

Strategic Default Attitudes and Behavior among Low-Income Homeowners

Sarah Riley ▪ October 17, 2013

FDIC 3rd Annual Consumer Research Symposium

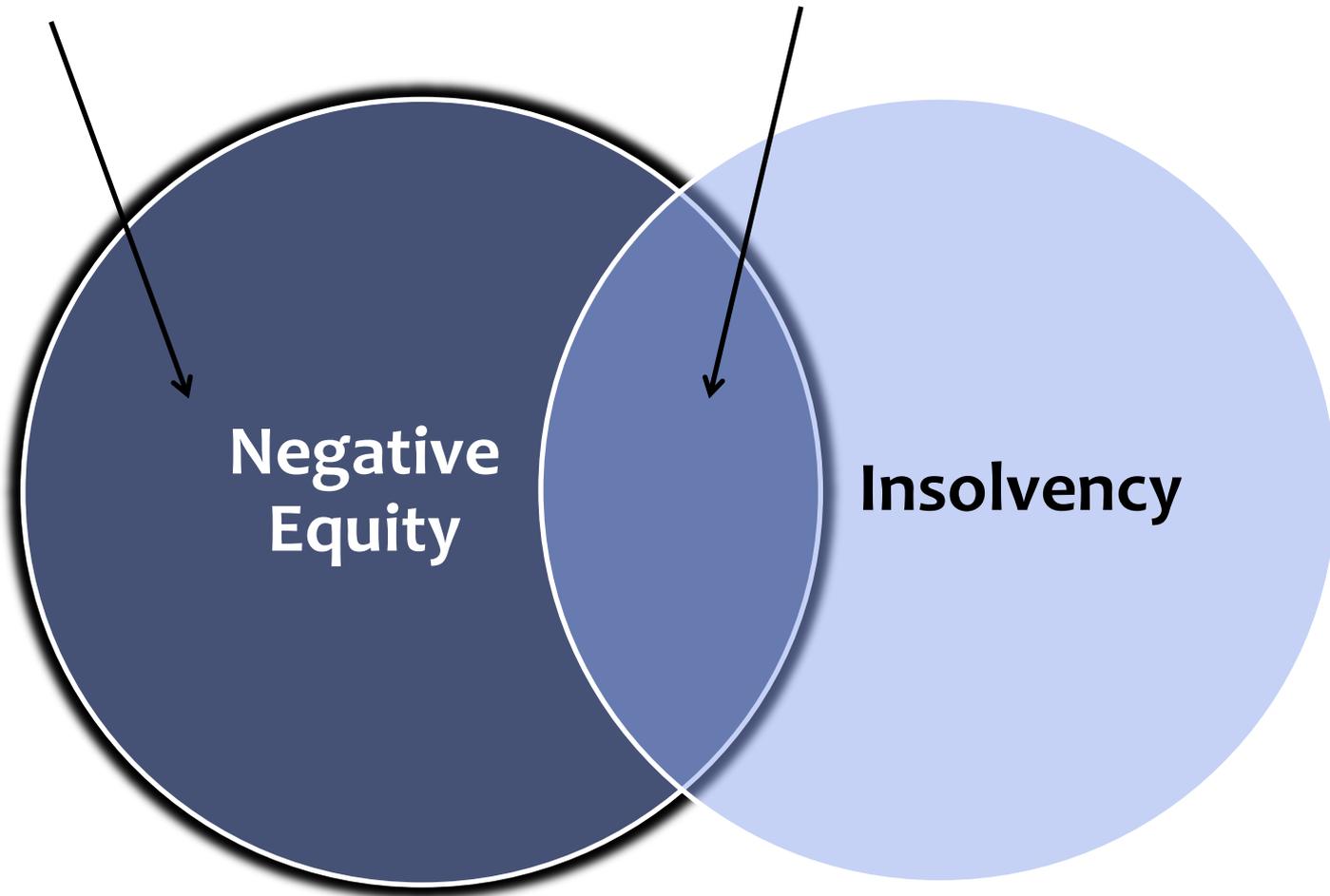


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MORTGAGE DEFAULT TYPES

Strategic

Dual Trigger



**Negative
Equity**

Insolvency

PRIOR ESTIMATES OF STRATEGIC DEFAULT

- **Credit bureau data (Experian, etc.)**
 - 12-19%
 - Measure:
 - Negative equity and
 - “straight roll” with no subsequent payments
 - Likelihood increases with credit score, loan balance, and income

PRIOR ESTIMATES OF STRATEGIC DEFAULT

- **Credit bureau data (Experian, etc.)**
 - 12-19%
 - Measure:
 - Negative equity and
 - “straight roll” with no subsequent payments
 - Likelihood increases with credit score, loan balance, and income
- **Survey data (Guiso et al. – FTIS)**
 - 35%
 - Measures:
 - Know any defaulters?
 - Know any strategic defaulters?
 - Strategic default morally wrong?
 - Strategic default at [\$50k/\$100k] negative equity?
 - Likelihood decreases with income

QUESTION: What are the implications for...

- Strategic default measurement methods?
- Low-income lending?

FINDING 1: Low-income homeowners ...

- Are **less likely** to default strategically.
- Have **similar** beliefs about strategic default.
- Are more likely **to say** that they would default strategically.

FINDING 2: Identify strategic defaulters via ...

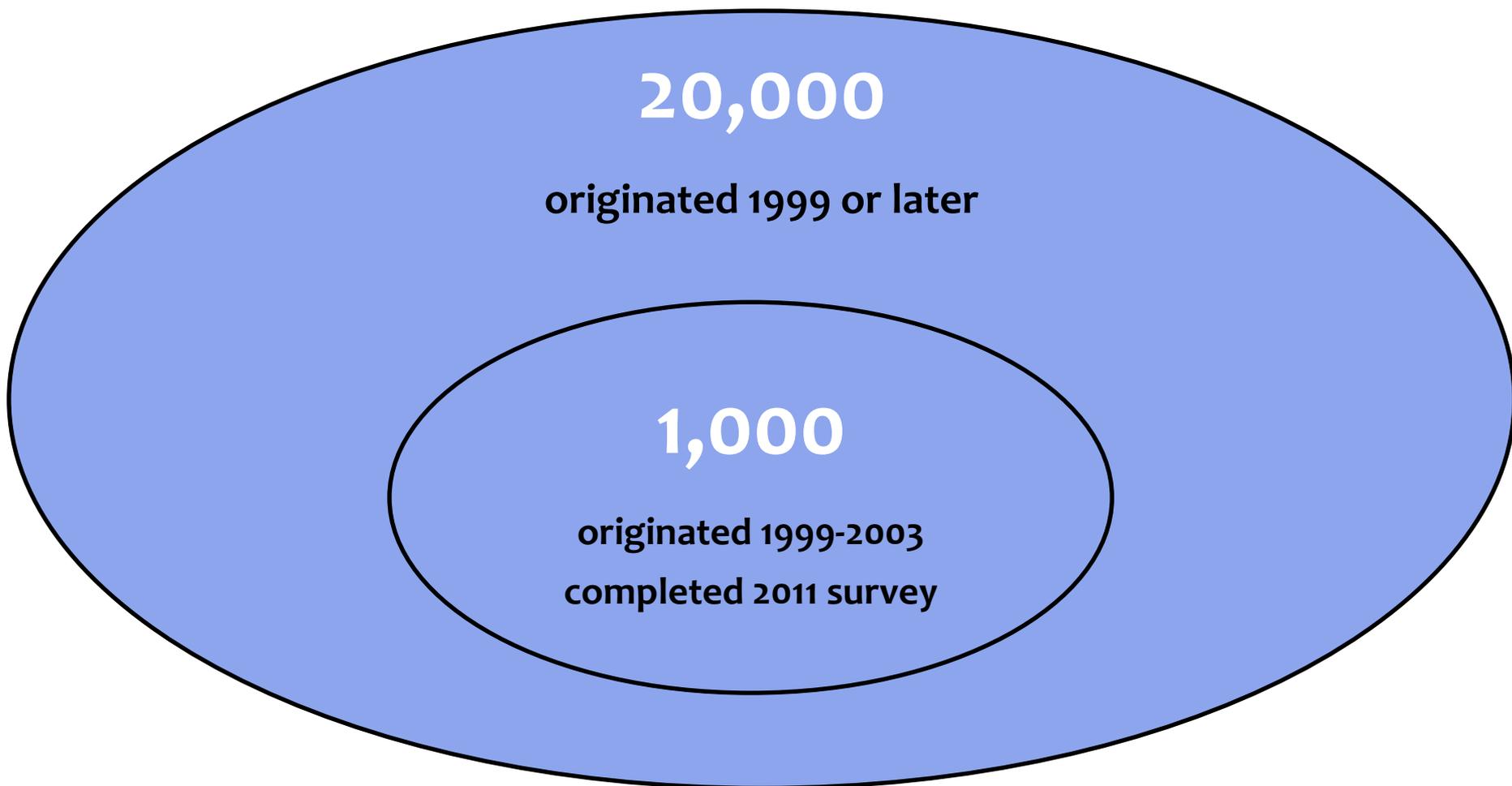
- Higher income and credit score
- Higher note rate
- Location in Sand States and/or LMI census tract

FINDING 3:

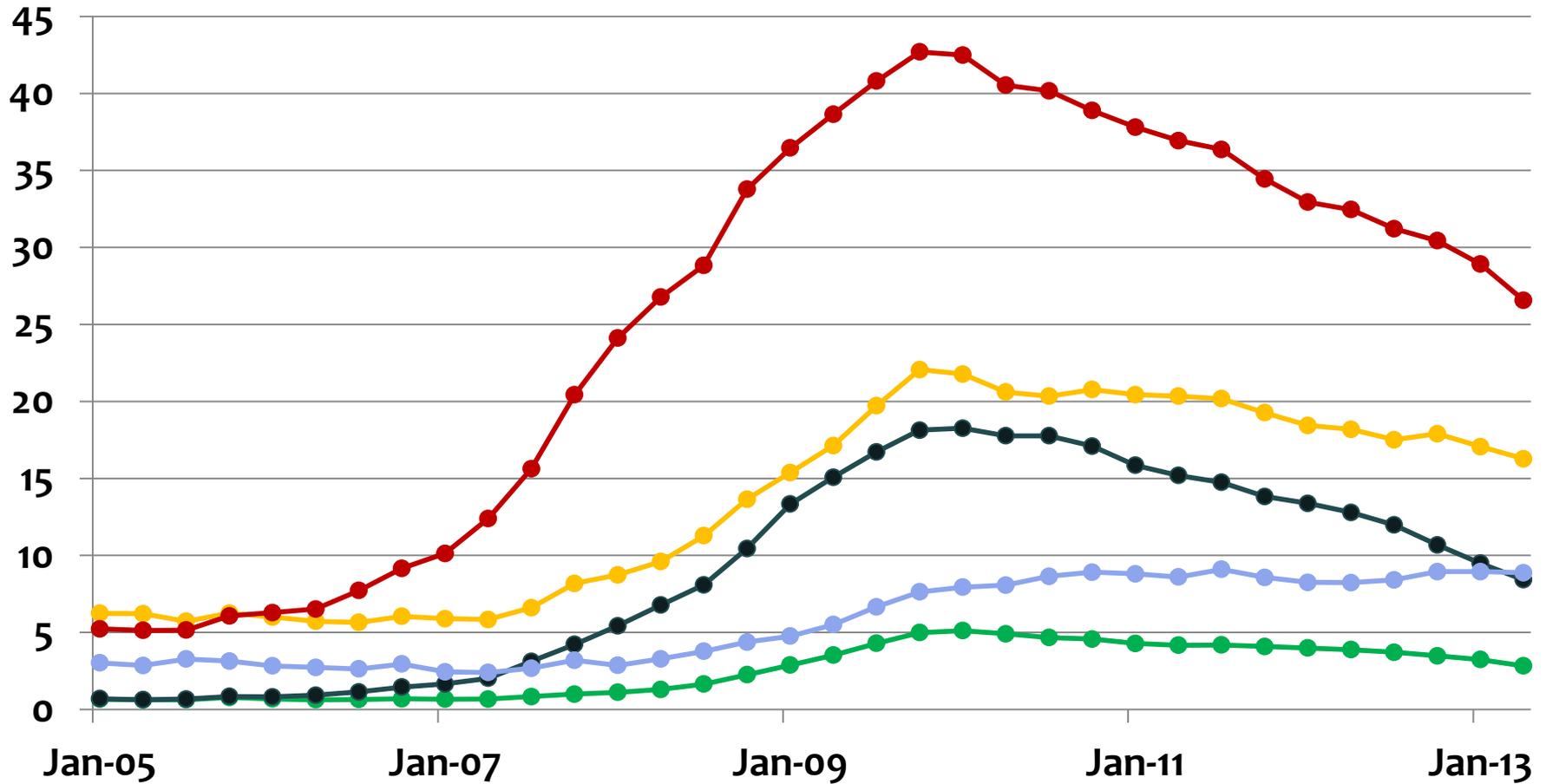
Survey measures overestimate strategic default.

DATA:

THE COMMUNITY ADVANTAGE PROGRAM (CAP)

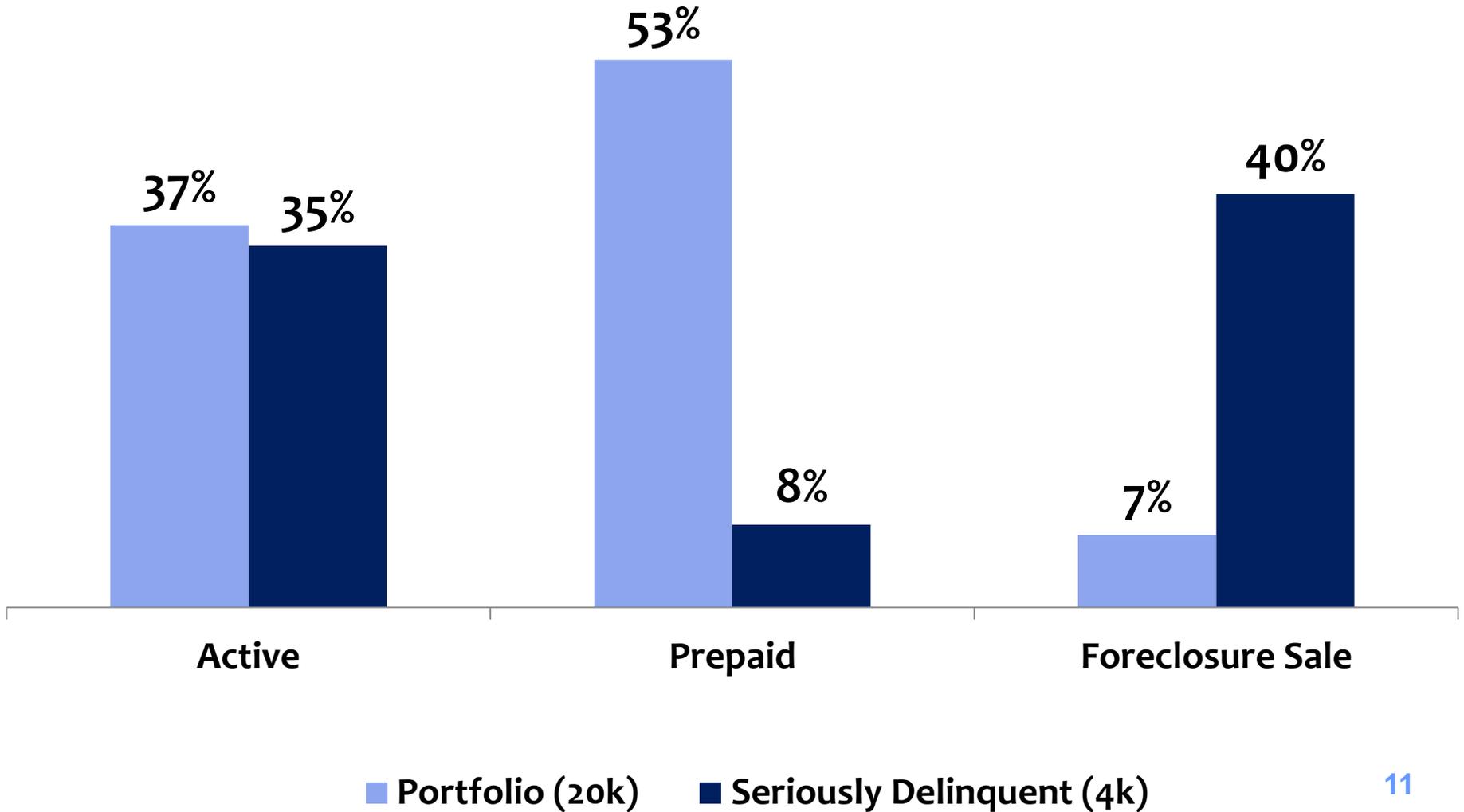


SERIOUS DELINQUENCY OVER TIME (% OF ACTIVE)

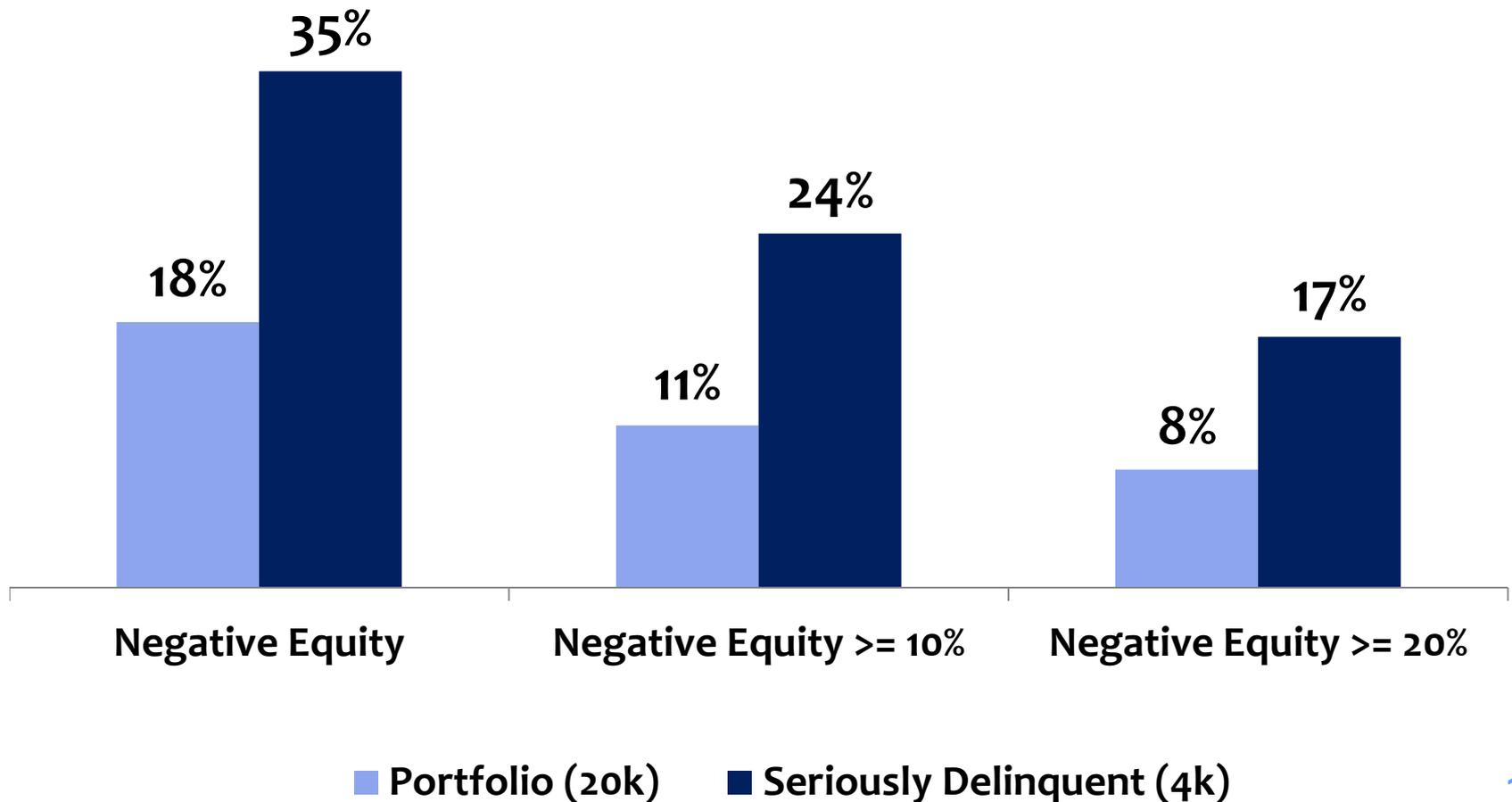


● PRIME FRM ● PRIME ARM ● SUBPRIME FRM ● SUBPRIME ARM ● CAP

ACTIVITY STATUS

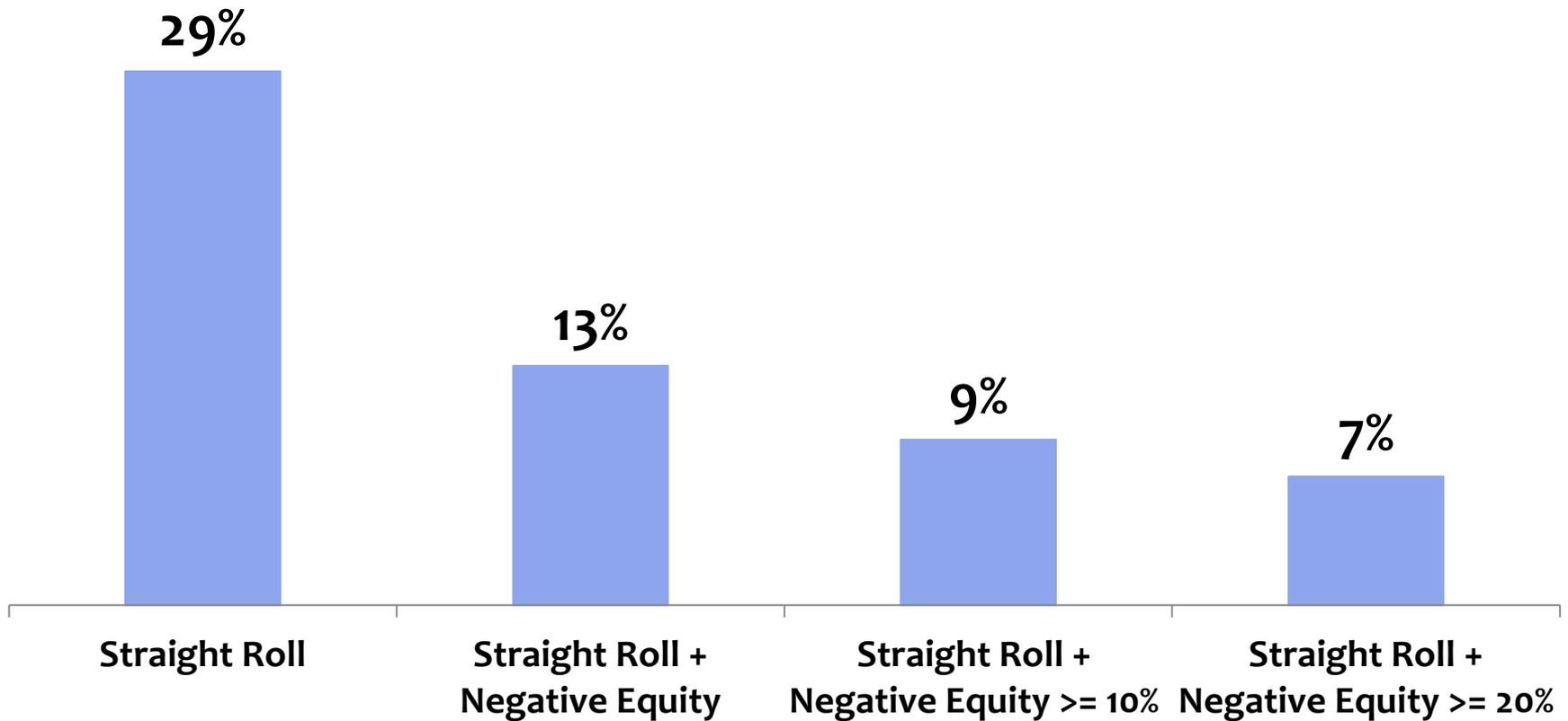


EQUITY STATUS

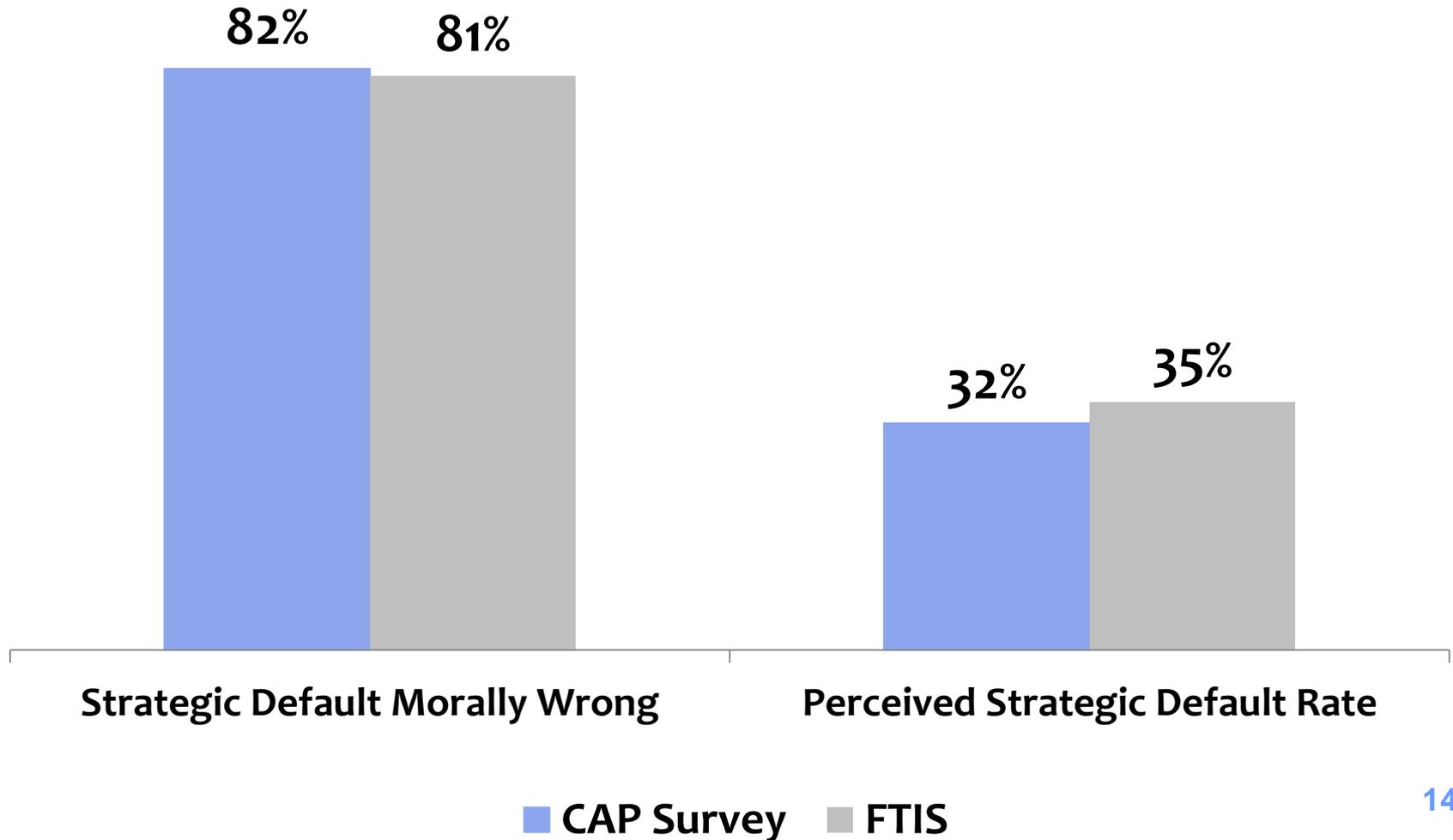


STRATEGIC DEFAULT INCIDENCE

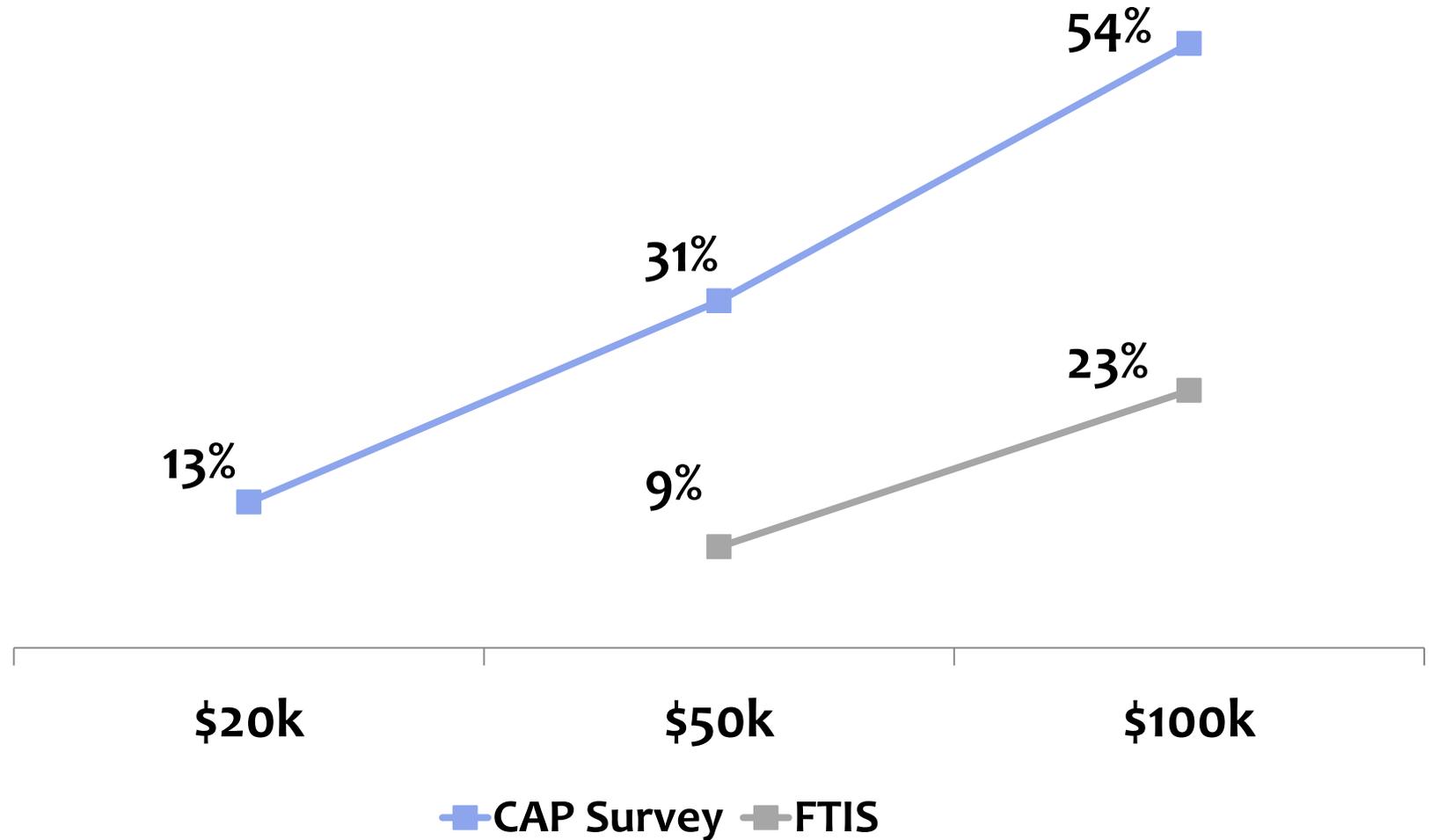
Percent of Seriously Delinquent Loans



STRATEGIC DEFAULT BELIEFS



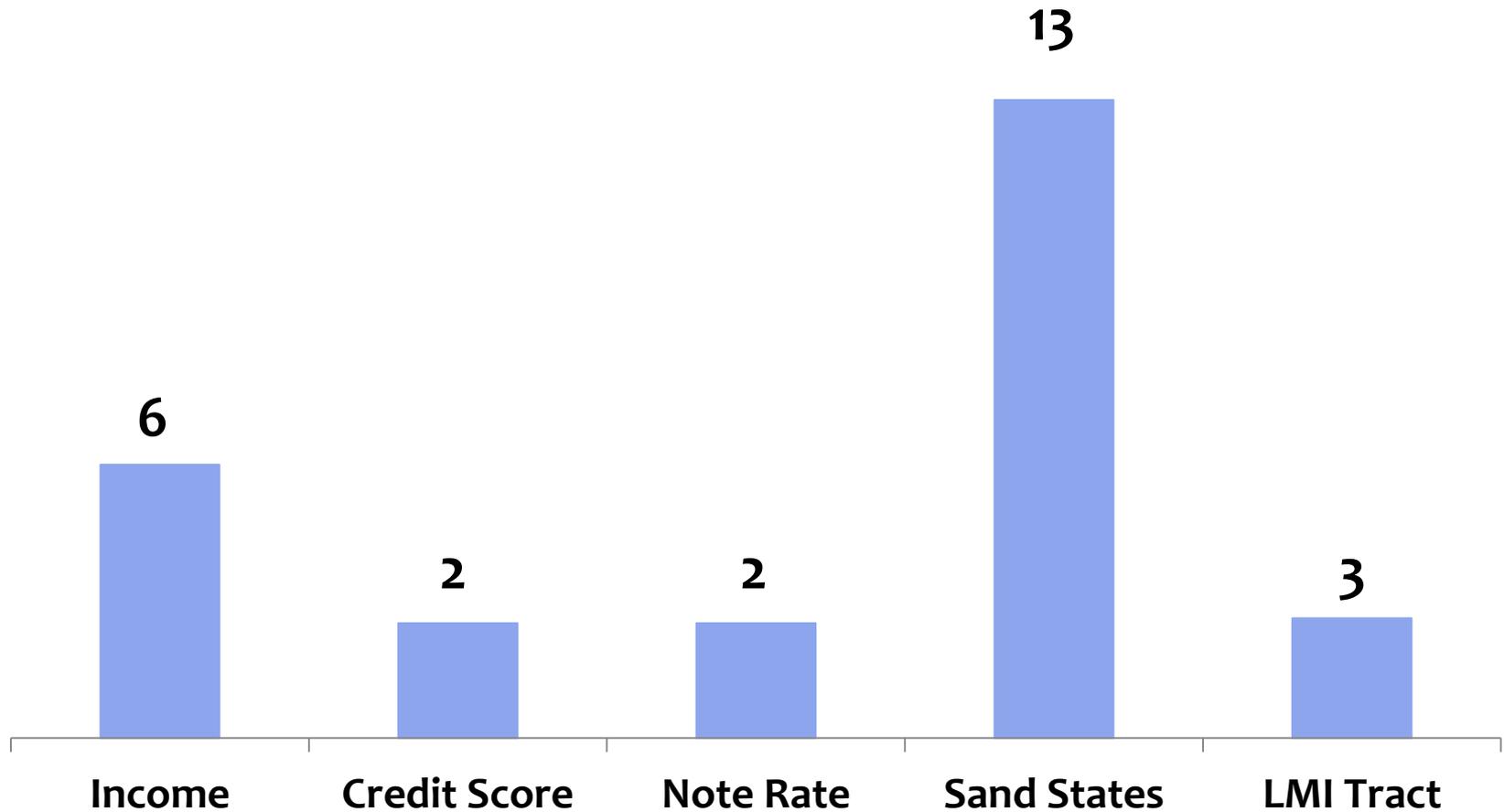
WILLINGNESS TO DEFAULT STRATEGICALLY



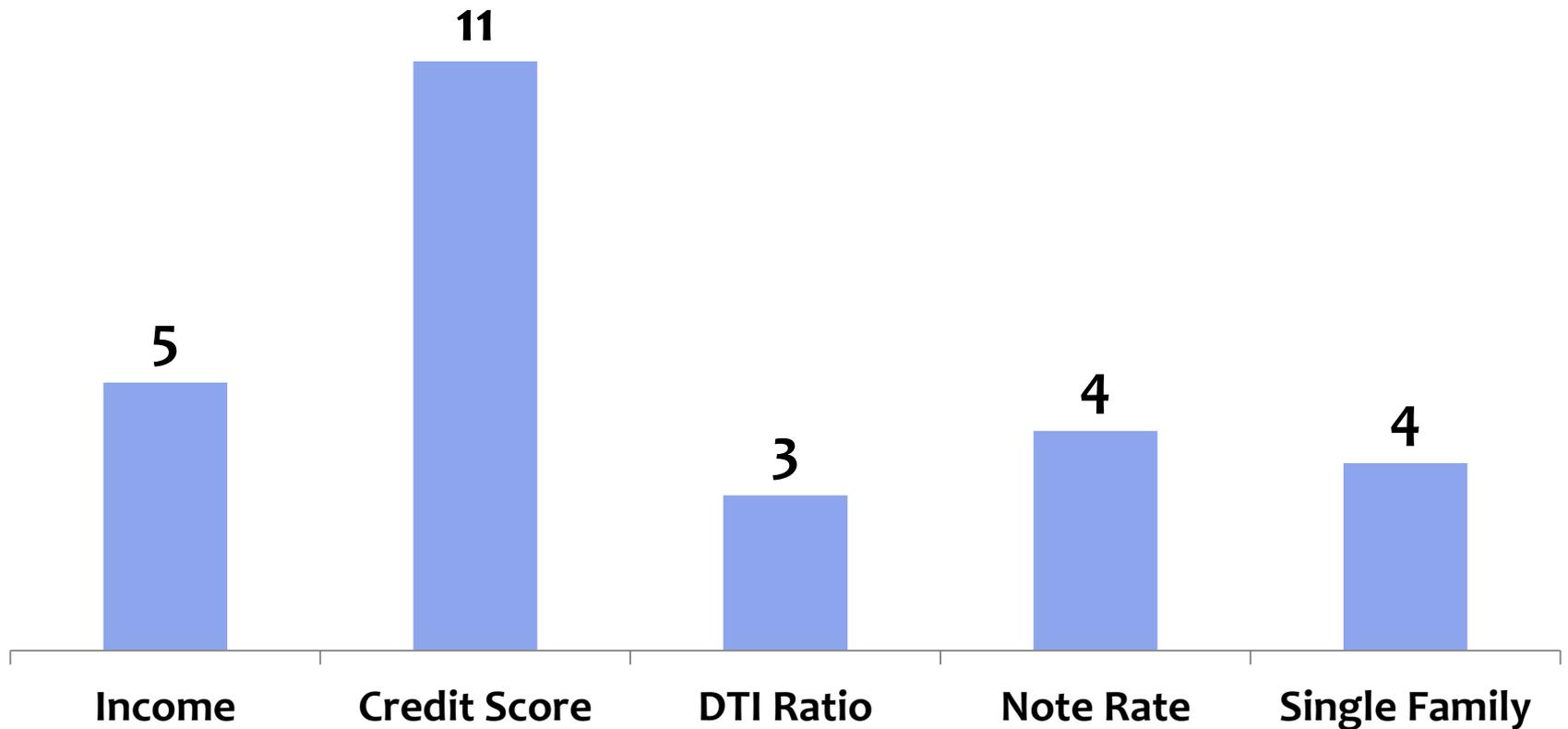
MULTIVARIATE ANALYSES – DEPENDENT VARIABLES

1. Straight roll + Negative equity $\geq 20\%$
(***StratDef20***)
2. Strategic default morally wrong
3. Strategic default threshold: $\leq 20\%$ or $\leq 60\%$

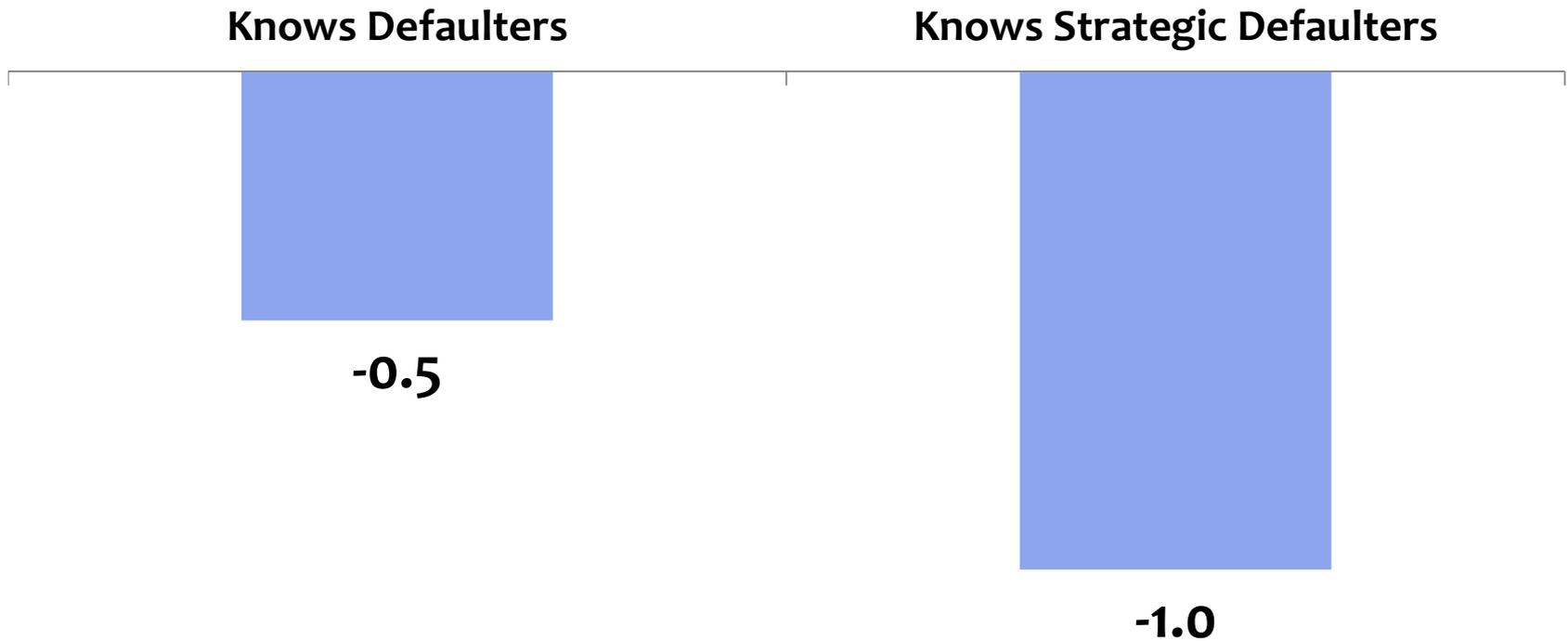
AVERAGE MARGINAL EFFECTS PREDICTING **STRATDEF20** (OBSERVED STRATEGIC DEFAULT)



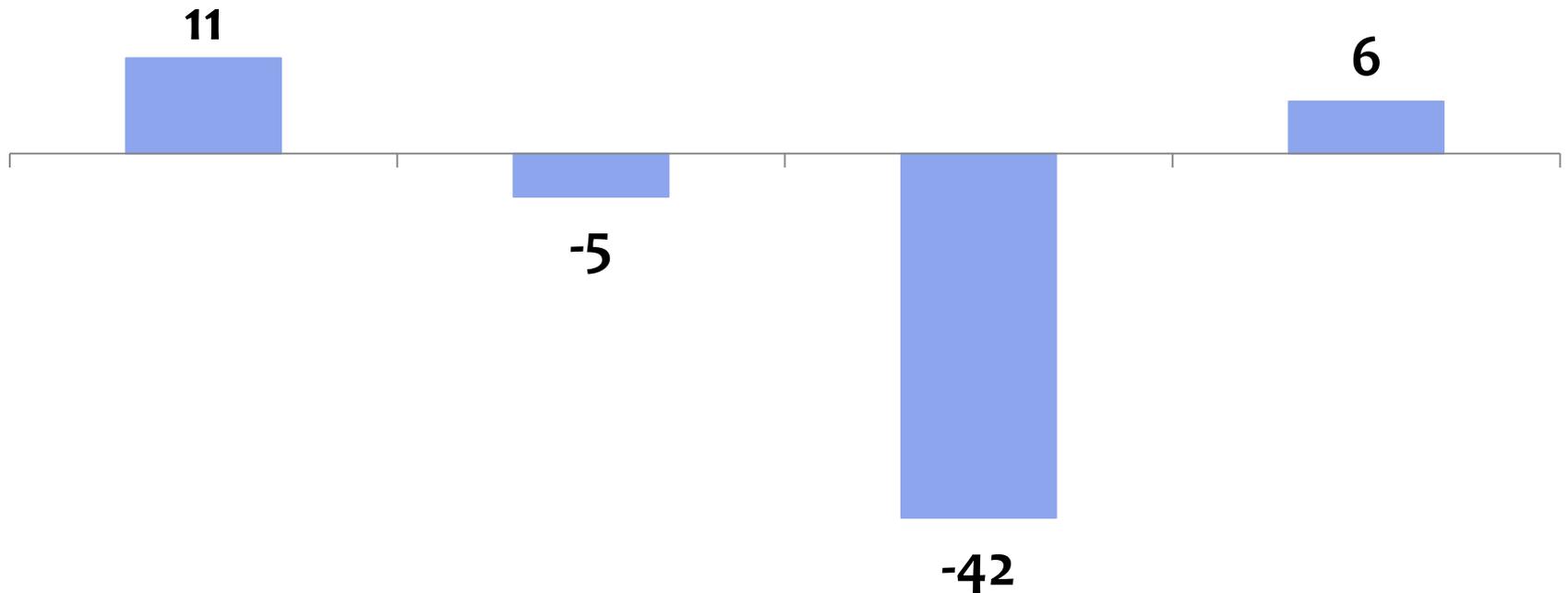
AVERAGE MARGINAL EFFECTS PREDICTING STRATEGIC DEFAULT MORALLY WRONG



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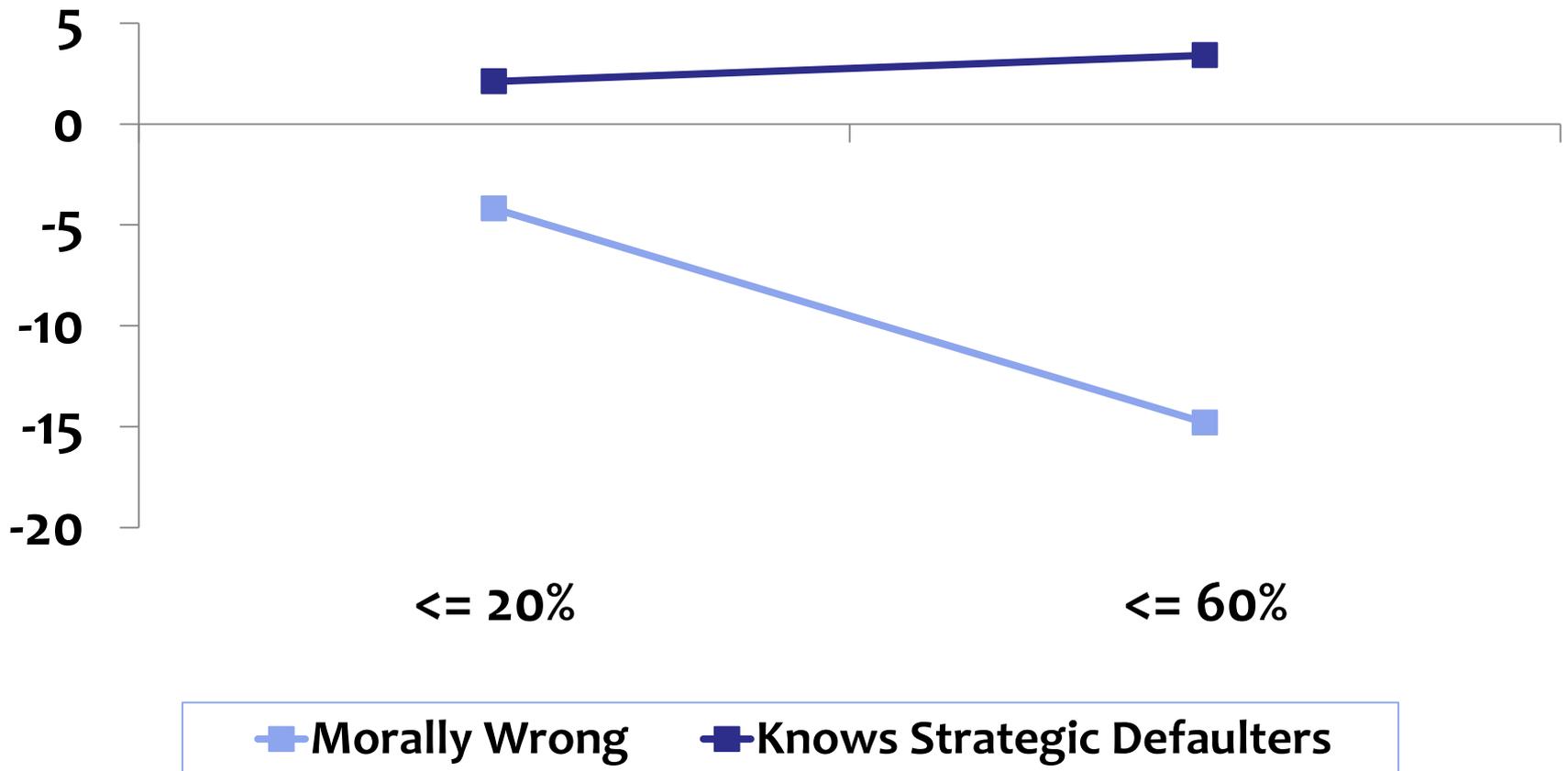
LMI Tracts in Sand States

LMI Tracts in Other States

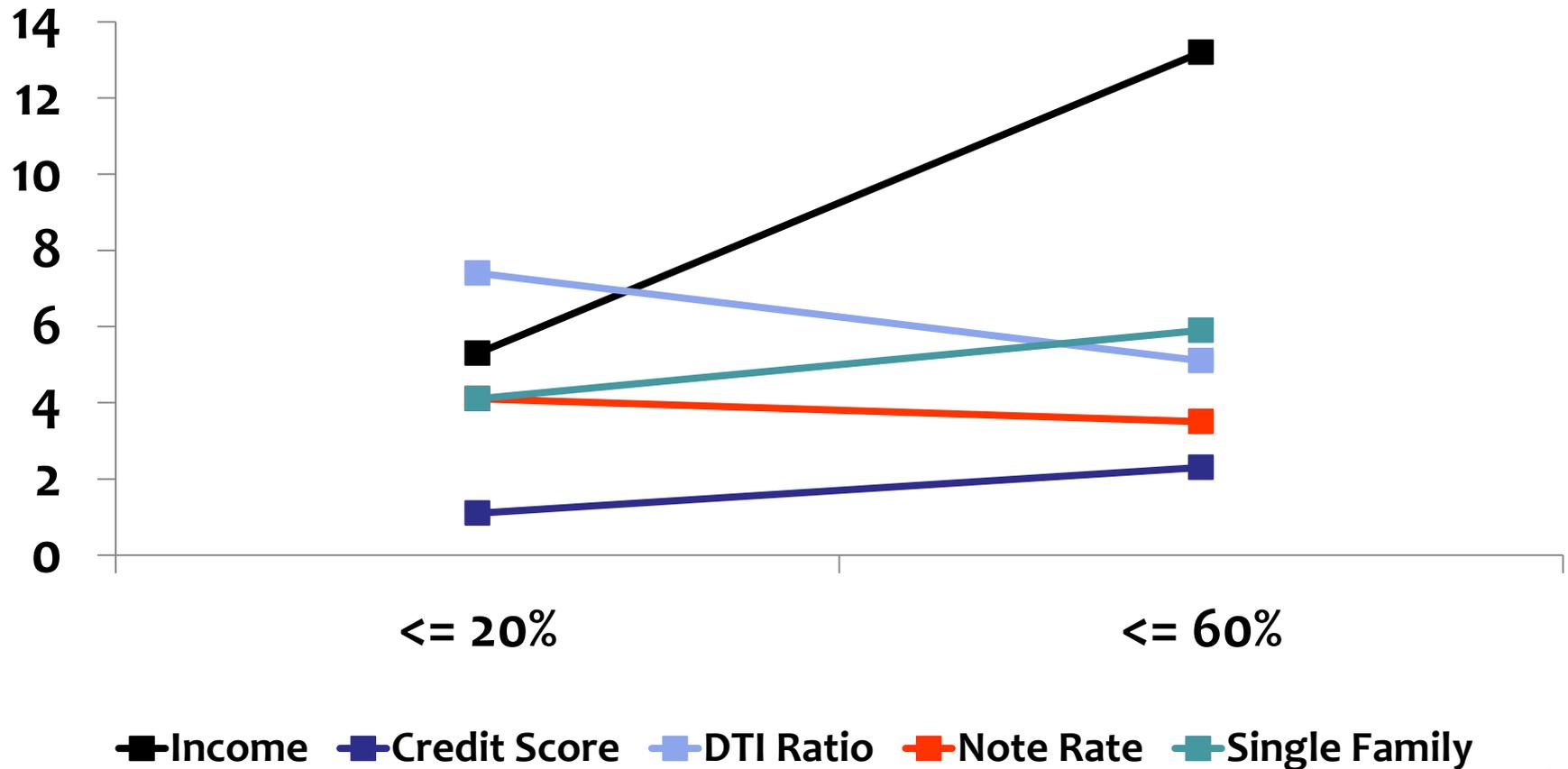
Minority Tracts in Sand States

Minority Tracts in Other States

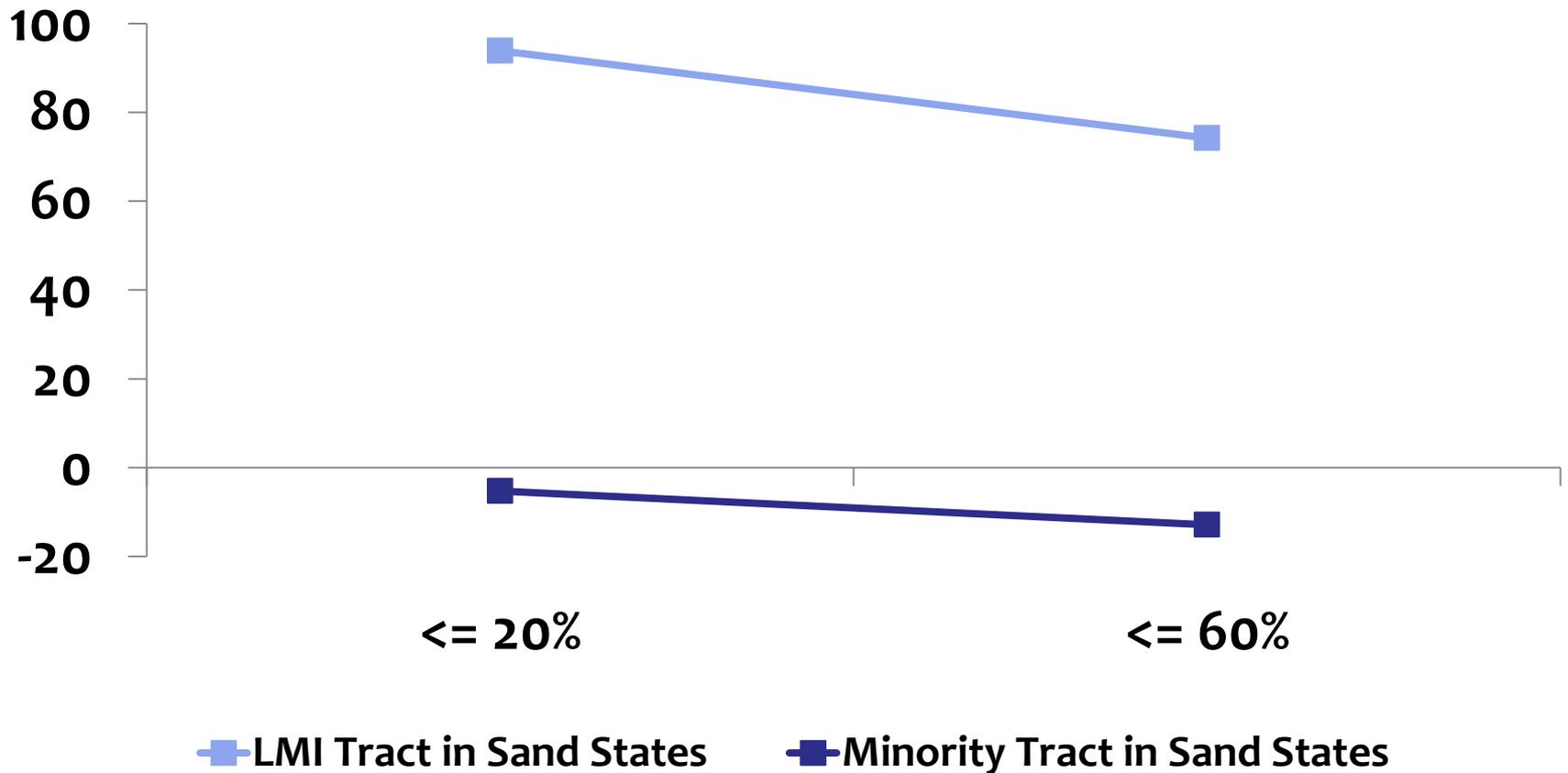
AVERAGE MARGINAL EFFECTS PREDICTING HYPOTHETICAL STRATEGIC DEFAULT THRESHOLD



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CONCLUSIONS

- Most low-income defaults **not** strategic
- Beliefs \neq Behavior



Contact Us

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