Discussion on “A Shortage of Short Sales”

by Calvin Zhang

Geng Li

Federal Reserve Board

FRBA and GSU Real Estate Finance Conference

Disclaimer I

The views presented in this discussion are those of the author, and do not necessarily represent those of the Federal Reserve Board or its staff.

Disclaimer II

I am mostly working on consumer finance areas. What I am going to say should be properly weighted by my (lack of) real estate finance expertise

What we have learned from the financial crisis

- A lot, but

- the more we think we have learned, the more we seem to disagree, and certainly the more we realize what have not been learned

- The profession has not reached a consensus on

  Who, What, Where, When, Why, and How

- An important remaining gap in my (our) knowledge is the institutions of the mortgage and housing market
  - Property listing, real estate agents, bidding, loan applications, underwriting (income verifications, appraisals), originations, loan pricing, servicing, collection, short sales and foreclosures, securitizations, GSEs, rating agencies, government interventions(HAMP, HARP)…
  - Again, we have indeed learned a lot, but more can be done

- Christmas wish from an informed layman

  Guys, put together a "Handbook of the Mortgage Market and Financial Crisis"

Summary of Calvin’s paper

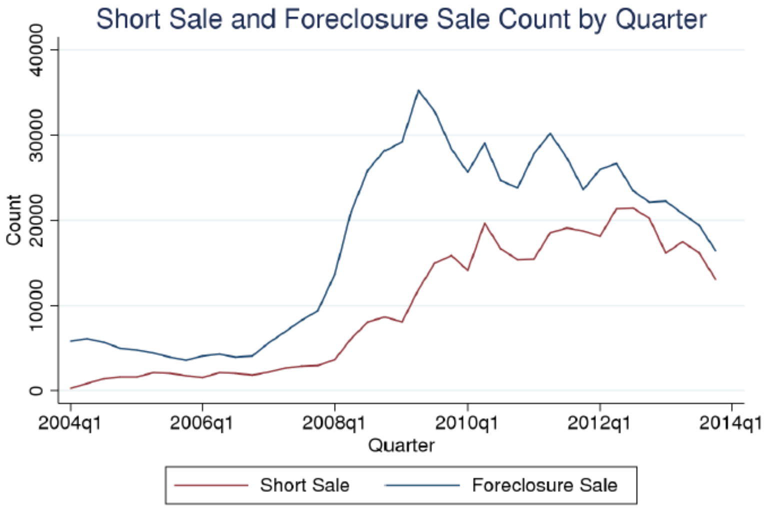
- A very nice paper, doing a very good job on the 6 Ws
- Key takeaways:
  - Transaction prices of short sales 9 percent higher than foreclosures
  - Smaller negative externality from short sales
  - However, foreclosures appear to offer more de facto free rents to homeowners under distress
    - Benefitting owners and having mixed effects on servicers

- Methodological highlights
  - State’s foreclosure law as an instrument
  - Using intent-to-sell to control for quality differences
  - Teasing out differential reactions of borrowers and servicers
- Policy implications
  - Increasing short sales among distressed properties helps stabilize the housing market
  - How institutions may influence outcomes in the market

Suggestions, Questions, and Comments

- Some historical and forward looking narrative would be helpful
  - When short sales and foreclosures came to existence, respectively?
  - Any differences in the timing of each state's adopting either option?
  - Any re-thinking on short sales versus foreclosures?
- The gap in figure 1 is not constant, any insight on this?

Figure 1 - Foreclosure Sales and Short Sales Over Time



Data from DataQuick 10 MSA Sample

- Why owners want to do short sales at all?
  - In particular if doing so does not lead to a higher post-sale credit score
  - Do we observe short sale owners returning homeownership sooner?
  - If future homeownership motivates short sales, do we see any age effects (doesn't seems so from table 2)
- Any evidence or anecdotes on the prevalence of rejected short sales
    - These could be the marginal properties
    - Also shed light on how interest conflicts among stakeholders were handled
    - Did such properties experience greater or more moderate foreclosure discounts?

- Price differences
  - A typo in table 2 panel B?
  - Large price differentials raise the possibility that these are *different* properties or properties in *different* markets
  - Be curious to see the entire price distributions
  - Consider some sort of similarity matching?

- Focus on state level institutional differences
  - Are there any within-state differences in counts of short sales versus foreclosures
  - Do short sales and foreclosures tend to cluster
    - A map of a state or a county would be illuminating here

- Overall, a cool paper that I learned a lot from

- There are multiple dimensions this research can be further expanded and developed

- Again, please think about the *Handbook* idea