

Walking Away

A Third of the Public Says It's Sometimes OK to Stop Paying a Mortgage

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Paul Taylor, Project Director
Rich Morin, Senior Editor
Wendy Wang, Research Associate
Daniel Dockterman, Research Assistant

MEDIA INQUIRIES CONTACT:
Pew Research Center's
Social & Demographic Trends Project
202.419.4372
<http://pewsocialtrends.org>

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A Social & Demographic Trends Report

Walking Away

A Third of Public Say It's Sometimes OK to Stop Paying a Mortgage

By Rich Morin, Pew Research Center

A majority of Americans say it is “unacceptable” for homeowners to stop making their mortgage payments and abandon their homes, according to a Pew Research Center survey. But more than a third (36%) say the practice of “walking away” from a home mortgage is acceptable, at least under certain circumstances.

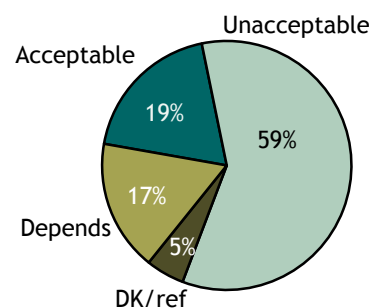
Nearly six-in-ten (59%) believe it is wrong for homeowners to deliberately stop paying their mortgages and surrender their homes to the mortgage lender, according to the survey of 2,967 adults conducted May 11-31. But two-in-ten (19%) say it's acceptable and an additional 17% volunteer that it depends on the circumstances.¹

As the housing market continues to flounder in many parts of the country, more than one-in-five homeowners (21%) say they owe more on their mortgages than their home is worth, the survey finds.

Some homeowners in this situation stop making their mortgage payments and let the bank foreclose on their homes. In July alone, lending institutions foreclosed on an estimated 93,000 properties, according to data compiled by RealtyTrac Inc.; this was the second-highest monthly total since the firm began tracking foreclosures in April 2005.

Not surprisingly, how people fared financially during the Great Recession is linked to their views on walking away from a mortgage. Nearly half (48%) of all homeowners say the value of their home declined during the recession, and as a group they are more likely than those whose home did not lose value to say it's acceptable to renege on a mortgage (20% vs. 14%). Renters are even more likely to say it's okay to stop making house payments: Fully a quarter (25%) say it is acceptable to walk away.

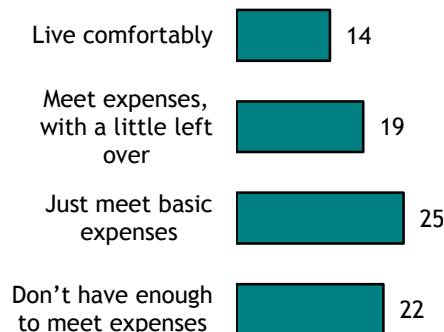
Is it Acceptable to “Walk Away” from a Mortgage?



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Financially Strapped More Likely To Accept Walking Away

% saying it is “acceptable” to stop making mortgage payments, by current financial condition



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¹ The question asked of respondents did not offer “depends on the circumstances” as an option. However, interviewers were instructed to accept this answer if respondents volunteered it. The fact that so many respondents volunteered this response suggests the proportion whose opinion of walking away lies somewhere between acceptance and outright rejection would have been even larger had it been offered as a choice. The question read: “As you may know, some people decide to stop repaying their home loan and ‘walk away from their mortgage,’ letting the bank or lending institution foreclose on their homes. Do you think it is acceptable or unacceptable for people to walk away from their mortgages?”

Those who have had financial problems during the recession are more likely than others to say that walking away from a mortgage is acceptable. Nearly one-in-four adults (24%) who say their families are just able to pay their monthly bills or can't meet expenses say it's okay to stop paying a mortgage, compared with 14% of those who say they "live comfortably."

But homeowners who say their homes are worth less than what they owe are not more tolerant of the practice than those who would break even or make money on a sale (18% vs. 17%).

While some demographic groups are more likely than others to say it's okay to walk away—among them, Hispanics, adults younger than 65 and those living in the West—these differences are mostly modest. For example, nearly a quarter (24%) of all Hispanics say it's acceptable to abandon a mortgage, compared with 17% of whites and 21% of blacks. However, roughly similar majorities of Hispanics (58%), blacks (56%) and whites (61%) say it's wrong to do so.

There are sharp differences by partisanship. Democrats are about twice as likely as Republicans to say it is acceptable to walk away (23% vs. 11%).

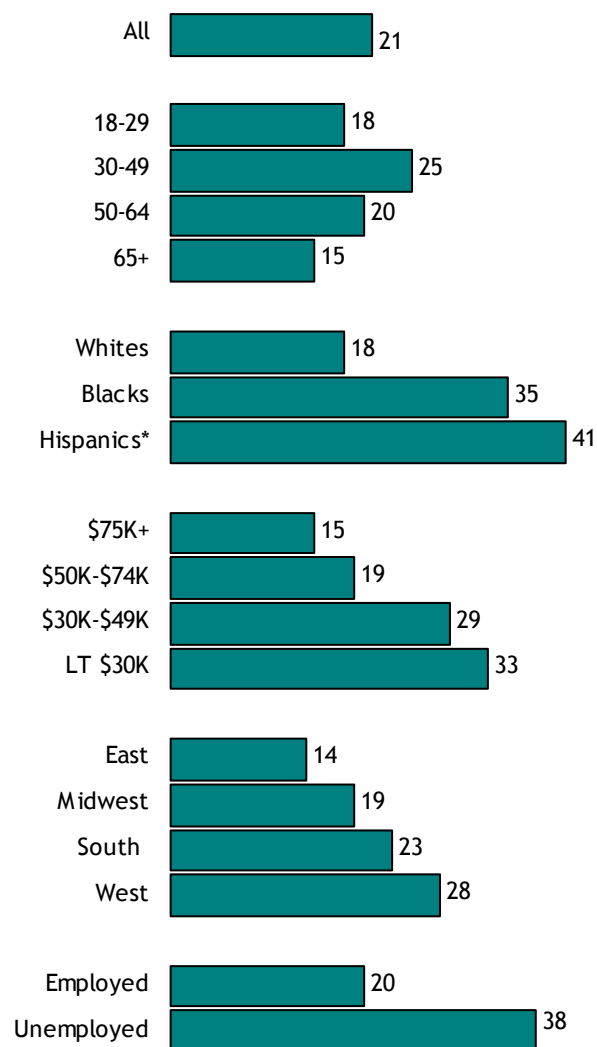
Under Water and Upside Down

As the housing market collapsed and the Great Recession took hold, sinking home values have left many homeowners owing more on their mortgages than they could collect if they sold their property. In real estate argot, their mortgages are "under water" and their home loans "upside down."

According to the survey, about one-in-five mortgage-holders (21%) are currently "under water." Black homeowners are more likely than whites to be in this circumstance (35% vs. 18%); lower-income homeowners are more likely than upper-income homeowners to face this problem (33% for those with family incomes of less

Homeowners "Underwater"

% of homeowners with a mortgage who say they owe more on their home than it is currently worth



*Results among Hispanics should be interpreted cautiously. There were only 94 Latino homeowners in the sample. Hispanics may be of any race. Whites and Blacks include only non-Hispanics. Displayed income categories are for family incomes.

Note: n=1,307 Homeowners with a mortgage.

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than \$30,000 vs. 15% for those earning \$75,000 or more). Middle-aged homeowners are more likely than either younger or older homeowners to be in this situation.

Caught between big mortgages, sinking home values, and the financial strains associated with periods of high unemployment, a many homeowners have stopped making mortgage payments and opted to “walk away” from their loans and their homes. The practice has grown so common that the mortgage finance giant Fannie Mae, reeling from mounting losses, is now suing so-called “strategic defaulters”—those who can afford a mortgage but bail anyway.

The Current State of the Foreclosure Crisis

The latest mortgage industry data paints a mixed picture of the nation’s foreclosure crisis. According to the closely watched Mortgage Bankers Association National Delinquency Survey, the delinquency rate for all mortgage loans outstanding declined to 9.85% during the second quarter of 2010, the first quarterly drop since 2006. The percentage of loans currently in foreclosure stands at 4.57%, a decrease from the first quarter of 2010 but an increase from a year ago. The proportion of new foreclosures started during the second quarter is at 1.11% of all mortgages, down from 1.23% during the first quarter. Taken together, the combined percentage of all loans in foreclosure or with at least one payment past due was 13.97 percent, a slight decline from 14.01% in the previous quarter.

More ominously, the rate of short-term delinquencies—loans that are one payment behind—has increased from 3.31% at the end of 2009 to 3.51 in the second quarter of 2010. The rate of short-term delinquencies had peaked in the first quarter of 2009 at 3.77% but had declined through the first quarter of this year.

Data from the firm RealtyTrac Inc. suggests that lenders repossessed nearly 93,000 properties in July 2010 an increase of 6% from July, 2009. This was the second-highest monthly total since the firm began tracking foreclosures in April 2005. Overall some mortgage experts estimate that more than 2½ million homes have been lost to foreclosure since 2005.

Since short-term delinquencies are closely tied to the unemployment rate, analysts suspect that the rise in first-time unemployment claims during the first few months of the year has now pushed the new delinquency rate higher. “Ultimately the housing story, whether it is delinquencies, homes sales or housing starts, is an employment story,” said Jay Brinkmann, MBA’s chief economist, in a statement that accompanied the release of the latest MBA survey. “Only when we see a consistent increase in employment will we see an increase in sales and starts, and a sustained improvement in the delinquency numbers. Until we see the increase in the number of households that comes with an increase in the number of paychecks, all measures of the health of the housing industry will continue to be weak,” Brinkmann said.

Financial Problems and Walking Away

Some homeowners may view defaulting on a home loan as a smart economic decision. But for others, the survey suggests it is the act of a financially pressured homeowner who has been laid low by the Great Recession.

As the number of financial hardships a person suffered during the recession increases, so does tolerance for walking away from mortgage payments. But even among those who faced multiple hardships, solid majorities still say it is unacceptable to quit making house payments.

Fully a quarter (25%) of those who report they had problems paying their rent or mortgage say it is acceptable to stop making mortgage payments, compared with 18% who did not have problems paying for housing.

Similarly, those who had to borrow money from friends or family during the recession are more likely than those who did not to say it is okay to walk away (25% vs. 18%). Americans

who found it difficult during the recession to pay medical bills or find adequate care also are somewhat more accepting of abandoning a mortgage (25% vs. 17%) than those who did not have problems with health care.

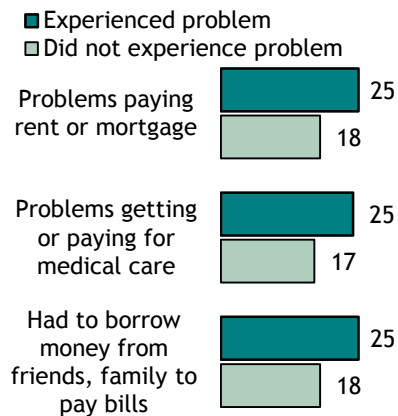
When these three problems are analyzed together, the relationship between recession-related financial problems and attitudes toward walking away becomes stronger.

Only about one-in-six adults (16%) who faced none of these three problems think it is acceptable to forego making house payments and surrender the property. In contrast, nearly three-in-ten adults (28%) who experienced all three hardships say it is okay to bail on a mortgage.

For most Americans, financial hardship is not a good enough reason to stop paying the mortgage. Even among those who faced all three recession-related problems, a 57% majority say it is unacceptable to walk away from a mortgage and 13% say it depends on the circumstances.

Recession-related Hardships and 'Walking Away'

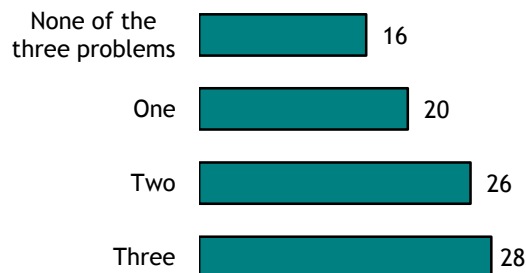
% saying it is "acceptable" to stop making mortgage payments, by problems experienced during recession



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More Hardships During Recession, More Acceptance of Walking Away

% saying it is "acceptable" to stop making mortgage payments, by number of problems experienced



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A similar pattern is apparent on the employment front. Those who suffered a spell of unemployment during the recession are somewhat more tolerant of walking away from a mortgage. Slightly less than a quarter of the ever-unemployed (23%) say it is acceptable to quit making mortgage payments, compared with 18% of Americans who did not lose their jobs during the recession.

Demographic Differences

Even in the worst of economic times, most Americans believe in paying their bills. Majorities of every core demographic group measured in the Pew Research survey agree that walking away from a mortgage is unacceptable. What differences that exist between demographic groups are modest, at best.

According to the survey, men are more likely than women to say it's okay to abandon one's home mortgage (22% vs. 17%). A larger share of Hispanics (24%) than whites (17%) say voluntary foreclosure is an acceptable option—a view shared by 21% of blacks.

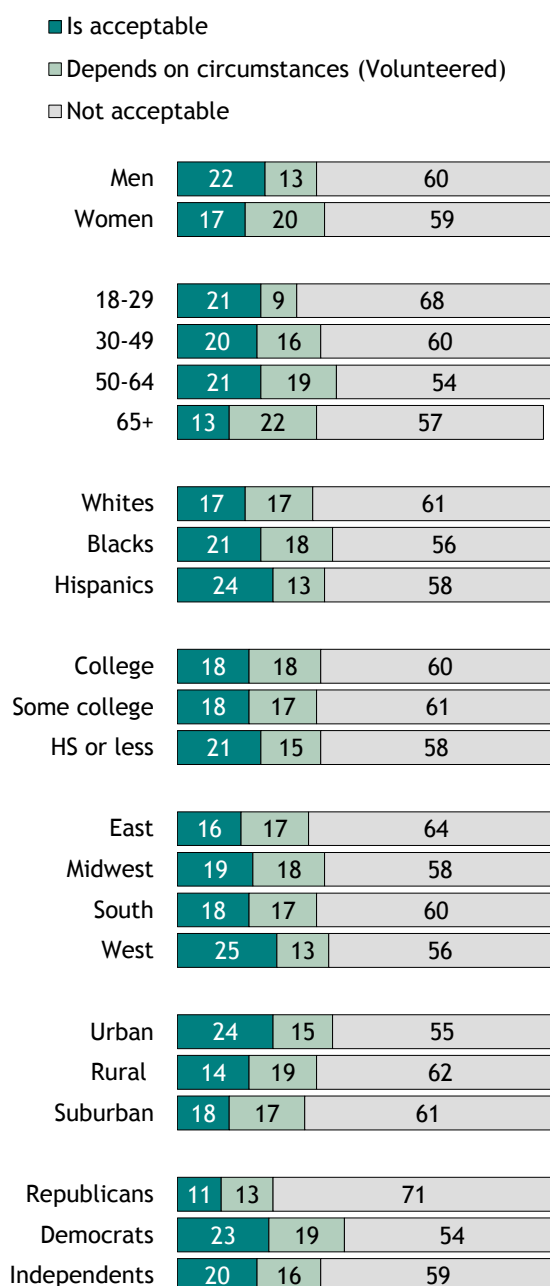
Hispanic men in particular accept the practice: 31% find it acceptable compared with 17% of Hispanic women. Hispanic women, on the other hand, are more likely than Hispanic men to say it depends on the circumstances (18% vs. 8%).

The relationship between age and attitudes toward walking away from a mortgage is complex. On the one hand, older adults are significantly less likely than young people accept walking away (13% for those 65 and older, compared with 21% of adults younger than 65).

But that doesn't mean older Americans categorically reject the practice while younger people who are more likely to tolerate it. In fact, it is those younger than 30 who are the most likely to say walking away is unacceptable: 68% say this, compared with 57% of adults 65 or older.

Instead, older adults are more measured in their views. They are more likely than younger adults

The Demographics of Walking Away % of each group who say stopping payment on a mortgage



to volunteer that it depends on the circumstances (22% of those 65 and older vs. 9% of those 18 to 29 years old). When taken together, slightly more than a third of older adults (35%) and nearly as many younger people (30%) believe it okay to walk away from a mortgage or say it is acceptable under certain circumstances. (The survey did not probe to find out under what specific circumstances people thought walking away was acceptable.)

Other Differences

Americans living in the West—Ground Zero in the real estate market meltdown—are significantly more tolerant of walking away from a mortgage than residents of other regions. A quarter (25%) of all westerners find the practice acceptable, compared 19% of respondents living in the Midwest, 18% in the South and 16% in the East.

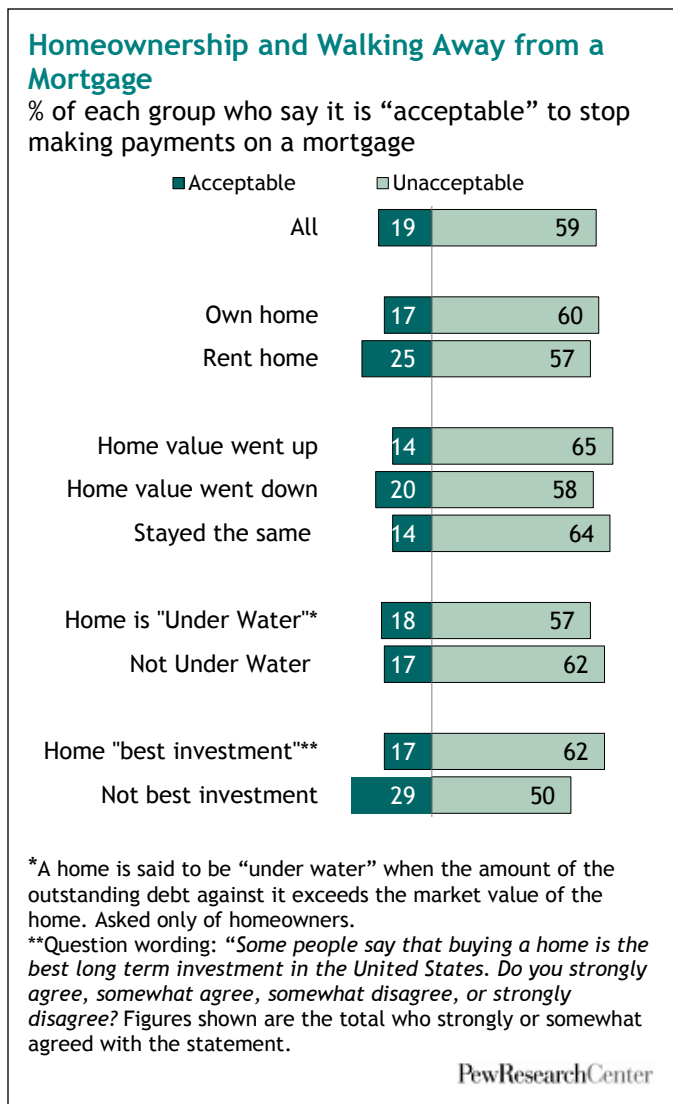
City-dwellers also are about twice as likely as rural residents to accept walking away (24% vs. 14%), while 18% of all suburbanites residents agree.

Renters are somewhat more likely to find it acceptable to walk away from a mortgage than homeowners (25% vs. 17%). Attitudes toward home ownership also are associated with the willingness to tolerate those who decide to default on their home payments.

A lop-sided majority of Americans say a home is the best long-term investment a person can make. Perhaps not surprisingly, those who see a home as a growth asset are significantly less likely to accept intentional foreclosure than those who do not value a home as highly as an investment (17% vs. 29%).

While helping financially strapped homeowners is popular with both Republicans and Democrats in Congress, the partisan divide opens wide when it comes to judgments about walking away from a mortgage.²

Overall, Democrats are nearly twice as likely as Republicans to say the practice either acceptable, or acceptable under some circumstances (42% vs. 24%). Political independents also are more tolerant of walking away than Republicans (36%).



² The Housing and Economic Recovery Act of 2008 passed the Senate by a vote of 84-12 with 34 Republicans voting with 48 Democrats and two independents.

These partisan differences remain when each element of the question—acceptance vs. qualified acceptance—is analyzed. Democrats are twice as likely as Republicans to tolerate homeowners who abandon their mortgages (23% vs. 11%). They also are significantly more likely to say the practice is acceptable under certain circumstances (19% vs. 13%).

About the Survey

Results for this survey are based on telephone interviews conducted with a nationally representative sample of 2,967 people ages 18 and older living in the continental United States. A combination of landline and cellular random digit dial (RDD) samples was used to represent all adults in the continental United States who have access to either a landline or cellular telephone. A total of 1,893 interviews were completed with respondents contacted by landline telephone and 1,074 with those contacted on their cell phone. The data are weighted to produce a final sample that is representative of the general population of adults in the continental United States.

- Interviews conducted May 11-31, 2010
- 2,967 interviews, including 1,937 homeowners
- Margin of sampling error is plus or minus 2.2 percentage points for results based on the total sample at the 95% confidence level. For questions asked only of homeowners, the margin of sampling error is ± 3.1 .

Survey interviews were conducted under the direction of Princeton Survey Research Associates International. Interviews were conducted in English or Spanish.

PEW SOCIAL & DEMOGRAPHIC TRENDS
MAY 2010 ECONOMIC SURVEY
FINAL TOPLINE
MAY 11-MAY 31, 2010
TOTAL N=2,967

NOTE: ALL NUMBERS ARE PERCENTAGES. THE PERCENTAGES GREATER THAN ZERO BUT LESS THAN 0.5 % ARE REPLACED BY AN ASTERISK (*). COLUMNS/ROWS MAY NOT TOTAL 100% DUE TO ROUNDING. UNLESS OTHERWISE NOTED, ALL TRENDS REFERENCE SURVEYS FROM SOCIAL & DEMOGRAPHIC TRENDS AND THE PEW RESEARCH CENTER FOR THE PEOPLE & THE PRESS.

OWNRENT Do you own or rent your home?

| | |
|----|---------------------------|
| 63 | Own |
| 31 | Rent |
| 6 | Other arrangement (VOL.) |
| * | Don't know/refused (VOL.) |

ASK IF HOMEOWNER (OWNRENT=1): [n=1,937]

Q29 And have you paid off all, more than half, about half or less than half of the money you owe on your home?

| May 2010 | | Jan/Feb 2008 |
|-------------|---------------------------|-----------------|
| 33 | All | 30 |
| 17 | More than half | 18 |
| 13 | About half | 10 |
| 35 | Less than half | 38 |
| 3 | Don't know/Refused (VOL.) | 4 |

ASK ALL:

Q30 Some people say that buying a home is the best long term investment in the United States. Do you strongly agree, somewhat agree, somewhat disagree, or strongly disagree?

| May 2010 | | CBS/New York Times April 1991 |
|-------------|---------------------------|-------------------------------------|
| 39 | Strongly agree | 49 |
| 41 | Somewhat agree | 35 |
| 10 | Somewhat disagree | 9 |
| 7 | Strongly disagree | 4 |
| 3 | Don't know/Refused (VOL.) | 3 |

ASK IF HOMEOWNER (OWNRENT=1): [n=1,937]

Q31 Since the recession began in December 2007, has the value of your home gone up, gone down, or stayed about the same? [IF GONE UP/DOWN: Has it gone (INSERT RESPONSE: up/down) a lot, or just a little?]

| | |
|----|--|
| 13 | Gone up |
| 4 | Gone up a lot |
| 8 | Gone up a little |
| 48 | Gone down |
| 22 | Gone down a little |
| 26 | Gone down a lot |
| 33 | Stayed same |
| 1 | Bought home recently/Too soon to tell (VOL.) |
| 5 | Don't know/Refused (VOL.) |

ASK THOSE WHO SAY GONE DOWN (Q31 = 3,4): [n=934]

Q32 Considering everything, how long do you think it will take for the value of your home to recover from the effects of the recession? Would you say it will take less than a year, one to two years, three to five years, six to ten years, or longer than ten years? (DO NOT NEED TO CONTINUE READING CATEGORIES IF R GIVES ANSWER)

| | |
|----|---|
| 10 | Two years or less |
| 1 | Less than a year |
| 8 | One to two years |
| 47 | Three to five years |
| 39 | Six years or longer |
| 29 | Six to ten years |
| 10 | Longer than ten years |
| 1 | Never (VOL.) |
| * | Recession not over/depends on how long recession continues (VOL.) |
| 3 | Don't know/Refused (VOL.) |

ASK HOMEOWNERS WITH A MORTGAGE (Q29=2-9): [n=1,307]

Q33a Now I'd like you to think about how much you could sell your home for today and how much you still owe on your home. Do you currently owe more on your home than you could sell it for today, or not?

| | |
|----|---------------------------|
| 21 | Yes, owe more |
| 73 | No |
| 1 | No mortgage (VOL.) |
| 5 | Don't know/Refused (VOL.) |

No Q33b

ASK ALL:

Q33c As you may know, some people decide to stop repaying their home loan and 'walk away from their mortgage,' letting the bank or lending institution foreclose on their homes. Do you think it is acceptable or unacceptable for people to walk away from their mortgages?

| | |
|----|---|
| 19 | Acceptable |
| 59 | Unacceptable |
| 17 | Depends on circumstances/sometimes (VOL.) |
| 5 | Don't know/Refused (VOL.) |