

More U.S. Adults Than Last Year Say They Utilize Creative or Payment Option Mortgages to Finance the Purchase of Their Homes

About four in 10 (38%) U.S. adults have utilized a creative or payment option mortgage, up five percent from a year ago, according to a recent Wall Street Journal Online/Harris Interactive Personal-Finance Poll. In particular, use of payment option mortgages increased from four percent (4%) in 2005 to nine percent (9%) this year.

There were no significant changes from last year, however, in the number of home buyers who say they use miss-a-payment mortgages, which allow borrowers to skip up to two mortgage payments a year and up to 10 payments over the life of the loan, or piggyback mortgages, which combine a standard first mortgage with a home-equity loan or line of credit to avoid private mortgage insurance or the higher interest rates on jumbo loans. The only drop was with the use of interest-only mortgages, which fell to 14 percent, down from 17 percent last year.

These are some of the results of an online survey of 2,790 U.S. adults conducted by Harris Interactive between August 29 and 31, 2006 for The Wall Street Journal Online.

“This survey shows that 4 out of 10 homebuyers are consistently using nontraditional mortgage options, demonstrating an acceptance of these options in the marketplace. Financial institutions should be aware of the scrutiny that the Government Accountability Office (GAO) is placing on these mortgages. The GAO released a report on September 20, 2006 recommending that regulators focus on explaining how nontraditional mortgages work. As financial services companies continue to offer these products they need to be ahead of the regulation wave and find ways to clearly communicate the benefits and risks of such mortgages,” states Anne Aldrich, Senior Vice President of the Financial Services Research Practice at Harris Interactive.

Compared to one year ago, more adults are buying homes within their suggested price ranges¹ rather than trying to stretch themselves financially. Among those who have purchased a home in the past three years, 78 percent indicate they bought within their price range, up from last year (67%). Among divorced, separated and widowed adults who have purchased a home in the past three years, 85 percent say they bought within their price range compared to those who are married (79%) or single (61%). Single adults (30%) are twice as likely as their married counterparts (15%) to extend themselves financially and purchase a home above their price range.

¹ “Within suggested price range” was not defined in the survey, see question as asked in Table 4.

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“Consumers are stretching their home purchase budget a bit less now than they were a year ago. This may be because they are feeling more cautious about major expenditures, or perhaps home prices have dropped due a softening in the real estate market and consumers do not have to stretch as much to purchase a home of their dreams,” states Anne Aldrich, Senior Vice President of the Financial Services Research Practice at Harris Interactive.

Homeowners from household incomes of \$75K a year or more (20%) are almost three times as likely as those households earning less than \$35K (7%) to opt for an interest-only loan, and one and a half times more likely than those earning between \$35K and \$75K (13%) to opt for an interest-only loan. Homeowners ages 18 to 34 years old (23%) are more likely than those 35 and older to obtain an interest-only loan. The percentage has increased over the past year, with 23 percent of 18 to 34 year olds currently using an interest-only loan, compared to 16 percent in 2005.

About half of all adults who recently obtained a home equity loan say they used it to make home improvements (52%). Almost four in 10 (38%) indicate that they used the loan to pay off credit cards, while fewer say they used it to help finance the purchase of a second home (11%), to pay medical bills (10%) or to help finance their child’s education (5%).

Mortgage brokers still edge out direct lenders as the primary source of mortgages, with more than four in 10 (42%) adults who purchased a home in the past three years citing they used a mortgage broker, while 28 percent went through a direct lender.

TABLE 1
Which Do You Own
“Which of the following do you own?”
Base: All adults

	Total
	%
A primary residence	62
A second home or vacation home	7
Neither	37

Note: Multiple-response question

TABLE 2

Main Reason for Purchasing Home

“What was your main reason for purchasing your second home or vacation home?”

Base: Own second or vacation home

	Total
	%
To use for weekends and vacations	38
For rental income	18
As an investment	17
To use in retirement	15
Other	12

Note: Percentages may not add up to exactly 100% due to rounding.

TABLE 3

Recent Home Purchase

“Have you purchased a home that you’ve used as your primary residence within the past three years?”

Base: Own a primary residence

	Total- 2006
	%
Yes	24
No	76
Don’t know	1

Note: Percentages may not add up to exactly 100% due to rounding.

TABLE 4
Home Purchase Price Range – Trend Data and by Marital Status

“Was the home you purchased within your suggested price range, above this price range, or below this price range? If you have purchased more than one home that you have used as your primary residence in the past three years, please think only of the home you most recently purchased.”

Base: Purchased a primary residence within the past three years

	Total 2005 n=444	Total 2006 n=433	Marital Status 2006		
			Married n=292	Single/ Never Married n=58	Div./ Sep./ Wid. n=56
	%	%	%	%	%
Above my price range	19	15	15	30	2
Below my price range	12	5	5	8	10
Within my price range	67	78	79	61	85
Don't know	2	1	*	2	4
Decline to answer	*	*	*	-	-

Note: Percentages may not add up to exactly 100% due to rounding.

Note: Due to small base sizes (single/never married and div/sep/wid), data should only be used directionally.

- no response

*less than 0.5%.

TABLE 5A
Recently Obtained a Home Equity Loan – by Region

“Have you obtained a home equity loan recently?”

Base: Own a primary residence or a second home or vacation home

	Total	Region			
		Northeast	Midwest	South	West
	%	%	%	%	%
Yes	15	18	12	13	20
No	85	82	88	87	80

Note: Percentages may not add up to exactly 100% due to rounding.

TABLE 5B
Recently Obtained a Home Equity Loan – by Income

“Have you obtained a home equity loan recently?”

Base: Own a primary residence or a second home or vacation home

	Total	Income			
		Less Than \$35K	\$35K - \$49.9K	\$50K - \$74.9K	\$75K+
	%	%	%	%	%
Yes	15	8	11	18	22
No	85	92	89	82	78

Note: Percentages may not add up to exactly 100% due to rounding.

TABLE 6

Purpose of Recent Home Equity Loan

“What was the purpose of the equity loan?”

Base: Obtained a home equity loan recently

	Total
	%
To make home improvements	52
To pay off credit cards	38
To help finance the purchase of a second home	11
To pay for medical bills	10
To help finance child’s education	5
Other	34
Decline to answer	5

Note: Percentages may not add up to exactly 100% due to rounding.

Note: Multiple-response question

TABLE 7

How Mortgage Was Obtained

“You mentioned that you purchased a primary residence within the past three years.

Through which of the following did you obtain your mortgage?”

Base: Purchased a primary residence within the past three years

	2005 Total	2006 Total
	%	%
Obtained Through Broker/Lender/Someone Else (Net)	79	79
Mortgage broker	39	42
Direct lender	32	28
Someone else	8	9
I did not need a mortgage.	14	14
Don’t know	5	4
Decline to answer	2	3

Note: Percentages may not add up to exactly 100% due to rounding.

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TABLE 8A

Creative Mortgage Options – by Age

“Which of the following types of creative or option mortgages, if any, do you have?”

Base: Obtained a mortgage through mortgage broker, direct lender or someone else

	Age									
	2005 Total n=370	2006 Total n=341	2005 18-34 n=156	2006 18-34 n=76	2005 35-44 n=100	2006 35-44 n=77	2005 45-54 n=62	2006 45-54 n=111	2005 55+ n=52	2006 55+ n=77
	%	%	%	%	%	%	%	%	%	%
Interest-only mortgage. Borrowers pay interest but no principal in the early years of the loan.	17	14	16	23	26	13	10	7	8	9
Piggyback mortgage. Loans that combine a standard first mortgage with a home-equity loan or line of credit to avoid private mortgage insurance or the higher interest rates on jumbo loans.	10	12	19	17	5	16	2	9	2	1
Payment option mortgage. Borrowers have four payment options each month. Borrowers who elect to make the minimum payment could actually see their loan balance rise rather than fall.	4	9	5	15	7	2	2	13	-	3
Miss-a-payment mortgage. Lets borrowers skip up to two mortgage payments a year and up to 10 payments over the life of the loan without ruining their credit rating.	2	3	1	8	5	1	2	-	1	-
Don't know	46	41	50	42	40	31	35	40	58	52
Decline to answer	24	27	14	14	21	37	50	31	31	34

Note: Percentages may not add up to exactly 100% due to rounding.

Note: Due to small base sizes per age group, data should only be used directionally.

- no response.

Note: Multiple-response question

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TABLE 8B

Creative Mortgage Options – by Income

“Which of the following types of creative or option mortgages, if any, do you have?”

Base: Obtained a mortgage through mortgage broker, direct lender or someone else

	2005 Total n=370	2006 Total n=341	Income							
			2005 <\$35K n=38	2006 <\$5K n=44	2005 \$35K- \$49.9K n=51	2006 \$35K- \$49.9K n=53	2005 \$50K- \$74.9K n=91	2006 \$50K- \$74.9K n=81	2005 \$75K+ n=160	2006 \$75K+ n=128
			%	%	%	%	%	%	%	%
Interest-only mortgage. Borrowers pay interest but no principal in the early years of the loan.	17	14	5	7	27	13	20	13	20	20
Piggyback mortgage. Loans that combine a standard first mortgage with a home-equity loan or line of credit to avoid private mortgage insurance or the higher interest rates on jumbo loans.	10	12	3	10	10	3	12	3	12	20
Payment option mortgage. Borrowers have four payment options each month. Borrowers who elect to make the minimum payment could actually see their loan balance rise rather than fall.	4	9	3	7	7	10	3	3	4	12
Miss-a-payment mortgage. Lets borrowers skip up to two mortgage payments a year and up to 10 payments over the life of the loan without ruining their credit rating.	2	3	4	-	1	11	*	1	3	4
Don't know	46	41	77	70	43	41	47	48	38	28
Decline to answer	24	27	9	6	12	22	25	34	27	28

Note: Percentages may not add up to exactly 100% due to rounding.

Note: Due to small base sizes per income group, data should only be used directionally.

Note: Multiple-response question

- no response

* less than 0.5%.

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Methodology

This survey was conducted online within the United States between August 29 and 31, 2006 among 2,790 adults (aged 18 and over). Figures for age, sex, race/ethnicity, education, region and household income were weighted where necessary to bring them into line with their actual proportions in the population. Propensity score weighting was also used to adjust for respondents' propensity to be online.

All surveys are subject to several sources of error. These include: sampling error (because only a sample of a population is interviewed); measurement error due to question wording and/or question order, deliberately or unintentionally inaccurate responses, nonresponse (including refusals), interviewer effects (when live interviewers are used) and weighting.

With one exception (sampling error) the magnitude of the errors that result cannot be estimated. There is, therefore, no way to calculate a finite "margin of error" for any survey and the use of these words should be avoided.

With pure probability samples, with 100 percent response rates, it is possible to calculate the probability that the sampling error (but not other sources of error) is not greater than some number. With a pure probability sample of 2,790 one could say with a ninety-five percent probability that the overall results have a sampling error of +/- three percentage points. Sampling error or data from subsamples would be higher and varies. However that does not take other sources of error into account. This online survey is not based on a probability sample and therefore no theoretical sampling error can be calculated.

These statements conform to the principles of disclosure of the National Council on Public Polls.

About the Survey

The Wall Street Journal Online/Harris Interactive Personal Finance Poll is an exclusive poll that is published in the Personal Journal Edition of The Wall Street Journal Online at www.wsj.com/personaljournal.

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