Study finds consumer behavior and lifestyle traits influence foreclosure rates (w/ Video)

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These are UAB researchers Stephanie Rauterkus, Ph.D., and Andreas Rauterkus, Ph.D. Credit: UAB/Steve Wood

A homeowner's station in life and personal spending beliefs and habits are important indicators of the borrower's potential for home-mortgage default, say researchers in the University of Alabama at Birmingham (UAB) School of Business.

"Our research has shown that a borrower's personal traits and behaviors have considerable influence on their willingness and ability to repay a mortgage loan and avoid foreclosure," says Stephanie Rauterkus, Ph.D., UAB assistant professor of finance.

"Traditionally, the industry has focused on default pressures like income, credit scores or loan-to-home-value ratios, but our research has shown that borrowers who may look identical by these traditional measures could have very different default probabilities based on their behavioral characteristics," she says.

The study, Behavioral Determinants of Mortgage Default, was authored by Rauterkus, her husband Andreas Rauterkus, Ph.D., UAB assistant professor of finance, and Grant Thrall, Ph.D., professor of geography at the University of Florida.

The researchers considered a sample of 7,000 mortgages from public records in Jefferson County, Ala. Borrowers were classified into one of 12 so called LifeMode groups, which were based on classifications established by the Environmental Systems Research Institute (ESRI).

"The research revealed that affluent, well-educated and older borrowers 55 years and up were significantly less likely to experience a mortgage default," says Stephanie Rauterkus. "Further, those borrowers who are less likely to default live in newer, well-developed suburbs or in city high-rise dwellings or town homes."

Conversely, married borrowers in their 30s with multiple children who earn more modest incomes, a range between $40,000 and $80,000, and live in older, more established neighbors located near city centers are more likely to default, the researchers say.

Broken down by LifeMode classification, those in the groups High Society, Upscale Avenues, Senior Styles, Solo Acts, Scholars and Patriots and American Quilt were less likely to default. Homeowners in the Metropolis, Family Portrait, High Hopes, Global Roots, Factory and Farm and Traditional Living groups were more likely to default on their mortgages.

In a deeper analysis of the data, the team found cases in which extremely divergent default levels were reported between similar lifestyle groups. In one example, two groups with complementary income levels and other similarities in traditional default-pressure categories experienced dramatically different default patterns.

"This tells us that lifestyle is a more important determinant in the calculation of the probability of mortgage failure than is income," Andreas Rauterkus says. "Someone may have the income the pay off their mortgage, but if other lifestyle attitudes or views are considered, a borrower simply may choose to stop paying the mortgage in certain circumstances."

"Neighborhoods matter," Stephanie Rauterkus says. "Neighborhoods typically are made up of residents in similar life stages with similar lifestyle outlooks that make certain neighborhoods more susceptible to default trends than others.

"This idea is vitally important to lenders, policymakers and other entities involved in efforts to prevent further erosion in the housing market because it offers new insights into how and where rescue funds, counseling services and other relief mechanisms should be deployed and allocated," she says.

Provided by University of Alabama at Birmingham

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