Most mortgage meltdowns not caused by subprimes

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Subprime mortgages were not the main reason behind the housing crisis that started in 2009 and continues to bedevil the faltering U.S. economy, according to a University of Michigan study.

"Our analysis shows that the major underlying driver of the continuing foreclosure crisis was aggressive refinancing using adjustable rate mortgage loans that looked safe at the time because of increasing housing prices," said Frank Stafford, an economist at the U-M Institute for Social Research (ISR).

In California, Florida, Arizona and Illinois, the percentage of first mortgages refinanced between 2004 and 2007 was especially high – reaching nearly 60 percent in California.

In the same period, the percentage of first mortgages that had adjustable rates grew to nearly 15 percent, from just over 10 percent in the late '90s.

The analysis was conducted by Stafford and ISR research investigator Elena Gouskova for the Michigan Retirement Research Center at ISR. Data from the *ISR Panel Study of Income Dynamics* (PSID) were used for the analyses.

The PSID is a long-standing, intergenerational, nationally representative study of approximately 9,000 U.S. families, and 24,000 individuals living within these families, conducted since 1968.

Among the key findings of the study:

• More than16 percent of households with mortgages anticipated difficulties making mortgage payments in 2009 and 2010.

• Households headed by younger people ages 25 to 34, by less-educated people, and by African Americans were most likely to report some kind of mortgage trouble, including being "underwater," falling behind on payments, requesting a mortgage modification, or being in foreclosure.

• The proportion of younger households with housing costs—mortgage payments, insurance, real estate taxes, and utilities—totaling 20 percent or more of their family income rose persistently throughout the period.

• Households headed by those age 65 and older, were more likely to hold mortgages than in the past—30 percent in 2007 compared to 20 percent in the early '90s.

According to Stafford, the increase in the percentage of older households with mortgages suggests that the older generation may have less capacity to help out younger family members, who are more likely to be having financial problems, including mortgage troubles.

"The First National Bank of Granddad may not be in the position it was a decade ago," Stafford said.

More information: Paper, abstract, and key findings

Provided by University of Michigan