

The Negative Equity Baby Boomer Phenomenon
in New England
Summary of Findings

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Introduction

Since 1979, Whipple has conducted periodic benchmark research into the attitudes and needs of the financial services market. Initially designed to track market shifts caused by disintermediation, the market model has been maintained and updated periodically to enable Whipple to develop marketing strategies and packaged financial instruments to help banks, thrifts and credit unions capitalize on emerging trends or turn adversity into market dominance.

Overlay studies of the financial market model using a consistent matrix has expanded the total database to over 2,300 households in the New England region. Additionally, both the number of response categories as well as the number of responses have been expanded to model not only banking patterns, but consumer spending and investment trends.

1985 and 1987 overlays tracked the emerging consumerism of the New England region and the market instability caused by inflated real estate appraisals and equity lending. Market attitude shifts in critical areas of spending, savings and debt appeared to be changing at a rate of greater than 2% per year.

In the 1989 overlay conducted on behalf of a Massachusetts credit union, the research indicated market attitude shifts had accelerated to an average annual rate of 10 to 20%, with the greatest rate of change occurring within one specific demographic segment: The 35 to 54 year old, professional/manAGERIAL, upper income homeowner.

This group of affluent baby boomers, the anchor of the consumer economy of the 70's and 80's, appeared to show both a major loss in confidence in banks as well as a significantly higher level of debt with a substantially lower discretionary income in relation to their total household incomes.

Between December 1990 and February 1991, three additional overlays of between 98 and 122 respondents, each, and two focused pre-test studies of 25 and 51 in-depth interviews, each, were conducted to achieve greater detail and determine the cause of the market shifts and test demand for new bank services and instruments.

The overall survey results clearly showed that a significant share of upper income baby boomers, a generation educated from birth with the lessons their parents had learned from the great depression, had changed their investment, savings, borrowing and spending habits. Starting in 1984 and peaking in 1987, they began to cash out their home equity and secure investments to adopt a more expensive lifestyle and/or less secure or leveraged investments. Now many of these baby boomers are paying the price, they have spent or invested themselves into a negative equity position.

Because this formed a significantly large and defined market segment of the New England population, we coined the term NEBBie to identify Negative Equity Baby Boomers.

NEBBie Findings

The 35 - 54, professional/managerial, \$55,000 or greater household income segment, represents 16.1% of the total survey base (2,303) and 18.4% of the December 1990 cross sectional overlay (125) which included additional areas of questioning relating to debt, equity and spending patterns. In the December 90 overlay, 12.2% of all respondents indicated that the amount of their total secured and unsecured debt was equal to or greater than the cash liquidation value of their total assets. 75% of this response, or 9.2% of the total sampling was concentrated in the 35-54, pro/man, \$55+ demographic. This indicated that approximately half of this group were at or below negative equity.

In January of 1991, a focused overlay mailed to 150 households was conducted using the check response methodology and a confidential list source prepared by credit institution to specifically target a representative sampling of upper income, baby boomer households in the Northeastern Mid-Atlantic and Southeastern New England states. In a sampling of 122 completed and returned questionnaires, 53% of qualified respondents indicated their net worth to be approaching or below zero equity.

In February of 1991, Whipple completed 51 in-depth telephone follow-up interviews with respondents from the January overlay who indicated they were at or approaching a negative equity condition to confirm the findings, determine how the households were attempting to solve the problems, pre-test possible marketing opportunities and solicit verbatim response to disclose future areas of study.

Additionally, findings were shared with other research, financial and marketing organizations for confirmation and to compare notes. A New Jersey researcher came up with findings showing 49% of NY/NJ baby boomer households were NEBBies. In Atlanta this figure of debt concentration was reported at 63% and one California bank analyst estimated the NEBBie incidence to be 30 to 40% in Southern California.

In April of 1991, the results of the NEBBie findings were published and, as a result, presentations were requested by several New England banks and financial organizations. The internal data of those financial marketers and credit departments who compared the NEBBie findings confirmed statistical distribution and demonstrated a 1:1 match between the Whipple findings and their own financial data in terms of income and secured debt. They, however, had no data to confirm levels unsecured debt, and strongly disagreed with the Whipple thesis on the negative impact of high debt service on discretionary income and the economy.

In November of 1991, analysts researching the sale of foreclosed properties in New England confirmed that cash lines on credit cards were being used to make mortgage payments and line of credit payments. Their report cited the Whipple findings on NEBBies and noted specific inconsistencies with findings published by the Consumer Banker's Association.

In January of 1992 the Whipple findings and CBA study were compared. It was determined that the 1990 CBA study, which used bank records, was relatively consistent with the 1987 and 1989 Whipple findings, which used consumer attitudinal data, on all common areas of both surveys.

This would tend to support the contention that the Whipple Benchmark methodology applied to the financial market model produces leading and concurrent indicators while the industry research accurately models historical or lagging indicators and the interval between the leading and lagging indicators is between eighteen months and two years. As a result, Sherman Whipple of Whipple, Inc. was invited to present findings to the Consumer Banker's Association Home Equity Lending Conference in April of 1992.

Based upon the research in the Northeast and corroborative findings from other regions of the US it was possible to present a thesis to the CBA Home Equity Conference that a significant and severe concentration of undersecured consumer debt formed between 1985 and 1991 in the affluent baby boomer segment of society.

Whipple presented the argument to the Conference that the magnitude of the affluent baby boomer debt concentration becomes even more significant when one considers that professional/managerial baby boomers represent 19.1% of total US households or about 17,359,448 families. Conservatively, this could mean that 30%, or more than 5 million high income American families may be currently unlendable and, without help, will be unable to put their children through college or retire with a significant estate.

In terms of spending, between 1984 and 1987, this group alone may be credited with contributing more than 275 billion dollars per year to the US economy, over 90 billion per year of which was not disposable income, but home equity secured or inspired spending. It can be reasonably argued that this massive infusion of dollars into the consumer economy may have delayed the onset of the national recession by nearly two years.

On May 12, 1992, The Boston Company Economic Advisors released independent, supporting findings on credit card debt and the relationship between the cost of debt service and economic recovery. It was noted from their research by Allen Sinai, chief economist, that the debt concentration in the higher income demographics was higher than expected.

The Solution

By understanding the motivations of the market and their present state-of-mind, it is highly probable that the NEBBies already have the potential to rehabilitate themselves and return to a strong financial position. They simply do not have the mechanisms available to them.

The in-depth research of 51 NEBBie households indicates that the equity borrower market will respond favorably to the availability of banking services which will help manage debt, reduce debt-service costs, budget family expenses, re-establish equity and provide for greater security and retirement benefits.

Most NEBBie households are currently employed, usually two incomes, 2.12 children and homeownership. Many have second homes and investment properties. The minimum household income is \$55,000.00 per year and the median is over \$75,000.00, adjusted nationally. One of the most significant factors preventing the NEBBies from re-emerging as a strong component in the consumer economy is that they are currently paying out 30 to 40% of their household income to debt service. Many are paying very high interest rates on unsecured credit card debt. Of the 51 households where we conducted in-depth interviews, 29 indicated that they had exhausted the credit lines on their cards to make their mortgage and bank line of credit payments.

One comment related by many NEBBie heads of households is that they were too embarrassed to let their bankers know they were in trouble and ask for help.

88% of the study group stated that they would definitely consider paying up to \$100.00 per month for the services of a professional financial manager if they could realize additional disposable income without risk or further increasing their debt.

58.8% of this group stated they would place all of their deposits in a non-interest bearing checking account if their bank offered financial management services, in lieu of interest.

100% of this group agreed or strongly agreed with the statement that they would place all of their deposits in interest bearing accounts with a bank offering professional cash management services, if the services were discretionary and the charges for the specific services they elected to use, could be offset by their interest.

It is the hypothesis of Whipple, Inc. that the NEBBie market profile is indicative of a total market shift which would allow banks and financial services organizations to package fee based financial services relating to equity reconstruction and discretionary income enhancements.

It is also part of this hypothesis that such demand exists whereby the aggressive marketing of such services would turn traditional loss leaders into profit centers, thereby eliminating banks' imbalanced and dangerous dependence on loan portfolios for profits.

Financial and transaction services packaging will enable banks to become profitable since they will be offering a true value, one that has an existing demand. This was recognized in the February

1991 Department of the Treasury Report on Bank Modernization and Regulation.

Appropriate technology exists to allow banks to automate and cost-effectively implement profit generating services packages without requiring modification of their present computer or accounting systems. For many services packages, the cost per branch could actually be less than \$1,000.00 using PCs and pre-packaged financial management software.

Informal polling and solicitation of bank presidents, loan officers and marketing managers has consistently produced a "wait and see" response. Most admit that this is what he or she would like to do, but they believe the rest of the industry would never go for it. It would be too much of a risk for one bank to take the initiative.

Conclusion and Benefits

By creating market driven and responsive transaction services packages, the banking industry will develop new profit centers, sources of revenue and become more competitive against non-bank financial services organizations.

By participating in transaction services packages and cash/debt management programs, bank customers, including the NEBBie demographic will reduce debt service, build equity and enjoy increased disposable income.

The resulting increase disposable income on the customer side combined with the more profitable and balanced operating structure of the banking industry will contribute to a more stable economy and economic growth.