HOUSING FINANCE POLICY CENTER

RESEARCH REPORT

Mortgage Denial Rates and Household Finances among Older Americans

Karan Kaul *Linna Zhu*

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Executive Summary

Most older Americans rely on their retirement accounts and other savings to make up for the shortfall between their living expenses and income from Social Security. With retiree households earning less, on average, than the working-age population, savings become a crucial element of financial security during retirement. But most adults struggle to adequately save during their working years, reducing their financial preparedness for retirement.

At the same time, older Americans who are homeowners have accumulated trillions of dollars in home equity wealth that remains mostly untapped. Given the rapid home price appreciation of the past several years, especially during the COVID-19 pandemic, this wealth continues to grow, surpassing $9 trillion[1] as of July 2021. Despite the shortfall in retirement savings and the booming home equity wealth, home equity extraction rates remain very low (Moulton et al. 2016). Impediments to equity extraction are myriad, often reflecting a lack of desire to extract equity (Kaul and Goodman 2017), but we show that older homeowners find it more difficult than younger homeowners to get approved for forward equity extraction.

We look at mortgage denial rates from 2018 to 2020 using Home Mortgage Disclosure Act (HMDA) data. We study trends in denial rates across product types and age groups and explore key reasons for them. Our main finding is that older applicants are more likely to be denied than younger applicants and more so for forward equity extraction products such as cash-out refinances and home equity lines of credit. Specifically, home equity lines of credit had the highest denial rates from 2018 to 2020, followed by slightly lower denial rates for cash-out refinances. This is driven primarily by higher debt burdens in relation to income and insufficient credit history. On the positive front, we find that denial rates have trended down in recent years, driven largely by low interest rates, especially in 2020.

Home equity conversion mortgages (HECMs) had substantially lower denial rates than forward extraction products. Even though homeowners have a better likelihood of getting approved for HECMs, demand remains subdued. In the past two years, as mortgage interest rates fell to historic lows, home equity line of credit volumes have declined, while cash-out refinance volumes have registered robust growth. This likely reflects the convenience of extracting equity and refinancing the primary mortgage to a lower rate in a single transaction.

We also identify the household financial characteristics that may be driving denial rates higher for older homeowners. Using the 2019 Survey of Consumer Finances from the Federal Reserve, we study changes in net worth, home equity, financial assets, and debt to highlight long-term changes in older

Americans' household finances. Our main finding is that the share of homeowners ages 65 and older that carry debt has increased substantially over the past 20 years. Additionally, the median value of household debt has increased robustly, driven by primary mortgage debt. We also find generally stagnating values of median net worth and median home equity, particularly among homeowners ages 75 and older.

As incomes and savings fail to keep up with rising debt levels, it is not surprising that older homeowners are experiencing high debt-to-income (DTI) ratios and finding it increasingly difficult to qualify for forward mortgages. Low mortgage interest rates in recent years have been a temporary mitigating factor by lowering monthly payments and DTI ratios. This has pushed denial rates down for now, but they will likely increase as interest rates rise. This strongly suggests that older households, given low incomes but substantial home equity wealth, would benefit from having access to equity extraction products whose underwriting is less dependent on incomes and debt and more dependent on the value of assets and household net worth.

1. Mortgage Denial Rates for Seniors

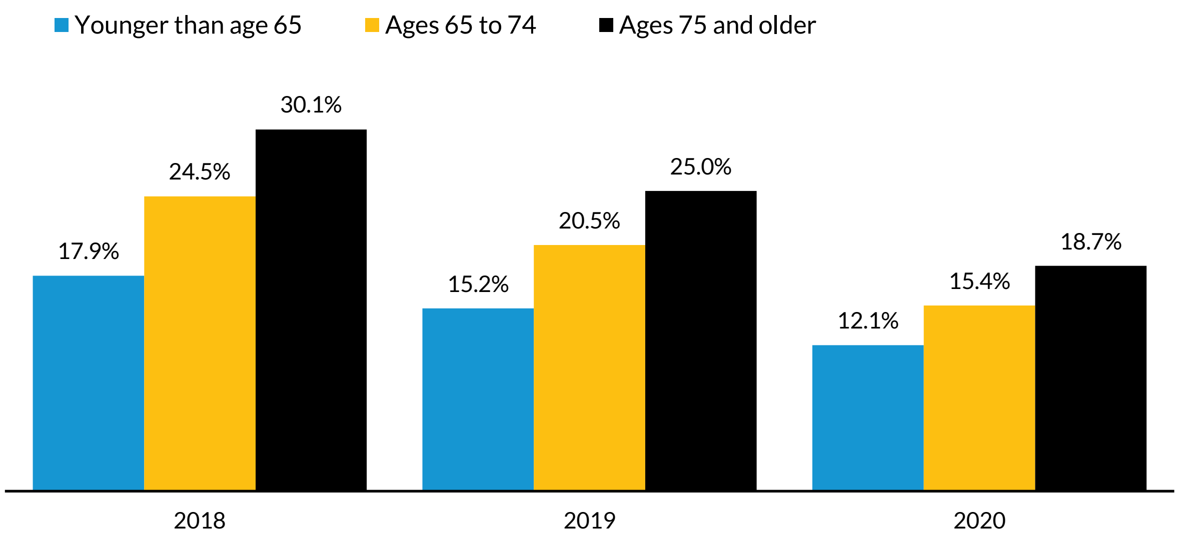
Older Applicants Face the Highest Denial Rates for Forward Equity Extraction and the Lowest for HECMs

Mortgage applicants ages 65 and older are denied mortgage loans at higher rates than applicants younger than 65,[2] especially applicants ages 75 and older. According to Home Mortgage Disclosure Act (HMDA) data from 2018 to 2020,[3] the overall denial rate for applicants[4] ages 75 and older was 18.7 percent in 2020, 25.0 percent in 2019, and 30.1 percent in 2018, compared with 12.1 percent, 15.2 percent, and 17.9 percent for applicants younger than 65 (figure 1).

FIGURE 1

Denial Rates, by Age

All loans



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Source: 2018–20 Home Mortgage Disclosure Act data.

Although denial rates for all three age groups declined from 2018 to 2020, older applicants continued to experience significantly higher denial rates. Falling denial rates likely reflect declines in mortgage interest rates from 2018 to 2020. According to Freddie Mac, the interest rate for the 30-year fixed-rate mortgage was approximately 4.50 percent at year-end 2018, compared with 3.75 percent at year-end 2019 and 2.65 percent at year-end 2020. Lower rates translate into lower monthly payments relative to income, thus lowering DTI ratios and making it easier to qualify. Figure 2 shows denial rates by loan purpose. Purchase loans not only had the lowest denial rates, but the variability in the denial rates was muted across years and age groups.

In comparison, cash-out refinance loans, which allow seniors to extract home equity, witnessed both high denial rates and substantial variability in denial rates by age. Specifically, applicants ages 75 and older were denied cash-out refinance loans at a rate of 37.5 percent in 2018, 30.5 percent in 2019, and 21.2 percent in 2020, compared with 31.7 percent, 25.9 percent, and 17.7 percent for those ages 65 to 74 and 27.6 percent, 22.0 percent, and 14.6 percent for applicants younger than 65. The denial rates for non-cash-out refinances was higher than for purchase loans but slightly lower than for cash-out refinances.

FIGURE 2A

Denial Rates, by Loan Purpose and Borrower Age

Purchase loans

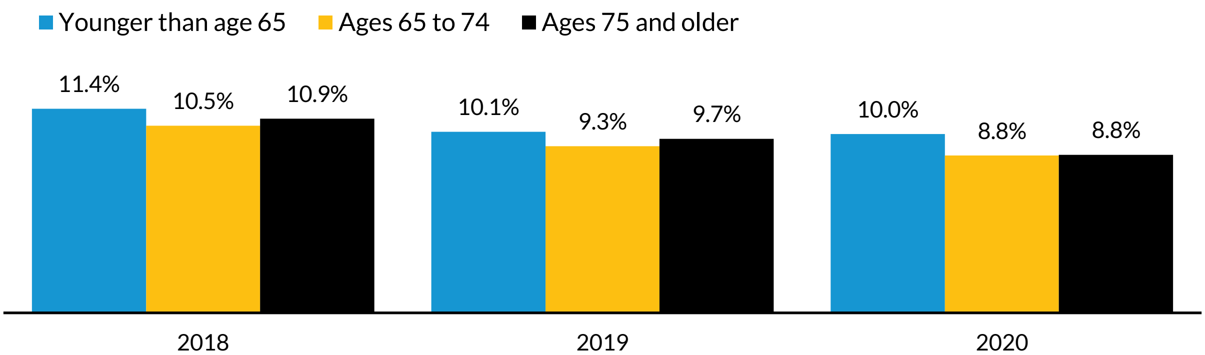


FIGURE 2B

Denial Rates, by Loan Purpose and Borrower Age

Cash-out refinance loans

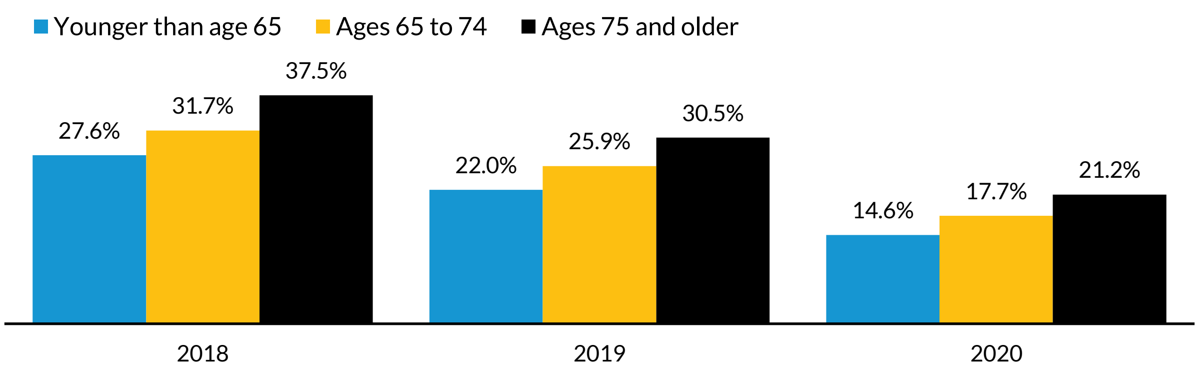
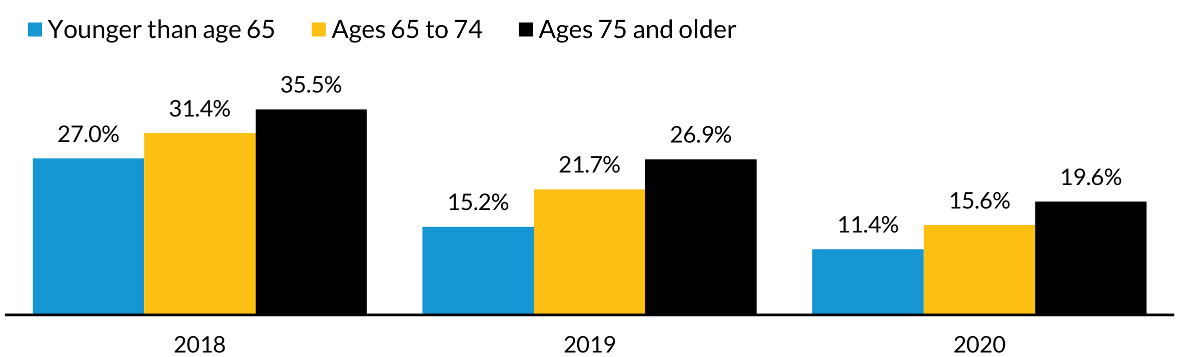


FIGURE 2C

Denial Rates, by Loan Purpose and Borrower Age

Non-cash-out refinance loans



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Source: 2018–20 Home Mortgage Disclosure Act data.

Notably, second-lien home equity lines of credit (HELOCs) experienced the highest denial rates for all age groups, although the variation by age was small (figure 2D). Unlike cash-out refinance applicants, HELOC applicants ages 75 and older were only slightly more likely than applicants ages 65 to 74 to be denied. The HELOC denial rate for applicants ages 75 and older was 36.3 percent in 2020, slightly down from 39.8 percent in 2019 and 39.5 percent in 2018. These rates were 32.0 percent, 36.2 percent, and 36.0 percent for applicants ages 65 to 74.

Comparing the denial rates for various loan types, we find that unlike cash-out and non-cash-out refinances, for which denial rates have declined in response to lower interest rates, HELOC denial rates remain elevated.

Home equity conversion mortgages (HECMs) were the only product category for which seniors had substantially lower denial rates than younger applicants (figure 2E). In 2020, HECM applicants ages 75 and older had a denial rate of 15.1 percent, those ages 65 to 74 had a denial rate of 11.8 percent, and those younger than 65 had a denial rate of 23.5 percent. These results show that older homeowners find it more difficult than younger homeowners to qualify for forward equity extraction products (e.g., cash-out refinances and HELOCs) but find it easier to qualify for HECM reverse mortgages.

FIGURE 2D

Denial Rates, by Loan Purpose and Borrower Age

Home equity lines of credit

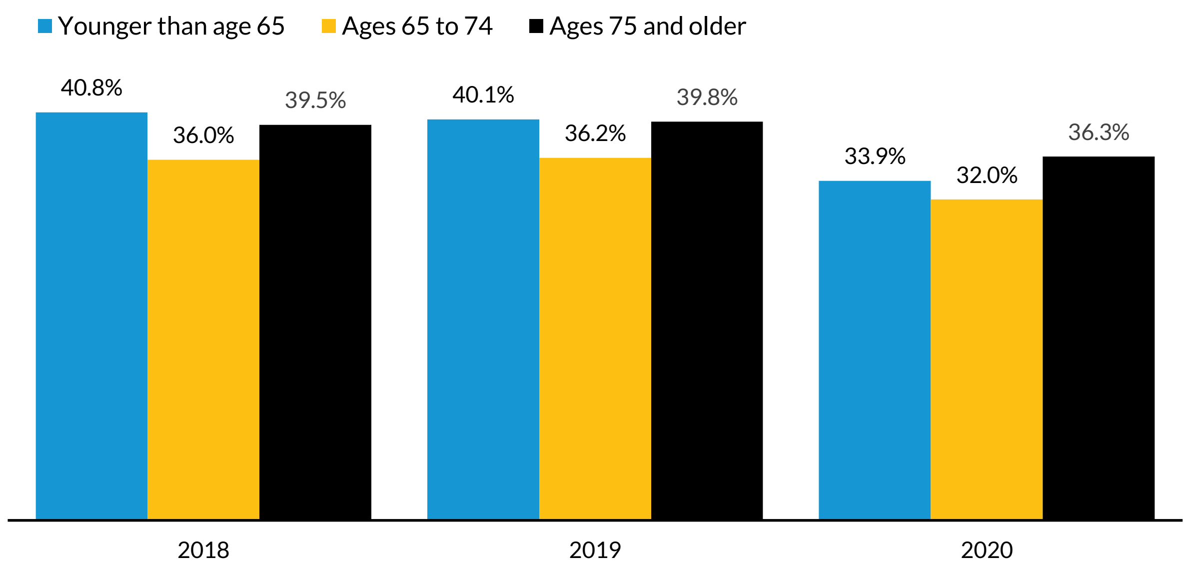
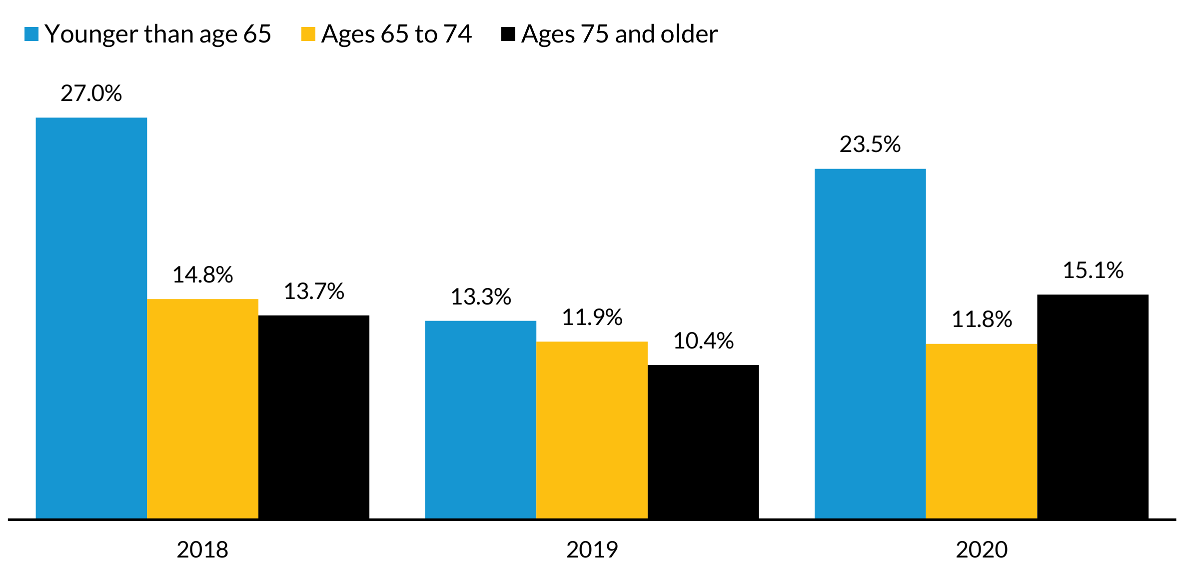


FIGURE 2E

Denial Rates, by Loan Purpose and Borrower Age

Home equity conversion mortgages



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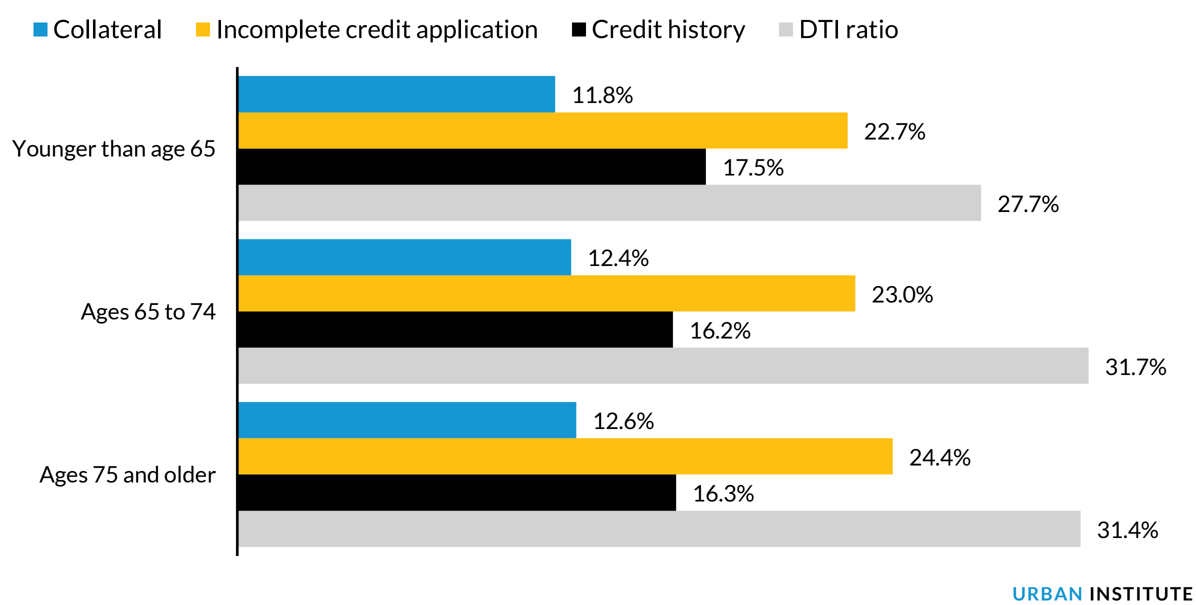
Source: 2018–20 Home Mortgage Disclosure Act data.

A Third of Senior Refinance Applications Are Denied Because of High DTI Ratios

High DTI ratio was consistently the most common denial reason for refinance loans from 2018 to 2020 (figure 3). Among applicants ages 75 and older, DTI-driven denials accounted for over 30 percent of denials in each year. In 2020, for applicants ages 75 and older, 31.4 percent of denials of refinance applications were for high DTI ratios. An additional 24.4 percent were denied because of incomplete credit applications, and 16.3 percent were denied because of a lack of credit history. Another consistent trend is the rising share of DTI-driven denials with age. That is, people become more likely to be denied for DTI reasons as they age.

FIGURE 3A

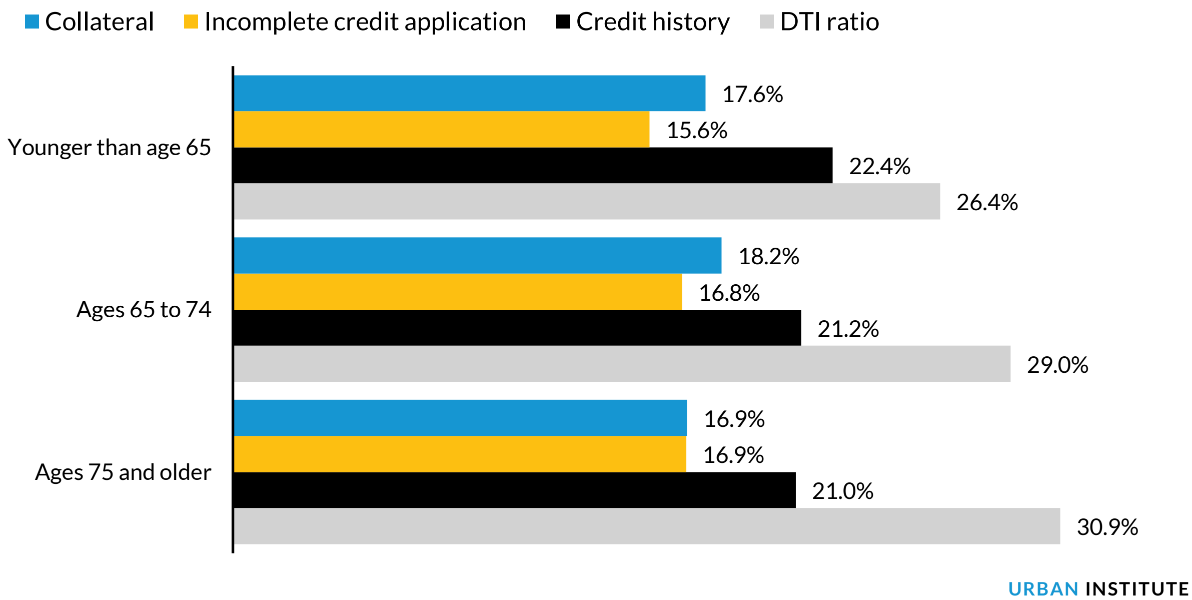
Reasons for Refinance Application Denial, 2020



Source: 2020 Home Mortgage Disclosure Act data.
Note: DTI = debt-to-income.

FIGURE 3B

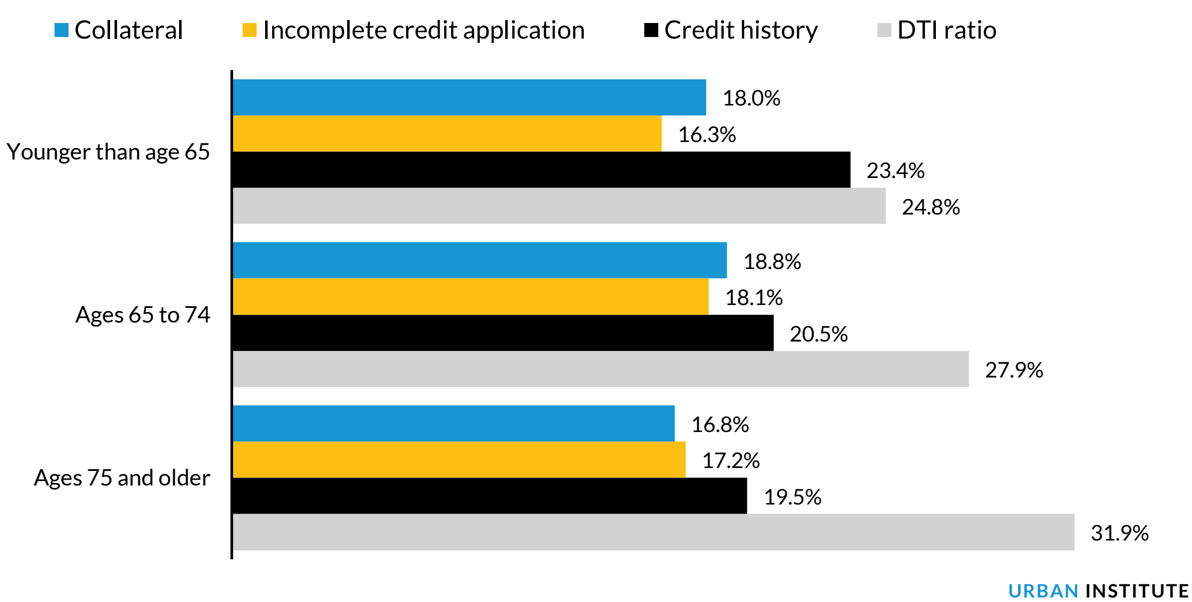
Reasons for Refinance Application Denial, 2019



Source: 2019 Home Mortgage Disclosure Act data.
Note: DTI = debt-to-income.

FIGURE 3C

Reasons for Refinance Application Denial, 2018



Source: 2018 Home Mortgage Disclosure Act data.
Note: DTI = debt-to-income.

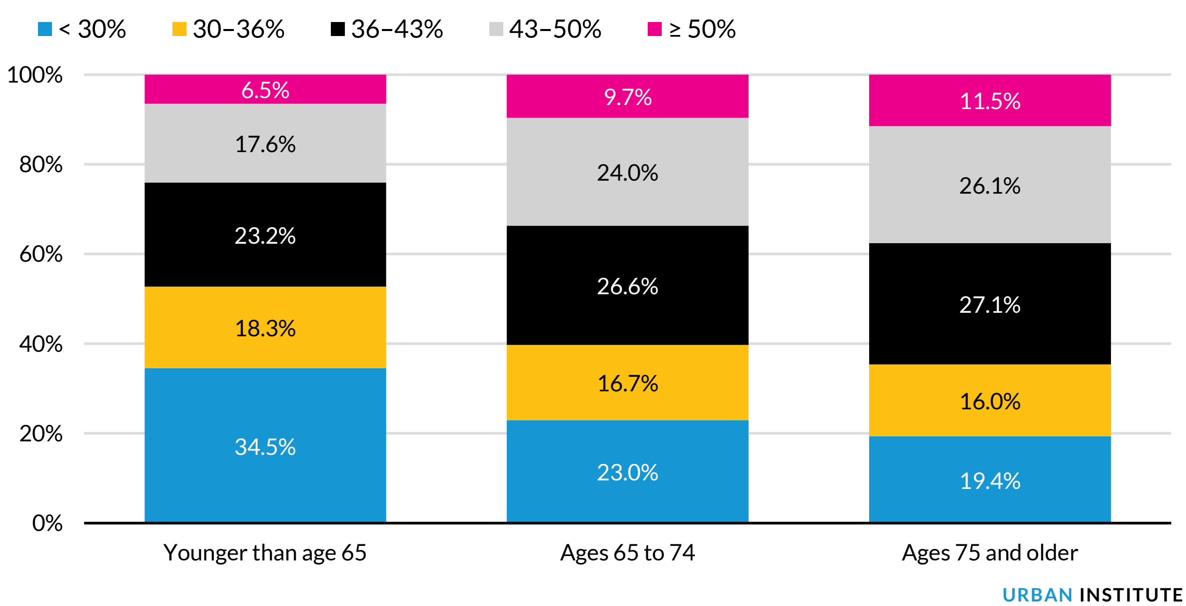
Low Incomes and Deteriorating Credit Scores Partly Explain High DTI Ratios among Seniors

According to Experian, older Americans experienced a 40-point drop[5] in their credit score between 2008 and 2018, the sharpest decline among all age groups. Because senior households, on average, have less income and savings and more debt, they are more vulnerable to becoming financially burdened. Unexpected expenses, loss of income, or declines in the value of retirement savings can push DTI ratios higher and credit scores lower, making it harder to qualify for mortgages.

Further insights about DTI ratios can be obtained by studying the distribution of applicant DTI ratios by age (figure 4). In 2020, 37.6 percent of cash-out refinance applicants ages 75 and older had DTI ratios of 43 percent or higher. This was true for 33.7 percent of applicants ages 65 to 74 and 24.1 percent of applicants younger than 65. DTI ratios for HELOC applicants were even higher: 41.9 percent of applicants ages 75 and older, 37.4 percent of applicants ages 65 to 74, and 30.4 percent of applicants younger than 65. Although DTI ratios for non-cash-out applicants skew lower than DTI ratios for HELOC and cash-out applicants, older applicants had higher DTI ratios.

FIGURE 4A

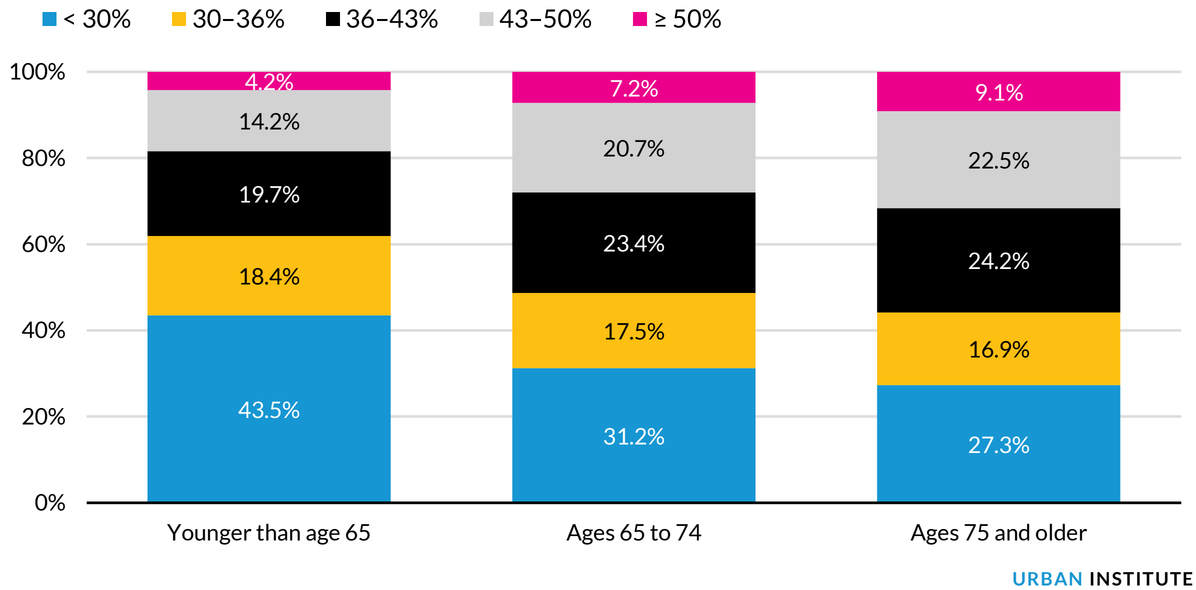
Distribution of Cash-Out Refinance Applicants, by Debt-to-Income Ratio and Age



Source: 2020 Home Mortgage Disclosure Act data.

FIGURE 4B

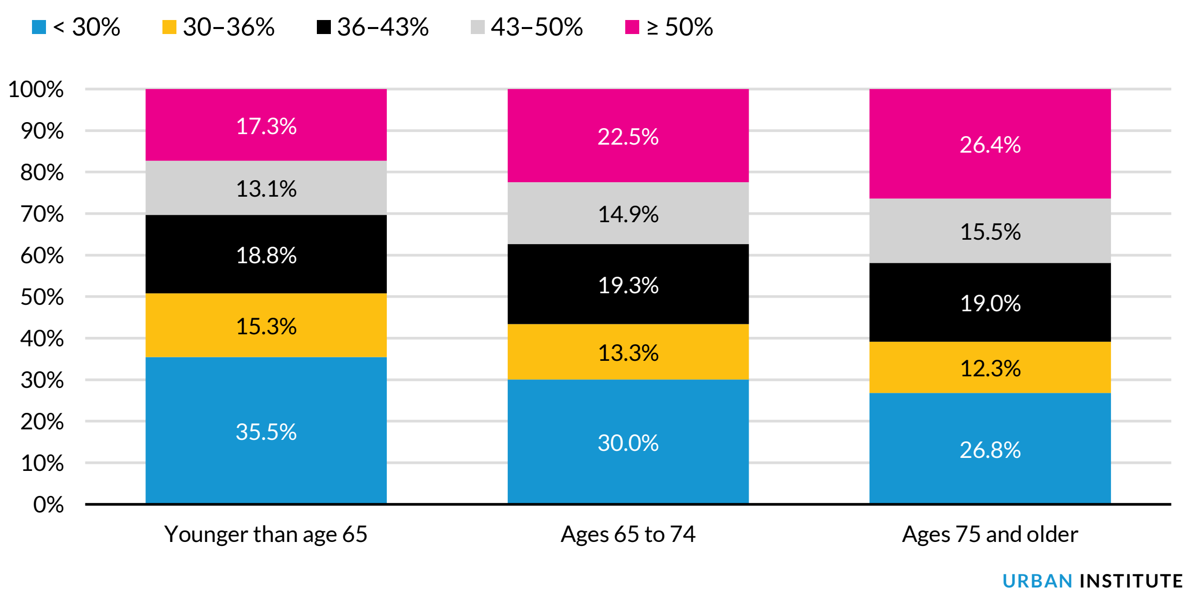
Distribution of Non-Cash-Out Refinance Applicants, by Debt-to-Income Ratio and Age



Source: 2020 Home Mortgage Disclosure Act data.

FIGURE 4C

Distribution of Home Equity Line of Credit Applicants, by Debt-to-Income Ratio and Age



Source: 2020 Home Mortgage Disclosure Act data.

Higher DTI ratios reflect increased debt payment burden relative to income. Per 2020 HMDA data, the median income for all refinance applicants was $107,000 for those younger than 65, $74,000 for those ages 65 to 74, and $62,000 for those ages 75 and older. The median income was $100,000 for cash-out refinance applicants younger than 65, $70,000 for those ages 65 to 74, and $59,000 for those ages 75 and older. The median income for non-cash-out refinance applicants was $110,000 for those younger than 65, $77,000 for those ages 65 to 74, and $64,000 for those ages 75 and older.

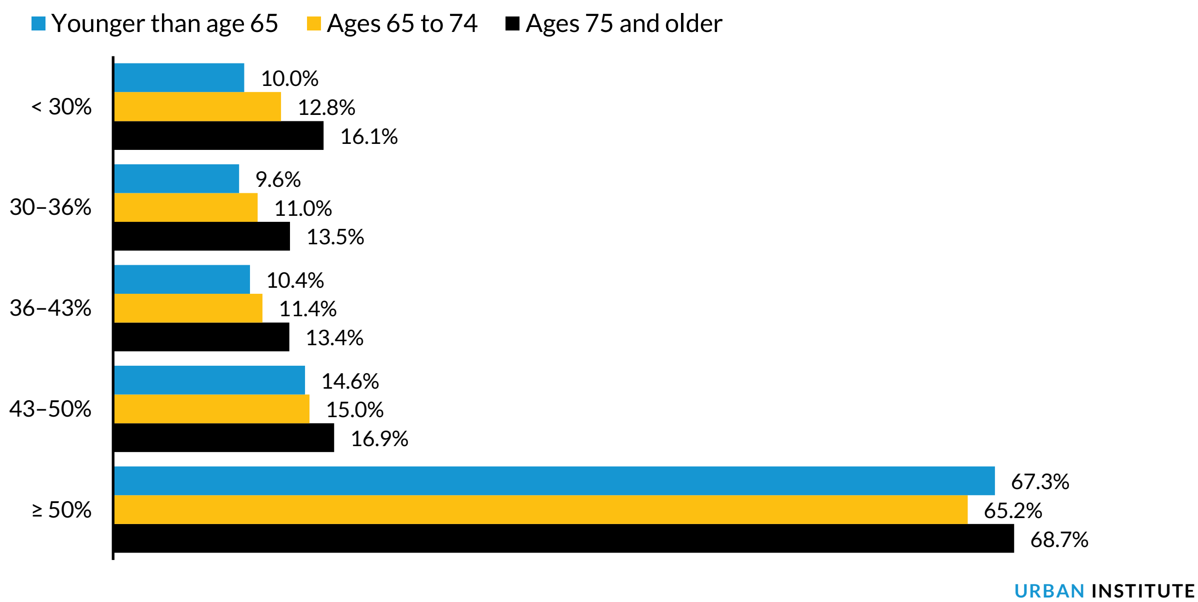
There is a clear gap between incomes for cash-out and non-cash-out refinance applicants and between younger and older applicants. Cash-out refinance applicants ages 75 and older seeking to extract equity had the lowest median income at $59,000, contributing to higher DTI ratios.

Older Applicants Are Denied at Higher Rates across the DTI spectrum

Older applicants across the DTI spectrum are denied cash-out refinance loans, non-cash-out refinance loans, and HELOCs at higher rates than younger applicants (figure 7). Note the skyrocketing increase in denial rates for DTI ratios of at least 50 percent, regardless of age or product. More than 65 percent of cash-out refinance applications and roughly 80 percent of non-cash-out refinance and HELOC applications with DTI ratios of at least 50 percent were denied in 2020, with little variation by age. This does not bode well for forward mortgage approval rates for seniors in the future because rising debt levels (discussed later) in relation to incomes will keep pushing DTI ratios higher. As shown in figure 4, older applicants are more likely than younger applicants to have DTI ratios of at least 50 percent.

FIGURE 5A

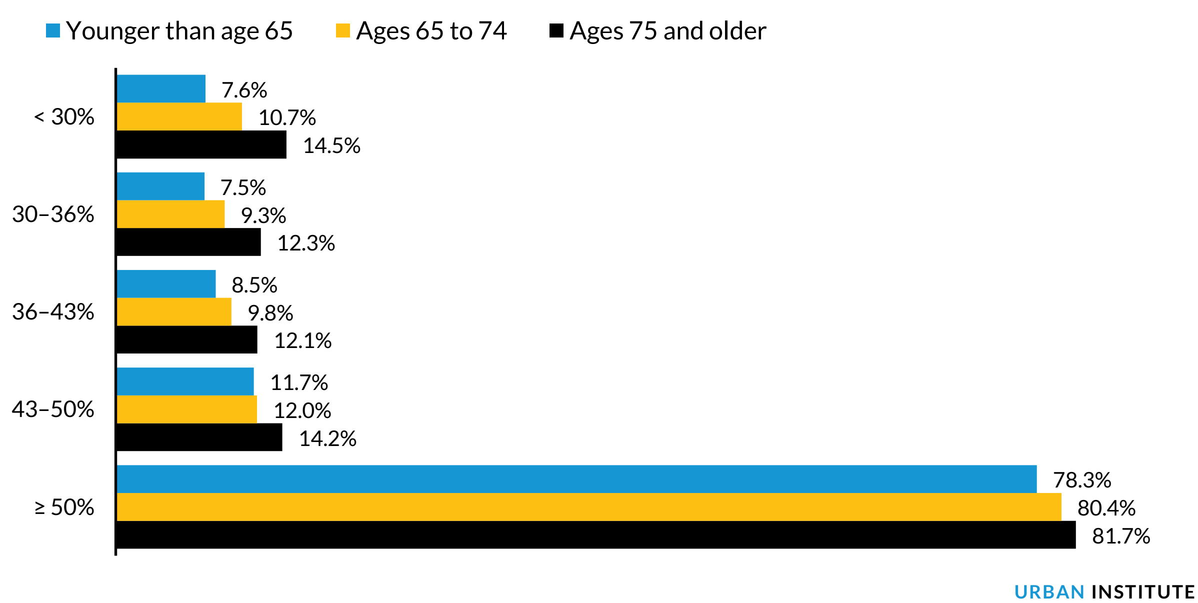
Denial Rates for Cash-Out Refinance Applicants, by Debt-to-Income Ratio and Age



Source: 2020 Home Mortgage Disclosure Act data.

FIGURE 5B

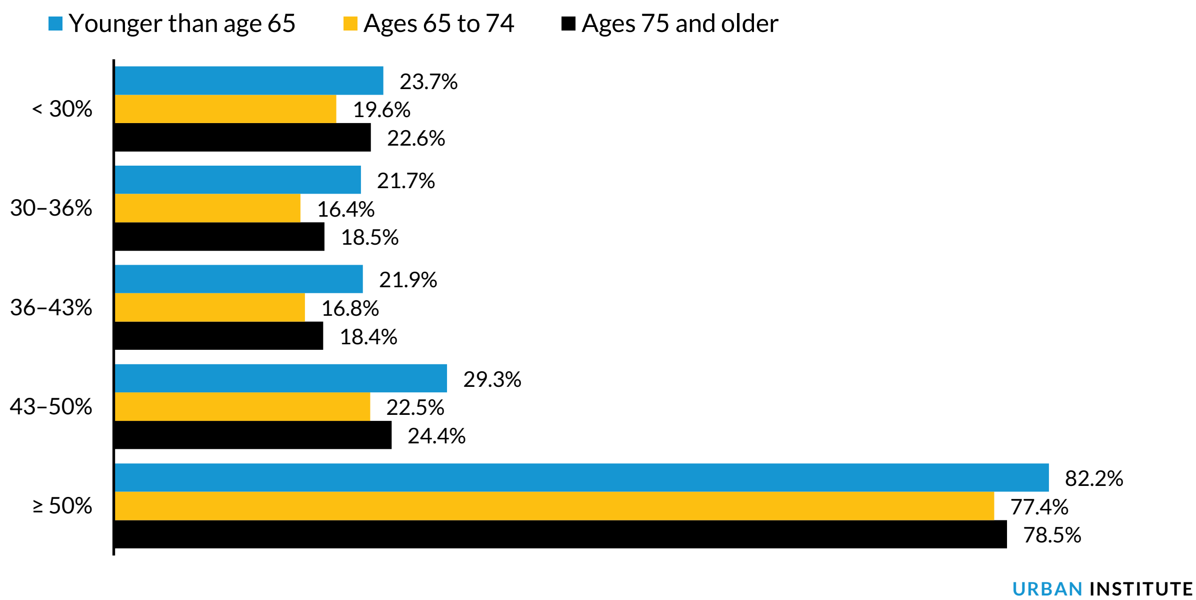
Denial Rates for Non-Cash-Out Refinance Applicants, by Debt-to-Income Ratio and Age



Source: 2020 Home Mortgage Disclosure Act data.

FIGURE 5C

Denial Rates for Home Equity Line of Credit Applicants, by Debt-to-Income Ratio and Age



Source: 2020 Home Mortgage Disclosure Act data.

Seniors' Use of Cash-Out Refinances and HECMs Increased from 2018 to 2020

Since 2018, cash-out refinance originations have been rising steadily among homeowners ages 65 and older. The number of cash-out loans originated to seniors ages 65 to 74 was 251,718 in 2020, up significantly from 156,389 in 2018. For seniors ages 75 and older, the number increased to 78,536 in 2020 from 50,825 in 2018 (table 1). This increase in cash-out refinance lending has been larger for seniors ages 65 to 74 than for those ages 75 and older.

TABLE 1

Number of Loans Originated, by Home Equity Extraction Strategy and Borrower Age

	2018	2019	2020
Cash-out refinance			
Ages 65 to 74	156,389	189,159	251,718
Ages 75 and older	50,825	62,918	78,536
Home equity line of credit			
Ages 65 to 74	188,475	178,596	149,708
Ages 75 and older	78,706	75,835	63,360
Home equity conversion mortgage			
Ages 65 to 74	15,179	16,009	20,617
Ages 75 and older	14,197	15,449	18,685
Total			
Ages 65 to 74	360,043	383,764	422,043
Ages 75 and older	143,728	154,202	160,581

Source: 2018–20 Home Mortgage Disclosure Act data.

In contrast, a declining number of older Americans have obtained HELOCs since 2018. This reflects the relative ease of cash-out refinances, which allow homeowners to extract equity and refinance to a lower rate in a single convenient transaction. Low interest rates driven by plummeting US Treasury yields and the Federal Reserve's purchases of agency mortgage-backed securities since spring 2020 have given millions of homeowners an incentive to refinance. Many homeowners, especially those with substantial equity and the desire to have a financial cushion during the pandemic, likely used the opportunity to cash out some equity.

The picture for HECM volumes resembles cash-out refinances. HECM origination count, while low, trended up from 29,376 loans in 2018 to 39,302 loans in 2020, a 34 percent increase. This could reflect slightly improved homeowner interest in the program amid rising levels of home equity. Note that unlike cash-out refinance or HELOC volumes, where the 65-to-74 age group dominates, HECM lending volume is nearly evenly split between the two age groups shown in table 1, reflecting eligibility requirements.

Broadly speaking, HECM use has remained low for a long time for various structural reasons, such as program restrictions, reduced principal limit factors, product complexity, and lack of financial literacy (Kaul and Goodman 2017). At the same time, DTI-driven denials for forward lending are a major constraint on forward equity extraction. This strongly suggests a greater need for reverse mortgage–like products whose underwriting is less dependent on household incomes and debt and more dependent on assets, net worth, and home equity.

2. Trends in Senior Debt, Home Equity, and Net Worth

Senior Household Finances Have Deteriorated, and Debt Levels Have Increased

HMDA data help show trends in mortgage denial rates and reasons for them. But because this dataset is restricted to mortgage applicants, it is of limited use in understanding the financial picture of a broader cross-section of households. The 2019 Survey of Consumer Finances (SCF), released in fall 2020, is instrumental in bridging this gap, as it includes data on household assets, debts, incomes, savings, net worth, and more. This survey is also instrumental for understanding long-term trends in household finances. These data help us understand in detail, for instance, the types of debt that may be keeping senior homeowners from qualifying for mortgages. Analysis of these data, discussed below, reveals several undercurrents that help explain higher denial rates for seniors.

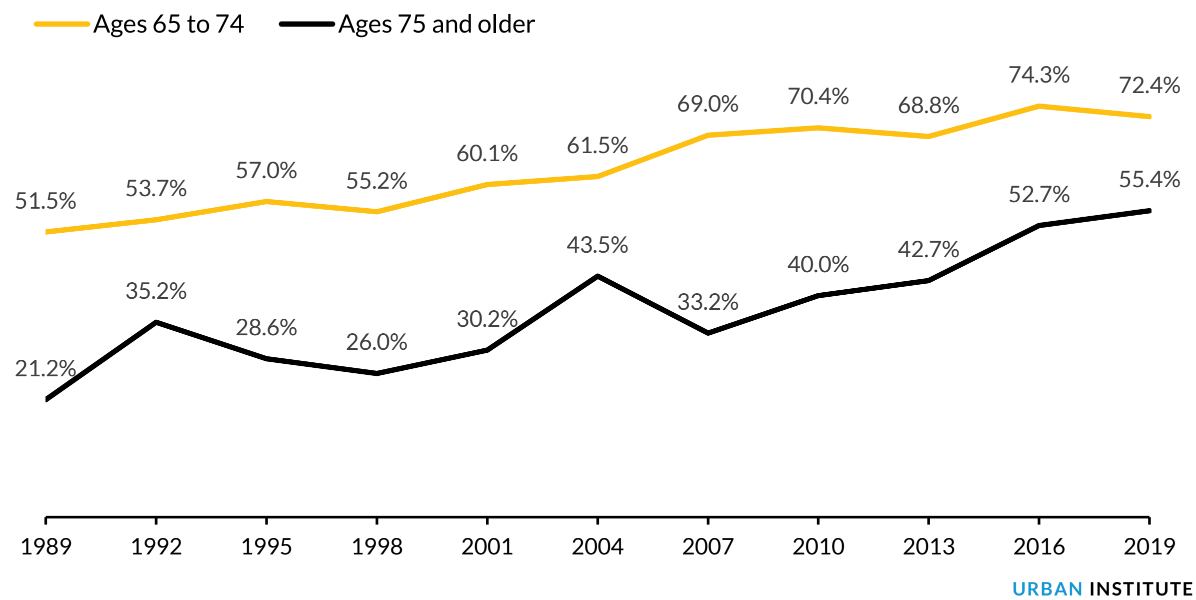
Senior Homeowners Have Experienced Increasing Debt Burdens over the Past 30 Years

According to the 2019 SCF, the share of US homeowners ages 65 and older that is indebted has been rising since 1989. Figure 6 shows the share of senior households that carry debt over time. Debt consists of mortgage debt, credit card balances, installment loans,[6] home equity lines of credits, other lines of credit, and loans against pensions. Fifty-five percent of homeowners ages 75 and older were in debt in 2019, compared with 21.2 percent in 1989. Although the increase has been less pronounced for homeowners ages 65 to 74, this age group is more likely to have debt (72.4 percent carried debt in 2019).

Moreover, the median amount of household debt has also increased. For homeowners ages 75 and older, median debt rose sharply to $40,000[7] in 2019, up from $27,653 in 2016, a 45 percent increase in just three years. In comparison, the median debt for homeowners ages 65 to 74 was flat. It stood at $59,570 in 2019. Note the small decline from 2016 to 2019 in both the share of households ages 65 to 74 with debt (74.3 percent to 72.4 percent) and median debt ($61,155 to $59,570). This likely reflects a booming economy before the pandemic, low unemployment, and rising incomes, all of which reduce debt.

FIGURE 6A

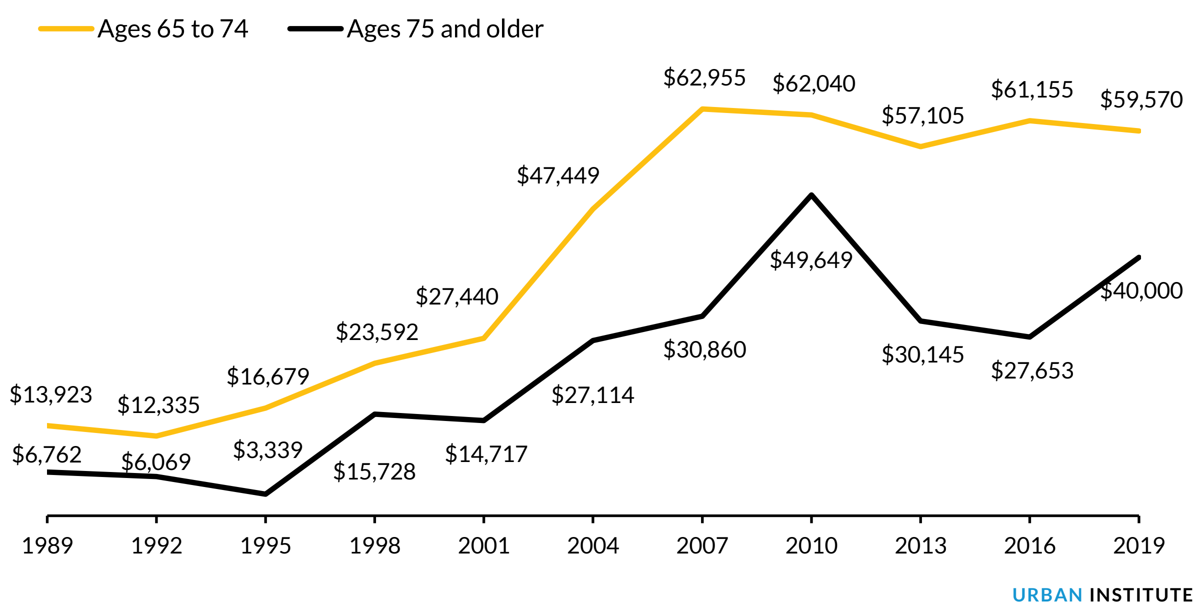
Share of Homeowners with Debt



Source: 1989–2019 Survey of Consumer Finances.

FIGURE 6B

Median Value of Homeowners' Total Debt



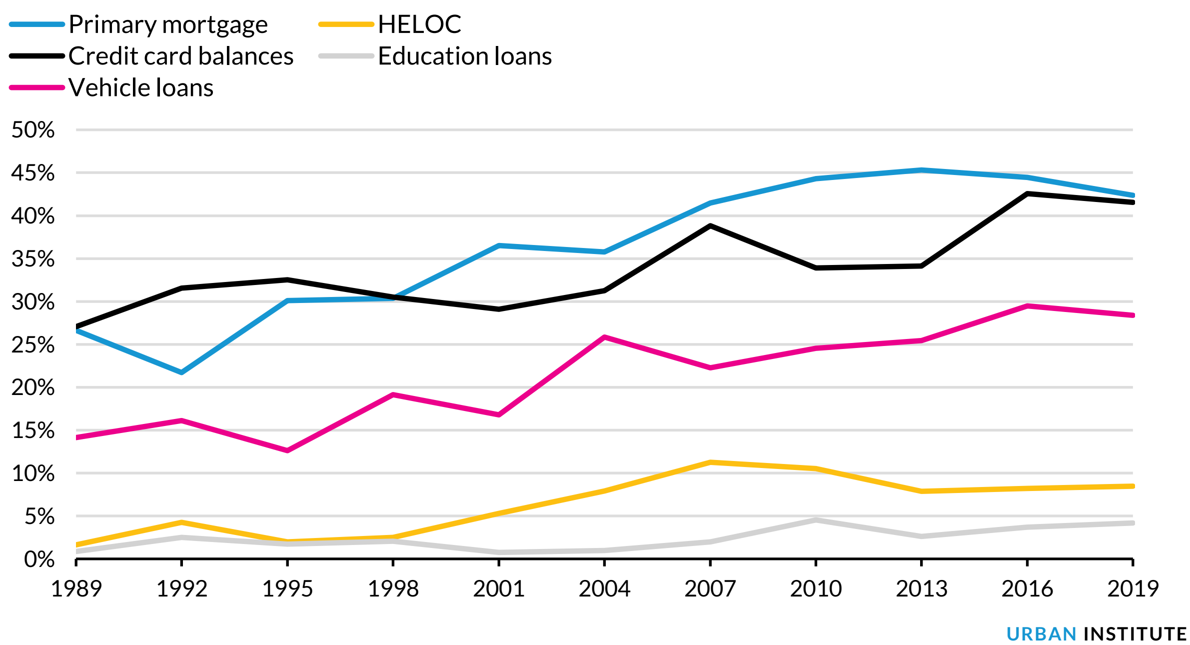
Source: 1989–2019 Survey of Consumer Finances.

Figure 7A shows the share of homeowners ages 65 to 74 that owned various types of debt. For this age group, the share of households carrying each type of debt was generally flat from 2016 to 2019, though it has increased over the long run. Figure 7B shows the same information for homeowners ages 75 and older but paints a different and more concerning picture. The share of these households carrying each type of debt has increased much more over the past decade and over the long run. Although credit card and primary mortgage debt are the most commonly held types of debt by homeowners ages 75 and older, the share with vehicle loans has increased the most over the past decade—more than doubling from 8.8 percent in 2010 to 20.6 percent in 2019. Also, note the increase in HELOC use since 2013 for homeowners ages 75 and older. Although still a small share, 7.5 percent of these homeowners had a HELOC in 2019, the largest level recorded.

These trends in rising indebtedness are consistent with the denial rates for loan applicants ages 75 and older described earlier. In particular, the increase in debt has accelerated in the past decade and is broad based, encompassing most types of debt.

FIGURE 7A

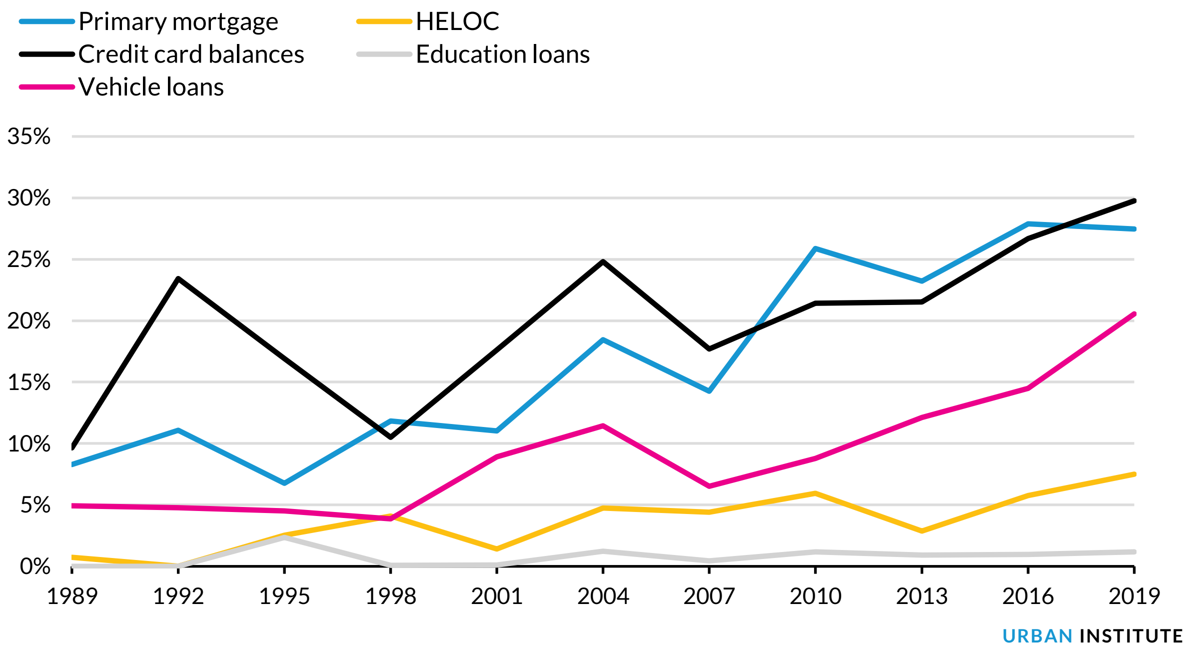
Share of Homeowners Ages 65 to 74 with Each Type of Debt



Source: 1989–2019 Survey of Consumer Finances.
Note: HELOC = home equity line of credit.

FIGURE 7B

Share of Homeowners Ages 75 and Older with Each Type of Debt



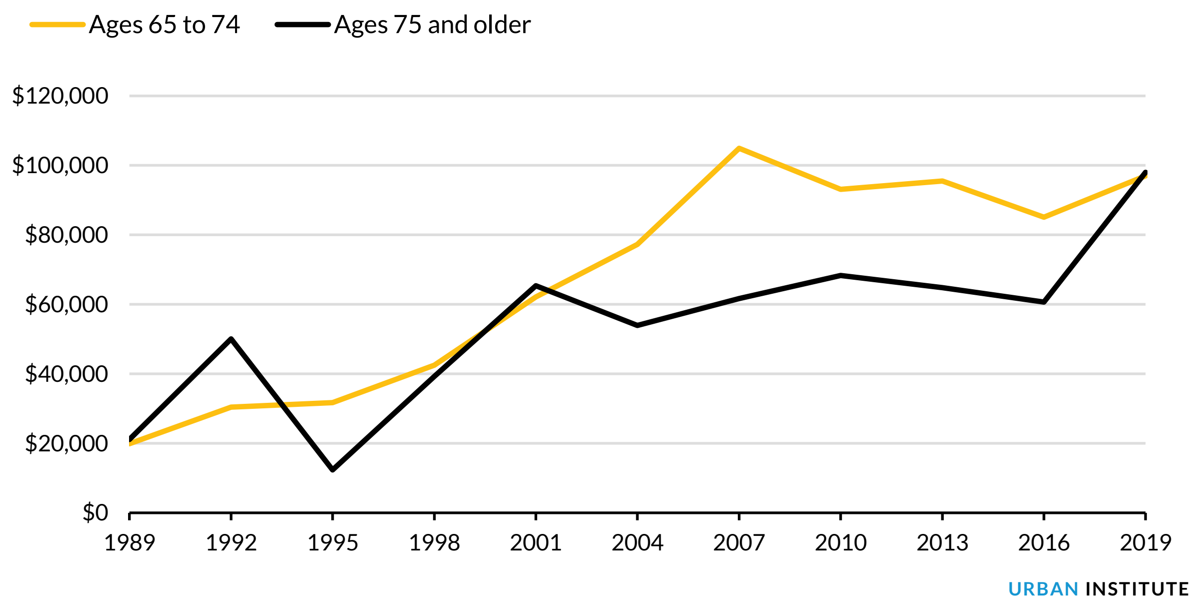
Source: 1989–2019 Survey of Consumer Finances.
Note: HELOC = home equity line of credit.

Next, we explore the median debt amount for each type of debt for the two age groups (figure 8). In the past 30 years, the median values of mortgage debt, credit card balances, and vehicle loans have increased significantly for all homeowners ages 65 and older while median amounts for HELOCs and education loans are flat to modestly higher. The median mortgage amount for homeowners ages 75 and older with a mortgage was $98,000 in 2019, up 61 percent from $60,600 in 2016 (figure 8A). The corresponding median mortgage amount for homeowners ages 65 to 74 with a mortgage was $97,000 in 2019, up 14 percent from $85,086 in 2016. These increases could reflect the rising popularity of cash-out refinances.

Note that a 61 percent increase in the median mortgage debt for homeowners ages 75 and older is substantive in dollar terms because mortgage debt is the largest type of debt homeowners carry. That it increased so much in three years indicates substantially greater indebtedness for homeowners ages 75 and older in 2019 relative to 2016. With this increase, homeowners ages 75 and older had nearly as much mortgage debt ($98,000) in 2019 as did homeowners ages 65 to 74 ($97,000), a rare occurrence.

FIGURE 8A

Median Mortgage Amount among Homeowners with a Mortgage

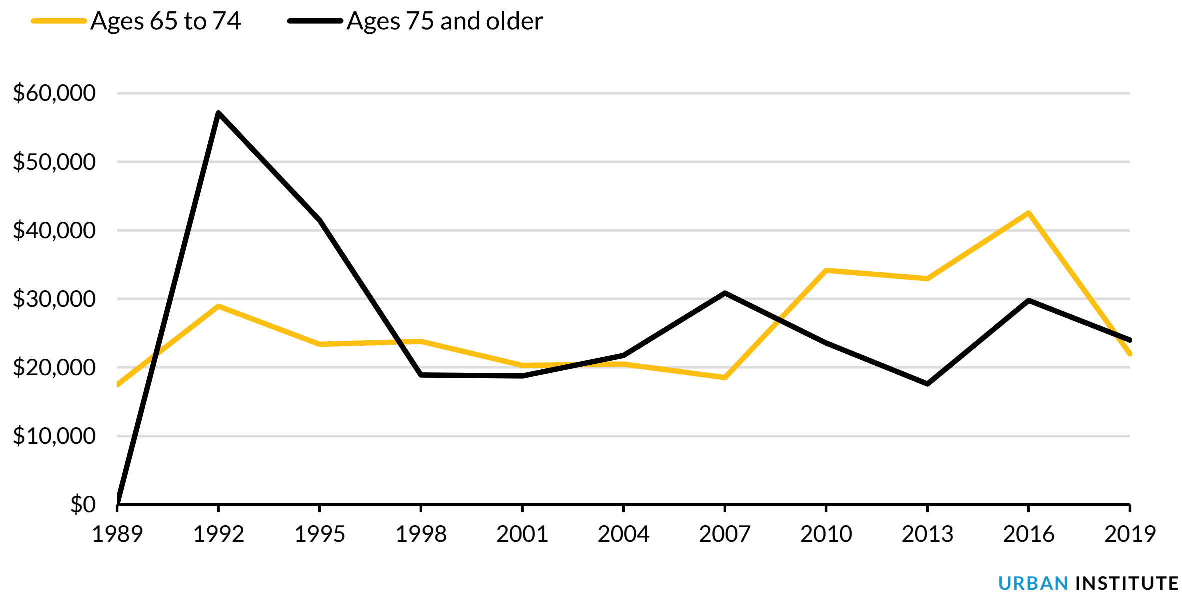


Source: 1989–2019 Survey of Consumer Finances.

HELOCs represent the second-largest category of debt for senior homeowners, with a median HELOC balance of $25,000 in 2019 for homeowners ages 75 and older and $22,000 for homeowners ages 65 to 74 (figure 8B). The median HELOC balance for both age groups decreased from 2016 to 2019, likely because of rising volumes for cash-out refinances at the expense of HELOCs. The fact that the median HELOC balance for both age groups in 2019 stood approximately at roughly the same level as in early 2000s (i.e., $20,000 to $24,000) does not indicate the same level of indebtedness. In the context of the rising share of homeowners ages 75 and older with HELOC debt, it implies that more of these homeowners have HELOC debt even though the typical debt amount per household is roughly the same.

FIGURE 8B

Median HELOC Loan Amount among Homeowners with a HELOC Loan

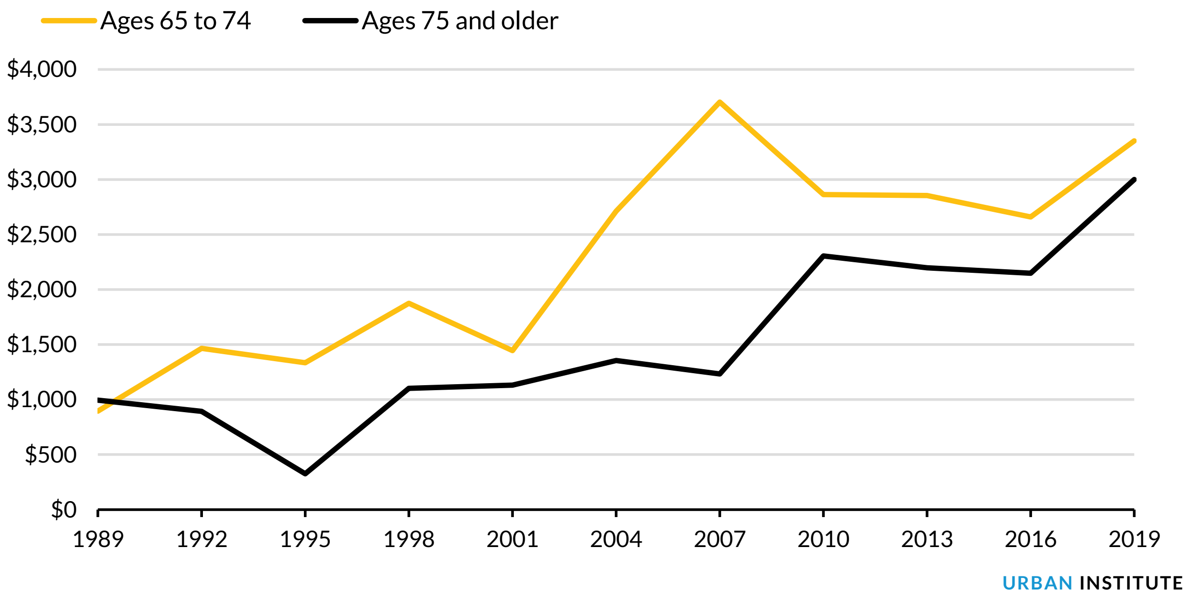


Source: 1989–2019 Survey of Consumer Finances.
Note: HELOC = home equity line of credit.

Figures 9C, 9D, and 9E show median balances for credit cards, education loans, and vehicle loans. This picture is mixed. The median vehicle loan balance for homeowners ages 75 and older peaked in 2013 at $15,374 and declined to $11,000 in 2019. But the share of homeowners ages 75 and older with vehicle loans has risen significantly. The median education loan amount for this group has also come down significantly. Homeowners ages 65 to 74, on the other hand, have witnessed rising median vehicle loan balances and roughly stable education loan balances. Lastly, credit card balances, while small for both age groups, have increased.

FIGURE 8C

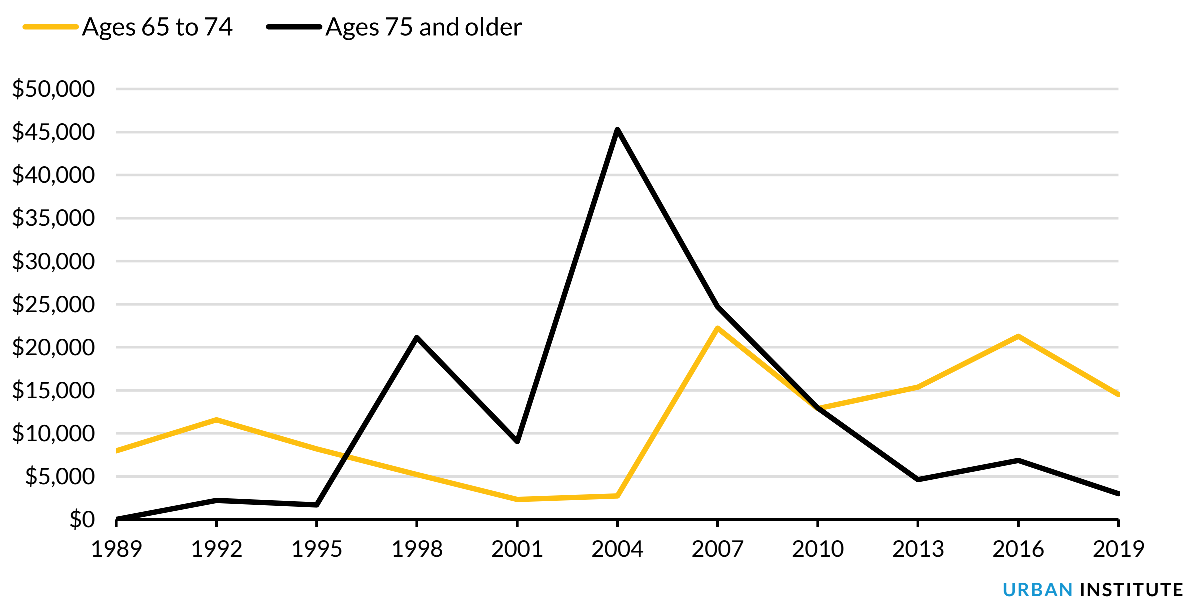
Median Credit Card Balances among Homeowners Ages 65 and Older



Source: 1989–2019 Survey of Consumer Finances.

FIGURE 8D

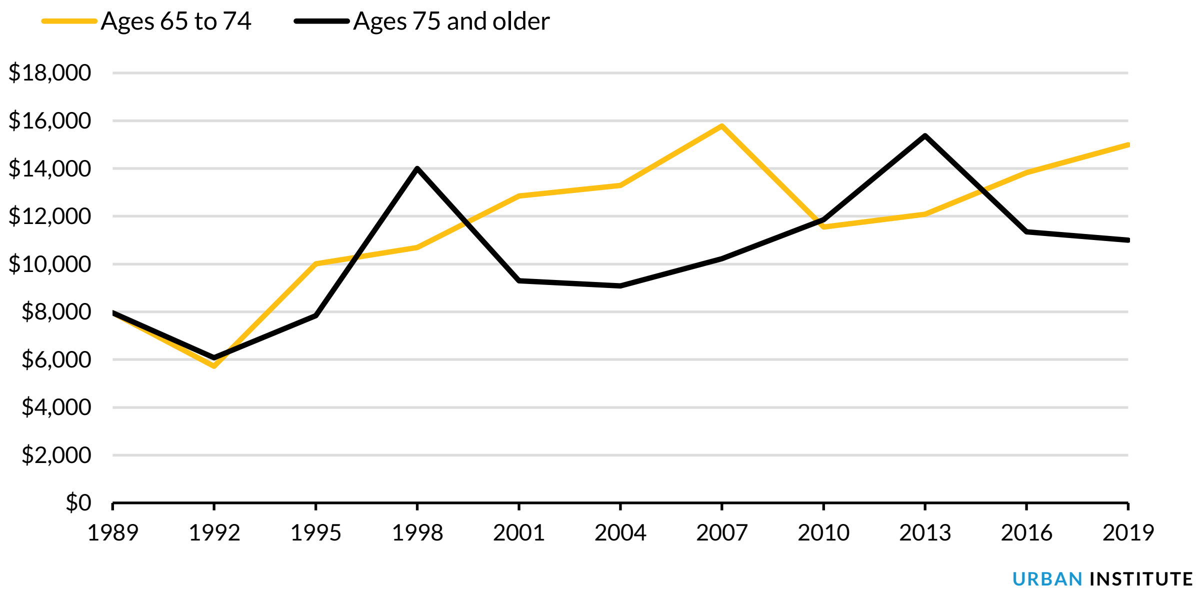
Median Education Loan Amount among Homeowners Ages 65 and Older



Source: 1989–2019 Survey of Consumer Finances.

FIGURE 8E

Median Vehicle Loan Amount among Homeowners Ages 65 and Older



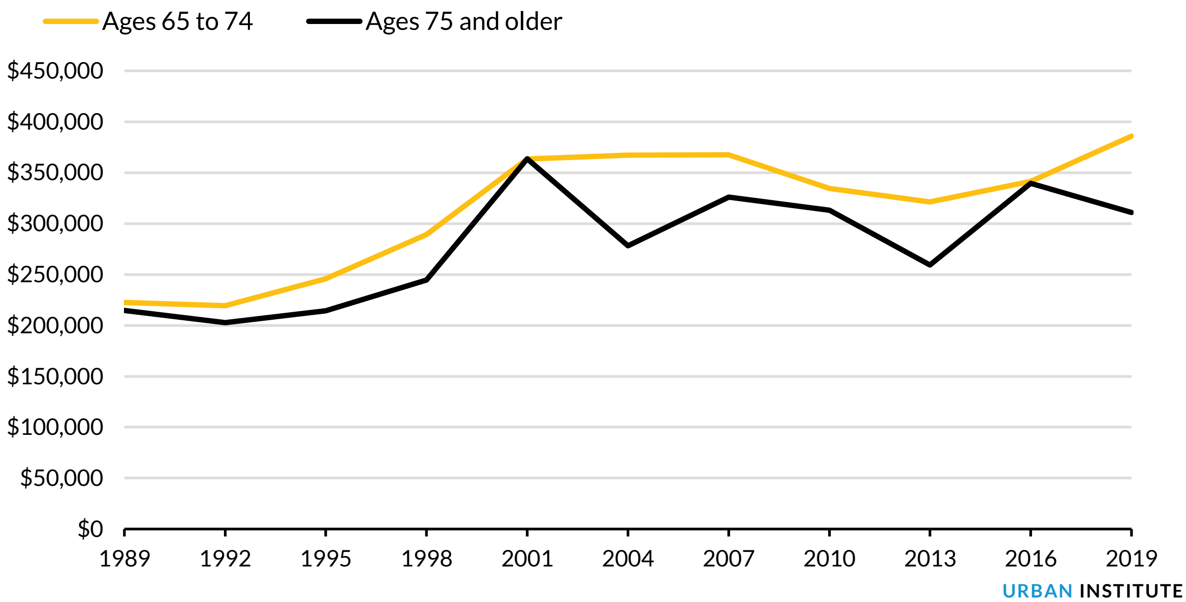
Source: 1989–2019 Survey of Consumer Finances.

Despite Rising Indebtedness, Seniors Have Stable Net Worth Thanks to Home Equity

Figure 9 shows the median net worth for older homeowners by age. In 2019, the median net worth for homeowners ages 65 to 74 was $385,890, compared with $310,960 for those ages 75 and older. The median net worth for both age groups has remained generally stable since 2004. In comparison, both age groups witnessed substantial gains in net worth from 1995 to 2001.

FIGURE 9A

Median Net Worth among Homeowners

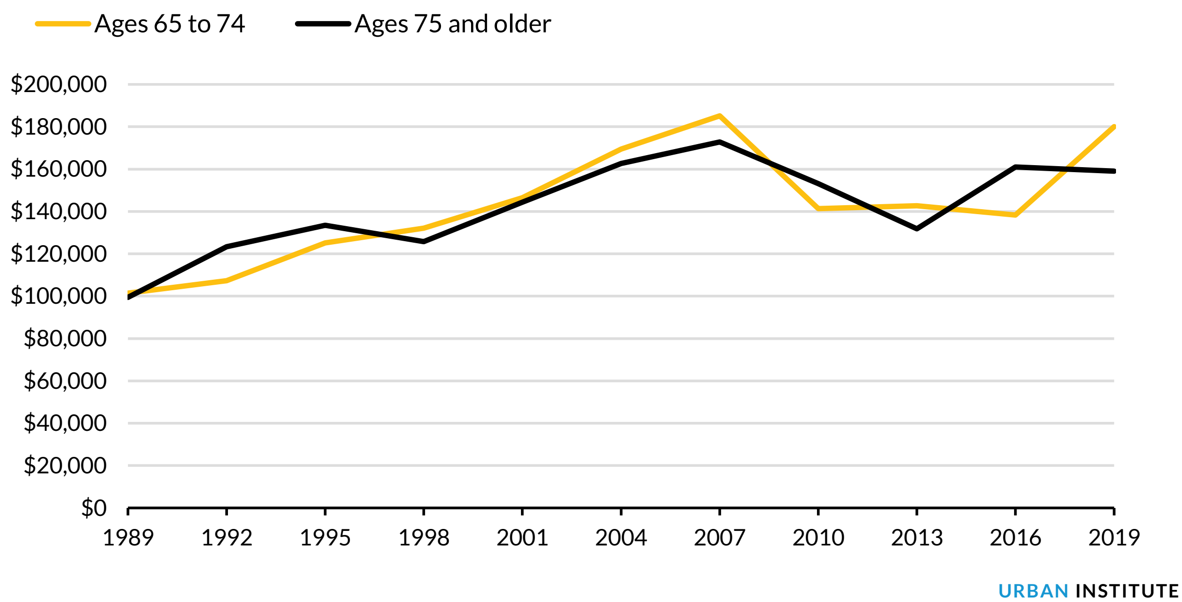


Source: 1989–2019 Survey of Consumer Finances.

The predominant source of net worth among senior homeowners is home equity. In 2019, the median home equity was $180,000 for homeowners ages 65 to 74 and $159,000 for homeowners ages 75 and older (figure 9B). These numbers have declined slightly since 2007, even though nationwide home prices now exceed the housing bubble–era peak levels. Figure 9C shows that home equity composed 55 percent of total net worth for homeowners ages 75 and older and 46 percent of net worth for those ages 65 to 74. That said, notice the long-term decline in the home equity share of total net worth for both age groups. This is driven predominantly by rising median amounts of primary mortgage debt and the rising share of households ages 65 and older carrying mortgage debt.

FIGURE 9B

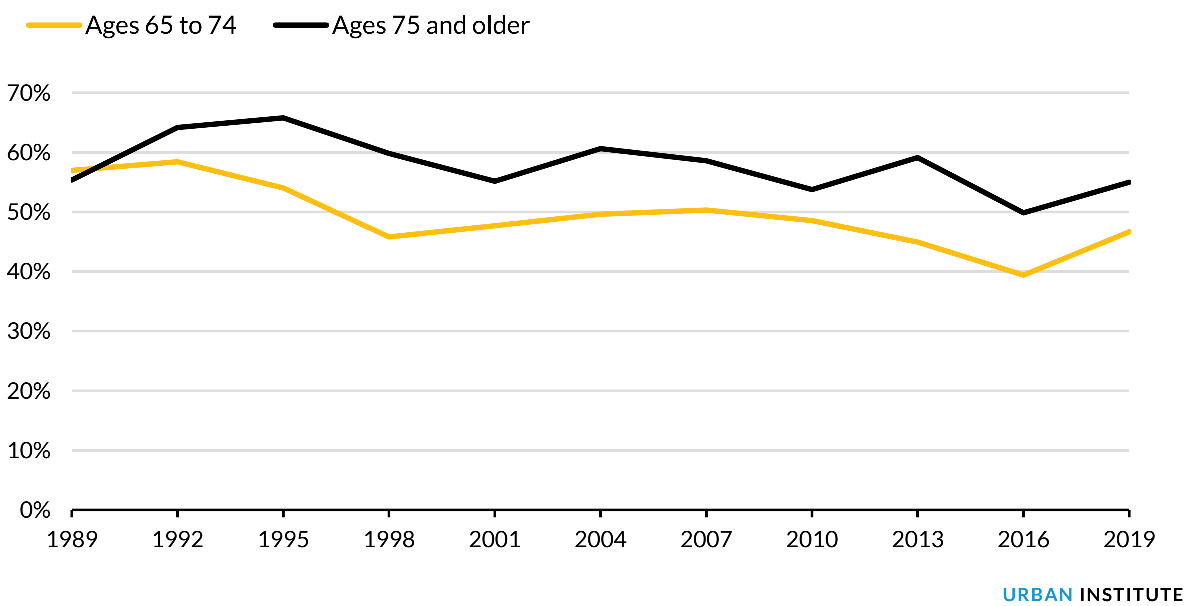
Median Home Equity among Homeowners



Source: 1989–2019 Survey of Consumer Finances.

FIGURE 9C

Median Ratio of Home Equity to Net Worth

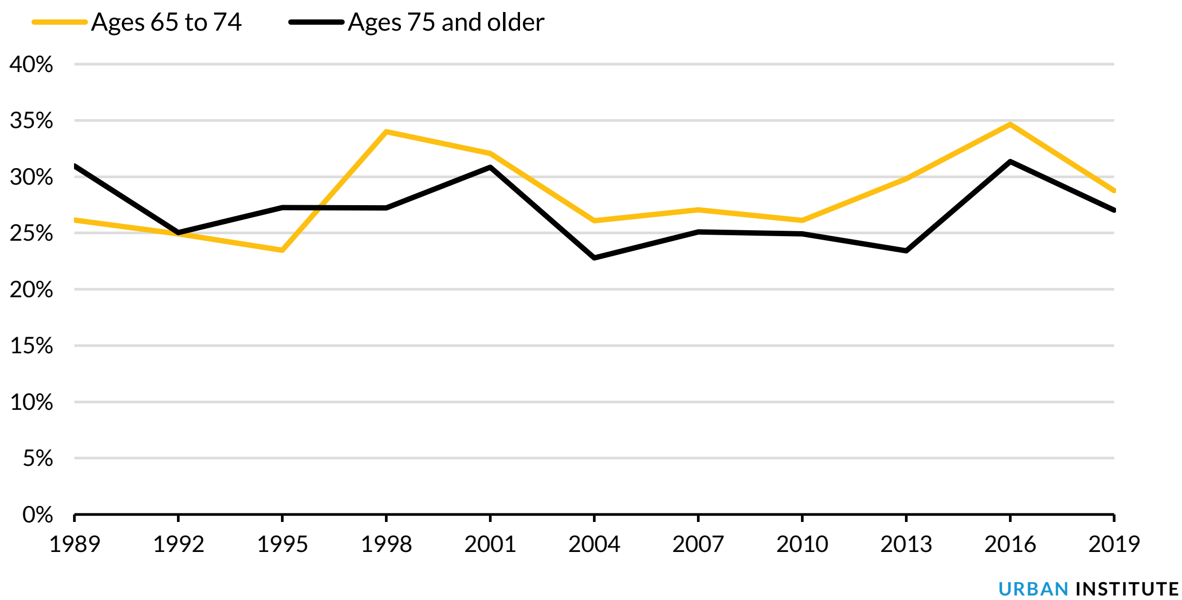


Source: 1989–2019 Survey of Consumer Finances.

Finally, we turn to the second-largest component of older homeowners' net worth: financial wealth.[8] Figure 10A shows that in 2019, financial wealth composed 27.0 percent and 28.8 percent of total net worth, respectively, for homeowners ages 75 and older and homeowners ages 65 to 74.

FIGURE 10A

Median Ratio of Financial Wealth to Net Worth, by Age

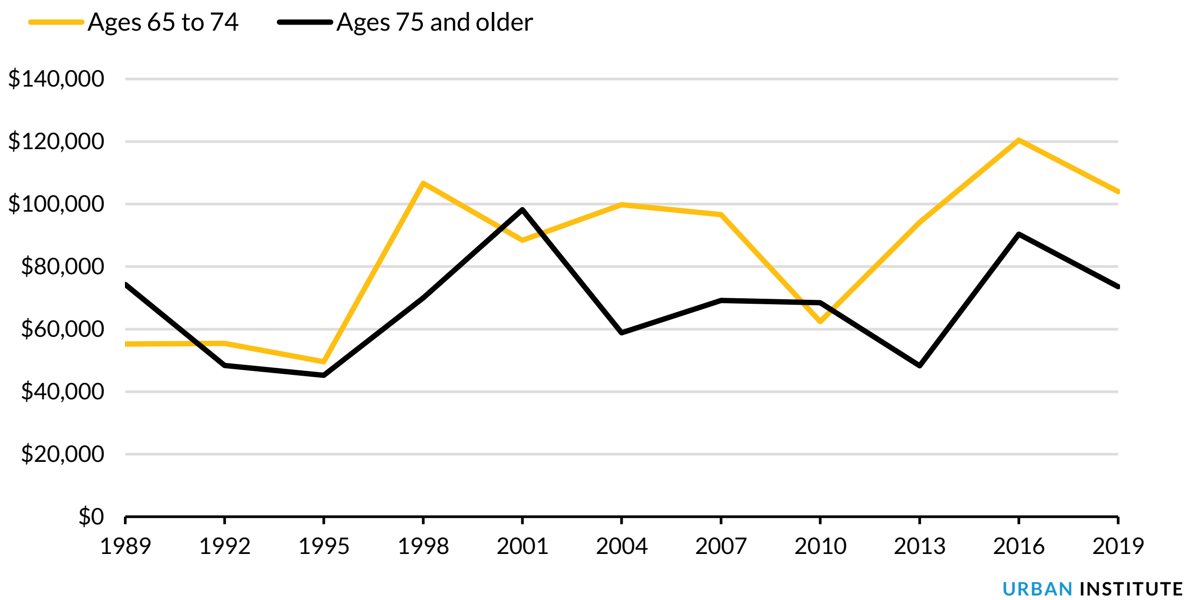


Source: 1989–2019 Survey of Consumer Finances.

Figure 10B shows that in 2019, homeowners ages 65 to 74 had a higher median value of financial wealth ($104,000) than homeowners ages 75 and older ($73,531). These numbers are volatile, likely reflecting changes in market values of retirement savings held in investment accounts. Unlike median values of home equity, which are similar for the two age groups, homeowners ages 75 and older have had consistently less financial wealth than homeowners ages 65 to 74 over time. This reflects drawdowns from retirement savings with age and lack of new contributions to retirement accounts. Also note that median value of home equity dwarfs the median value of financial assets (Bhutta et al. 2020).

FIGURE 10B

Median Financial Wealth for Homeowners, by Age



Source: 1989–2019 Survey of Consumer Finances.

Together with home equity, financial wealth accounts for roughly three-quarters of median net worth for seniors ages 65 and older. Home equity alone accounts for almost half the net worth (figure 9C). But this share is even higher for older homeowners with limited financial wealth (table 2). Home equity composed 90.5 percent of net worth for homeowners ages 65 and older that owned less than $3,000 in financial wealth, 63.7 percent for those who owned $20,000 to $50,000 in financial wealth, and just 25.2 percent for those who owned over $100,000 in financial wealth. This suggests substantial potential for low-wealth households to use home equity improve their financial security.

TABLE 2

Ratio of Home Equity to Net Worth, by Financial Wealth

Financial wealth	Median ratio of home equity to net worth
≤ $3,000	90.5%
$3,000–20,000	72.5%
$20,000–50,000	63.7%
$50,000–100,000	51.9%
> $100,000	25.2%

Source: 1989–2019 Survey of Consumer Finances.

3. Conclusion

In this report, we have established several facts about older homeowners. Most important of these are the rising levels of median debt, especially primary mortgage debt, and the rising share of senior homeowners that carries debt. The increase in debt load is particularly acute for homeowners ages 75 and older and spans nearly all debt types, with primary mortgages being the main driver in absolute dollar terms.

Rising debt levels will have adverse long-term consequences for these households. One of these consequences is already playing out in the form of higher DTI ratios and rising denial rates with age, as lenders perceive these applicants to be riskier. The extent of the problem has been somewhat masked in recent years by ultra-low interest rates, which have temporarily pushed applicant DTI ratios and denial rates lower for cash-out refinances, the dominant equity extraction vehicle in the past three years. But once interest rates rise, so will DTI ratios and denial rates. This dynamic will not serve older homeowners well. In the long run, older homeowners, with limited incomes and substantial home equity, would benefit from having better access to financial products such as reverse mortgages, whose underwriting is less dependent on applicant incomes and debt and more dependent on the value of assets, homeowner equity, and net worth.

Notes

[1] National Reverse Mortgage Lenders Association, "Senior Housing Wealth Exceeds Record $9.2 Trillion Q12021," press release, July 23, 2021, https://www.nrmlaonline.org/about/press-releases/senior-housing-wealth-exceeds-record-9-2trillion.

[2] We excluded incomplete applications, withdrawn applications, and purchase loans from the denial rate calculation.

[3] Age information has been available in HMDA data only since 2018.

[4] First-lien mortgages for one-to-four-family owner-occupied homes. We excluded loans with missing age, income, loan-to-value ratio, and DTI ratio information.

[5] Andrew Keshner, "Older Americans Had a 40-Point Drop in Their Credit Score in the 10 Years Since the Great Recession," MarketWatch, June 8, 2019, https://www.marketwatch.com/story/these-americans-had-a-40-point-drop-in-their-credit-score-after-the-great-recession-and-its-yet-to-recover-2019-05-24.

[6] Installment loans include education loans, vehicle loans, and other installment loans. We follow the Federal Reserve's definition of asset and debt categories. See Federal Reserve (n.d.).

[7] All SCF dollar amounts are inflation adjusted, with prior years translated to 2019 dollars.

[8] Financial wealth is defined as total financial assets (i.e., retirement account balances, certificates of deposit, stocks and bonds, pooled investments, and transaction account balances) minus the summation of education loans, credit card balances, and other nonhousing debt.

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About the Authors

Karan Kaul is a senior research associate in the Housing Finance Policy Center at the Urban Institute. He publishes innovative, data-driven research on complex, high-impact policy issues to improve the US mortgage finance system. A strategic thinker and thought leader with nearly 10 years of experience in mortgage capital markets, Kaul has published nearly 100 research articles on such topics as mortgage servicing reforms, efficient access to credit, benefits of alternative credit data and scoring models, and single-family rentals. He has advocated for efficient industry practices, regulation, and legislation to make the mortgage market work better for all Americans. Kaul is the lead researcher on the Mortgage Servicing Collaborative and regularly speaks at housing conferences. Before joining Urban, he spent five years at Freddie Mac as a senior strategist analyzing the business impact of postcrisis regulatory reforms. He holds a bachelor's degree in electrical engineering and a master's degree in business administration from the University of Maryland, College Park.

Linna Zhu is a research associate with the Housing Finance Policy Center. Her research centers on housing economics, aging, and real estate finance. Zhu holds a BA in economics from Renmin University of China, an MS in finance from Johns Hopkins University, and a PhD in public policy and management from the University of Southern California.

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500 L'Enfant Plaza SW
Washington, DC 20024

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