

Borrower and Mortgage-Related Factors Associated with Foreclosure

For many, homeownership is the pinnacle of achieving the “American Dream.” This goal has recently become manifest in the home-buying explosion of 2000-2002. Historically low mortgage interest rates, low downpayment requirements, innovative financing alternatives, and relaxed lending standards have almost dissipated the barriers to homeownership. However, in the midst of this millennium’s home buying frenzy, little consideration has been given to the consequences of lending so freely.

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Homeowners who lack the capacity to maintain a mortgage and other expenses related to homeownership are prime candidates to default or foreclosure. In fact, in Utah alone, there has been a 1,832 percent increase in the number of foreclosures since 1997 (Mitchell, 2003). An increase of this magnitude has countless negative effects on the homeowners as well as the community they reside in.

Prior to this study, little research has been conducted about the characteristics of the homeowners who experience foreclosure. Therefore, the purpose of this study is to develop a conceptual model that could be used to aid in identifying which household factors contribute to the likelihood of foreclosure, and to respond to the research question, what borrower-related and mortgage-related factors are correlated with home foreclosure?

Data and Findings

Data used are from an inventory of active and foreclosed FHA homes in the state of Utah from the years 2000-2001. The sample consisted of a total of 179 cases. Characteristics of interest were extracted from data and categorized into two categories: borrower-related factors and mortgage-related factors. The borrower-related factors included: age of borrower, job tenure, self-employed, race of borrower, first time homebuyer, number of dependents, homeownership counseling, and borrower’s income. The mortgage-related factors included: loan-to-value ratio, payment-to-income ratio, back-end ratio, gift amount, size of downpayment, and interest rate.

Descriptive and correlation analysis was then conducted with the borrower- and mortgage-related factors. Results derived revealed that race, front-end ratio and interest rate were statistically significant factors associated with the probability of foreclosure. The relationship between race and foreclosure was positive, indicating that when non-white borrowers are more likely to foreclosed than white borrowers.

Discussion and Implications

Among the major findings of this study was the significance of interest rate in the role of foreclosure. This information is beneficial to consumers, counselors, and educators. By focusing more on credit and credit history, which is reflected in the interest rate a borrower is granted, borrowers may be less likely to default or experience foreclosure. Similarly non-white borrowers were found as a concern group. This may indicate that non-white borrowers are more susceptible to abusive practices, or perhaps just in more need of assistance in the homeownership process. Lastly, the presence of a first time homebuyer and a high front-end ratio need to be viewed as potential factors leading to foreclosure.

References

Mitchell, L. (2003, February 27). Foreclosures brisk in Utah. The Salt Lake Tribune, pp. E1, E2.

Endnotes

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