Mortgages and Home Equity Debt: Comparing Two Cohorts of Near-Retirees

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There was rapid growth in housing debt during the late 1980s and 1990s which then exploded after 2000, and households are taking more debt and carry large amounts of debt into retirement. This descriptive study seeks to understand how being exposed to different economic circumstances affect the borrowing behavior of two birth cohorts, at the same age, on the verge of retirement age. While employing data from the 1998 and 2008 Health and Retirement Study (HRS), the 1998 cohort represents families headed by persons aged 51-62 in 1998, whereas the 2008 cohort includes those aged 51-62 in 2008. To accomplish the research objectives, the differences in the levels of mortgage debt and home equity debt between the 1998 and 2008 cohorts were compared. This study further investigated socio-economic factors associated with the likelihood of holding mortgage debt and home equity debt for both the 1998 and 2008 cohorts.

There were differences in the levels of mortgage and home equity debt between the two groups. In fact, the mean levels of both mortgage debt and home equity loans for the 2008 cohort were much greater than those for the 1998 cohort. Specifically, the levels of mortgage debt and home equity debt increased by 67% and 61%, respectively, over the 10 year-period. The average level of total housing debt was much higher for the 2008 cohort ($70,321) than for the 1998 cohort ($42,145 in 2008 dollar). Descriptive statistics also show that 46.8% of the 1998 cohort held mortgage debt, while 51.2% of the 2008 cohort reported holding mortgage debt. The 1998 homeowners reported an average mortgage loan balance of $36,500 (in 2008 dollar), while the 2008 homeowners reported an average mortgage loan balance of $60,803. From these findings, it can be said that the percentage of those who paid down their housing debt as they approach retirement decreased a lot. Moreover, the average levels of mortgage debt increased a lot over the 10 years for the same age group. The proportions of those who reported home equity debt also increased from 11.6% to 15.0% during the 1998-2008 periods and the average level of home equity increased by 61 % during this 10 year period.

The results of logistic regression analysis for mortgage debt indicate that home value, household income, family size, education, marital status, and employment status were significant predictors for both the 1998 and 2008 cohorts. For example, near-retiree homeowners with expensive homes, higher level of income, more household members, higher level of education, being never-married, and who were working in the labor force were more likely to hold mortgage debt in both 1998 and 2008. The results of logistic regression analysis also indicate that home value, household income, marital status, and employment status were statistically significant in predicting the likelihood of holding home equity debt for both the 1998 and 2008 cohorts. Specifically, those with higher levels of income, married heads, and those working full-time or part-time were likely to hold home equity debt in 1998 as well as in 2008.

Rising housing debt levels for those in or near retirement age may threaten financial security during retirement. After the housing crisis in 2008, it is clear that the negligent practices of both financial institutions and borrowers will affect the housing market for many years to come. For this reason, it is even more important for researchers, policy makers, and educators to make a collaborative effort to better understand the trend of housing debt in an attempt to alleviate family and housing market stressors in the future. It is still essential for policy makers and educators to help families and individuals seeking home ownership to increase their assets and other opportunities through the housing purchases that are appropriate for their unique situation.

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