debt, the largest debt that older consumers carry, is the key driver of this trend.[2] Today, compared to a decade ago, fewer older homeowners own their home outright.[3]

For many of the roughly 4.4 million retired homeowners with mortgage debt, making monthly mortgage payments on top of paying other monthly expenses can be a hardship.[4]

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[1]*See* generally Fed. Reserve Bd., 2010 Survey of Consumer Finances Chartbook (2010), http://www.federalreserve.gov/econresdata/scf/files/2010_SCF_Chartbook.pdf (showing income, assets, and liability of families from 1989-2010). (Referred to as "Fed. Reserve Bd., *2010 Survey*.") Unless otherwise noted in this snapshot, the term "older consumer" refers to households led by a consumer age 65 and older.

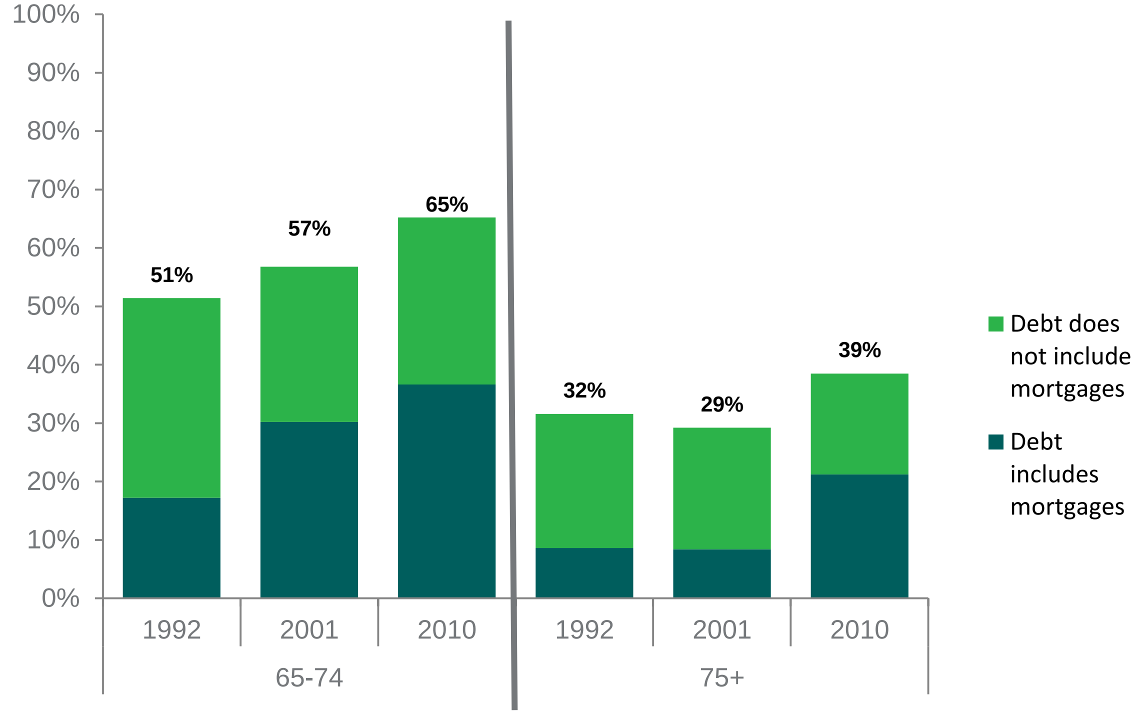
[2]*Id.* at 836-838, 908-910; *See* also Census Bureau, *Household Debt in the U.S.: 2000 to 2011* 2 (2011), http://www.census.gov/people/wealth/files/Debt%20Highlights%202011.pdf. (Referred to as "Census Bureau, *Household Debt 2000 to 2011*.")

[3]*See* Census Bureau, Complete Set of Tables: Table C-14A-OO Mortgage Characteristics—Owner-Occupied Units (2011), http://www.census.gov/programs-surveys/ahs/data/2011/h150-11.html (follow "Complete Set of Tables and Standard Errors" hyperlink; then follow "Sheet C-14A-OO") (last visited Apr. 28, 2014). (Referred to as "Census Bureau, Complete Set of Tables."); Census Bureau, National Summary Report: Table 3-15 Mortgage Characteristics—Owner-Occupied Units (rev. 2013), http://www.census.gov/housing/ahs/data/national.html (follow "Table Crosswalk" hyperlink; then follow "Sheet TAB315") (last visited Apr. 28, 2014). (Referred to as "Census Bureau, National Summary Report.")

[4]CFPB analysis of the American Community Survey Public Use Microdata Sample Files 2011 using DataFerret. Nearly 2.4 million (56 percent) of the 4.4 million retired homeowners with mortgage debt spend 30 percent or more of their household income in housing related costs. Housing affordability is threatened when housing costs exceed 30

Moreover, as a result of carrying increased mortgage debt, many older Americans have accrued less home equity than their age group did a decade ago.[5] Less home equity means less accumulated net wealth for many consumers.[6]

FIGURE 1: PERCENT OF OLDER CONSUMERS WITH DEBT[7]



Source: Federal Reserve Board, Survey of Consumer Finances

percent or more of a homeowner's income. *See e.g*. Mary Schwartz & Ellen Wilson, Census Bureau, *Who Can Afford To Live in a Home?: A look at data from the 2006 American Community Survey* (2008), http://www.census.gov/hhes/www/ housing/special-topics/files/who-can-afford.pdf.

[5] *See* Census Bureau, Complete Set of Tables, *supra*; Census Bureau, National Summary Report, *supra*.

[6] *See* Census Bureau, Table 1. Median Value of Assets for Households, by Type of Asset Owned and Selected Characteristics: 2011 (2011), http://www.census.gov/people/wealth/files/Wealth_Tables_2011.xlsx (last visited Apr. 28, 2014) (showing that in 2011, home equity was the second most common type of asset after a vehicle that older consumers held; and, the median net worth of older consumers drops from $170,516 to $27,322 when home equity is excluded). (Referred to as "Census Bureau, Median Value of Assets.")

[7] *See* Fed. Reserve Bd., *2010 Survey*, *supra* at 836, 908. Figure 1 shows the percent of older consumers holding consumer debt. It also shows the proportion of consumers whose debt load includes mortgages.

This snapshot includes the Consumer Financial Protection Bureau's (CFPB) analysis of survey data, which describes the growing number of older consumers carrying mortgage debt, and the risks that this trend presents to their financial security.[8] We provide information about delinquency and foreclosure rates among older homeowners from 2007 to 2011, as well as information about mortgage complaints submitted to the CFPB by consumers age 65 and older.[9]

[8]In this snapshot, the term "mortgage" does not include reverse mortgages and home-equity lines of credit (HELOC).

[9]The CFPB's Office of Financial Protection for Older Americans prepared this snapshot. The Office was established within the CFPB under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act or Act). 12 U.S.C. § 5493(g)(1).

2. Rising mortgage debt threatens retirement security for millions of older Americans

Approximately 80 percent of the 41.4 million Americans age 65 and older own their home.[10] They have the highest homeownership rate among all age groups.[11] Our analysis shows that while the rate of homeownership has remained constant over the last decade, the number of older homeowners holding mortgages has increased.[12]

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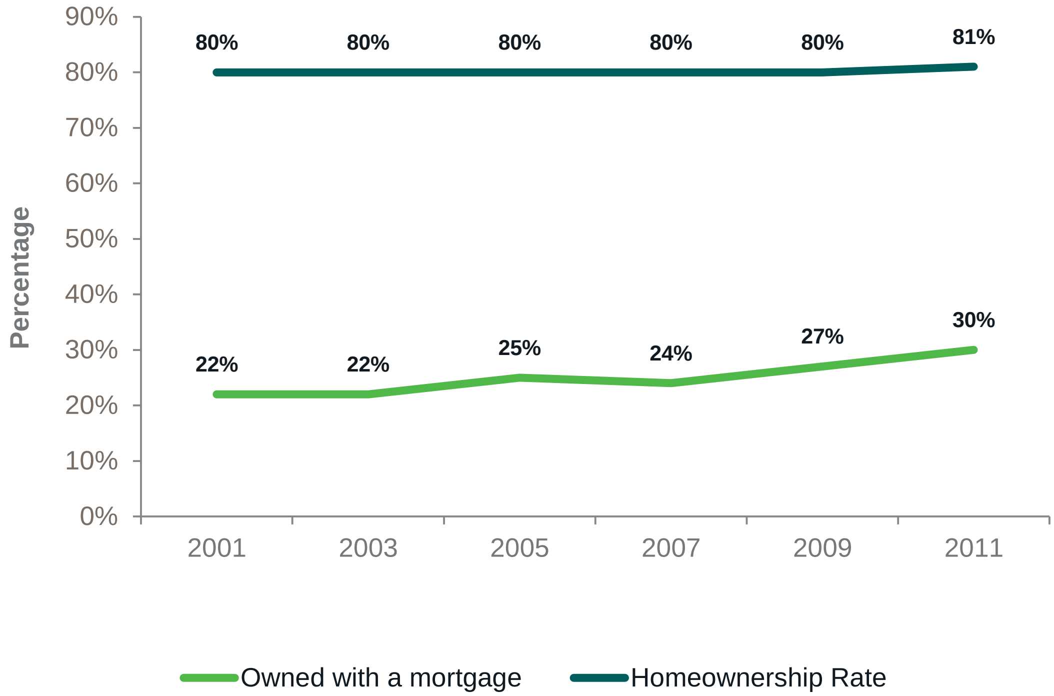
[10] *See* Census Bureau, Population 65 Years and Over in the United States; 2011 American Community Survey 1-Year Estimates (2011), http://factfinder2.census.gov/bkmk/table/1.0/en/ACS/11_1YR/S0103 (last visited Apr. 28, 2014). (Referred to as "Census Bureau, Population 65 Years and Over.")

[11] *See* Robert R. Callis & Melissa Kresin, Census Bureau, Current Population Survey, *Residential Vacancies and Homeownership in the Third Quarter 2013* (2013), http://www.census.gov/housing/hvs/files/qtr313/q313press.pdf.

[12] *See* Census Bureau, Complete Set of Tables, *supra*; Census Bureau, National Summary Report, *supra*.

FIGURE 2: PERCENTAGE OF OLDER HOMEOWNERSHIP AND HOMEOWNERS WITH A MORTGAGE



Source: Census Bureau, American Housing Survey

The CFPB reviewed a number of studies, and found that the refinancing boom of the early 2000s, among other things, contributed to this trend.[13] Other factors include a general trend

[13]*See* John Gist, Carlos Figueiredo & Verma Satyendra, *Boom and bust: Housing equity withdrawal and consumption decisions and their impacts on household wealth*, J. Aging & Soc. Pol'y, Issue 24 (Jan.-Mar. 2012).

among Americans to buy their first home later in life,[14] provide small down payments on home purchases, and borrow against their home equity to pay for a variety of expenses.[15]

The CFPB's analysis of Census data shows that the percentage of homeowners' age 65 and older carrying mortgage debt increased from 22 to 30 percent (3.8 to 6.1 million) from 2001 to 2011.[16] Additional data from the Federal Reserve shows that consumers over age 75 had the greatest increase during this period. The proportion of consumers 75 and older with mortgage debt more than doubled from 8.4 to 21.2 percent.[17]

Consumers age 65 and older also owe larger balances on their mortgages than the 65 and older age cohort did a decade ago. From 2001 to 2011, the median amount older homeowners owed on mortgages increased 82 percent, from approximately $43,400 to $79,000.[18]

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Furthermore, older consumers owe more on their mortgages in relation to the value of their home than a decade ago. The outstanding balance on their mortgages relative to the value of their homes (debt-to-value ratio) increased from 30 to 46 percent from 2001 to 2011.[19]

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[14]*See* Emily Rosenbaum, *Cohort Trends in Housing and Household Formation Since 1990* 5 (2013), http://www.s4.brown.edu/us2010/Data/Report/report10092013.pdf.

[15]*See e.g.* Annamaria Lusardi & Olivia S Mitchell, *Older Adult Debt and Financial Frailty*, Michigan Retirement Research Center Working Paper No. 291 (Sep. 2013), http://www.mrrc.isr.umich.edu/publications/papers/pdf/wp291.pdf.

[16]*See* Census Bureau, Complete Set of Tables, *supra*; Census Bureau, National Summary Report, *supra*.

[17]*See* Fed. Reserve Bd., *2010 Survey*, *supra* at 908.

[18]*See* Census Bureau, Complete Set of Tables, *supra*; Census Bureau, National Summary Report, *supra*. Median value is based on households with a mortgage. The amount reported for 2001 was adjusted for inflation to reflect 2010 real dollars. In 2001, the unadjusted amount was $34,148.

[19]*See* Census Bureau, Complete Set of Tables, *supra*; Census Bureau, National Summary Report, *supra*.

In addition to having less home equity, older consumers pay significantly more in housing costs when they have a mortgage.[20] In 2011, older homeowners with a mortgage spent $800 or 290 percent more per month than their counterparts with no mortgage.[21] Specifically, homeowners with a mortgage spent a median amount of $1,257 a month on housing, whereas homeowners with no mortgage spent a median amount of $434 a month.[22]

[20]Housing costs include utilities, property taxes, insurance, and maintenance. For homeowners with a mortgage, it also includes the mortgage and other associated costs such as mortgage insurance.

[21]*See* Census Bureau, Population 65 Years and Over, *supra*.

[22]*Id.* In addition, housing costs for older consumers with mortgage debt consume on average 39 percent of their monthly expenses. Whereas, housing costs for older consumers who own their homes free and clear consume on average 31 percent. *See* Soc. Sec. Admin., *Expenditures of the Aged Chartbook* 35 (2010), http://www.ssa.gov/policy/docs/chartbooks/ expenditures_aged /2010/exp-aged-2010.pdf.

3. Increased foreclosure rates among older homeowners during the financial crisis shows the risk of debt in retirement

Many older homeowners began having difficulty paying their mortgages when the recession began in 2007.[23]

From 2007 to 2011, the percentage of older homeowners who were seriously delinquent in paying their mortgage (90+ days late or in foreclosure)[24] increased five-fold.[25] The serious delinquency rate among mortgage holders age 65 to 74 increased from 0.85 to 4.96 percent.[26] For those, age 75 and older, the rate was even higher. Their rate grew from 1.01 to 5.87 percent.[27]

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[23] *See* Lori A. Trawinski, AARP Pub. Policy Inst., *Nightmare on Main Street: Older Americans and the Mortgage Crisis* 3 (2012), http://www.aarp.org/content/dam/aarp/research/public_policy_institute/cons_prot/2012 /nightmare-on-main-street-AARP-ppi-cons-prot.pdf. (Referred to as "Trawinski, *Nightmare on Main Street*.")

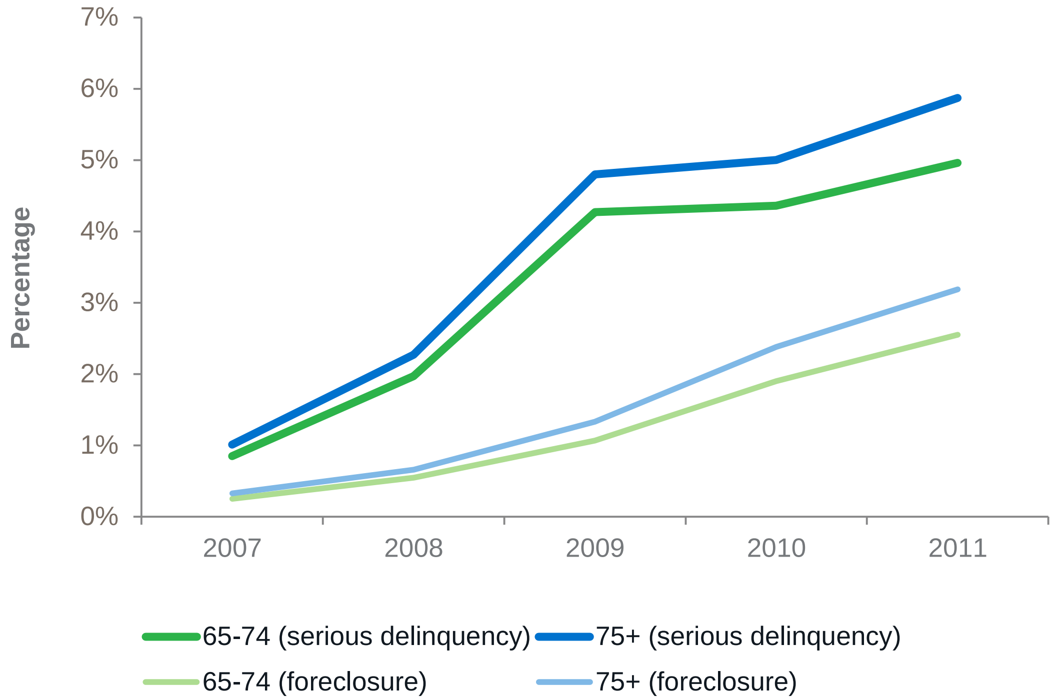
[24] *Id*. at 6.

[25] *Id*. at 7-8.

[26] *Id.*

[27] *Id.*

FIGURE 3: DELINQUENCY AND FORECLOSURE RATES AMONG OLDER HOMEOWNERS (2007- 2011)



Source: AARP Public Policy Institute, CoreLogic data

As delinquency rates increased during this period, foreclosure rates also increased. From 2007 to 2011, foreclosure rates increased from 0.25 to 2.55 percent for consumers age 65 to 74, and from 0.33 to 3.19 percent for consumers age 75 and older.[28] Further analysis of AARP/CoreLogic data shows that in 2007, approximately 30 percent of seriously delinquent older homeowners were in foreclosure. By 2011, the percentage of seriously delinquent older homeowners in foreclosure spiked to over 50 percent.[29]

While delinquency and foreclosure rates have decreased since 2012,[30] the increased foreclosure rate during the recent financial crisis reveals the financial fragility of older consumers. Making

[28] *Id.* at 7.

[29] *Id.* at 7-8.

[30] *See* CoreLogic, *National Foreclosure Report, June 2013* 3, 4 (2013), http://www.corelogic.com/research/fore closure -report/national -foreclosure -report-june-2013.pdf (stating that foreclosures declined from 3.4 to 2.5

mortgage payments when experiencing a financial shock leads to financial insecurity for many older homeowners.[31] Older homeowners in retirement who live on reduced retirement income are particularly vulnerable to such financial distress.[32]

Foreclosure among older homeowners is concerning for many reasons. Among other things, older consumers have greater difficulty recovering from foreclosure than their younger counterparts due to their increased incidences of health problems,[33] cognitive impairment,[34] and difficulties returning to the work force.[35]

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percent from June 2012 to June 2013 for all borrowers; and, serious delinquency rates declined from 6.85 to 5.45 percent from June 2012 to June 2013 for all borrowers); See also CoreLogic, *National Foreclosure Report, December 2013* (2013), http://www.corelogic.com/research/foreclosure-report/national-foreclosure-report-december-2013.pdf.

[31] *See* Trawinski, *Nightmare on Main Street*, *supra*.

[32] *See e.g*. Sudipto Banerjee, *Expenditure Patterns of Older Americans, 2001–2009*, EBRI Issue Brief, No. 368 (Feb. 2012), http://www.ebri.org/pdf/briefspdf/EBRI_IB_02-2012_No368_ExpPttns.pdf.

[33] *See* Ctrs for Disease Control and Prevention, Health, United States, 2012: With Special Feature on Emergency Care 168 (2011), http://www.cdc.gov/nchs/data/hus/hus12.pdf.

[34] *See* Census Bureau, Population 65 Years and Over, *supra*.

[35] *See* Gen. Accountability Office, *Income Security: Older Adults and the 2007-2009 Recession* 3 (2011), http://www.gao.gov/assets/590/585789.pdf.

4. One third of older consumers' complaints submitted to CFPB are about their mortgages

The Office for Older Americans looked at the complaints that older consumers submitted to the CFPB. We found that from July 2011 through December 2013, consumers age 65 and older have submitted approximately 15,500 complaints on a range of financial products and services.[36] About one third (32 percent or 4,936) of their complaints are about mortgages.[37]

The most common types of mortgage complaints from older consumers (46 percent) are about problems they face when they are unable to make payments (such as issues relating to loan modifications, collections, or foreclosures). Other common types of mortgage complaints (32 percent) involve problems older consumers have when making payments (such as issues with loan servicing, payments, and escrow accounts).

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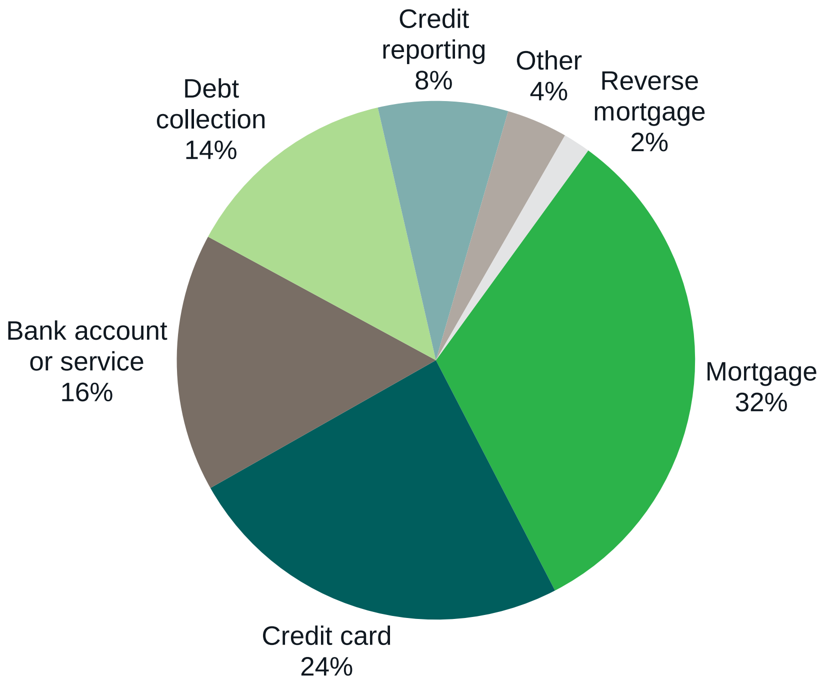
[36] Consumer complaints are submissions that express dissatisfaction with, or communicate suspicion of wrongful conduct by, an identifiable entity related to a consumer's personal experience with a financial product or service. Taking in, responding to, and analyzing these complaints is an integral part of the CFPB's work, as Congress set forth in the Dodd-Frank Act. 12 U.S.C. § 5493(b)(3). Since July 2011, the CFPB has continued to work toward expanding its complaint handling to include new products and services under its authority. The Bureau responds to these complaints and refers consumers to other regulators or additional resources as appropriate. The analysis is based on the 15,482 complaints submitted between July 21, 2011 and December 31, 2013 by or on behalf of consumers who voluntarily self-reported their age as 65 and older. This analysis excludes multiple complaints submitted by a given consumer on the same issue and whistleblower tips.

[37] The Bureau accepts complaints on mortgage products, including reverse mortgages. Reverse mortgage complaints, however, are not included in this discussion.

FIGURE 4: OLDER CONSUMERS' COMPLAINTS BY PRODUCT[38]



Source: CFPB Complaints

4.1 Complaints

Many consumers provide details about their experiences with their mortgage lender and servicer. Older consumers complain that their overall debt burden often led to their mortgage default. Many talk about the challenge of living on a fixed or limited income due to unemployment, poor health, or the exhaustion of retirement savings.

Many older consumers complain that their mortgage lender or servicer refused to allow them to modify their loans. Some who received loan modification offers were unable to afford the new terms, and some who obtained a modification continued to struggle to make ends meet. Finally,

[38] "Other" products include consumer loans (3 percent) and student loans (1 percent).

consumers complain that after completing a trial period plan, their loan servicer refused to allow them to enter a final permanent loan modification.

Consumers frequently complain about loan servicing issues such as delayed crediting of payments and improper escrow accounting. Some say that a significant breakdown in communication about the status of their accounts led to serious delinquency or foreclosure. Many report that communication failure arose when servicing was transferred from one company to another.

> Many talk about the challenge of living on a fixed or limited income due to unemployment, poor health, or the exhaustion of retirement savings.

Older consumers with loans in default frequently complain that their loan servicers provide insufficient and conflicting information about loss mitigation options that may be available to them. Some who apply for a loan modification complain that servicers provide inadequate and conflicting information about the status of their applications.

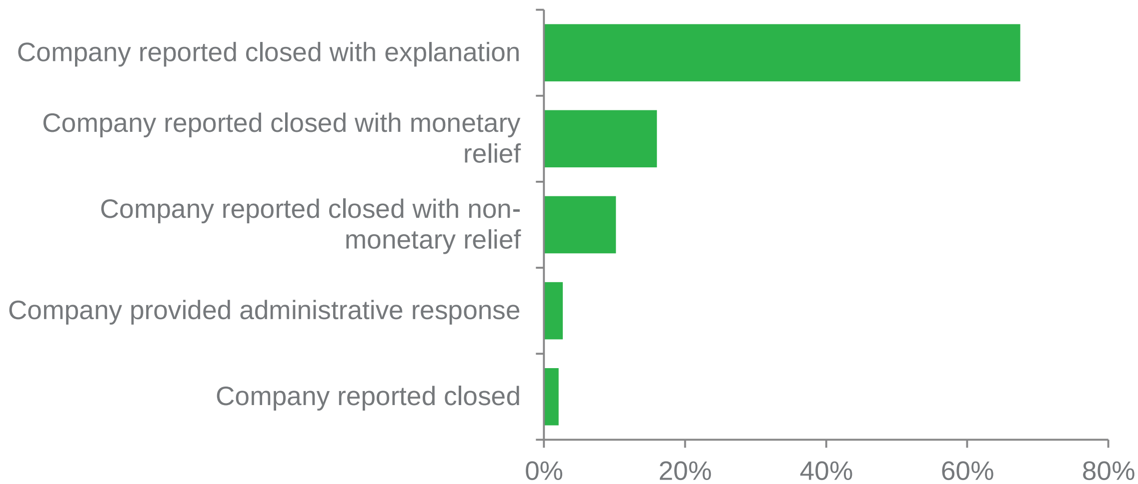
Servicing issues typically last for months, and sometimes years. Many consumers complain that their servicer lost their documents, sometimes multiple times, or required that the consumer repeatedly resubmit new documentation.

Even homeowners who have resigned from further efforts to save their home complain that servicers repeatedly refuse or fail to cooperate with the consumer’s attempts to complete short sales and/or execute deeds in lieu of foreclosure.

4.2 Company responses

Companies have responded to the majority (98 percent) of older consumers’ mortgage complaints. The most common company response category was ‘closed with explanation,’ which includes an explanation describing the steps taken by the company in response to the complaint. In other instances, companies provided monetary or non-monetary relief to the consumer.

FIGURE 5: COMPANIES' RESPONSES TO OLDER CONSUMERS' COMPLAINTS



Source: CFPB Complaints

More than one-fourth (28 percent) of older consumers disputed the company's response to their mortgage complaint, which is a higher dispute rate than for other financial products (23 percent).

Lastly, on average, companies responded to mortgage complaints within 18 days, compared to complaints about other products, where companies averaged 13 days to respond to a complaint.

5. Conclusion

The consumer complaints described above illustrate many of the problems that older homeowners are facing today. The increased mortgage debt load is having substantial financial consequences on many of them. For example, the resulting increase in housing costs is straining the monthly budgets of millions of retirees.[39] Consequently, among other things, many older Americans when carrying a mortgage have remained in the work force longer than they expected.[40]

Many homeowners have experienced more dire consequences too when they have been unable to handle the financial burden of mortgage payments on top of their other living expenses. The high foreclosure rates during the financial crisis show the difficulty of carrying a mortgage when experiencing a financial shock. For this reason, carrying a mortgage well into retirement poses many potential challenges for older Americans who typically live on reduced income yet face increased expenditures for health and long-term care.[41]

As mortgage debt has increased, older consumers have also accrued less home equity. Decreased home equity wealth is a great concern in light of Americans' increased longevity and lack of

[39] *See* CFPB analysis of the American Community Survey, *supra*.

[40] *See* Barbara Butrica & Nadia Karamcheva, *Does Household Debt Influence the Labor Supply and Benefit Claiming Decisions of Older Americans*? Center for Retirement Research Working Paper, Issue 22 (Dec. 2013), http://crr.bc.edu/wp-content/uploads/2013/12/wp_2013-22-508.pdf.

[41] *See e.g*. Sudipto Banerjee, *Expenditure Patterns of Older Americans, 2001–2009*, EBRI Issue Brief, No. 368 (Feb. 2012), http://www.ebri.org/pdf/briefspdf/EBRI_IB_02-2012_No368_ExpPttns.pdf.

financial preparedness for retirement.[42] For many, home equity – which is often their primary and sometimes only asset – may not be there when they are likely to need it later in life.[43]

[42] *See* Gen. Accountability Office, GAO-11-400, *Retirement Income: Ensuring Income throughout Retirement Requires Difficult Choices* 3 (2011), http://www.gao.gov/assets/320/319385.pdf; *See also* Soc'y of Actuaries Comm. on Post Retirement Needs and Risks, Urban Inst. & Women's Inst. for a Secure Retirement, *The Impact of Running Out of Money in Retirement (2012),* http://www.soa.org/files/research/projects/research-2012-retirement-webready.pdf.

[43] *See* Census Bureau, Median Value of Assets, *supra*.