

Discussion of Artavanis and Spyridopoulos “Foreclosure Moratorium and Strategic Default”

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Boston Fed and NBER

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These views expressed are those of the authors and do not necessarily reflect those of any entities within the Federal Reserve System.



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- When I say “we”, I don’t mean Janet and me.

Artavanis and Spyridopoulos (2017)

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	Can Pay	Can't Pay
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	Can Pay	Can't Pay
Yes		Non-Strategic Default
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	Can Pay	Can't Pay
Yes	Strategic Default	Non-Strategic Default
No	Repay	Repay

Artavanis and Spyridopoulos (2017)

- Two Questions
 1. Of all defaults, what share can pay?
 - Answer: 28.4%
 2. Of all borrowers who can pay, what share default?

		Can Pay	Can't Pay	Total
Default?	Yes	Strategic Default 11.8 loans 28.4% of defaults↔	Non-Strategic Default 29.7 loans 71.6% of defaults↔	41.5 loans
	No	Repay	Repay	

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	Repay 58.5 loans 100% of repay↔ 83.2% of can pay↑	Repay 0 loans 0% of repay↔ 0% of can't pay↑	58.5 loans
Total	70.3 loans	29.7 loans	

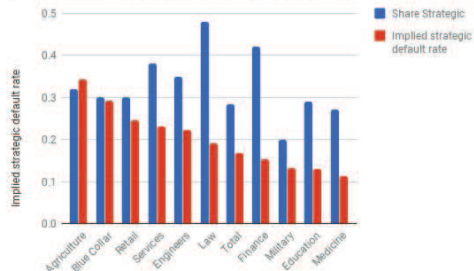
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- Bayes Law

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Measuring Strategic Default

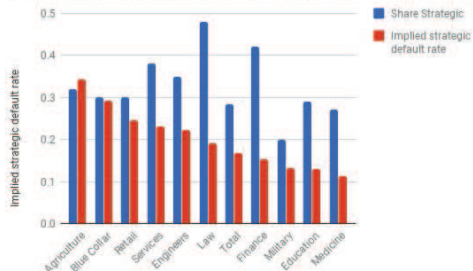
Ranked by defaults by "Can-Pay" Borrowers



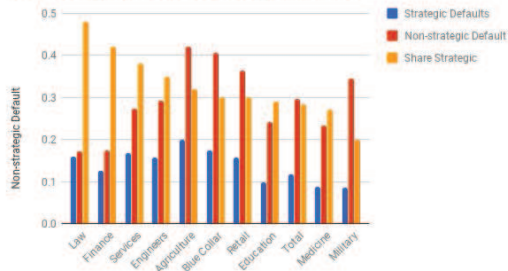
- Depending on which measure we use, get different answers
 - If you meet a lawyer who has defaulted, she is much *more* likely to be able to afford her mortgage than a blue collar worker who has defaulted.
 - If you meet a lawyer who can pay, he or she is much *less* likely to default than a blue collar worker

Measuring Strategic Default

Ranked by defaults by "Can-Pay" Borrowers



Non-strategic Default vs. Strategic Defaults



- Depending on which measure we use, get different answers
 - If you meet a lawyer who has defaulted, she is much *more* likely to be able to afford her mortgage than a blue collar worker who has defaulted.
 - If you meet a lawyer who can pay, he or she is much *less* likely to default than a blue collar worker
- Most of the variation is in the non-strategic defaults.

Comparison with earlier work (Gerardi et al. (2017))

	(1) "Can Pay" $c < y - m$ # share		(2) $c > y - m > c(VA)$ # share		(3) "Can't Pay" $y - m < c(VA)$ # share		(4) Total #
A. Total							
Default	74	0.377	65	0.333	57	0.291	196
Population	5,173	0.699	1,704	0.230	531	0.072	7404
Default Rate	0.014		0.038		0.107		0.027
B. $LTV > 90$							
Default	47	0.409	41	0.352	28	0.239	115
Population	1,117	0.664	428	0.254	140	0.083	1684
Default Rate	0.042		0.095		0.197		0.069
C. $LTV < 90$							
Default	27	0.330	25	0.306	29	0.364	81
Population	4,056	0.709	1,277	0.223	391	0.068	5720
Default Rate	0.007		0.019		0.075		0.014

1. Many defaulters can afford their mortgage payments.
2. Almost no one that can afford their mortgage payments default.
3. Can't pay with negative equity are 30X more likely to default than can pay with positive equity.
4. 80% of can't pay with negative equity are current on their loans.

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- The end.