A Housing Crisis Boomerang?

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A housing recovery is now helping the nation bounce back from a Great Recession that was fueled by a housing crisis. First-time millennial homebuyers are now key targets of mortgage lenders, as well as so-called boomerang borrowers, those returning to homeownership who sold or lost homes to foreclosure in the wake of that housing crisis of 2007. It's a new lending environment designed to better reach and engage low-to-moderate-income to middle-class homebuyers, creating the most diverse population of homeowners in our nation's history.

But, there lurks just behind that hopeful outlook another, less-positive, boomerang effect of our last housing crisis – a potential boom in mortgage defaults from the group most affected by financial crisis the last time around: Baby-boomer homeowners. While millennials may now be attracting lenders, having finally passed boomers as the largest generation in the U.S., boomers haven't lost their trend-setting ability to shape U.S. markets. Aging, middle-class, boomer homeowners are now poised to usher in a new, national housing crisis affecting all.

Boomers have been the largest generation to access housing counselors via a hotline called hope, selected to facilitate the U.S. Treasury's and HUD's Making Home Affordable program outreach at the start of the last housing crisis. Since then, an estimated 1.2 million boomers of the 2.5 million homeowners calling the Hope Hotline developed new household budgets to avoid foreclosure by refinancing their mortgage, continue to pay it, or by pulling out their cash equity in a home sale.

But during each of the last five years, boomers have been increasingly returning to Hope Hotline counseling as their financial lives became more strained – from 26% of sessions at the start of 2011 to 42% of the nearly 400,000 total sessions expected this year. Go inside these counseling sessions and you'll find some disturbing trends among boomers who like the U.S. economy since 2007 have been slow to recover financially.

Today, these boomer borrowers are carrying an average credit score of around 614, with an alarming debt-to-income ratio of more than 50%. For most boomers, their mortgage is their largest debt payment. But, federally-subsidized Parent PLUS loans to fund years of college for boomers' millennial children have now become something of a second mortgage – on top of a wide range of consumer debt from auto loans to multiple credit cards. The net result inside boomer households seeking housing counseling is a household budget that loses ground every month -- an average $400 in the red.

To stay on budget, boomers have learned to refinance debt and lower their monthly payments. When boomers experienced dramatic drops in home equity as housing values plummeted, many repeatedly financed their mortgage to stay current. It's a tactic that continues as mortgage rates fluctuate downward. But, instead of shortening terms, boomers are staying with conventional, fixed, 30-year mortgage loans each time they refinance. Boomers are now scheduled to become the largest generation ever to take high levels of debt well into their 70s and beyond.

Many expect to continue to collect a paycheck into those years, even though most will be well past the wage growth phase of their professional lives. They'll supplement income with Social Security and other pension checks, retirement savings account withdrawals, or receive financial help from Medicare subsidies to manage the growing expenses of normal aging.   But when stretched to manage household expenses and growing debt with any available income, boomers will delay their largest monthly expense, their mortgage payment, first, hoping to catch up one day.

Mortgage delinquencies quickly turn into defaults sure to rise among this the largest group of homeowners today, resulting in growing foreclosures, outright home sales, adding inventory to real estate markets, bringing equity values down for all other homeowners.

While a boomer is indeed back in the White House, many millions of boomers will be facing uncertain housing during the term of President Trump. As the President and the

Republican Congress develop housing finance policy to strengthen the economy and its effect on homeownership, there is hope. A three-step path forward is recommended for government and business to come together as they did in the last housing crisis, this time to avoid the specter of growing foreclosures, a housing crisis boomerang,

First, embrace housing counseling for current mortgage customers, especially baby-boom homeowners, as the federal government's Making Home Affordable program begins to wind down to its end next summer. More than any other generation, boomers are more likely to seek housing counseling well before a foreclosure notice of eviction. In fact, more and more mortgage servicers already are finding value in their customers' access to independent, housing counselors, who provide help understanding mortgage contract legalese or how-to steps to better connect with their servicer, stay current on their payment plan. Lenders already have embraced housing counseling for homebuyers, seeing the potential value of borrowers becoming financially steady, learning how to sustain a mortgage for life-of-loan. Why not the same housing counseling for their current mortgage customers.

Second, government and business must work together to ensure that there is adequate choice of mortgage products for boomers who may want to simply age-in-place in their current homes or pull their equity to downsize into smaller, more boomer-friendly homes and communities. A new approach to reverse mortgages is needed, enhanced by a housing financial coach to help homeowners focus-forward.

Finally, a national housing policy currently designed for a housing crisis needs to be redesigned to sustain the housing recovery. The affordable housing goals of Fannie Mae and Freddie Mac have strongly supported the needs of low-to-moderate income families, minority populations and other groups. We need a broadened affordable housing policy to focus on boomers as they age and of course, millennials as they enter the marketplace.

In spite of new, growing urgency among boomers facing financial stress, housing counselors have found boomers to be less stressed than any other generation. Boomers have greater stability in their professional and family lives relative to others, which partly explains why boomers have been not only able, but, first, to step up and support their millennial children through college and into homeownership. Perhaps this may be the lasting effect of the 2007 housing crisis, the key lesson-learned: strengthen and support boomer homeowners and the nation may yet realize that hopeful outlook envisioned in today's housing recovery.

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Homeownership Preservation Foundation is a national nonprofit whose 888-995-HOPE hotline to housing counselors has been integral to the success of the federal government's response to the housing crisis. Prior to the inauguration of President Trump, the Hope Hotline received it's nine millionth call for assistance.