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Subprime mortgage defaults: a confluence of upward aspirations and readily available capital

Abstract

Recent dramatic increases in the level of home mortgage defaults by subprime borrowers have focused intense regulator and media scrutiny upon the potential causes of the increases. In an analysis of causation, this paper examines the increased availability and usage of non-traditional mortgages such as adjustable rate mortgages and interest only loans by borrowers with weak credit. This paper also reviews the impact of decreasing real estate values on mortgage defaults. However, most significantly, this paper adds to the body of knowledge on subprime mortgage lending by evaluating the interrelationship of real estate values, borrower income, and income disparity in driving the increase in mortgage defaults. Our findings strongly support a conclusion that an American desire to "keep up with the Joneses" is a contributing cause to the increase in subprime mortgage defaults. Conspicuous consumption and competitive consumption are also linked to the concept of "keeping up with the Joneses".

Keywords: subprime mortgages, keeping up with the joneses, mortgage defaults.
JEL Classification: G21.

Introduction

Home ownership has long been a key component of the American dream (Robbins, 2006). Over the years, politicians have recognized this and passed legislation enabling more Americans to enjoy this portion of the American dream. Government funded programs such as those which provided mortgages funded through the Federal Housing Administration and the Department of Veterans Affairs make home ownership affordable to many who may otherwise not afford it.

However, somewhere along the way, the American dream changed. Private and government funded lending practices which had been tailored to give those with a moderate financial need a leg up were suddenly relaxed. It now seemed that nearly anyone could get a home loan. In many cases the value of a home and the mortgage it secured seemed far beyond the income levels of the homeowners dwelling inside. Loan products such as adjustable rate mortgages (ARMs), which had been available to some borrowers before, were mass marketed to thousands of new potential buyers, many with dubious credit. New loan products such as option ARMs which allowed borrowers even more flexible debt repayment options were pioneered. Mortgage lending, formally a paperbound process involving meetings with loan officers and title insurance companies morphed into faceless, paperless Internet lending. Americans could now not just dream of home ownership, they could now dream of owning a home they could never expect to pay for.

Lenders claimed there was a reason for the mortgage madness. They had not totally lost their minds in the process; they were not willing to punish their own bottom lines by loaning money when they knew it would likely never be repaid. Likewise they had not evolved into some form of charity willing to give away money to potential homeowners. They claimed to still rely on the time honored practice of loaning against collateral. With an abundance of capital to lend and increasing real estate prices, lenders justified lending into weak credit situations by relying on an expectation that real estate prices would continue to increase, providing additional collateral. These lenders were also seduced by the elevated financing "fee" income from lending to subprime credit customers. In these cases increased fees for items such as loan application and origination provided welcome income to lending institution bottom lines.

Although not the focus of this research, traditional home buyers with average to good credit (known as prime borrowers) were beneficiaries of much of the easing of lending standards. However, another group of borrowers (known as subprime borrowers), who in general had weaker credit and were a greater risk for default were even greater beneficiaries of the easy money lending. These subprime borrowers, for at least a little while could live beyond their means and "keep up with the Joneses". They could enjoy a short lived boost in status associated with living in a nicer home, even if they could not afford it.

Research summary

Following definition of key terms related to the residential real estate market, this paper analyzes real estate values, income levels, income disparity, and mortgage default levels by state over time. Conclusions are reached as to the interrelated balance of real estate values, income levels, income disparity, and mortgage default levels. Additionally, evidence of homeowners attempting to "keep up with the Joneses" is detected in our analysis of real estate

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values, income levels, income disparity, and mortgage defaults in certain states. Finally, financial observations are integrated with behavioral research in determining which states include borrowers who appear to be most focused on "keeping up with the Joneses". The paper concludes with a detailed analysis of causes of the "keeping up with the Joneses" phenomena.

1. Home financing

Individuals looking to buy a home have historically found that the "amount of house" they can buy varied according to their income level and credit worthiness (Kiff & Mills, 2007). Weakness in either income level or creditworthiness could, at times, be overcome with credit enhancing action such as the use of down payments, cosigners, or purchase of mortgage insurance. Individuals with good credit and good income could obtain a prime loan with a favorable fixed interest rate, amortizing (paying off) over 15 or 30 years. These loans typically have low (upfront) closing costs and low ongoing costs, such as mortgage insurance, over their life. A borrowing option also available to these borrowers has historically been adjustable rate mortgages (ARM). These mortgages are discussed in detail later in this paper. They incorporate a lower interest rate with lower payments in the early years of payback before adjusting to a market interest rate and normally higher payments in the latter years of payback.

Individuals with weaker credit and/or weaker ongoing income levels are termed subprime borrowers (Chomsisengphet and Pennington-Cross, 2006). When borrowing money to buy a home, these borrowers face higher upfront fees (application, appraisal, and origination) than prime borrowers. They will also pay higher ongoing mortgage related costs than prime borrowers in the form of higher interest and mortgage insurance. In fact, Chomsisengphet and Pennington-Cross found that on average (and consistent with the concept of risk and reward), subprime borrowers paid an average interest rate which was two percent greater than prime borrowers (Chomsisengphet and Pennington-Cross, 2006).

In the home mortgage market, it is these subprime loans which have experienced the greatest level of growth recently. From 2001 to 2006, the number of subprime loans originated annually has quadrupled. Further the average subprime loan size during this period has doubled. This has fueled the increase in subprime loan originations from $94 billion in 2001 to $685 billion in 2006 (Demyanyk and van Hemert, 2008).

2. Non-traditional financing vehicles

In addition to traditional 15 and 30 year fixed rate amortizing mortgages, lenders today offer more creative and flexible financing options. One such option, the ARM is a hybrid, blending attributes of variable and fixed rate debt. Generally, ARMs offer a lower fixed rate of interest at the outset of the payback period switching to a variable rate, normally accompanied by higher mortgage payments, over the latter years of the mortgage. The initial fixed rate is often below market (below the rate which this borrower could normally borrow for) and is called a "teaser". Approximately 2/3 of recent ARMs are 2/28 hybrids. Under a 2/28 hybrid, the initial fixed rate of interest is in place for 2 years and the variable rate of interest is in effect for the remaining 28 years of the mortgage's life. The variable rate of usually interest is tied to a published market rate of interest. Borrowers are normally shielded from dramatic sudden run-ups in market interest rates (and dramatic mortgage payment increases) by caps or interest ceilings. These caps or ceilings may prohibit the variable rate from rising over a specified amount in a single year. They may also limit the interest rate to a fixed nominal amount, regardless of what the market rate increases to (Kiff & Mills, 2007).

Other nontraditional financing vehicles include "interest only" mortgages. These mortgages allow borrowers to pay only interest on the amount borrowed for the first 2 to 10 years of the mortgage life. As a result, none of the borrower's mortgage principal is actually paid off during this initial period. At the end of this interest only period, the mortgage converts to either an ARM or a traditional fixed rate amortizing mortgage (Kiff & Mills, 2007).

Even more aggressive than interest only loans were negative amortization mortgages. These mortgages allowed borrowers to initially pay less than the actual amount of interest currently accruing on the mortgage and pay nothing to reduce the principal of the mortgage. Any interest accrued but unpaid is actually added to the unpaid principal, thereby increasing the mortgage. Unpaid interest is normally capped at 15 to 25 percent of the principal value. When the unpaid interest hits this cap, the mortgage converts to a traditional fixed rate amortizing mortgage or an ARM (Kiff & Mills, 2007).

Option ARMs are perhaps the most aggressive mortgage lending vehicle. Termed "pick-a-pay" mortgages, this form of loan provides multiple payment options to borrowers. Borrowers can essentially pick what they want to pay. Under some option ARM agreements borrowers may pay interest only or switch to a negative amortization schedule where unpaid interest is added to the principal. Like negative amortization mortgages, these loans convert to more traditional fixed rate amortizing loans or ARMs once unpaid interest hits a specified cap or an initial period of time lapses (Simon, 2008).

3. The subprime problem

Subprime mortgage lending is not a new phenomenon. Over the last several decades, credit has been accessible by borrowers with less than stellar credit. These borrowers paid the higher costs (higher fees, higher interest, over collateralization) associated with such borrowing and were able to buy homes using traditional amortizing loans. However, beginning in 2001, the level of subprime home lending increased dramatically. It grew from $94 billion in 2001 to $685 billion in 2006. During this period, borrower due diligence slackened, application documentation was reduced dramatically, and thousands of loans were originated by non-bank originators, through Internet based sources and other previously undeveloped means. Nontraditional types of mortgages such as option ARMs and negative amortization loans, previously off limits to subprime borrowers were now made available. Not surprisingly, the recent spike in subprime mortgage defaults was largely fueled by mortgages originated during this period.

When analyzing the increase in subprime mortgage defaults, the following changes in subprime borrowing characteristics are instructive.

Table 1. Changes in subprime borrowing

Description	2001	2006
Number of subprime loans originated	624,000	2,646,000
Average loan size	$151,000	$259,000
Type of subprime loan		
Fixed rate (%)	41.4	26.1
ARM (%)	.9	12.8
Hybrid (%)	52.2	12.8
Balloon (%)	5.5	14.9
Total (%)	100.0	100.0
Loan percentage of home value (%)	80.0	84.4
Debt to income (%)	37.8	39.8

Source: Demyanyk and van Hemert, 2008.

3.1. Analysis. As evidenced above, by the end of the five year period, subprime borrowings were substantially more common (4.2 times) and substantially larger amounts were being lent to the average borrower (71.5%). Aggressive forms of lending such as the use of subprime ARMs and balloon mortgages (where the entire mortgage principal is due and payable at a single future point in time) increased the most during the period while traditional safer fixed rate amortizing mortgages and hybrid mortgages showed marked decreases. Credit quality of borrowers as measured by the loan percentage of home value and debt to income also deteriorated during the period. It is clear that the 2001-2006 period was a period of easy credit (or cheap money) to subprime borrowers.

The fallout of the increased subprime lending began to be seen in early 2007 as banks began reporting large quantities of subprime mortgage defaults. Many subprime ARMs originated in the 2001-2006 period had below market teaser rates for the first one to three years (e.g. 2/28 hybrids). Once this initial low interest rate period was over, the mortgage interest rates converted to higher market rates causing monthly mortgage payments to increase, in some cases dramatically. Homeowners, able to make payments under low teaser rates or able to make "interest only" payments, were now unable to keep up with market based mortgage payments. Values of homes used as collateral also began to fall during this period, further exacerbating the woes of defaulting homeowners and their lending banks. (Opdyke, 2008).

In May 2008, the bond rating agency Fitch estimated that global banks had already written off 80% their subprime losses and that total losses would be between $400 and $550 billion (Fitch, 2008). The combination of easy money and people's pursuit of the American dream teed up the subprime disaster. The passage of time and the falling of real estate values determined when the disaster would occur and how painful it would be.

3.2. Causes. The hypothesis of this paper is that the subprime mortgage default crisis of 2002-2008 was not solely the result of increased availability of easy money along with the availability of exotic lending vehicles such as ARMs and balloon mortgages to subprime borrowers. Likewise it is not solely the result of falling real estate values or a slow down in the economy. There is an additional human element. The authors contend that Americans' desires to "keep up with the Joneses" pushed borrowers to buy larger, more expensive homes, even when they knew they would likely not be able to afford payments on the mortgage. The authors also expect to be able to identify states where the desire to "keep up" is most prominent by analyzing states with levels of high income differential. The existence of this income differential compounded by high real estate values relative to per capita income in particular states, is expected to be instructive as to determining which states were hardest hit by subprime mortgage defaults.

4. States with highest levels of defaults

Considerable data are available detailing the level of home foreclosures by year and by state. The number of actual home foreclosure filings for all 50 states was obtained from RealtyTrac for the year 2007 (RealtyTrac, 2008). Not surprisingly, the nominal

level of foreclosures was highest in large population states reflecting the need for housing for larger populations. An exception was New York which had a relatively low level of default filings reflecting low home ownership rates in New York and a propensity to rent. Only the District of Columbia had a lower home ownership percentage than New York in 2005 (US Census Bureau. Home Ownership Rates, 2008). (The impact of subprime mortgage defaults on the varying levels of state residential rental activity is beyond the scope of this paper. Mothorpe provides a detailed analysis as such) (Mothorpe, 2008).

In order to take into consideration the effect of varied state population levels on the level of foreclosure filings, 2005 (the most current data available) US census projected population data was obtained by state (US Census Bureau. State Population Projections, 2008). The number of 2007 foreclosure filings by state was then divided by individual state populations to yield the estimated number of foreclosure filings per capita for the year 2007. The 2007 per capita foreclosures by state were then ranked from 1 to 50. Table 2 below shows the 10 states with the highest level of foreclosure filings per capita.

Table 2. 2007 Per capita foreclosure filings

State	Filings per capita	Rank
Nevada	0.02819	1
Florida	0.01595	2
Colorado	0.01541	3
California	0.01336	4
Ohio	0.01335	5
Michigan	0.01334	6
Arizona	0.01192	7
Georgia	0.01116	8
Indiana	0.00847	9
Tennessee	0.00768	10

It is these 2007 top 10 default states which will be the focus of research into potential causes of elevated default levels.

4.1. Median home price. All other factors held equal, states with higher residential real estate values would be expected to have homeowners with higher levels of mortgage debt. It is expected that these homeowners would have to borrow more to buy homes. Median home values by state for 2006 were thus used as a proxy for home mortgage borrowings by state. It was expected that the 10 highest default states identified above would, on average, be states with higher median home real estate values (and accompanying higher mortgage debt). Table 3 below depicts the actual 2006 rankings of median real estate values for the 10 states with the highest default levels identified above.

Table 3. 2006 median home value

State	Median home value ($000)	Rank
Nevada	345.5	8
Florida	248.0	17
Colorado	240.0	19
California	500.0	2
Ohio	235.1	20
Michigan	155.5	42
Arizona	260.0	14
Georgia	185.0	32
Indiana	138.0	48
Tennessee	174.0	36
Average Ranking		23.8

Source: Federal Home Financing Board, 2008.

The average median home value ranking for the 10 states with highest default rates was 23.8. Given the average ranking of all 50 states is 25.5, the slight higher ranking (23.8) of the states with the highest default rates could indicate that states with higher real estate values also experienced higher mortgage default rates. This conclusion is logical. However, other factors, such as varying levels of homeowner income, certainly must be considered when explaining why certain states have higher default rates.

4.2. Homeowner income. All other factors held equal, states with lower homeowner income levels would be expected to have higher default rates than states with higher income levels. Homeowner per capita income (PCI) was obtained by state for 2006. It was expected that the 10 highest default states identified in Table 2 would, on average, be states with lower average PCI. Table 4 below depicts the actual 2006 rankings for PCI for the 10 states with the highest default rates identified above.

Table 4. 2006 per capita income

State	Average PCI ($)	Rank
Nevada	38,994	12
Florida	36,720	20
Colorado	39,491	10
California	39,626	8
Ohio	33,320	27
Michigan	33,788	26
Arizona	31,936	39
Georgia	32,095	36
Indiana	32,288	33
Tennessee	32,172	35
Average ranking		24.6

Source: US Dept. of Commerce, Bureau of Economic Analysis, 2008.

The average per capita income ranking for the 10 states with highest default rates was 24.6. Given the average ranking of all 50 states is 25.5, the slight

higher ranking (24.6) of the states with the highest default rates indicates that states with higher income levels experienced higher mortgage default rates. This conclusion is contrary to the authors' expectation that lower income levels would be identified with higher default rates. A more instructive analysis of the interplay of mortgage levels and income levels follows.

4.3. Home value as a multiple of income. As discussed above, levels of mortgage debt in individual states and levels of homeowner income to service this debt in those states could be looked upon to explain why these states had higher than average mortgage default rates. An analysis of mortgage debt by itself is inconclusive as states with homeowners with higher debt could have low default rates if those states had higher levels of homeowner income. An analysis of income levels is likewise inconclusive as it does not take into consideration the level of debt the income must service. To that end, lenders must consider both levels of debt and levels of income available to service the debt when making loans.

All other factors held equal, a borrower's credit quality would be considered higher (and mortgage default risk lower) if he (or she) was borrowing to buy a house whose value is only slightly higher than his (or her) annual income. As an example, someone wanting to buy a $100,000 home while earning a $50,000 salary would have a home value multiple of income of 2 and would be considered a better credit risk than someone wanting to buy a $200,000 home while earning $25,000 with a home value multiple of income of 8. Using actual 2006 median home value data gathered while preparing Table 3 and 2006 PCI data gathered while preparing Table 4, the following table displays the 2006 actual home value multiple of income and ranking among all 50 states for the 10 states with the highest default rates.

Table 5. Home value multiple of income

State	Average multiple	Rank
Nevada	8.54	6
Florida	6.45	17
Colorado	5.85	22
California	12.03	2
Ohio	6.74	14
Michigan	4.43	43
Arizona	7.87	7
Georgia	5.53	30
Indiana	4.31	46
Tennessee	5.23	35
Average ranking		22.2

The average home value multiple of income ranking for the 10 states with highest default rates was 22.2. Given the average ranking of all 50 states is 25.5, the slight higher ranking (22.2) of the states with the highest default rates could indicate that states with higher multiples home values to income experienced higher mortgage default rates. As explained above, a higher home value multiple of income indicates poorer credit quality and is a factor supporting higher mortgage default rates. This conclusion is logical. This analysis does not take into consideration all factors affecting credit quality of borrowers. The impact of additional factors such as the availability of cosigners, additional collateral, and the types of mortgages available in individual states is an area requiring additional study. The level of homeownership versus renting in these states would also affect the analysis and is an area requiring additional study.

4.4. Income differential. Central to this paper's hypothesis is that there is a non-economic driver evident when evaluating why certain states have higher levels of subprime mortgage defaults. That driver is the desire to "keep up with the Joneses". This factor could cause homebuyers, in search of a coveted status level, to buy homes in more expensive neighborhoods than they could afford, incur above average mortgage debt, in relationship to their income level, and run a greater risk of default. As a measure of the presence of the desire to "keep up with the Joneses" in a particular state, a study of income differentials prepared by the Economic Policy Institute and the Center on Budget and Policy Priorities was used. This study calculated a ratio for the average income of the top 5% of families in a particular state divided by the average income of the bottom 20% of families in the same state. This analysis was repeated for all 50 states followed by a ranking from highest to lowest. A state with a high income differential ratio would have a greater income gap between the "haves" and "have-nots". The existence of greater income differential would also be fertile ground for a greater desire to "keep up with the Joneses". Table 5 below depicts the actual 2005 rankings for income differential for the 10 states with the highest default rates identified above. States with lower rankings (e.g. 1, 2, and 3) have greater income differential than states with higher rankings.

Table 6. Keeping up with the Joneses

State	Income differential ratio	Rank
Nevada	9.4	39
Florida	13.0	7
Colorado	11.3	19
California	12.4	8
Ohio	10.7	27
Michigan	11.2	21

Table 6 (cont.). Keeping up with the Joneses

Arizona	14.2	1
Georgia	9.7	36
Indiana	10.5	30
Tennessee	13.1	6
Average ranking		19.4

Source: Sahadi, 2006.

The average income differential ratio ranking for the 10 states with highest default rates was 19.4. Given the average ranking of all 50 states is 25.5, this higher ranking (19.4) of the states with highest default rates indicates that states with higher income differentials, on average, were states with higher mortgage default rates. This supports the hypothesis that "keeping up with the Joneses" (via our income differential proxy) was a contributing factor in driving higher mortgage default rates. In fact, using the analyses of state rankings for four possible factors causing elevated mortgage default rates (per capita income, median home value, home value multiple of income, and income differential), income differential, the proxy for "keeping up with the Joneses", was the most conclusive. The American drives to spend, consume, and aspire for something better is evident in the world of real estate mortgages.

5. A society focused on conspicuous consumption

So who is to blame for the foreclosure fiasco? "Despite the fact that some lenders have been accused of predatory activity, it is ultimately the borrower's responsibility because the borrower is the one who applies for the loan in the first place" (Hawes, 2008). Notions like "conspicuous consumption" (Veblen, 1899) and "keeping up with the Joneses" (Duesenberry, 1949), are commonplace in discussions about the determinants of particular consumption behaviors, which include, of course, risky housing purchases that may result in foreclosures. Veblen introduced the term "conspicuous consumption" in his 1899 book, *The Theory of the Leisure Class*, to depict the "the behavioral characteristic of the nouveau riche, a class emerging in the 19th century as a result of the accumulation of wealth during the second Industrial Revolution" (Veblen, 1899). "In societies like American, in which birth, history, and caste are less prominent, consumption assures greater importance in proclaiming status" (Singh, 2002). Consumption has a symbolic importance in all societies in establishing personal identity and social position (Singh, 2002). Today, the American new rich revel in bouts of conspicuous consumption since they find nothing reprehensible in ostentatious living; rather, those who attain greater wealth or who ambitiously strive for greater wealth consider conspicuous consumption to be a recognition of the success of their lives, as measured in terms of monetary income (Singh, 2002).

In American society, there exists a thriving middle class that is preoccupied with "keeping up with the Joneses" (Duesenberry, 1949) by means of the consumption of status-conferring goods and services, which are abundant and vigorously marketed (Singh, 2002). "Keeping up with the Joneses" is a popular phrase that is commonly used to refer to an individual's desire to be seen as being as good as one's neighbors using the comparative benchmarks of social caste or the accumulation of material goods (Duesenberry, 1949). "Luxury, rather than mere comfort, is a widespread aspiration" (Schor, 1999). For example, trophy homes have become one of the primary consumer symbols of personal success since the late-1990s (Schor, 1999). Psychologists perceive "keeping up with the Joneses" as a contributing factor to behavioral disorders such as compulsive spending and as a major contributing factor to personal bankruptcies resulting from abuse and mismanagement of credit (Douglass & McAfee, 2006). In essence, not keeping up with the Joneses is perceived as demonstrating socio-economic or cultural inferiority (Douglass & McAfee, 2006).

In the new consumerism, social comparison or the need to keep up has become embedded in the American culture. Schor (1999) refers to this as "competitive consumption" whereby spending is, in large part, driven by a comparative or competitive process in which individuals try to keep up with the norms of a particular social group with which they identify. The social group of personal identification is termed the reference group. An interesting phenomenon of contemporary American society is that social comparisons are not likely to take place between or among households of similar means (Schor, 1999). Instead, the lifestyles of the rich and upper middle classes become a more salient point of reference.

That a participant of American society might assess his or her situation within that society relative to other Americans who possess greater wealth and/or social prominence is rational only if he or she believes that he or she can acquire greater wealth and attain a higher social status. Both politics and culture in America is infused with the pervasive belief in social mobility (i.e., the ability to cross social-class and occupational boundaries) (Lansford, 2008). "Combined with an emphasis on natural rights and the capability of an individual to own and acquire property, social mobility has been one of the more popularized and romanticized aspects of life in the United States" (Lansford, 2008).

6. An aspirational gap

Despite the influence of the ethos of social mobility on an individual's attitudes and aspirations, one might reasonably expect that a person's community and neighborhood would be the most likely context for assessing a person's social and economic situation. However, as previously stated, members of the American society tend to assess their social and economic situation relative to the situations of those of greater wealth and social status (Schor, 1999). "This is in part due to the decline of the neighborhood as a focus of comparison to that of the workplace as a more prominent point of reference" (Schor, 1999). The workplace has become a fertile site for consumption comparisons because of the growing number of married women in jobs (Singh, 2002; Schor, 1999). In the workplace, women are exposed to a more diverse reference group than typical homemakers are (Singh, 2002; Schor, 1999).

In addition, an aspirational gap has been created by structural changes such as the decline of community and social connection, the intensification of inequity, the growing role of mass media, and heightened penalties for failing in the labor market (Schor, 1999). According to Schor (1999), the current consumer boom rests on growth in incomes, wealth, and credit. However, it also rests on something more intangible such as social attitudes toward consumer decision-making and choices. The prevalent American ideological view is that one should be able to buy whatever one likes, where one likes, and as much as one likes, without either implicit or explicit constraint from government, neighbors, ministers, or political parties (Schor, 1999). Consumption is the most obvious example of American individualistic behavior, which many in American society consider to be wholly personal, completely outside the purview of social concern and policy.

"The idea that consumption standards are set by the rich and then cascade down the ladder of economic success, forcing a rat race on those below, is from the American maverick economist Veblen" (Cardenas, 2005). In order for an individual to gain entry into social circles, he or she must build lucrative business contacts, and succeed by acquiring, building, and revealing the appropriate lucrative symbols and trappings (viz., cultural impression management). Thus, consumption rituals are important for one's maintaining the best structures and elements of success and power. Living incorrectly or displaying "vulgar" manners can impede a person's economic growth and can inhibit the enhancement of an individual's social status (Schor, 1999). Perhaps the acquisition of ostentatious or luxurious homes not only serves to validate the life success of the purchaser, but also verifies the purchaser's conformance to a social norm of self-indulgent consumption. "The assumption of neoclassical economics that wants are limitless, desires insatiable, mimics the culture of American consumers" (Douglass & McAfee, 2006). Informed by images and stories on television, individuals build in their imaginations a vision of the good life and how the Joneses live (Douglass & McAfee, 2006). Television along with lifestyle magazines have provided a highly skewed picture of spending patterns; portraying almost exclusively the rich and the super rich with their mansions, yachts, convertibles, and swimming pools (Singh, 2002). The media and advertising have become the source for convincing people to buy unnecessary things rather than the source of information about where to buy necessary things. In summary, the efforts of advertisers and marketers to create an alluring, irresistible, spending environment have become more pervasive and sophisticated (Singh, 2002).

A major shift has occurred in the concept of conspicuous consumption from Veblen's time to contemporary American society. When Veblen coined the term, only the wealthy engaged in it. Today, Americans situated at every point along the economic spectrum freely and willingly engage in consumption that is purely, and all too often only, conspicuous in nature (Sexton, 2006). Americans are engaged in an intensifying "national shopping spree" rooted in competitive emulation (Veblen) or "keeping up with the Joneses" on a manic scale (Schor, 1998). The traditional constraints on ostentatiousness and luxurious spending (i.e., religious and moral structures) have eroded dramatically (Singh, 2002).

Conclusion

Quantitative analysis of the causes of the recent spike in defaults on subprime mortgages points to an imbalance of mortgage debt with the income necessary to pay it off. The analysis also shows Americans' desires to "keep up with the Joneses". Contemporary American consumerism and its heavy emphasis on conspicuous consumption likely contributed to the rise in the number and size of subprime mortgages since 2000. That the rate of defaults of those subprime mortgages has been relatively high probably should not surprise the realist. Schor (1999) has observed that Americans are impoverishing themselves in the pursuit of a consumption goal that is inherently unachievable. Americans are, after all, a nation of accomplished spenders, slaves to advertising and status symbolism (Hammonds, 1998). "The conspicuous fruits of American consumption shout out our aspirations and insecurities" (Hammonds, 1998). However, a suggestion that contemporary American

consumerism and its heavy emphasis on conspicuous consumption alone contributed to the rise in the number and size of subprime mortgages since 2000, overlooks other responsible entities. At a minimum, lenders bear some responsibility. The actual role these lenders played in the increased default levels is an area requiring additional study.

In conclusion, it takes a lesson, like the foreclosure crisis, to teach Americans to shift their mentality from "keeping up with the Joneses" to making purchases that are responsible and within their means. Home ownership remains a part of the American dream and it is expected that the Joneses will aspire to live in a better home. However, ultimately all Americans will have to pay for the Joneses' over-aspiring mistakes.

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