

Strategic Default, Foreclosure Delay and Post-Default Wealth Accumulation

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Discussion by

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Summary

- Question
 - ▶ What are the long-run financial outcomes of strategic defaulters?
- Approach
 - ▶ Compare strategic default, non-strategic default, and non-default
 - ▶ Separate channels of negative equity and foreclosure delay
- Key Results
 - ▶ Strategic defaulter improve net wealth
 - ▶ Non-strategic reduce housing user cost and services
- Comments
 - ▶ Contribution
 - ▶ Measurement
 - ▶ Extensions

Contribution

- Current Framing: Response to default
⇒ Lenders, government, borrowers

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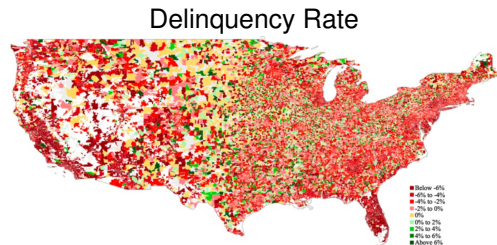
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 - ▶ Slow recovery in consumption and unemployment

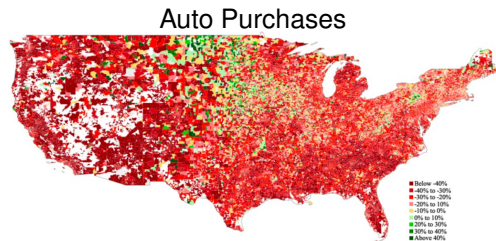
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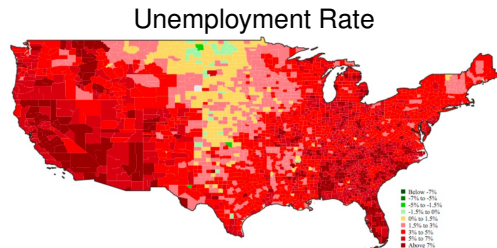
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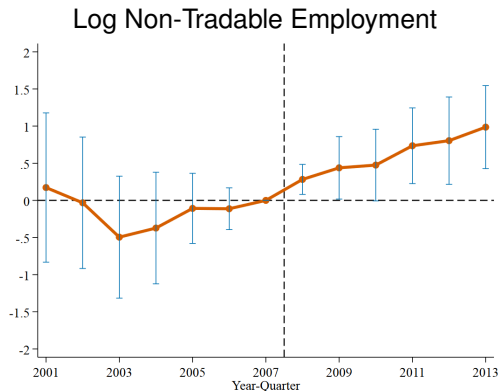
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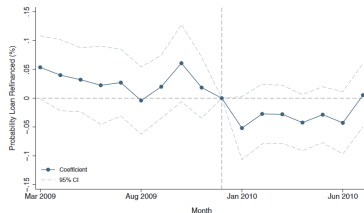
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 - ▶ Slow recovery in consumption and unemployment
 - ▶ Debt relief policies led to increase in spending and consumption

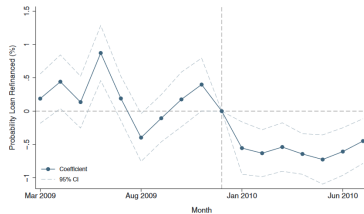


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 - ▶ Frictions to monetary easing and debt relief policies



Panel A. Employment Documentation Effect



Panel B. Upfront Costs Effect

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- **Key:** Macroeconomics of Strategic Default
 - ▶ Caution: Disentangling causality and correlation

Measurement

- Issue #1: Two treatment groups (strategic, non-strategic) and broad control (non-default)
 - ▶ Currently {Negative Equity and Ability-to-Pay} vs {!Negative Equity or !Ability-to-Pay}
 - ▶ Focus on defaulters and non-defaulters within categories
 - ⇒ Example: Negative equity defaulters vs. Negative equity non-defaulters
 - ⇒ Helps pin-down mechanism: Is negative equity driving results?

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- Issue #2: Omitted Variable Bias
 - ▶ Not true difference-in-differences design
 - ▶ Outcomes correlated with default, negative equity, ability-to-pay, and ruthlessness
 - ⇒ Example: Better educated borrowers more strategic and better future outcomes
 - ▶ Somewhat ameliorated by refining model (e.g. sand states, deep underwater)
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 - ⇒ Still leaves endogenous choice to default
- Combination of refined model and off-the-shelf shock can help solve both concerns

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 - ▶ Need default treatment \Rightarrow Distance from county court house \times Foreclosure intensity
 - ▶ Alternative default shocks: Social networks
- Advantage:
 - ▶ Provides longer timeline for more credible analysis
 - ▶ Measures employment, consumption, asset prices, income, etc.

Conclusion

- Unique panel analysis on strategic defaulters
- Would benefit from discussing macroeconomic implications
- Need to address causality to make estimates more credible