

# MORTGAGE CONTRACT DECISIONS AND MORTGAGE DISTRESS: FAMILY AND FINANCIAL LIFE-CYCLE FACTORS

FRANK P. STAFFORD AND ELENA GOUSKOVA\*

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The U.S. housing market declines have created financial distress and reduced life satisfaction for many families. The distress measures studied were: falling behind in mortgage payments, expecting to fall behind in the next 12 months, having modified the mortgage to make payments, and having mortgage obligations in excess of the market value of the home ('under water'). There are clear patterns describing those who fell into mortgage distress of various forms. For each of these measures, younger age groups are the ones more likely to have mortgage difficulties as are those with less education. African-American families are also more likely to have experienced distress in some form. There were substantial effects of being in a Case-Shiller city with a house price decline of 35 percent or more. Prior to the declines, the apparent loan-to-value (LTV) ratios appeared to be safe.

Despite large mortgages at the point of initiation, market price increases offset this apparent risk and produced LTV's which were safe by conventional measures. Yet, a measure of house payments to family income (HPI) was rising and this measure shows a strong connection to mortgage distress as of 2009. The HPI variable can be interpreted as a measure of the extent of speculative risk taken. Housing provides a flow of services for which families have a willingness to pay — but if a strong capital gain is anticipated, families will be more willing to take on a higher housing cost burden, ranging from greater mortgage interest to increased property tax and insurance. For families with a greater housing payment cost to income ratio as of 2007, there are strong effects toward a greater risk of foreclosure and other mortgage distress measures by 2009. The strong connection of the high cash service burden on housing can inform future assessments of rising risk in residential housing. Committing a high share of income to housing is often an indication that the family expects a price rise to reward their current payment burden. This was often not borne out.

There is quite a strong intergenerational correlation in home ownership. Here we explored the extent to which the different housing-based financial risk measures are positively or negatively correlated for owners across the generations. The preliminary findings show a quite modest relationship, suggesting potential resources for intra-family assistance. Yet, older families have fewer resources to fall back on now than in 2007. The median level of constant dollar liquid assets for those 65 and older declined from \$48,700 in 2001 to \$42,000 in 2007. Liquid assets of 40–49 year olds fell from a median of only \$9,700 in 2001 to \$8,000 in 2007.

With the younger generation holding little in the way of financial reserves, and the reduced ability of older generations to help other family members, financial insolvency of various forms is a likely result. Future work will provide additional insight on the intergenerational connection. For now one can see a number of important patterns —

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\**Frank P. Stafford is Director of the Panel Study of Income Dynamics (PSID), senior research scientist at the Survey Research Center and professor economics at the University of Michigan. Elena Gouskova is a research investigator at the Institute for Social Research, University of Michigan. This Research Brief is based on MRRC Working Paper WP 2010-225.*

all the adverse outcomes were inversely related to the reported overall life satisfaction of the respondent in 2009, and over 16 percent of the sample holding a mortgage anticipated difficulties making mortgage payments in late 2009–2010. Whether or not these expectations were borne out, future study will allow an assessment of the extent to which these expectations have been influencing family consumption and savings behavior. Other factors to be studied include the impact of mortgage distress on help, gifts, and financing college costs for older children and grandchildren, all important areas of intra-family finance.

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UNIVERSITY OF MICHIGAN RETIREMENT RESEARCH CENTER  
INSTITUTE FOR SOCIAL RESEARCH 426 THOMPSON STREET ROOM 3026  
ANN ARBOR, MI 48104-2321 PHONE: (734) 615-0422 FAX: (734) 615-2180  
MRRC@ISR.UMICH.EDU WWW.MRRC.ISR.UMICH.EDU

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