



Nightmare on Main Street: Older Americans and the Mortgage Market Crisis

*Lori A. Trawinski, Ph.D., CFP®
AARP Public Policy Institute*

Research Report

Nightmare on Main Street: Older Americans and the Mortgage Market Crisis

***Lori A. Trawinski, Ph.D., CFP®
AARP Public Policy Institute***

AARP's Public Policy Institute informs and stimulates public debate on the issues we face as we age. Through research, analysis and dialogue with the nation's leading experts, PPI promotes development of sound, creative policies to address our common need for economic security, health care, and quality of life.

The views expressed herein are for information, debate, and discussion, and do not necessarily represent official policies of AARP.

#2012-08

August 2012

©2012, AARP

Reprinting with permission only

AARP Public Policy Institute
601 E Street, NW, Washington, DC 20049
<http://www.aarp.org/ppi>

ACKNOWLEDGMENTS

The author would like to thank Susan Reinhard and Elizabeth Costle for their direction and comments; Richard Deutsch, George Gaberlavage, Gary Koenig, Gerri Madrid-Davis, Vivian Vasallo, Rodney Harrell, and Jean Constantine-Davis for helpful suggestions and comments; Ari Houser and Carlos Figueiredo for statistical advice and assistance; Christena Schafale of Resources for Seniors for housing information; Kat Pearson of NeighborWorks America for data on housing counseling; and Nancy Vanden Houten, CFA of Stone & McCarthy Research Associates for insightful comments. The author is grateful for the support and guidance of staff at CoreLogic. The author is responsible for any errors that may remain in the report.

Table of Contents

Acknowledgments.....	iv
Executive Summary	1
Introduction.....	3
More Older Americans Carry Mortgage Debt	3
Foreclosure Affects More than Finances.....	4
Data and Methodology.....	5
Definitions.....	6
Results.....	7
Results for All Loans	7
Results for Prime Loans.....	8
Results for Subprime Loans.....	9
Prime Loan Performance by Race/Ethnicity	9
Subprime Loan Performance by Race/Ethnicity.....	10
Foreclosures by Income Bracket.....	12
Foreclosures by Income Bracket and Race/Ethnicity	13
Serious Delinquency by Origination Year	14
Underwater Loans as of 2011	15
Outlook	15
Current Public Policy Programs	17
Federal Programs	17
State Attorneys General Foreclosure Settlement	18
Office of the Comptroller of the Currency Foreclosure Review	19
Policy Solutions.....	20
Increase the Use of Principal Reduction as a Modification Tool.....	20
Consider Mediation Programs	20
Return Real Estate-Owned Properties to Use	21
Set Mortgage Loan Servicing Standards that Apply to All Servicers	21
Expand Access to Housing Counseling	22
Prevent Foreclosure Scams	22
Expand Legal Assistance to Homeowners.....	22
Develop Housing Assistance Programs for Older Americans	23
Develop Short-term Financial Assistance Programs.....	23

Conclusion	23
Appendix A: Comparison with Mortgage Bankers Association Data	25
Appendix B: Comparison with American Community Survey and American Housing Survey Data	27
Appendix C: The Foreclosure Process	28

List of Tables

Table 1.	Percentage of Families with Mortgage Debt	4
Table 2.	Median Value of Mortgage Debt	4
Table 3.	Foreclosure Rates by Age	7
Table 4.	90+ Day Delinquency Rates by Age.....	8
Table 5.	Serious Delinquency Rates by Race/Ethnicity—Prime Loans.....	11
Table 6.	Serious Delinquency Rates by Race/Ethnicity—Subprime Loans.....	12
Table 7.	Percentage Distribution of Loans—50+ Population.....	13
Table 8.	First-Lien Owner-Occupied Loans	27
Table 9.	First-Lien Loans of the 50+ Population.....	27

List of Figures

Figure 1.	Foreclosure Rates—All Ages: 2007 to 2011	3
Figure 2.	Prime Loan Performance	8
Figure 3.	Subprime Loan Performance	9
Figure 4.	Foreclosure Rates by Race/Ethnicity—Prime Loans	10
Figure 5.	90+ Day Delinquency Rates—Prime Loans.....	10
Figure 6.	Foreclosure Rates by Race/Ethnicity—Subprime	11
Figure 7.	90+ Day Delinquency Rates—Subprime	12
Figure 8.	Foreclosure by Income Bracket: 50+, 2011	13
Figure 9.	Serious Delinquency Rates: 50+—Prime by Income & Race/Ethnicity	14
Figure 10.	Serious Delinquency Rates: 50+—Subprime by Income & Race/Ethnicity	14
Figure 11.	Delinquency of Loans of the 50+ Population.....	16
Figure 12.	S&P/Case-Shiller Home Price Index: U.S. National Composite	16
Figure 13.	Comparison of Foreclosure Rates.....	25
Figure 14.	Comparison of 90+ Day Delinquency Rates	25

EXECUTIVE SUMMARY

This is the first study to measure the progression of the mortgage crisis and its effect on people age 50 and older. Based on an analysis of nationwide loan-level data provided by CoreLogic for the years 2007 through 2011, this study examines loan performance based on borrower age, loan type, and borrower demographics. The study shows that no age group, race, or ethnicity has been spared from the effects of declining home values and the financial difficulties caused by the Great Recession and continuing economic weakness.

Despite the perception that older Americans are more housing secure than younger people, millions of older Americans are carrying more mortgage debt than ever before, and more than three million are at risk of losing their homes. Although the serious delinquency rate of the under-50 population is higher than that of the over-50 population, the increase in the rate of serious delinquency of older Americans has outpaced that of younger homeowners from 2007 to 2011.¹ As the mortgage crisis continues, millions of older Americans are struggling to maintain their financial security.

As of December 2011, approximately 3.5 million loans of people age 50+ were underwater—meaning homeowners owe more than their home is worth, so they have no equity; 600,000 loans of people age 50+ were in foreclosure, and another 625,000 loans were 90 or more days delinquent. From 2007 to 2011, more than 1.5 million older Americans lost their homes as a result of the mortgage crisis.

To date, public policy programs designed to stem the progression of the foreclosure crisis have been inadequate, and programs that focus on the needs of older Americans are needed.

Key Findings

- Among people age 50+, the percentage of loans that are seriously delinquent increased 456 percent during the five-year period, from 1.1 percent in 2007 to 6.0 percent in 2011. As of December 2011, 16 percent of loans of the 50+ population were underwater.
- Serious delinquency rates of borrowers age 50–64 and 75+ are higher than those of the 65–74 age group. People in the 75+ age group are facing increasing mortgage and property tax expenditures and decreasing average incomes. Serious delinquency rates of the <50 population are higher than those of the 50+ population.
- Of mortgage borrowers age 50+, middle-income borrowers have borne the brunt of the foreclosure crisis. Borrowers with incomes ranging from \$50,000 to \$124,999 accounted for 53 percent of foreclosures of the 50+ population in 2011. Borrowers with incomes below \$50,000 accounted for 32 percent.
- The foreclosure rate on prime loans of the 50+ population increased to 2.3 percent in 2011, 23 times higher than the rate of 0.1 percent in 2007. The foreclosure rate on subprime loans of the 50+ population increased from 2.3 percent in 2007 to 12.9 percent in 2011, a nearly sixfold increase over the five-year period.

¹ Serious delinquency rates include mortgages that are 90 days or more delinquent and loans in foreclosure.

- African American and Hispanic borrowers age 50+ had foreclosure rates of 3.5 percent and 3.9 percent, respectively, on prime loans in 2011, double the foreclosure rate of 1.9 percent for white borrowers in 2011.
- Since 2008, Hispanics have had the highest foreclosure rate on subprime loans among the 50+ population—14.1 percent in 2011. African Americans age 50+ had the highest foreclosure rate in 2007. White borrowers age 50+ had the lowest subprime foreclosure rate until 2010, when their rate was slightly higher than that of African Americans and remained higher in 2011.
- One-quarter of subprime loans of borrowers age 50+ were seriously delinquent as of December 2011.
- More policy solutions are needed to assist all homeowners, particularly older Americans. Policy solutions that should be considered include: principal reduction loan modifications; mediation programs; more access to housing counseling and legal assistance programs; and development of short-term financial assistance programs.

INTRODUCTION

Historically, homeownership has been at the heart of the American dream. People sought to own their own homes and build equity over time as they paid down their mortgage balances and their homes appreciated in value. The home was a source of financial security. Older Americans often used their home equity in retirement to finance health care, home maintenance, and other large expenses and as a safety net that could be used to meet unexpected needs. Others planned to sell their home to downsize, move closer to family, or to finance a move into an assisted living facility or continuing care retirement community. For most older people, the home is, or in some cases, was, their most valuable asset.

In recent years, the homeownership experience has changed from the American dream to the American nightmare for millions of older homeowners. The collapse of the housing market that began in 2006 continues to be reflected in rising numbers of mortgage delinquencies and foreclosures. Older Americans have been negatively affected by the crisis in increasing numbers. From 2007 to 2011, the percentage of seriously delinquent mortgage loans of people age 50+ increased 456 percent, from 1.1 percent in 2007 to 6.0 percent in 2011. For

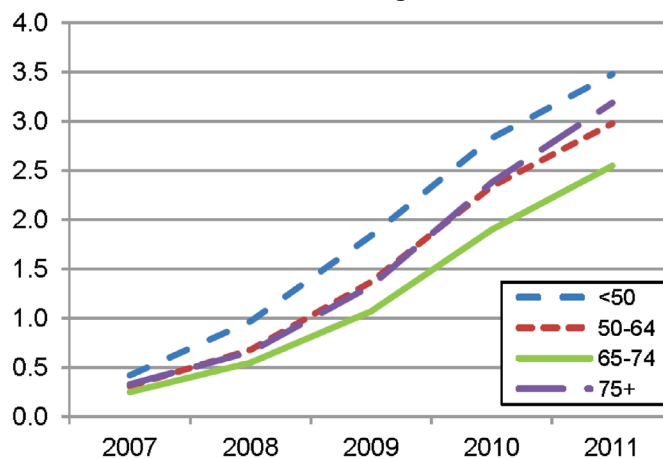
the under-50 population, the serious delinquency rate increased from 1.6 percent in 2007 to 7.5 percent in 2011, an increase of 361 percent. As of December 2011, 16 percent of borrowers age 50+ were underwater on their mortgage loans, meaning the amount owed on the mortgage loan is greater than the value of the property.

The foreclosure rate for people age 50+ increased from 0.3 percent in 2007 to 2.9 percent in 2011. Figure 1 shows the change in foreclosure rates for the <50, 50–64, 65–74, and 75+ age groups from 2007 to 2011.

More Older Americans Carry Mortgage Debt

It is not surprising that older Americans would be affected by the mortgage crisis. The homeownership rate for people age 50+ is approximately 80 percent. The percentage of people carrying mortgage debt as they age and the amount of that debt have increased steadily over the past 20 years.² The largest increase in the percentage of older homeowners with mortgage debt has been the 75+ age group. The 55–64 and 65–74 age groups have also exhibited sharp increases in mortgage debt. This increase partly reflects increased borrowing that was spurred by historically low interest rates and high home values prior to the housing market collapse. It may indicate that the oldest borrowers have

Figure 1
Foreclosure Rates—All Ages: 2007 to 2011



Source: AARP Public Policy Institute tabulation of CoreLogic data.

² Mortgage (home-secured) debt includes first-lien and junior-lien (second) mortgages and home equity lines of credit secured by a primary residence.

tapped their home equity to finance their needs in retirement. In contrast, younger age groups have seen slight declines in the percentage of families with mortgage debt. Despite low interest rates, tight underwriting standards and continuing fears that house prices have not yet hit bottom have kept many potential homeowners on the sidelines in recent years.

The median amount of mortgage debt has also increased sharply since 1989, particularly for people over the age of 65. Increases in the amount of mortgage debt have been smaller for the younger population.

It is difficult to recover from the loss of a home at any age. Many people deplete their retirement and other savings in an attempt to save their home. Older people face more difficult challenges recovering from a foreclosure as a result of having fewer working years remaining in which to rebuild their financial security. In addition, older people who have lost their jobs face longer periods of unemployment, and when they do find a job, it is often at a lower salary than the one they had lost.⁴

Foreclosure Affects More than Finances

Given the length of the current mortgage crisis, studies that examine the relationship between foreclosures and health are beginning to emerge. One study found that the presence of homes lost to foreclosure in a given neighborhood is associated with increases in medical visits for mental health conditions (anxiety and suicide attempts), preventable conditions (hypertension), and physical complaints that could be stress-related.⁵

Another study evaluated associations between mortgage delinquencies and changes in health and health-relevant resources over a two-year period using data on people age 50+. The authors found that mortgage delinquency was associated with increased incidence of mental health impairments and that people who were delinquent were more likely to develop depressive symptoms, and likely to cut back on food purchases and prescription

Table 1
Percentage of Families
with Mortgage Debt

Age of Head	1989	2010	% Change
<35	34.9	34.0	-3%
35-44	57.9	57.6	-1%
45-54	58.3	60.4	4%
55-64	37.0	53.6	45%
65-74	21.7	40.5	87%
75+	6.3	24.2	284%

Source: Survey of Consumer Finances, 2007 and 2010.³

Table 2
Median Value of Mortgage Debt
(in thousands of 2010 dollars)

Age of Head	1989	2010	% Change
<35	\$74.2	\$120.0	62%
35-44	\$67.5	\$139.9	107%
45-54	\$43.9	\$114.0	160%
55-64	\$33.8	\$97.0	187%
65-74	\$15.4	\$70.0	355%
75+	\$11.8	\$52.0	341%

Source: Survey of Consumer Finances, 2007 and 2010.

³ Survey of Consumer Finances 2010 public use data have not yet been released. Data for 2010 were obtained from Jesse Bricker, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus, "Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin* 98, no. 2 (June 2012).

⁴ Richard W. Johnson and Corina Mommaerts, *Age Differences in Job Loss, Job Search, and Reemployment* (Washington, DC: Urban Institute, January 2011).

⁵ Janet Currie and Erdal Tekin, *Is the Foreclosure Crisis Making Us Sick?* Working Paper 17310 (Cambridge, MA: National Bureau of Economic Research, August 2011), <http://www.nber.org/papers/w17310>.

drugs.⁶ These findings indicate that the effects of foreclosure on older Americans reach beyond financial security and affect physical and psychological health as well. The social stigma associated with foreclosure can also lead to isolation. The importance of measuring the extent of this crisis and examining its impact on older Americans cannot be overstated.

Data and Methodology

Data for this study were obtained from CoreLogic, a leading provider of property, mortgage loan origination, and performance data. Loans included in this study are first-lien forward mortgages for single-family owner-occupied properties. Data include prime and subprime loans, loan performance by year according to several demographic breakdowns, and loan performance by origination year. Demographic data on borrowers include age, race/ethnicity, and income bracket.

This data set is different, both in terms of sample data and measurement methodology, from the one used in AARP's seminal study published in September 2008, which was the first research study to examine the mortgage crisis by age of borrower.⁷ As a result of the new data and measurement methodology, the data in this study are not directly comparable to the 2008 study. The CoreLogic data provide a more robust set of data for analysis:⁸

- Loan-level data were obtained from a nationwide property record database.
- Property record data were merged with demographic data to obtain borrower age and other demographic breakdowns for each loan.⁹
- These data were then matched with a loan performance database to determine the delinquency and foreclosure rates of older Americans as of December, for the years 2007 to 2011.
- Data on the performance of loans for people under age 50 were also collected to provide a point of comparison.

For 2011, 18.1 million loans were matched to the loan performance database; of these, 17.4 million contained data on borrower age.¹⁰ For 2011, 8.3 million loans were identified as belonging to borrowers age 50+ and 9.1 million as belonging to the <50 population. This report focuses on the performance of those 17.4 million loans that contained borrower

⁶ Dawn E. Alley, Jennifer Lloyd, Jose A Pagan, Craig E. Pollack, Michelle Shardell, and Carolyn Cannuscio, "Mortgage Delinquency and Changes in Access to Health Resources and Depressive Symptoms in a Nationally Representative Cohort of Americans Older Than 50 Years," *American Journal of Public Health* 101, no. 12 (December 2011).

⁷ Alison Shelton, *A First Look at Older Americans and the Mortgage Crisis*, Insight on the Issues, 9 (Washington, DC: AARP Public Policy Institute, September 2008). Data used in the study were based on a random sample of credit reports of consumers from a major credit bureau as of December 31, 2007.

⁸ AARP did not have access to any borrower or property address information; this private information was removed from the data prior to release by CoreLogic.

⁹ The age used in this study is based on 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 or older.

¹⁰ Loans from the public record database were matched to the servicing database using a complex algorithm that attempted to match property addresses and mortgage characteristics. Some of the loans could not be matched because CoreLogic receives mortgage servicing data on only approximately 80 percent of the market. In addition, servicing data provided directly by Fannie Mae and Freddie Mac are excluded.

age.¹¹ Age data are collected at the time of sale, so loans for periods prior to December 2011 have age data if the borrower still owns the property. However, if a loan was terminated prior to 2011, no historical age data will be available for that loan (since age is based on current property owner as of 2011). For this reason, delinquency and foreclosure rates from 2007 to 2010 are somewhat understated, with the amount of understatement increasing further back in time. See appendixes A and B for comparisons with other data sources.

Definitions

Delinquency data are based on the Mortgage Bankers Association (MBA) definition of delinquency.¹² Loans are classified as current, delinquent, or in foreclosure, so each loan will be counted only once. In reality, loans in foreclosure are also delinquent, but are counted only in the foreclosure bucket. Additionally, delinquent loans are classified in only one delinquency bucket per period: 30 days, 60 days, or 90+ days. Delinquency data are reported as of December 31st of each year.

Foreclosures are defined as loans currently in the foreclosure process, which includes pre-foreclosure¹³ and auction stage loans.¹⁴ Data are captured as of December for each year and include new foreclosures started during the month, as well as the inventory of loans already in the foreclosure process. Loans that are no longer in foreclosure are not included in the inventory count. For this study, short sales, deeds in lieu of foreclosure,¹⁵ and real estate-owned (REO) loans are not included in the foreclosure statistics.¹⁶ Only loans

¹¹ Data used in this study represent a large portion of outstanding first-lien mortgages, but they do not represent a statistically random sample of all mortgage loans. The characteristics of loans included in this study may not be representative of the overall population of mortgage loans.

¹² For example, a loan is considered 30 days delinquent if the January 1st installment has not been paid as of January 31st. A loan is 60 days delinquent if the January 1st installment is unpaid as of February 29th.

¹³ Pre-foreclosure refers to loans that are in default where the lender has issued a public notice—a Notice of Default or Lis Pendens, which notifies the borrower of the lender's intent to begin the foreclosure process.

¹⁴ Auction stage loans are loans where the lender has issued notice that the home will be sold at public auction at a specified date following the pre-foreclosure period.

¹⁵ In a deed-in-lieu of foreclosure transaction, the borrower voluntarily deeds the property back to the lender in exchange for a release from all obligations under the mortgage. However, the rights of junior lien holders will not be extinguished by this transaction.

¹⁶ Loans can come out of the foreclosure process in several ways:

1. The borrower can pay the arrears and become current on the loan during the pre-foreclosure stage. Borrowers can, in some cases, obtain a loan modification that results in lower payments based on lower interest rates or extended terms, or in rare cases, from a reduction in the amount of principal owed.
2. The borrower can sell the home during the pre-foreclosure stage. If the lender agrees to the sale of a home for an amount less than the amount owed on the loan, it is called a short sale.
3. The lender may enter into an agreement with the borrower during the pre-foreclosure stage—known as “deed-in-lieu” of foreclosure.
4. The home is sold to a third party at public auction following the end of the pre-foreclosure period.
5. The lender can take ownership of the property by buying it back at public auction during the auction stage of the foreclosure process. After the auction, the loans in this stage are called completed foreclosures, bank-owned, or REO, meaning real estate-owned by the bank or lender. These loans are no longer in the foreclosure process.

For a foreclosure overview and discussion of the foreclosure process, see <http://www.realtytrac.com/foreclosure/overview.html>

currently active in the foreclosure process as of December of each year are included. For a detailed description of the foreclosure process, see appendix C.

RESULTS

Results for All Loans

Results for all loans include both prime and subprime loans.¹⁷ The delinquency and foreclosure rates for all loans will reflect both the weight of prime versus subprime loans in the total loan count as well as the relative performance of prime and subprime loans. The foreclosure rate for all first-liens of the 50+ population increased to 2.9 percent in 2011 from 0.3 percent in 2007. Foreclosure rates are highest for the <50 population for all time periods, although the rate of increase from 2007 to 2011 is higher for the 50+ population. Among the 50+ population, the 50–64 and 75+ age groups have the highest foreclosure rates.

Foreclosure rates in 2010 are higher than they otherwise would have been for all age groups because of a foreclosure sales moratorium that went into effect in October 2010, which had the effect of temporarily increasing the number of homes in foreclosure for several months.¹⁸ Following the lifting of the moratorium, foreclosure sales resumed in 2011. Foreclosure rates continued to increase in 2011.

Table 3
Foreclosure Rates by Age

	2007	2008	2009	2010	2011	% Change 2007–2011
<50	0.42%	0.97%	1.84%	2.83%	3.48%	729%
50+	0.30%	0.66%	1.32%	2.27%	2.92%	873%
50–64	0.31%	0.68%	1.37%	2.34%	2.98%	861%
65–74	0.25%	0.55%	1.07%	1.90%	2.55%	920%
75+	0.33%	0.66%	1.33%	2.38%	3.19%	867%

Source: AARP Public Policy Institute tabulation of CoreLogic data.

Loans that are 90+ days delinquent are in danger of moving into foreclosure, since it is difficult for borrowers who fall three mortgage payments behind to become current

¹⁷ In this study, prime and subprime loans are classified by mortgage servicers that submit data to CoreLogic. Prime loans are largely based on the credit rating of the borrower and typically are fixed or adjustable-rate loans. Subprime loans are loans that were originally designed for borrowers with low credit ratings and included higher interest rates and fees. However, as the subprime market evolved, these loans became less about the credit scores of the borrower and focused more on other risky features not typical of a prime loan. Such features can include interest-only loans; low documentation loans; negative amortization loans or option-ARMs (adjustable-rate mortgages)—where the borrower makes payments that are less than the minimum amount of interest due, so the loan balance increases over time; 2/28 ARM or 3/27 ARM—adjustable-rate loans with very low fixed rates for the first two or three years, which then adjust upward based on an index plus a margin—often resulting in sharply higher interest rates than the original fixed rate.

¹⁸ The data in this study are measured as of December 31st of each year. The moratorium halted the sale of homes in the auction stage while several large mortgage servicers reviewed their loan documentation. The moratorium followed several court cases in which it was revealed that loan documents were missing or affidavits had been fraudulently “robo-signed.”

Table 4
90+ Day Delinquency Rates by Age

	2007	2008	2009	2010	2011	% Change 2007–2011
<50	1.20%	2.91%	5.92%	4.08%	3.99%	233%
50+	0.77%	1.86%	4.22%	3.12%	3.03%	294%
50-64	0.81%	1.97%	4.51%	3.32%	3.22%	298%
65-74	0.60%	1.42%	3.20%	2.46%	2.41%	302%
75+	0.68%	1.61%	3.47%	2.62%	2.68%	294%

Source: AARP Public Policy Institute tabulation of CoreLogic data.

on their loans and pay late fees and other added charges. The relatively high 90+ day delinquency rates indicate that many loans remain at risk of foreclosure, although the rate decreased in 2010 and 2011 from its high in 2009.

The 90+ day delinquency rates show a trend similar to the foreclosure rates for the 50+ population: Rates are highest for the 50–64 age group, decline for the 65–74 age group, and increase for the 75+ age group. Ninety-plus day delinquency rates are higher for the <50 population than the 50+ population for all periods, although the rate of increase is higher for the 50+ population.

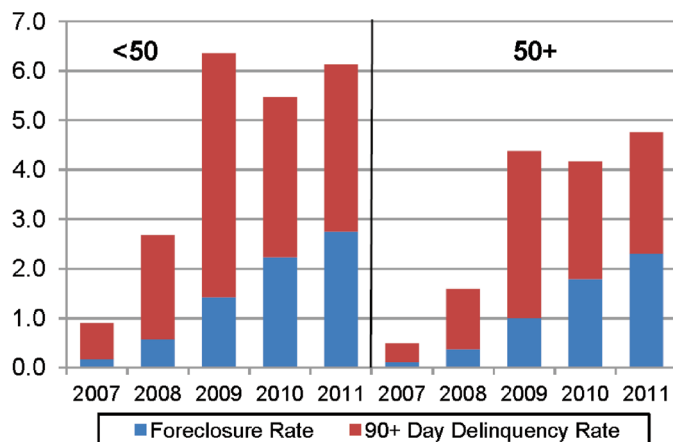
The increase in serious delinquency rates for the oldest borrowers is troubling. Several factors have contributed to this increase. The increasing amount and incidence of mortgage debt, the length of time people have been living on a fixed income, and increasing living expenses stress the budgets of older households. For example, before-tax income decreased 5.4 percent from 2007 to 2010 in real terms for households where the age of the head of household is 75+. ¹⁹ Higher costs for people 75+ from 2007 to 2010 are evident in several key areas:

Average expenditures for mortgage interest and charges increased 16.3 percent; average property tax expenditures increased 4.9 percent; average expenditures for utilities increased 5.2 percent; and average health care expenditures increased 5.7 percent. ²⁰

Results for Prime Loans

It is useful to examine the performance of prime loans separately from the performance of subprime loans. Both types of loans have performed progressively worse since 2007,

Figure 2
Prime Loan Performance



Source: AARP Public Policy Institute tabulation of CoreLogic data.

¹⁹ Bureau of Labor Statistics, Consumer Expenditure Survey, Table 3. Age of reference person: Average annual expenditures and characteristics, 2007 and 2010, in 2010 dollars. Figures adjusted using the Consumer Price Index for Urban Consumers (CPI-U).

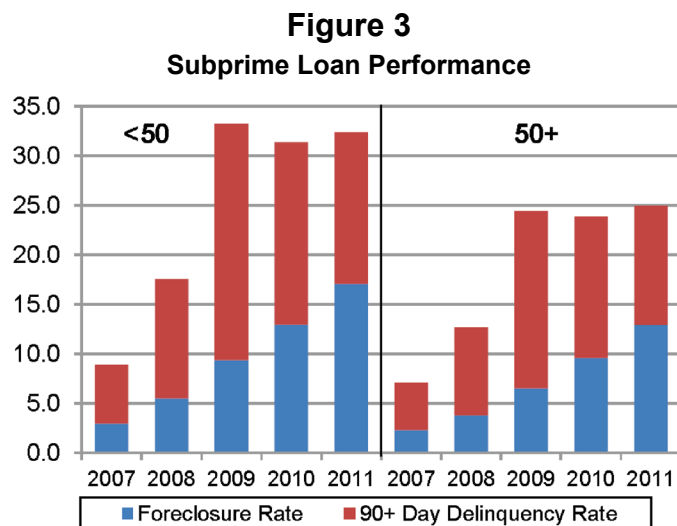
²⁰ Ibid.

but the subprime loan performance is far worse than that of prime loans. Prime loans are based on the credit rating of the borrower and are typically fixed-rate or adjustable-rate loans. Prime borrowers typically have credit ratings that are in the high end of the credit rating spectrum. The foreclosure rate for prime loans of the 50+ population increased from 0.1 percent in 2007 to 2.3 percent in 2011. The 90+ day delinquency rate for the 50+ increased from 0.4 percent in 2007 to 2.5 percent in 2011. The serious delinquency rate for prime loans of the 50+ was 4.8 percent in 2011. Figure 2 shows the performance for the <50 and 50+ populations.

Results for Subprime Loans

Subprime loans were originally designed for borrowers with low credit ratings and featured higher interest rates and fees. As the subprime market evolved, the loans became less about the credit scores of the borrower, as lenders developed new features and loosened underwriting criteria, greatly increasing the risk of these loans. By 2007, serious delinquency rates for subprime loans had already begun to increase sharply and served as an early indication that there was a problem in the housing market.

At first, it appeared that the problem was confined to the subprime market. Eventually, as the housing bubble burst and the economy fell into recession, increased delinquencies and foreclosures spread to all sectors of the housing market. The foreclosure rate of subprime loans of the 50+ population increased from 2.3 percent in 2007 to 12.9 percent in 2011, a nearly sixfold increase over the five-year period. The 90+ day delinquency rate for the 50+ more than doubled to 12.0 percent in 2011, up from 4.8 percent in 2007. The serious delinquency rate for subprime loans was 25.0 percent for the 50+ population in 2011, more than five times higher than the serious delinquency rate for prime loans.



Source: AARP Public Policy Institute tabulation of CoreLogic data.

Prime Loan Performance by Race/Ethnicity

Foreclosure rates across all ethnicities and ages were very low for prime loans in 2007. However, beginning in 2008, the foreclosure rates for African Americans and Hispanics began to accelerate. By 2011, the foreclosure rate for Hispanics age 50+ was 3.9 percent and the foreclosure rate for African Americans was 3.5 percent, double the rate of 1.9 percent for whites.²¹ Asian borrowers age 50+ had the lowest foreclosure rate, 1.8 percent, across all race/ethnicities in 2011.

²¹ Race/ethnicity data are self-reported by the borrower. Approximately 6 percent of the total loan count did not have race/ethnicity or age data available.

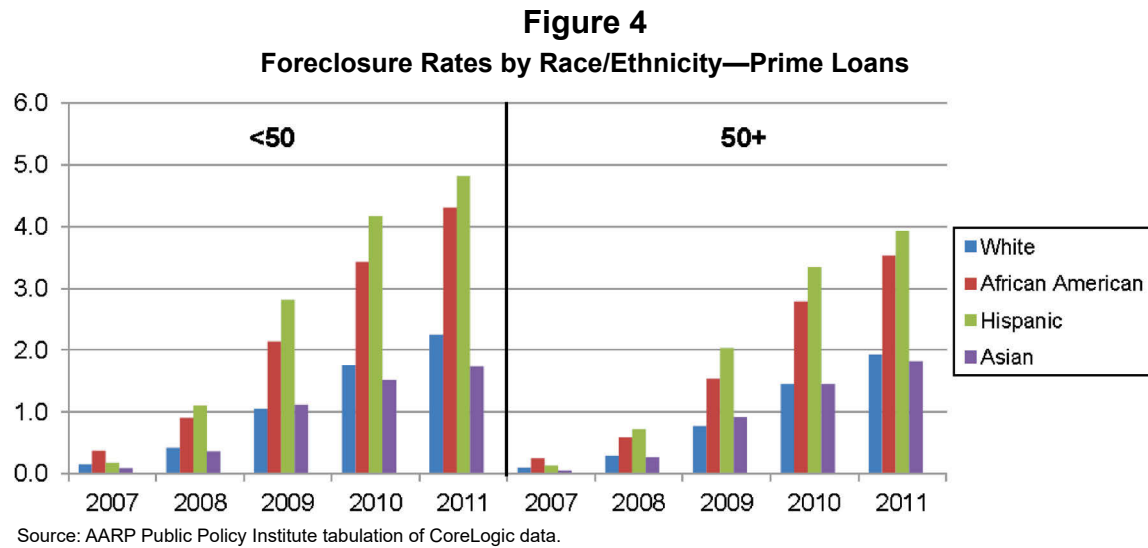


Figure 5 presents 90+ day delinquency rates by race/ethnicity for prime loans. Ninety-plus day delinquency rates are higher for the <50 than for the 50+ population. Ninety-plus day delinquency rates fell in 2010 from the highs reached in 2009 for both age groups and across all race/ethnicities. In 2011, white and African American 90+ day delinquency rates increased, while Hispanic and Asian rates decreased from 2010 levels.

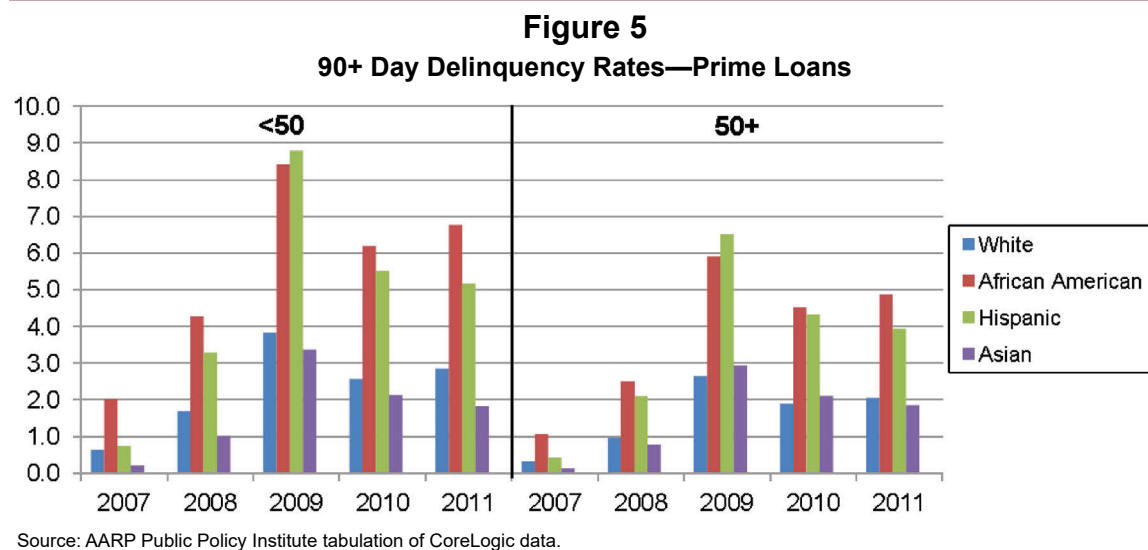


Table 5 shows the changes in serious delinquency rates for prime loans from 2007 to 2011 by race/ethnicity. Serious delinquency rates surged in 2009 across both age groups and all ethnicities. For the 50+ population, the rate increased in 2011 for all ethnicities.

Subprime Loan Performance by Race/Ethnicity

Subprime loans account for 6.8 percent of the overall loan count for 50+ white borrowers in this study in 2011, while 21.8 percent of loans are subprime for African American borrowers, and 12.9 percent are subprime for Hispanic borrowers. Much research has focused on the disparate impact of the foreclosure crisis on communities of color and found that credit rating and income level do not account for the differences

Table 5
Serious Delinquency Rates by Race/Ethnicity—Prime Loans

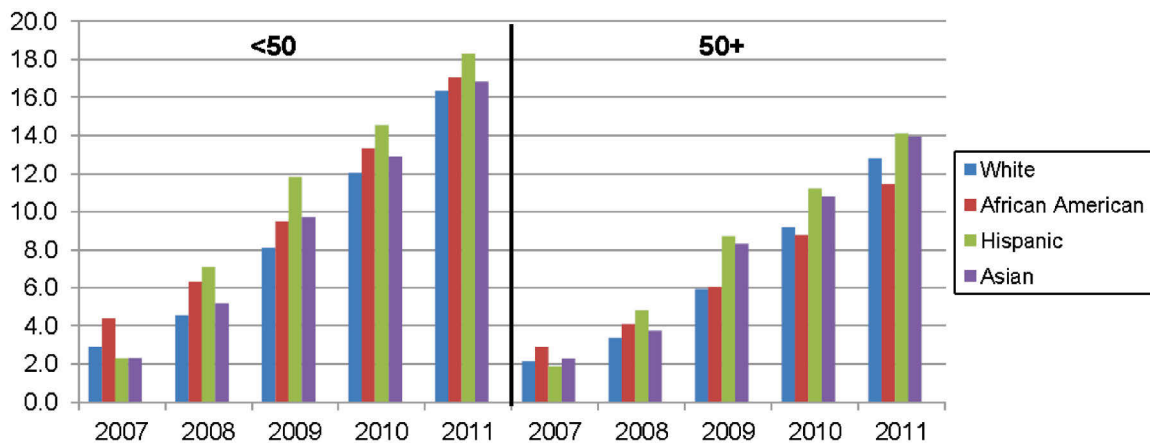
	<50					50+				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
White	0.8%	2.1%	4.9%	4.3%	5.1%	0.4%	1.3%	3.4%	3.3%	4.0%
African American	2.4%	5.2%	10.6%	9.6%	11.1%	1.3%	3.1%	7.4%	7.3%	8.4%
Hispanic	0.9%	4.4%	11.6%	9.7%	10.0%	0.6%	2.8%	8.6%	7.7%	7.9%
Asian	0.3%	1.4%	4.5%	3.6%	3.6%	0.2%	1.0%	3.9%	3.6%	3.7%

Source: AARP Public Policy Institute tabulation of CoreLogic data.

in subprime loan originations.²² A recent settlement between the U.S. Department of Justice and Bank of America supports the allegation that lenders unfairly targeted African American and Hispanic borrowers for subprime loans.²³

Foreclosure rates for subprime loans are much higher than for prime loans across all race/ethnicity groupings. Examination of the 50+ population shows that since 2008, Hispanics have had the highest foreclosure rate on subprime loans. African Americans had the second highest subprime foreclosure rate in 2008, and had the highest foreclosure rate in 2007. Whites age 50+ had the lowest subprime foreclosure rate until 2010, when their rate was slightly higher than the African American rate, and has remained higher in 2011. The subprime loan foreclosure rate in 2011 was 14.1 percent for Hispanics age 50+, 13.9 percent for Asians, 11.5 percent for African Americans, and 12.8 percent for whites.

Figure 6
Foreclosure Rates by Race/Ethnicity—Subprime



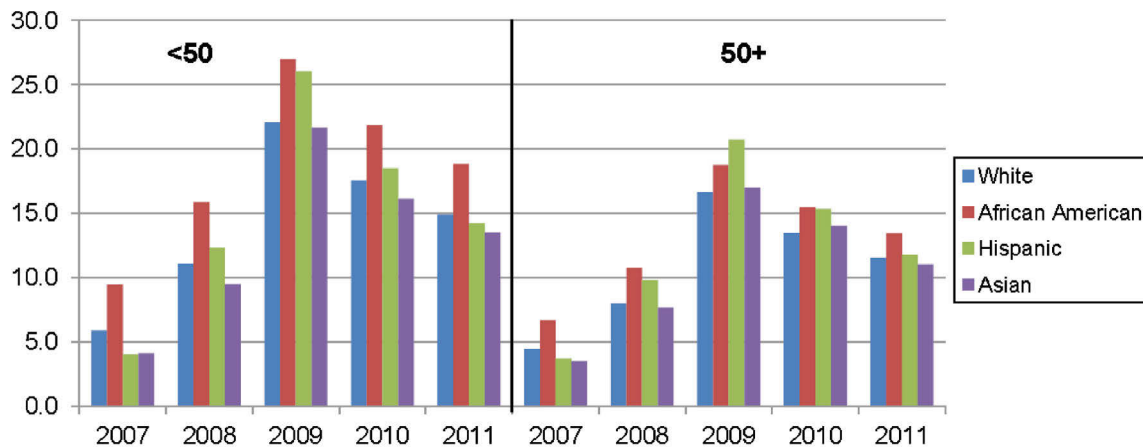
Source: AARP Public Policy Institute tabulation of CoreLogic data.

²² Debbie Gruenstein Bocian and Roberto G. Quercia, *Lost Ground, 2011: Disparities in Mortgage Lending and Foreclosures* (Durham, NC: Center for Responsible Lending, November 2011).

²³ In December 2011, the Department of Justice reached a settlement with Bank of America's Countrywide unit for \$335 million to settle charges that Countrywide had discriminated against African American and Hispanic borrowers and steered these borrowers into subprime loans when similarly qualified whites received prime loans.

Ninety-plus day delinquency rates for subprime loans slowed in 2010 and 2011 from the 2009 levels, just as they did for prime loans. However, it should be noted that there is less disparity in 90+ day delinquency rates across races for subprime loans than there is for prime loans. This finding supports the widely accepted belief that subprime loans contain toxic features that make these loans unsustainable in the long term. A high percentage of all subprime borrowers are facing difficulty maintaining payments on these loans.

Figure 7
90+ Day Delinquency Rates—Subprime



Source: AARP Public Policy Institute tabulation of CoreLogic data.

Examination of serious delinquency rates for subprime loans of the 50+ population by race/ethnicity reveals that approximately one-quarter of subprime loans across all race/ethnicities were in trouble as of December 2011. For the under-50 population, one-third of subprime loans of Hispanic borrowers were seriously delinquent, and 35.9 percent of African American borrowers were seriously delinquent; whites and Asians had slightly lower rates.

Table 6
Serious Delinquency Rates by Race/Ethnicity—Subprime Loans

	<50					50+				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
White	8.8%	15.6%	30.2%	29.6%	31.3%	6.6%	11.4%	22.6%	22.6%	24.4%
African American	13.8%	22.2%	36.5%	35.2%	35.9%	9.6%	14.9%	24.8%	24.2%	24.9%
Hispanic	6.3%	19.4%	37.9%	33.0%	32.5%	5.6%	14.6%	29.5%	26.6%	25.9%
Asian	6.4%	14.7%	31.4%	29.0%	30.4%	5.8%	11.4%	25.3%	24.8%	25.0%

Source: AARP Public Policy Institute tabulation of CoreLogic data.

Foreclosures by Income Bracket

The demographic data in this study contain borrower income brackets.²⁴ For all loans—both prime and subprime—of the 50+ population in 2011, 53 percent of foreclosures

²⁴ Income data are self-reported by the borrower or imputed by the demographic data provider and were not available for all loans in the data set. If the income was imputed, it was estimated using multiple statistical methodologies based on individual, household-level, and geographic variables to predict to which of the 12 income ranges a household is most likely assigned.

occurred on loans where borrower income was between \$50,000 and \$124,999 and 32 percent occurred where borrower income was less than \$50,000. This indicates that the majority of older borrowers who are in foreclosure typically have low or middle incomes.²⁵

Comparing the distribution of all loans of the 50+ population in the study with that of loans in foreclosure as of 2011 shows that borrowers with incomes below \$75,000 account for a higher percentage of foreclosure than the distribution of all loans suggests. For example, loans of borrowers with incomes less than \$50,000 account for 24 percent of loans in the study, yet they account for a greater share of foreclosures—32 percent.

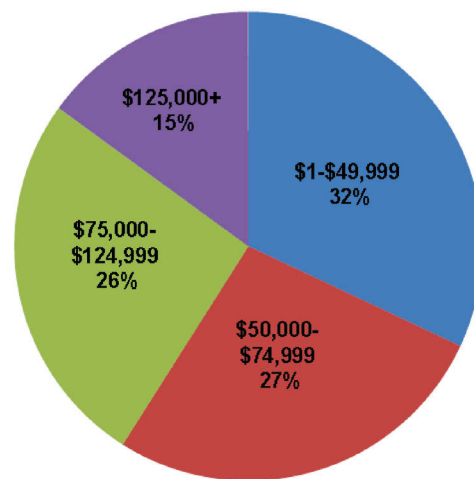
Foreclosures by Income Bracket and Race/Ethnicity

The serious delinquency rates for prime loans among borrowers age 50+ as of 2011 were highest for borrowers with incomes below \$50,000. Hispanic and African American borrowers had higher serious delinquency rates for prime loans than whites across all income brackets. Foreclosure rates for prime loans decrease across all race/ethnicities as income increases.

Results for subprime loans show a starkly different outcome than prime loans. Serious delinquency rates for subprime loans are more than double the level for prime loans, but are less sensitive to income level and race/ethnicity. Ninety-plus day delinquency and foreclosure rates for subprime loans remain high even as income increases.

As indicated above, there is also less variation in serious delinquency rates across race/ethnicity for subprime loans. These results highlight the poor performance of subprime loans regardless of income level, which reinforces the belief that the design of these loans makes them unsustainable in the long term.

Figure 8
Foreclosure by Income Bracket: 50+ 2011



Source: AARP Public Policy Institute tabulation of CoreLogic data.

Table 7

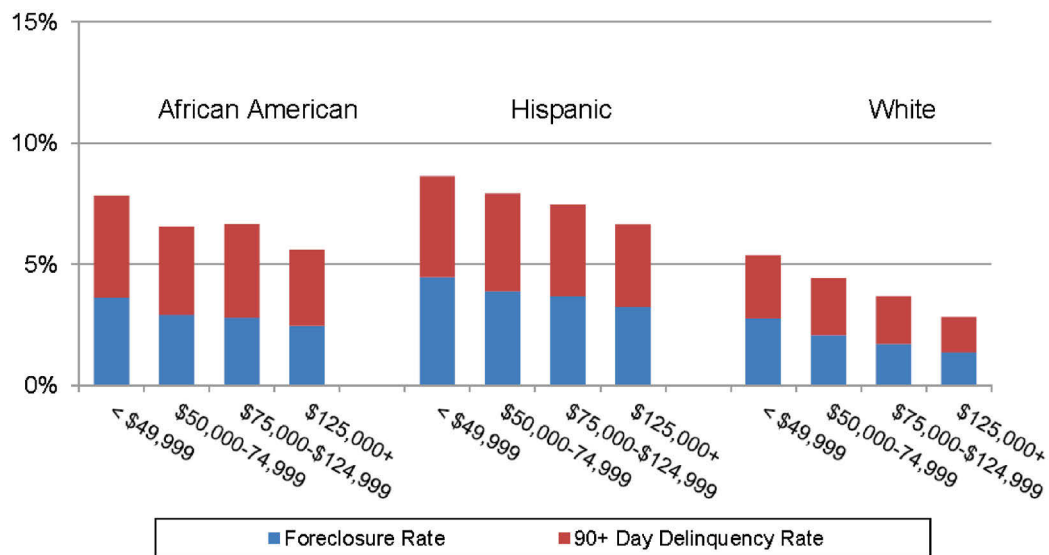
Percentage Distribution of Loans—50+ Population

Income Bracket	All Loans	In Foreclosure
\$1–\$49,999	24%	32%
\$50,000–\$74,999	25%	27%
\$75,000–\$124,999	29%	26%
\$125,000+	22%	15%
TOTAL	100%	100%

Source: AARP Public Policy Institute tabulation of CoreLogic data.

²⁵ It is difficult to define middle-income for the country as a whole since large differences in median income occur across geographic locations. Middle-income households are typically defined as those in the middle 60 percent of the income distribution. Based on the income distribution of the 50+ borrowers in this study, \$50,000 to \$124,999,000 is the middle-income range, capturing approximately 54 percent of borrowers. This income range is slightly higher than the range obtained from the general representative population from the Current Population Survey for 2011: household income for householders with a mortgage and where the householder or spouse is age 50+ shows a middle-income range of \$40,000 to \$115,926.

Figure 9
Serious Delinquency Rates: 50+—Prime by Income & Race/Ethnicity

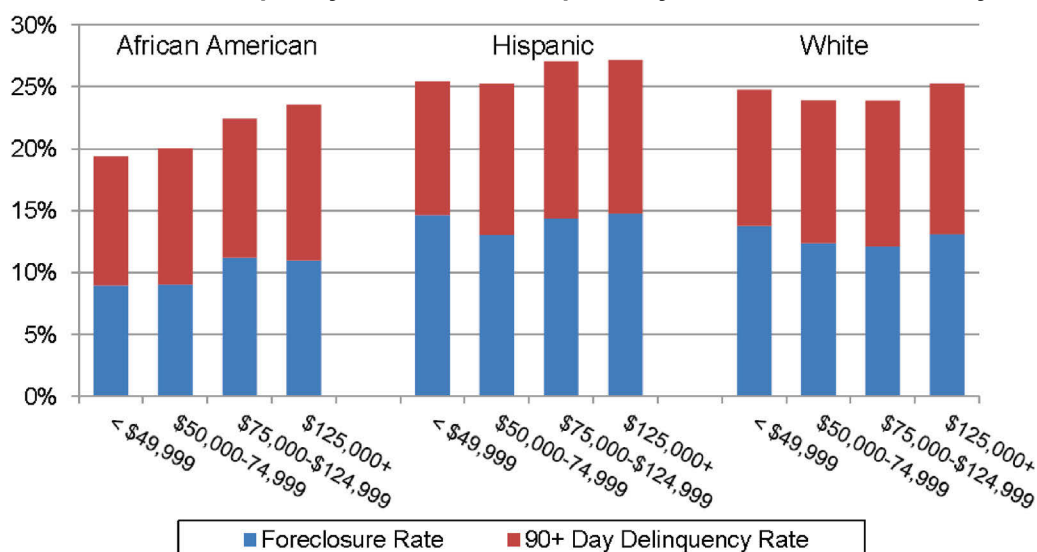


Source: AARP Public Policy Institute tabulation of CoreLogic data.

Serious Delinquency by Origination Year

As of December 2011, the worst-performing prime loans of the 50+ population were originated in 2007, 2006, and 2005 (ranked from highest to lowest). Prime loans originated in 2008 accounted for the next largest share, followed by loans originated in 2004 or earlier. For subprime loans of the 50+ population, loans originated in 2006, 2005, and 2007 were the worst performing. These years correspond with the high point of the housing bubble, and a high volume of subprime loans were originated during those

Figure 10
Serious Delinquency Rates: 50+—Subprime by Income & Race/Ethnicity



Source: AARP Public Policy Institute tabulation of CoreLogic data.

years. Subprime loans of vintage 2004 and earlier accounted for the next largest share of 90+ day delinquencies and foreclosures. It should be noted that the number of subprime mortgage loans outstanding decreased from 2007 to 2011, as many of these loans have terminated and very few subprime loans have been originated since 2008.

Underwater Loans as of 2011

As of December 2011, approximately 22.8 percent—one in five—of mortgage loans nationwide were underwater, meaning that the amount owed on the mortgage loan is greater than the current value of the property.²⁶ As expected, borrowers under age 50 have a higher percentage of underwater loans at 28 percent, compared with 16 percent for borrowers age 50+. Among the 50+ population, the percentage of underwater loans decreases with age: 18 percent for borrowers age 50–64; 14 percent for borrowers age 65–74; and 11 percent for borrowers age 75+. While it was expected that older homeowners would have accumulated more home equity than younger people, the fact that 3.5 million borrowers age 50+ have no equity at all is alarming. Research has shown that negative equity is an important predictor of default, even more so than unemployment.²⁷ As of December 2011, the 90+ day delinquency rate of the 50+ population was 5.2 percent, as was the foreclosure rate for underwater loans, for a serious delinquency rate of 10.4 percent. Approximately 1.5 million underwater loans of the 50+ population were current as of December 2011.

OUTLOOK

The outlook for the housing market remains negative in the near term. As of December 2011, CoreLogic estimates that approximately 22.8 percent of loans were underwater²⁸—making it difficult for those homeowners to refinance or to sell their homes. House prices continued to decline in 2011 in most areas of the country, and unemployment remained high. An increasing number of homes are owned by banks, and many are not yet listed for sale. As these homes sit unoccupied, they often fall into disrepair and bring down home values of the surrounding neighborhood. In addition, millions of loans are seriously delinquent and will contribute to an increase in the supply of homes that are offered for sale at distressed prices. This, in turn, will hold back house price recovery, particularly in the areas experiencing the highest foreclosure rates. Ninety-plus day delinquency rates decreased in 2010 and 2011 from the record highs reached in 2009, but remain elevated. There has been some improvement in 30- and 60-day delinquency rates over the past two years, as figure 11 shows.

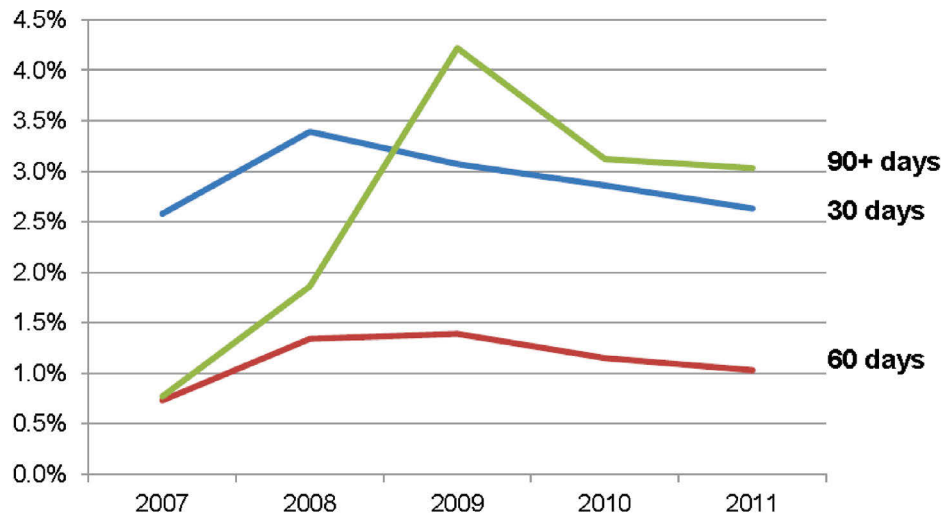
An added complication to the housing recovery is uncertainty regarding the future of the housing finance system. Since Fannie Mae and Freddie Mac entered government conservatorship in 2008, residential mortgage finance has been dominated by government-guaranteed loans, and private capital has been largely absent from the market.

²⁶ CoreLogic provides estimated equity for each loan, which is a modeled attribute calculated by using an automated valuation model value minus a modeled current loan balance, calculated by amortizing the original recorded loan amount.

²⁷ Laurie S. Goodman, Roger Ashworth, Brian Landy, and Ke Yin, “Negative Equity Trumps Unemployment in Predicting Defaults,” *The Journal of Fixed Income*, Spring 2010.

²⁸ “CoreLogic Reports Negative Equity Increase in Q4 2011,” Press Release, March 1, 2012, <http://www.corelogic.com/about-us/news/corelogic-reports-negative-equity-increase-in-q4-2011.aspx#>.

Figure 11
Delinquency of Loans of the 50+ Population

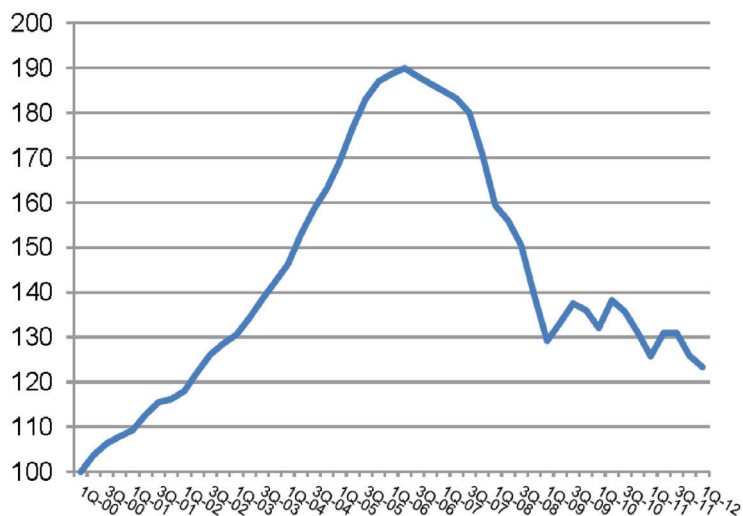


Source: AARP Public Policy Institute tabulation of CoreLogic data.

Proposals to reform the mortgage finance system—to determine the future of Fannie Mae and Freddie Mac—have not gained traction in Congress. Regulatory agencies issued several rules pertaining to mortgage finance for public comment last year. One rule

proposal relates to the Truth in Lending Act and seeks to define a “qualified mortgage” (QM) and also covers issues relating to the ability to repay. A second rule proposal regarding ability to repay was put out for comment in April 2012. Another rule proposal sought to define a “qualified residential mortgage” (QRM), which is a mortgage that would be exempt from Dodd-Frank Act risk retention rules.²⁹ The QM and QRM definitions will identify mortgages that can be securitized more readily in the secondary market, since those loans will meet

Figure 12
S&P/Case-Shiller Home Price Index:
U.S. National Composite



Source: S&P Indices & Fiserv. Index not seasonally adjusted.

²⁹ The Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203) requires entities that pool mortgages (securitize) into mortgage-backed securities—which are then sold to investors—to retain at least 5 percent of an interest in the pool. This retained interest cannot be hedged or insured. A securitizer is exempt from the risk retention requirement if all mortgages in the pool meet the quality standards of a qualified residential mortgage (QRM). Fannie Mae and Freddie Mac (while under conservatorship) and government agencies will be exempt from the risk retention rule if it is adopted as proposed.

a predefined set of quality criteria. The QM and QRM definitions have not yet been finalized.

There is a great deal of uncertainty in the mortgage market regarding the securitization of new loans. As a result, underwriting is very strict and mortgage credit is extremely tight, and only the highest-rated borrowers currently have access to mortgage credit. The resolution of the QM and QRM definitions, along with the implementation of their corresponding rules, is likely to facilitate a smoother-functioning credit market, which, in turn, should help the housing market. Although house prices have stabilized in many areas, prices have not yet recovered. Since 2009, house prices have fluctuated within a narrow range, but have decreased for the past two quarters (through March 2012), as seen in figure 12. Until the housing market improves significantly, it is unlikely that the U.S. economy will recover with any sustainable strength.

CURRENT PUBLIC POLICY PROGRAMS

There have been many attempts at the federal, state, and local levels to stem the mounting volume of foreclosures. To date, these programs have fallen short of their projected goals. Despite the fact that foreclosure mitigation is vital to the stabilization of the housing market, innovative and comprehensive solutions are still lacking.

Federal Programs

The collapse of the housing market has garnered much attention in the public policy arena. In 2009, the Making Home Affordable Program was launched to assist homeowners in obtaining loan modifications through the Home Affordable Modification Program (HAMP), which is not limited to government-guaranteed loans; and refinancing of underwater loans through the Home Affordable Refinance Program (HARP), which is limited to loans owned by Fannie Mae and Freddie Mac.

These programs have not reached as many homeowners as originally projected. This is partly because many homeowners had lost their jobs, and with no income, they could not qualify for a modification. HAMP is voluntary on the part of the lender, and many lenders have offered borrowers trial loan modifications, only to reject them for permanent modifications at a later date. In addition, approximately 15 percent of borrowers re-default on their modified loans within nine months after receiving a modification. However, recent data from the Federal Housing Finance Agency show that loans receiving HAMP modifications are performing better than loans modified by Fannie Mae and Freddie Mac prior to 2009, when the re-default rate was closer to 40 percent after nine months.³⁰ Data also show that current HAMP modifications are performing better than non-HAMP modifications, reflecting HAMP's emphasis on affordability, verification of borrower income, and completion of a successful trial modification period.³¹ These standards are reflected in the relatively low number of permanent HAMP modifications. From April 2009 through March 2012, approximately

³⁰ Federal Housing Finance Agency, "Foreclosure Prevention Report First Quarter 2012," *FHFA Federal Property Manager's Report* (Washington, DC: Federal Housing Finance Agency, 2012), p. 9.

³¹ *OCC Mortgage Metrics Report Fourth Quarter 2011* (Washington, DC: Office of the Comptroller of the Currency, March 2012), p. 39.

990,000 homeowners received a permanent HAMP modification, while more than 1.8 million HAMP trial modifications were started over the same period.³²

In 2010, two programs designed to assist homeowners who have lost their jobs were added. The Home Affordable Unemployment Program (UP) is available to borrowers with loans not owned by Fannie Mae or Freddie Mac. UP offers assistance to unemployed borrowers through temporary forbearance of all or part of their mortgage payments. As of February 29, 2012, 6,026 borrowers were participating in UP.³³ The second program added was the Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets (HHF), which now covers 18 states and the District of Columbia and includes five programs, one of which is unemployment assistance. HHF has \$7.6 billion of funds available to help borrowers through the five programs, but as of December 31, 2011, only \$217.4 million had been spent to assist 30,640 homeowners.³⁴ Of this amount, \$162.1 million was spent on unemployment assistance.³⁵ Despite the relatively low number of people who have been helped, this additional assistance for the unemployed is significant because it recognizes the fact that long-term unemployment is making mortgage payments impossible for many.

At the onset of the mortgage crisis, subprime loans with unsustainable terms were a large part of the problem, so assistance with loan modifications was the policy goal. Given the breadth and depth of the ongoing mortgage crisis, there remains a need to develop more comprehensive policy solutions, and specifically, solutions that take into account the unique needs of the older population.

State Attorneys General Foreclosure Settlement

The foreclosure crisis has been exacerbated by a loan servicing framework that was ill prepared to deal with the volume of foreclosures. Servicers were understaffed and lacked expertise and systems to deal with the ever-increasing numbers of borrowers seeking assistance with loans that were delinquent or in foreclosure. The securitization process further complicated matters by placing original loan documents into trusts, making them difficult to retrieve or locate. The electronic loan documentation system known as Mortgage Electronic Registration System (MERS) also failed to provide access to accurate and complete loan documents. As a result, borrowers seeking assistance were often faced with repeated instances of lost paperwork, were unable to follow up with the same person they had initially contacted, and many were told they were in the loan modification process while, simultaneously, the servicer was pursuing foreclosure proceedings.

In February 2012, state attorneys general (with the exception of Oklahoma), along with several federal agencies, reached a settlement with five leading mortgage servicers regarding inappropriate foreclosure proceedings (robo-signing of documents) and deceptive

³² “The Obama Administration’s Efforts to Stabilize the Housing Market and Help American Homeowners,” *National Scorecard* (Washington, DC: U.S. Department of Housing and Urban Development, April 2012), p. 1.

³³ Office of the Special Inspector General for the Troubled Asset Relief Program, Quarterly Report to Congress, April 25, 2012, p. 55.

³⁴ Special Inspector General for the Troubled Asset Relief Program, “Factors Affecting Implementation of the Hardest Hit Fund Program,” April 12, 2012, p. 38.

³⁵ *Ibid.*, p. 15.

practices relating to loan modifications.³⁶ The settlement includes relief for struggling homeowners and those who lost their homes as a result of wrongful foreclosures.³⁷

The banks must allocate \$17 billion in assistance to help borrowers who can make reasonable payments on their loans, 60 percent of which must be allocated to principal reductions. The other \$5.2 billion must be allocated to other homeowner assistance programs, including the facilitation of short sales, payment forbearance for the unemployed, relocation assistance, waiving of deficiency balances, and remediation of blighted properties. In addition, the banks must offer \$3 billion for refinancing underwater loans. Banks are required to notify eligible homeowners of this program, and homeowners must meet certain eligibility requirements, such as being current on their loan and having a current interest rate in excess of 5.25 percent.

The settlement also includes a set of mortgage servicing reforms, including providing borrowers with a single point of contact and restrictions on dual tracking.³⁸ The settlement will be monitored and enforced, and banks will face civil penalties for failure to comply with its terms. Other terms of the settlement include \$1.5 billion to be allocated to borrowers who were wrongfully foreclosed upon, with payments of approximately \$2,000 per borrower. States will receive approximately \$2.5 billion, a portion of which may be designated as a civil penalty for robo-signing misconduct, to be distributed by the state attorneys general for foreclosure mitigation programs.

As of June 2012, 36 states are still in the process of deciding how to allocate the funds received from the settlement, and 14 states have finalized their plans.³⁹ To date, 11 states are putting all or some of their funds into the state's general fund to be used to fill budget gaps or for purposes other than housing-related programs.⁴⁰

The settlement does not release the banks from any claims brought by individuals, and does not release claims regarding securitization, violation of fair lending laws, or other similar claims. The settlement applies only to the five named banks and to loans owned by those banks. It is estimated that these banks service approximately 55 percent of outstanding mortgages. Loans owned by Fannie Mae, Freddie Mac, the Federal Housing Administration (FHA), or banks other than the five included in the settlement are not eligible for the programs in the settlement.

Office of the Comptroller of the Currency Foreclosure Review

The Federal Reserve System, Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision investigated

³⁶ The five banks included in the settlement are Bank of America, JP Morgan Chase, Wells Fargo, Citigroup, and Ally Financial.

³⁷ More information about the settlement is available at <http://www.nationalmortgagesettlement.com/>.

³⁸ Dual tracking refers to the practice of working with a borrower on a loss mitigation strategy, such as a loan modification, while simultaneously pursuing foreclosure actions.

³⁹ Amanda Sheldon Roberts, Andrew Jakabovics, and Will McHale, *\$2.5 Billion, Understanding How States are Spending their Share of the National Mortgage Settlement*, (Washington, DC), Enterprise Community Partners, Updated June 4, 2012).

⁴⁰ Ibid.

the foreclosure practices of 14 federally regulated mortgage servicers during the fourth quarter of 2010.

The agencies initiated enforcement actions in April 2011 and required servicers to contract with an outside firm to conduct an independent review of loans in foreclosure at any time between January 1, 2009, and December 31, 2010. In addition, homeowners can request a review of their loan if they believe they were financially harmed by the foreclosure process during that period, and they may be eligible for compensation. The deadline to request an independent foreclosure review was extended to September 30, 2012.⁴¹ As of May 31, 2012, 338,447 files were slated for review, consisting of 193,630 borrowers who had requested a review and 144,817 files that outside consultants selected for review from servicers' portfolios.⁴² Results of these reviews are not yet available.

POLICY SOLUTIONS

The following policy solutions should be considered to assist all homeowners, with a particular focus on programs to assist older Americans. Implementation of policy solutions that require congressional action is more complex, particularly if they increase the regulatory burden or increase costs to the federal government. Despite this challenge, more solutions are needed.

Increase the Use of Principal Reduction as a Modification Tool

Since October 2010, the Home Affordable Modification Program (HAMP) has included a Principal Reduction Alternative (PRA) for eligible homeowners (those with loans not owned by Fannie Mae or Freddie Mac) who are significantly underwater. Currently, the Federal Housing Finance Agency (FHFA) does not allow Fannie Mae and Freddie Mac to offer principal reductions as part of their modification program. In contrast, proprietary loan modification programs have increasingly offered principal reductions to borrowers. Principal reduction is an important loan modification tool, particularly in areas where the drop in home prices has been severe and a large number of borrowers are underwater. Research has shown that principal reduction loan modifications perform better (i.e., they have a much lower re-default rate) than rate reduction or capitalization modifications.⁴³ FHFA has recently stated that it is reconsidering its position regarding the use of principal reduction modifications, but has yet to announce a change in policy as of this writing.

Consider Mediation Programs

According to the National Consumer Law Center, at least 19 states currently have mandatory foreclosure diversion and mediation programs.⁴⁴ The programs establish protocols for the exchange of documents and require loan servicers to adhere to certain time frames. In addition, servicers are prevented from scheduling auctions until the mediation process and review have been completed.

⁴¹ The original deadline was April 30, 2012. The deadline was subsequently extended to July 31, 2012.

⁴² Office of the Comptroller of the Currency, Press Release NR 2012-95, June 21, 2012.

⁴³ Laurie S. Goodman, Roger Ashworth, Brian Landy, and Lidan Yang, "Mortgage Modification Activity—Recent Developments," *The Journal of Fixed Income*, Spring 2012.

⁴⁴ *Rebuilding America—How States Can Save Millions of Homes Through Foreclosure Mediation* (Boston, MA: National Consumer Law Center, February 2012).

Mediation ensures that borrowers will have an opportunity to meet with their servicer to negotiate a possible alternative to foreclosure. Without mediation, many borrowers never have the opportunity to obtain a loan modification. Research has shown that in jurisdictions requiring mandatory mediation, more than 7 in 10 cases are resolved short of foreclosure.⁴⁵ Although not all mediations result in home retention, mediation often provides homeowners with the opportunity to exit the home gracefully (i.e., with a deed-in-lieu of foreclosure transaction or another arrangement that avoids eviction). States that do not have mediation programs should consider implementing them as part of their foreclosure mitigation efforts.

Return Real Estate-Owned Properties to Use

The increasing supply of bank-owned properties continues to be a drag on house price recovery. In some areas, more homes are owned by banks and are vacant than are occupied by owners. Blighted properties create hazards to the community and discourage people from moving into these areas.

More effort needs to be placed on programs that will help return properties to their proper use. In cases where properties have deteriorated to the point that they are no longer inhabitable, programs should be developed to demolish these structures so the land can be returned to some other appropriate use. Funding for community land banks and assistance to state and local government programs should be a focus. In addition, rent-to-own programs should be developed to assist people with purchases of bank-owned/vacant properties.⁴⁶

FHFA launched a pilot REO-to-rental program in February 2012 in several of the hardest-hit metropolitan areas—Atlanta, Chicago, Las Vegas, Los Angeles, Phoenix, and parts of Florida. The program allows prequalified investors to submit applications that demonstrate their financial capacity, experience, and specific plans for purchasing pools of foreclosed Fannie Mae properties. There is also a requirement that the properties must be offered for rent for a specified number of years.⁴⁷

Set Mortgage Loan Servicing Standards that Apply to All Servicers

The State Attorneys General Foreclosure Settlement set servicing standards, but the settlement applies to only five banks. Nationwide, comprehensive, and enforceable servicing standards that apply to all mortgage loan servicers are still needed to protect borrowers from the abuses and misconduct that have been prevalent in the past. A recent survey by the National Association of Consumer Advocates found that attorneys from 45 states reported that thousands of homeowners were improperly foreclosed upon during the past year.⁴⁸ The Consumer Financial Protection Bureau has the authority to regulate

⁴⁵ Andrew Jakabovics and Alon Cohen, *It's Time We Talked—Mandatory Mediation in the Foreclosure Process* (Washington, DC: Center for American Progress, June 2009), p. 7.

⁴⁶ See Federal Reserve Board white paper, *The U.S. Housing Market: Current Conditions and Policy Considerations* (Washington, DC: Federal Reserve Board, January 4, 2012), p. 8, for a detailed discussion of a possible REO-to-rental solution.

⁴⁷ Federal Housing Finance Agency, “FHFA Announces Pilot REO Property Sales in Hardest-Hit Areas,” News Release, February 27, 2012.

⁴⁸ See National Association of Consumer Advocates press release, February 22, 2012, at <http://www.naca.net/sites/default/files/NACA%20NCLC%20NACBA%20Wrongful%20Foreclosure%20Survey%20Results%20February%2022%202012.pdf>.

mortgage servicers and plans to propose mortgage servicing rules within the next few months and will finalize the rules by January 2013.⁴⁹

Expand Access to Housing Counseling

Many people who fall behind on their mortgage payments try to manage on their own. Often, they do not take action until they have already missed two or three payments, and by that time, it is difficult to stave off foreclosure. In addition, until recently it has been nearly impossible for homeowners to obtain a single point of contact at their mortgage servicer. Housing counseling agencies provide expertise and guidance in helping people deal with their servicer and navigate the system, and can help people to understand their options. With the assistance of trained professionals, homeowners can gain access to the best information and make better decisions.

In December 2007, the National Foreclosure Mitigation Counseling (NFMC) Program was launched by NeighborWorks America with funds appropriated by Congress to address the nationwide foreclosure crisis by dramatically increasing the availability of housing counseling for borrowers at risk of foreclosure. Older Americans have made use of this counseling: 40 percent of all NFMC counselees through March 2012 were age 50+: 33 percent were age 50–64; 5 percent were age 65–74; and 2 percent were age 75+. ⁵⁰ Recent research conducted by the U.S. Department of Housing and Urban Development (HUD) found that 69 percent of counselees obtained a mortgage remedy with the help of a counselor, and 56 percent were able to become current on their mortgage.⁵¹

Prevent Foreclosure Scams

Foreclosure prevention scams and loan modification scams abound. A recent report by the Lawyers' Committee for Civil Rights found that older Americans accounted for 45 percent of complaints in the committee's loan scam database as of July 2011. Older Americans have reported losses of more than \$16 million since 2009 as a result of fees paid to scammers.⁵²

The recent launch of the Consumer Financial Protection Bureau, and specifically its Office of Older Americans, should provide some assistance in this area. Older consumers need access to legitimate, timely, and correct information and should be protected from predatory scams.

Expand Legal Assistance to Homeowners

Many homeowners lack the financial resources to consult with an attorney before or during the foreclosure process. This lack of access to professional legal advice places them at a distinct disadvantage when trying to decide how to handle the foreclosure

⁴⁹ Consumer Financial Protection Bureau, "Consumer Financial Protection Bureau Outlines Borrower-Friendly Approach to Mortgage Servicing," Press Release, April 9, 2012.

⁵⁰ NeighborWorks America, National Foreclosure Mitigation Counseling Program Data, January 1, 2008 through March 19, 2012 (Rounds 1–5).

⁵¹ U.S. Department of Housing and Urban Development, *Foreclosure Counseling Outcome Study: Final Report, Housing Counseling Outcome Evaluation* (Washington, DC: U.S. Department of Housing and Urban Development, May 2012), p. xxi.

⁵² Lawyers' Committee for Civil Rights Under Law, "Seniors Among Hardest Hit by Foreclosure Rescue Scams," News Release, July 2011.

process. Legal assistance programs should be expanded to ensure that older homeowners have access to reliable and timely advice.

Develop Housing Assistance Programs for Older Americans

More housing assistance is needed for older Americans who are about to lose their home. It is difficult to find data on where older people go following a foreclosure. Anecdotal information obtained from housing counseling agencies indicates that most people end up moving in with family or friends.

After foreclosure, it is very difficult for older people to find decent affordable housing, since most landlords check credit reports. Older Americans with a foreclosure on their record and the late payment history that accompanies a foreclosure are automatically turned down, and there are long wait lists for subsidized affordable senior housing. Often, the only remaining option is to find a house, apartment, or home-sharing arrangement where the landlord does not check credit reports or is willing to consider each person's unique situation. In many cases, the result is relocation to substandard housing.

Develop Short-term Financial Assistance Programs

Short-term financial assistance programs should be developed to aid homeowners who want to sell their homes to finance a move into an assisted living facility or continuing care retirement community. In recent years, occupancy rates of continuing care retirement communities and assisted living facilities have fallen, partly as a result of homeowners' inability to sell their homes quickly or at a reasonable price because of the housing market collapse.⁵³ Programs that address the short-term financing needs of older Americans trying to sell their homes would facilitate their ability to move to more appropriate housing in a timelier manner.

CONCLUSION

The housing market crisis is far from over. For older Americans, the percentage of loans that are 90 or more days delinquent and in foreclosure remains high by historical standards, particularly for Hispanic and African American homeowners. Approximately 3.5 million older homeowners are underwater on their loans and have no home equity. Falling house prices and continuing economic weakness are affecting the financial, health, and retirement security of older Americans in increasing numbers. The decline in home values has reduced the amount of equity available for older homeowners to tap in the event of a financial emergency. Given the difficulty many buyers are having obtaining financing, along with the high concentration of foreclosures in some areas, many people who planned to sell their homes are unable to do so.

America's oldest homeowners—those age 75+—are facing a particularly difficult struggle: falling average incomes coupled with rising mortgage payments and property taxes; increasing medical expenses; more debt; and increased longevity. The increases in mortgage borrowing and foreclosures indicate that many older homeowners have been relying on their home equity to finance their needs in retirement and may be running out of options.

⁵³ See Harris Meyer, "Housing Bust Derails Some Senior's Assisted-Living Care," *Kaiser Health News*, August 21, 2011.

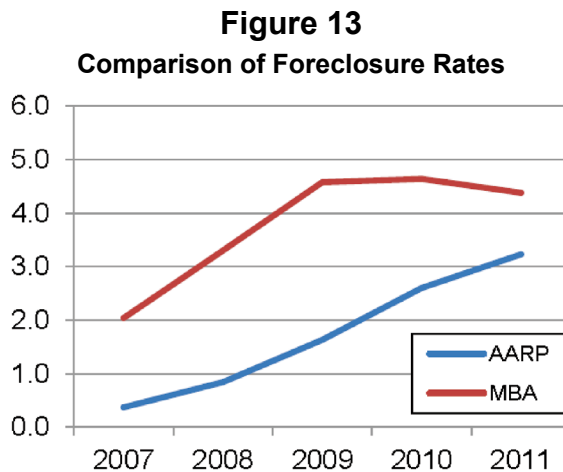
Regulatory uncertainty in the housing finance system needs to be resolved promptly and must maintain an appropriate balance between consumer protection and access to capital. The foreclosure backlog requires concerted action at the federal, state, and local levels to implement the recent settlements and regulatory actions. Additional efforts need to evaluate and strengthen the current array of assistance programs to meet the needs of struggling homeowners, especially older homeowners.

APPENDIX A: COMPARISON WITH MORTGAGE BANKERS ASSOCIATION DATA

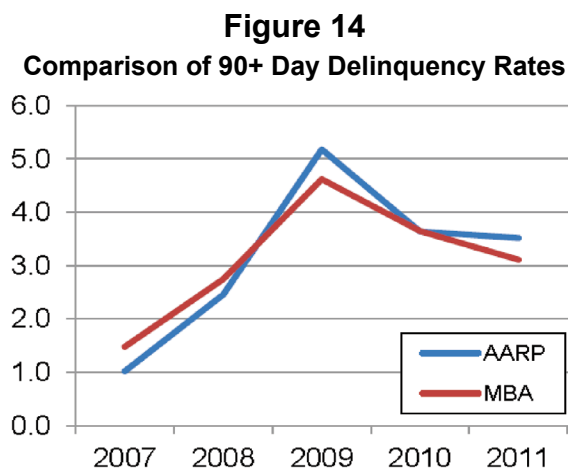
It is difficult to compare foreclosure rates based on different sources of data because each data provider uses a unique definition and collects data from different sources. Overall trends should be similar, although rates of change may be quite different. Despite these complications, this comparison is an important step in the data quality verification process.

The most widely known source of mortgage delinquency and foreclosure data is the Mortgage Bankers Association National Delinquency Survey (NDS). The NDS is a voluntary quarterly survey of more than 120 mortgage lenders, servicers, and life insurance companies. It contains state and national data on delinquency and foreclosure for prime and subprime loans, conventional, jumbo, and government loans. The NDS definition of foreclosure differs from the one used in this study. The NDS includes first-lien mortgages secured by one- to four-unit residential properties including owner-occupied, second home, and investment properties, while this study includes only owner-occupied properties.

The NDS definition of foreclosure also includes deeds-in-lieu of foreclosure and loans assigned directly to FHA, the Veterans Administration, or other insurers or investors that are not included in this study. Therefore, foreclosure rates are expected to be higher in the NDS series, since the definition of foreclosures is broader. In addition, the performance of investor-owned property loans has been worse than for owner-occupied property loans, also contributing to the higher NDS foreclosure rate.⁵⁴



Source: Mortgage Bankers Association National Delinquency Survey and AARP Public Policy Institute tabulation of CoreLogic data.



Source: Mortgage Bankers Association National Delinquency Survey and AARP Public Policy Institute tabulation of CoreLogic data.

The foreclosure and delinquency rates derived in this study are identified as AARP in the graphs that follow and are based on the data methodology described above. MBA denotes Mortgage Bankers Association data. As expected, the MBA foreclosure rates are higher than the AARP series. Again, definitional differences and measurement methodology can likely explain most of the differences. The AARP series does not reflect a slowdown in the foreclosure rate from 2009 to 2011, and this is partly a result of the loss of accuracy that results when trying to recreate the data set historically. It is likely that the foreclosure

⁵⁴ Data provided by CoreLogic indicate that non-owner-occupied/investment property loans have performed worse than owner-occupied loans in every period since 2005 (the first year for which these data were provided), and that the performance of these loans has worsened vis-à-vis owner-occupied loans since 2008.

rates for 2010 and earlier years are somewhat understated. If borrowers lost their home prior to December 2011 (i.e., their home was auctioned or taken back by the bank), the loan is not captured in the data.

Comparison of loans that are 90+ days delinquent shows that the results of this study track very closely with the MBA data, particularly over the past few years. Since AARP data tend to understate historical rates, the difference is greater in earlier years.

APPENDIX B: COMPARISON WITH AMERICAN COMMUNITY SURVEY AND AMERICAN HOUSING SURVEY DATA

The American Community Survey (ACS) is conducted annually by the U.S. Census Bureau. The survey focuses on the population and their housing units and covers approximately 3 million housing units, which are selected randomly from lists covering all census tracts. In contrast, the American Housing Survey (AHS) focuses primarily on housing, but it also collects demographic data on households and individuals in occupied housing units. The AHS, sponsored by the Department of Housing and Urban Development, is conducted by the Census Bureau biennially, and is based on a stratified sample of approximately 60,000 housing units from across the country. Both surveys collect aggregate data on the mortgage status of owner-occupied housing, although more detailed mortgage data are available in the AHS. For the purposes of this study, both surveys were used to develop an estimate of first-lien mortgages of owner-occupied housing units.

The ACS questionnaire asks if there are any mortgages on the property and then asks if there is a second mortgage or home equity loan on the property. To derive an estimate of first-lien mortgages, if a respondent answered yes to the mortgage question and no to the second mortgage question, it was assumed that there was only a first-lien on the property. Using the ACS 2010 data, we estimate that there are 35.7 million first-lien mortgages on owner-occupied properties.

The AHS collects data on “regular” mortgages, which are defined as not home equity loans or reverse mortgages. Excluding loans on mobile homes, AHS 2009 data indicate that there are 44.7 million owner-occupied homes with first-lien mortgages. Table 8 shows how the ACS and AHS data compiled by age of head of household compare with the loans identified as first-lien owner-occupied by CoreLogic. The total number of loans analyzed in this study is 17.4 million, which is the total number of loans in the CoreLogic data set with borrower age data and loan performance status.

Based on the age distribution obtained from the ACS and AHS, it was expected that the CoreLogic data would show a similar age distribution. The ACS, AHS, and CoreLogic data distributions by age grouping for the 50+ were also analyzed. The data are presented in table 9.

The distribution of loans by age grouping shows that the CoreLogic data track closely with the age distributions of the ACS and AHS data.

Table 8
First-Lien Owner-Occupied Loans

	Total # Loans	% Age 50+
ACS	35.7 mil	48.1%
AHS	44.7 mil	41.0%
CoreLogic	39.1 mil	47.6%

Source: AARP Public Policy Institute tabulations of U.S. Census Bureau American Community Survey 2010 data; HUD's American Housing Survey 2009 data; CoreLogic data

Table 9
First-Lien Loans of the 50+ Population

	50–64	65–74	75+
ACS	72.4%	20.0%	7.6%
AHS	76.5%	16.7%	6.8%
CoreLogic	74.2%	18.0%	7.8%

Source: AARP Public Policy Institute tabulations of U.S. Census Bureau American Community Survey 2010 data; HUD's American Housing Survey 2009 data; CoreLogic data.

APPENDIX C: THE FORECLOSURE PROCESS

Another factor that complicates the measurement of foreclosure rates is the fact that each state has different laws regarding the foreclosure process, and thus, the amount of time it takes to complete a foreclosure also varies by state. If a borrower fails to make a loan payment, the loan is in default. Most lenders wait until a loan is at least 90 days delinquent before beginning the foreclosure process by filing a lis pendens or issuing a notice of default.

Although the official timeline for loans in the foreclosure process ranges from one to ten months, depending on the state, the actual timeline is often much longer. If a borrower contests a foreclosure, the time to completion can be substantially lengthened. Recent data indicate that the average time it takes to process a foreclosure—from the first missed payment to the auction sale—has increased from 251 days in January 2008 to 631 days as of October 2011.⁵⁵ This means that loans will be in the foreclosure process for a much longer period of time.

The timeline for foreclosure is also influenced by the type of foreclosure proceeding the state follows. Foreclosure proceedings can be judicial, meaning that mortgage foreclosure is accomplished through a court proceeding. Under this process, a lawsuit is filed to obtain a court order to foreclose. Some states use a non-judicial process for foreclosure. In these states, the foreclosure process is defined by state law and does not involve a court proceeding. Typically, states that use mortgages conduct judicial foreclosures, and states that use deeds of trust conduct non-judicial foreclosures.⁵⁶ Some states use both types of processes, but usually one type is dominant. The foreclosure process takes much longer in judicial foreclosure states than in non-judicial foreclosure states.

Some states offer borrowers an opportunity to redeem their home for some period of time after the completion of the foreclosure and sale. This is known as a statutory right of redemption, and exists only in states where it has been created by statute. The time period for redemption generally ranges from six to twelve months, but can be as high as two years in some states. To redeem the property, the borrower must pay the purchaser the price paid for the property, plus interest and costs.

Upon completion of the foreclosure process, the lender takes back the security interest in the property (i.e., the house), thereby extinguishing the lien that was created by the mortgage note. However, a foreclosure does not extinguish the mortgage note, and the debt still exists. In some states, known as recourse states, a borrower may be liable for the difference between the sale price of the property at foreclosure and the amount owed to the lender (including principal, interest, and foreclosure costs). In these states, a lender can obtain a deficiency judgment from a court, and can then pursue payment from

⁵⁵ “Mortgage Performance Observations, Lender Processing Services,” *LPS Mortgage Monitor*, November 2011, p. 3, <http://www.lpsvcs.com/LPSCorporateInformation/CommunicationCenter/DataReports/MortgageMonitor/201110MortgageMonitor/LPSMortgageMonitorOctober2011.pdf>.

⁵⁶ Lenders require collateral to secure the mortgage note. By obtaining a security interest in the real property used as collateral, the lender has the right to use the collateral to recover losses in the event of nonpayment of the note. The security instrument used to accomplish this is either a mortgage or a deed of trust, depending on the state where the transaction takes place. See Thomas J. Pinkowish, *Residential Mortgage Lending Principles and Practices*, 6th ed. (Mason, OH: Cengage Learning, 2012), p. 40.

the borrower. Eleven states are non-recourse states, where lenders are prohibited from collecting anything from the borrower other than the property securing the loan.⁵⁷ Even though the remaining states are recourse states, lenders often do not pursue deficiency judgments due to cumbersome laws regarding the filing process, high costs, and the fact that most borrowers do not have any money following the foreclosure process.

⁵⁷ Andra C. Ghent and Marianna Kudlyak, *Recourse and Residential Mortgage Default: Evidence from U.S. States*, Federal Reserve Bank of Richmond Working Paper No. 09-10R (Richmond, VA: Federal Reserve Bank of Richmond, February 25, 2011), p. 32. The authors classify Alaska, Arizona, California, Iowa, Minnesota, Montana, North Carolina (purchase mortgages only), North Dakota, Oregon, Washington, and Wisconsin as non-recourse states.