

# Why Don't Lenders Renegotiate More Home Mortgages?

Redefaults, Self-Cures and Securitization

Paul Willen

Federal Reserve Bank of Boston

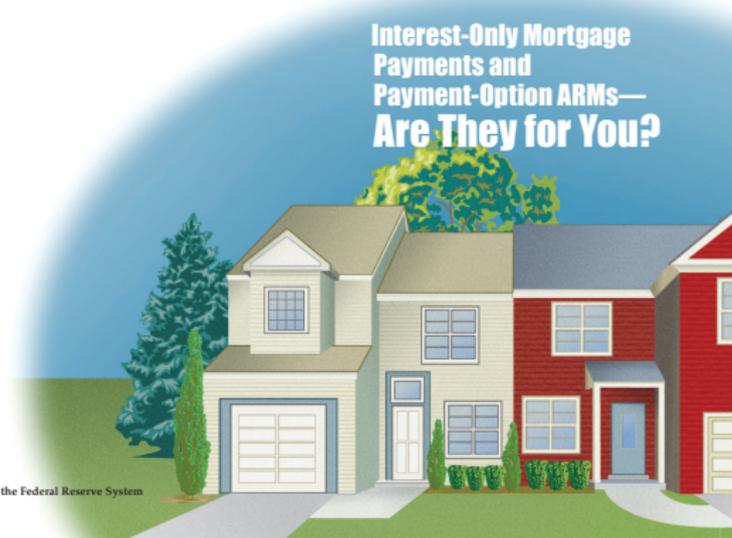
FRB Cleveland's 2010 Community Development Policy Summit  
June 9, 2010

**I am speaking today as a researcher and a concerned citizen and not as a representative of the FRB Boston or the Federal Reserve System.**

# Brochure



Board of Governors of the Federal Reserve System  
Federal Deposit Insurance Corporation  
National Credit Union Administration  
Office of the Comptroller of the Currency  
Office of Thrift Supervision



- (1) Data
  - (2) The renegotiation decision
  - (3) Results of HAMP
- Bottom Line

# The “Win-win” Solution

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*Unfortunately, this win-win solution is not possible today. Your mortgage has been sold and repackaged in an asset-backed security pool and sold in tranches with different priorities.*

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*Unfortunately, this win-win solution is not possible today. Your mortgage has been sold and repackaged in an asset-backed security pool and sold in tranches with different priorities.*

- All these quotes from: Zingales, Luigi (2008) “Plan B,” *The Economists’ Voice*: Vol. 5 : Iss. 6, Article 4.

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	Concessionary Mods	All Mods	All Mods + Prepayments
Private-label	2.6%	8.4%	15.5%
Portfolio	3.2%	8.7%	14.7%
Marginal Effect	-0.3%	0.2%	0.9%
(z-stat)	-1.69	0.58	1.95

(1) Data

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- But does that justify principal reduction.
- High cholesterol is a risk factor for heart disease.

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# Solution!









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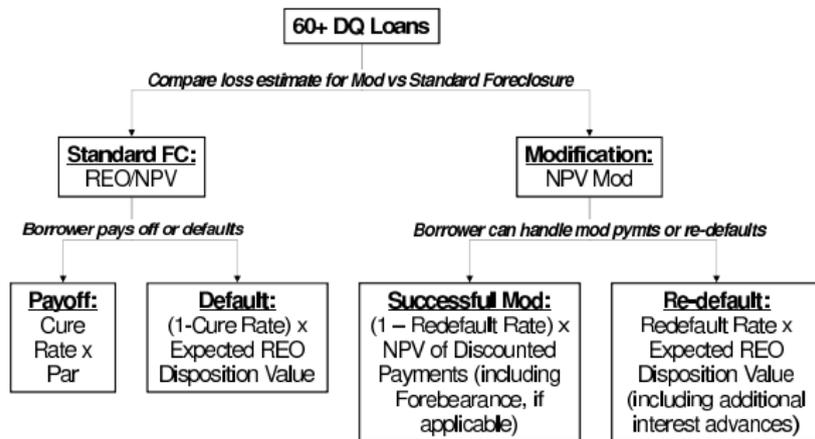
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  - The question is how big a risk factor!

# What do firms actually do?

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## Modification/Foreclosure Decision Tree



- Simulations assuming flat house prices going forward.

Property Type	HUD Status	Before		After Principal Reduction			Net Gain
		Equity in %	Prob. of Forc.	Equity in %	Prob. of Forc.	Errors Type I Type II	

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- In fact, we have seen widespread use of short-sales – a form of principal reduction, among 2-4 family properties purchased with subprime loans.

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- Tries to solve this by giving incentives for mods.

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# Has it worked?

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**Chart 25: Modifications (% 60+DQ Balance)**



Source: LoanPerformance, BofA Merrill Lynch Global Research

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  - Or force them to modify loans.

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# The slide you've all been waiting for...

- The end.