



Staring Down Foreclosure: Findings from a Sample of Homeowners Seeking Assistance

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The \$3.23 Billion Dollar Question

- How effective are mortgage assistance programs in helping struggling homeowners?
 - Would homeowners be better off if we targeted homeowners (vs. loans)?





Our Contributions



- Construct a theoretical model of homeowner and lender interaction in homeowner assistance programs.
- Test theoretical predictions using unique data on homeowners who sought assistance at foreclosure prevention events.
- Provide qualitative information on the experience of individual homeowners.





Summary of Our Findings

- Mortgage assistance is correlated with success, but LTV ratios and adverse shocks appear to be important, too.
- Targeting the right homeowners
 - Lenders with good information about homeowners target those who need assistance ...
 - ...but may also be inclined to offer assistance to those who subsequently redefault





Theoretical Predictions: No Lender Incentives

Default probability high

Default probability low



Do not receive assistance

Receive assistance

Do not receive assistance

Lose home

Become Current

Become Current

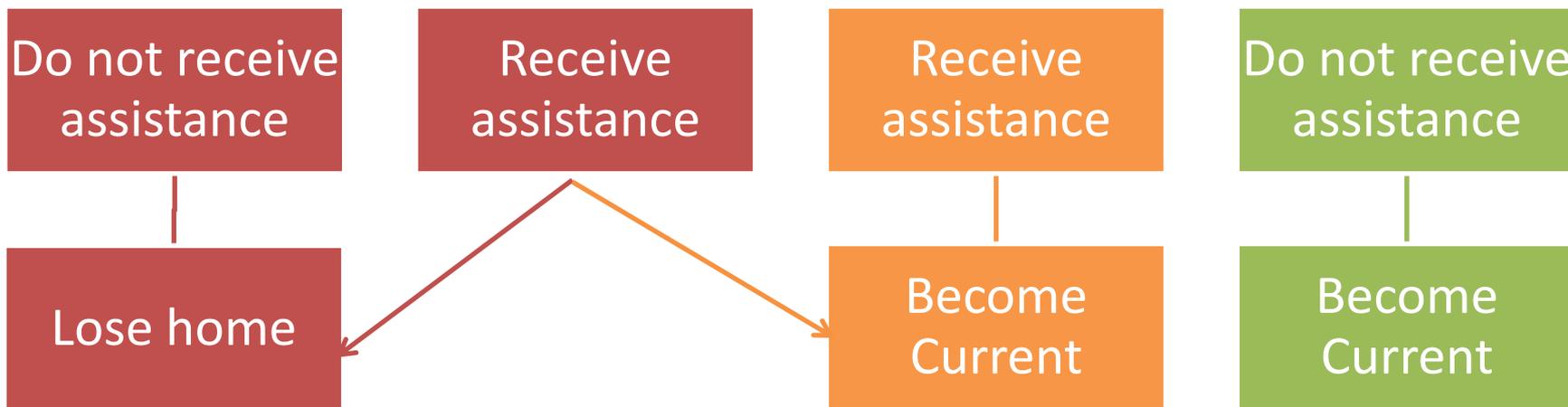




Theoretical Predictions with Lender Incentives

Default probability high

Default probability low





Data Sample

- Homeowners who attended one of four foreclosure prevention events between 2009 and 2010.
- Short contact form completed at events
- Three rounds of follow-up surveys conducted in 2010 and 2011.





Distinguishing Characteristics

LTV Ratios

Income

"Shortly after my Mother passed, my wife became very ill and was placed off work by her doctor for over a month. Our income also suffered as a result, all of our savings were depleted and we fell behind in our mortgage payments."

Adverse shocks

Employment

"I was self employed and my clients were unable to patronize my business because they lost their jobs."

"Adjustable interest rate - rate shot up, unable to keep up with increases"

Mortgage Type





Sample Description

	All Homeowners (N=77)	Current (N=37)	In Default/ Foreclosure (N=40)
Received assistance	68%	76%	60%
LTV ratio (mean)	1.15	1.09	1.21
Income (mean)	\$63,239	\$71,054	\$56,010
Faced adverse shock	88%	81%	95%
ARM	46%	41%	50%
Employed	77%	87%	68%





Regression Results

Variable	Model 1 ME		Model 2 ME		Model 3 ME		Model 4 ME	
Assistance	0.2460	*	0.2292	*	0.2136	*	0.1884	
	(0.1276)		(0.1452)		(0.1284)		(0.1349)	
LTV ratio	-0.2718	*	-0.2764	*	-0.3321	**	-0.3260	**
	(0.1401)		(0.1436)		(0.1527)		(0.1542)	
Income(\$1,000)	0.0031	*	0.0020		0.0032	*	0.0024	
	(0.0018)		(0.0020)		(0.0018)		(0.0020)	
Shock	-0.4196	***	-0.4121	***				
	(0.1374)		(0.1439)					
Big shock					-0.3849	***	-0.3857	***
					(0.1307)		(0.1370)	
ARM			-0.0595				-0.1176	
			(0.1302)				(0.1332)	
Employed			0.2255				0.1780	
			(0.1520)				(0.1595)	
N	77		77		77		77	
Pseudo-R ²	0.1197		0.1392		0.1327		0.1503	



Significant Results



- A unit increase in the LTV increases the probability of default by nearly 28%.
- Probability of being current was nearly 42% lower for those who had experienced an adverse shock.
- A homeowner who received assistance had around a 25% higher chance of being current.





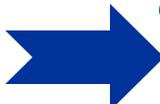
Recap of Findings

- Different types of homeowners, distinguished by their probability of foreclosure.
- Lenders target homeowners who succeed with assistance (even without the program)...
 - ...but may also be inclined to offer assistance to those who subsequently redefault.
- Assistance is correlated with being current, but LTV ratios and adverse shocks are of primary importance.



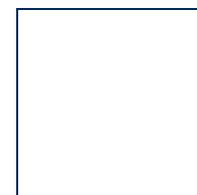


Policy Considerations

- How effective are mortgage assistance programs in helping struggling homeowners? 
- Results suggest assistance matters for being current, but is secondary to other factors such as intensity of shock.
- Would homeowners be better off if we targeted homeowners (vs. loans)? 
- Insurance programs to help homeowners cope with adverse shocks?



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