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Mortgage Distress and Financial Liquidity: How U.S. Families are Handling Savings, Mortgages and Other Debts

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How U.S. families are handling savings, mortgages and other debts

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The Panel Study of Income Dynamics (PSID), the longest running longitudinal household survey in the world, interviews roughly 9,000 families from across the United States every other year. This report covers the period from 2009 to 2011, capturing the financial impact of the Great Recession. In 2009, PSID asked families new questions about mortgage distress – have you fallen behind in payments or applied for mortgage modification, and what are your expectations about mortgage payment difficulties in the coming 12 months. (See Table 1A.) When these families were re-interviewed in 2011, these same questions were asked again. The resulting changes provide a detailed look at the impact of the recent recession on home ownership, mortgage and other debt, and financial resources. In this research report, we present data from the 8,121 families who were in the study for both 2009 and 2011. We apply statistical weights to the data, allowing us to report national estimates for the entire country.[1] Our analysis provides an assessment of the changes in levels of distress and debt among the same American families, and estimates of mortgage distress and levels of non-collateralized debt –credit card debt, student loans, medical or legal bills, or loans from relatives – as well as liquid assets, including checking and savings account balances.

[1] The 2009 family weight is used in all analyses.

Mortgage distress

Overall, in 2009, we find that 37.9% of families rented. (See Table 1.) This share held fairly steady between 2009 and 2011, with 36.9% renting in 2011. We include information on renters because one of the impacts of mortgage distress is for families to move from owning to renting. In addition, the percent renting implies a home ownership rate of 63.1%[2]. Among all families in 2009 – not just homeowners – 19.7% were homeowners and did not have a mortgage. This rate increased in 2011 to 22.3%, indicating an overall shift to lower rates of mortgage holding by U.S. families.

In 2009, 2.2% of families were homeowners who reported having fallen behind in their mortgage payments. By 2011, this rate was slightly lower, 1.9%. A total of 3.5% of families were homeowners and behind on their mortgage payments in either or both 2009 and 2011. While these percentages are low, the numbers of families affected is significant – approximately 4.1 million were homeowners and behind on their mortgage in 2009 and/or 2011

Refinancing of mortgages increased slightly between 2009 and 2011. As of 2009 4.8% of families had a mortgage and said that their mortgage had been refinanced or modified. The rate in 2011 was 5.4%. While some families undoubtedly refinanced or modified their mortgage as a way to relieve mortgage stress, others refinanced to take advantage of attractive mortgage rates that existed during this time period.

[2] Data from the U.S. Census Bureau indicating a homeownership rate among households of 67% in 2009 and 66% in 2011. http://www.census.gov/hhes/www/housing/hvs/historic/index.html. These rates of homeownership are slightly higher than the PSID. This difference is most likely due to the fact that in the PSID roughly 5% of households state that they are neither renters nor owners, but instead have some other type of arrangement. In the PSID, we have combined this group of "others" with renters. Also note that the PSID data here are for a balanced panel and will have a modest life course effect of people – as they age – being somewhat more likely to become homeowners. The strength of the panel data is that they show the factors related to making that transition or reversing course and becoming renters. These data do not include new families formed as part of a move out of home ownership nor newly formed families.

In both 2009 and 2011 families with a mortgage were asked to provide their assessment of the likelihood that they would fall behind on their mortgage payments in the coming 12 months. In 2009, 6.0% of families stated that they thought it was very likely or somewhat likely that they would fall behind. This rate moved downward by 2011 to 4.6%. Across both years 8.3% of families stated (in either 2009 or 2011 or in both years) that it was very or somewhat likely that they would fall behind on their mortgage payments.

Being behind on a mortgage in 2009 is a strong predictor of moving out of homeownership and into renting by 2011 (See Table 2). Among homeowners who were behind in their mortgage in 2009, 19.3% were renters by 2011. Among homeowners who were not behind in their mortgage in 2009, just 6.5% were renters in 2011. And among homeowners who did not have a mortgage in 2009, just 5.9% had become renters by 2011.

The majority of families who were experiencing mortgage distress in 2009 were able to avoid distress by 2011. While a substantial share moved into renting, 45.1% stated that they were no longer behind on their mortgage, with an additional 9.3% stating that they were homeowners but no longer had a mortgage (See Table 2).

A family's stated likelihood of falling behind in mortgage payments in the coming year is a strong predictor of future mortgage distress. Specifically, among families who stated in 2009 that they were "very likely" to fall behind in payments, 19.4% were behind in 2011 (See Table 3). This rate was somewhat lower at 16.6% for those who in 2009 stated that they were only "somewhat likely" to fall behind. And for those families in 2009 who said it was not at all likely that they would fall behind, just 2.2% were in fact behind in 2011.

Based on the association between expectations of falling behind as stated in 2009 and realized experience in 2011, we can calculate the proportion of families who are expected to be behind in their payments by 2013. Given the decline between 2009 and 2011 in the share of families who state that it is "very or somewhat likely" that they will fall behind, one can expect the share of families who will end up behind on their payments to be 1.7% in 2013, or somewhat lower than the 1.9% that was actually experienced in 2011. The accuracy of these predictions will certainly depend on emerging economic and housing market conditions in the next two years.

Non-collateralized debt

At the same time that some families were experiencing difficulties with their mortgage position, they were also managing their non-collateralized debt (NCD). This includes credit card debt, student loans, medical or legal bills, or loans from relatives. In 2009, 48.0% of families held no such debt and about the same percent – 47.4% – held no such debt in 2011. (See Table 4) Over one third of families – 36.1% – had no such debt in either year. There was a somewhat larger percent of families in the high debt category (10.0%) in 2011 compared to 8.5% in 2009. Part of this shift likely reflects modest inflation and a rise in student loans, a component of non-collateralized debt which has been rising since 2008.

Financial Liquidity

As of 2009, 18.5% of families had no liquid assets, and by 2011 this had grown to 23.4% of families. At the same time, the overall percentage of families in the highest category of $50,000 or more in liquid assets increased from 11.8% to 14.6%.

(See Table 5.) The definition of liquid assets is money in checking or savings accounts, money market funds, CD's, treasury bills, or government savings bonds.

For families in the upper liquid asset category in 2009 (assets greater than $50,000), nearly two thirds (63.0%) were persistently holding $50,000 or more in liquid assets. Moreover, two-thirds (67.0%) of those with no liquid assets persisted with no liquid assets as of 2011. (These tabulations are not shown in tables.)

Data from the St. Louis Federal Reserve Bank indicate a personal saving rate of 2.1% as of June 2007, with rates of 5.5% in June 2009 and 5.0% as of June 2011. While these estimates imply that there is the potential for assets accumulating at the aggregate level as the overall rate of saving grows, the estimates based on Table 5 suggest a substantial heterogeneity across families.

Summary

Families are making their way through the economic conditions of 2008-2012 and there appear to be some financial improvements, after a decline in the overall rate of home ownership established in recent Census Data. In the interim many have found themselves in economic difficulties with their mortgage arrangements, often established during the strong housing and labor market as of 2004-2007. Many have responded to the economic conditions by modifying their mortgages or simply becoming owners with no mortgage, or voluntarily or otherwise moving from owning to renting. We can see that families with mortgage difficulties in 2009 were more likely to end up as renters in 2011. Looking forward to 2013, we see that there is some modest reduction in the percent of families expecting to experience payment problems. If their assessments are accurate, we can expect some improvement in mortgage repayments in the coming months.

All families face the decisions needed to manage short-term debt and liquid assets. In the panel data, we can see a modest overall rise in non-collateralized debt balances from 2009 to 2011. A part of this rise is student loan balances, which have been shown as one of the rising household debt components since 2008. In terms of liquid asset holdings we see a pattern consistent with the rising aggregate savings rate. However, the household level data suggest substantial heterogeneity, with most of the increased liquid asset holding coming from more families having $50,000 or more of liquid assets.

Table 1. Percentages of families with mortgage distress: 2009, 2011, 2009 or 2011			
	2009	2011	Either 2009 or 2011
Renter or other	37.9%	36.9%	38.5%
Homeowner			
No mortgage	19.7%	22.3%	24.7%
Behind on mortgage payments?			
Yes	2.2%	1.9%	3.5%
No	40.3%	38.9%	45.5%
Refinanced current mortgage?			
Yes	4.8%	5.4%	8.2%
No	37.7%	35.4%	43.6%
Likelihood of falling behind on mortgage payments			
Very or somewhat likely	6.0%	4.6%	8.3%
Not at all likely	36.4%	36.2%	42.9%

Table 2: Currently behind on mortgage payment: 2009 by 2011, row percentages

			2011				
			Homeowner				
			Behind	Not behind	No mortgage	Renter or Other	
2009	Homeowner	Behind	26.4%	45.1%	9.3%	19.3%	100%
		Not behind	3.1%	83.6%	6.8%	6.5%	100%
		No mortgage	0.1%	5.9%	88.1%	5.9%	100%
		Renter or Other	0.2%	8.0%	5.6%	86.2%	100%

Table 3: Whether behind on mortgage payment in 2011
by stated likelihood of falling behind in mortgage payment as reported in 2009

			2011				
			Homeowner				
			Behind	Not behind	No Mortgage	Renter or Other	
2009	Homeowner	Very likely	19.4%	47.6%	4.7%	28.2%	100%
		Somewhat likely	16.6%	63.9%	7.2%	12.2%	100%
		Not at all likely	2.2%	85.1%	6.8%	5.9%	100%
		No mortgage	0.1%	5.9%	88.1%	5.9%	100%
	Renter or Other		0.2%	8.0%	5.6%	86.2%	100%

Table 4: Credit card and store card debt: 2009 by 2011

		2011					
		0	1-1,000	1,001-10,000	10,001-30,000	>=30,001	
2009	0	36.1%	3.7%	5.3%	1.7%	1.2%	48.0%
	1-1,000	2.3%	2.0%	1.6%	0.2%	0.1%	6.2%
	1,001-10,000	6.2%	2.1%	10.6%	3.6%	1.3%	23.8%
	10,001-30,000	1.8%	0.5%	3.1%	5.7%	2.5%	13.5%
	>=30,001	1.1%	0.1%	0.7%	1.8%	4.9%	8.5%
		47.4%	8.5%	21.2%	12.9%	10.0%	100.0%

Table 5: Holdings of liquid assets: 2009 by 2011, total percentages

		2011					
		<=0	1-1,500	1,501-10,000	10,001-50,000	>=50,001	
2009	<=0	12.4%	3.5%	1.7%	0.5%	0.5%	18.5%
	1-1,500	5.3%	9.7%	4.8%	0.7%	1.1%	21.6%
	1,501-10,000	3.8%	4.1%	14.3%	5.2%	2.0%	29.4%
	10,001-50,000	1.2%	0.6%	4.0%	9.3%	3.5%	18.7%
	>=50,001	0.6%	0.3%	0.6%	2.8%	7.4%	11.8%
		23.4%	18.2%	25.4%	18.4%	14.6%	100.0%

Table A1. Mortgage distress questions in the PSID in 2009 and 2011.

Some people have had difficulties recently making their mortgage or loan payments. Are you or anyone in your family living there currently behind on your (mortgage/loan) payments?

Have you worked with your bank or lender to restructure or modify your (mortgage/loan)?

How likely is it that you will continue to be behind/will fall behind on your (mortgage/loan) payments in the next 12 months? Would you say very likely, somewhat likely, or not likely at all?