Why Don't Lenders Renegotiate More Home Mortgages?

Redefaults, Self-Cures and Securitization

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(Joint with Manuel Adelino and Kris Gerardi)

Federal Reserve Bank of Boston

FTC Micro Conference
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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

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- 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
Private-label	2.6%	8.4%
Portfolio	3.2%	8.7%
Marginal Effect	-0.3%	0.2%
(z-stat)	-1.69	0.58

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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

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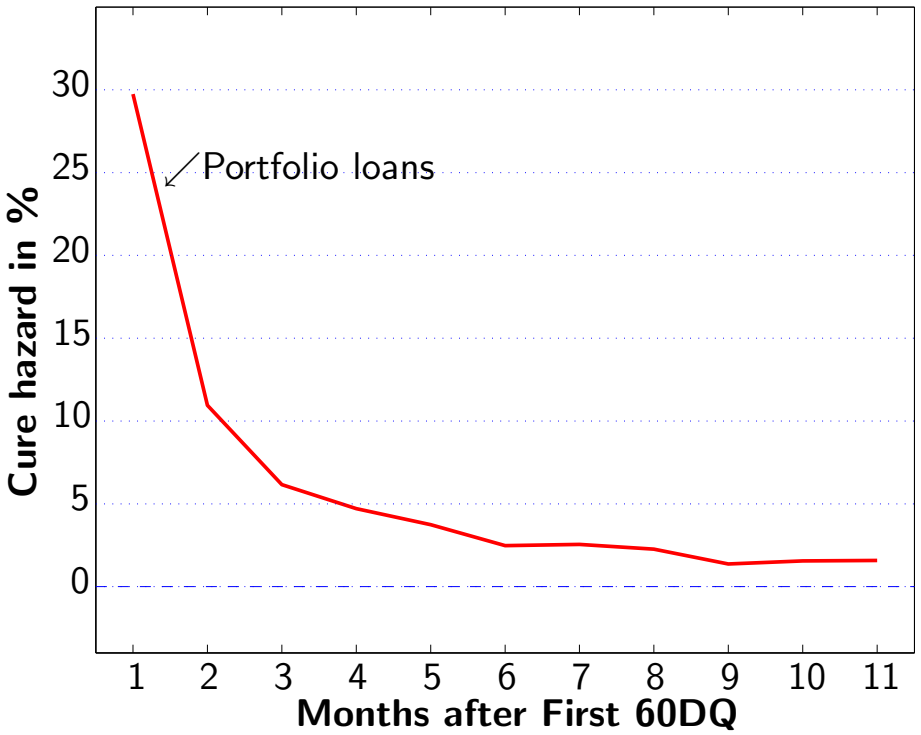
	All Loans	Subprime	*FICO* < 620	Non-missing Documentation and DTI	Fully Documented
Portfolio Mean	0.300	0.257	0.320	0.280	0.299
Private-label Mean	0.256	0.289	0.328	0.289	0.324
Marginal effect	-0.022	0.043	0.004	0.022	0.025
(Logit)	-4.32	4.31	0.44	2.8	2.43
Hazard Ratio	0.895	1.062	0.926	1.009	0.971
(Cox)	7.08	2.14	3.36	0.43	1.36
# Mortgages	66,451	33,719	27,639	25,543	18,097

Understanding the cures



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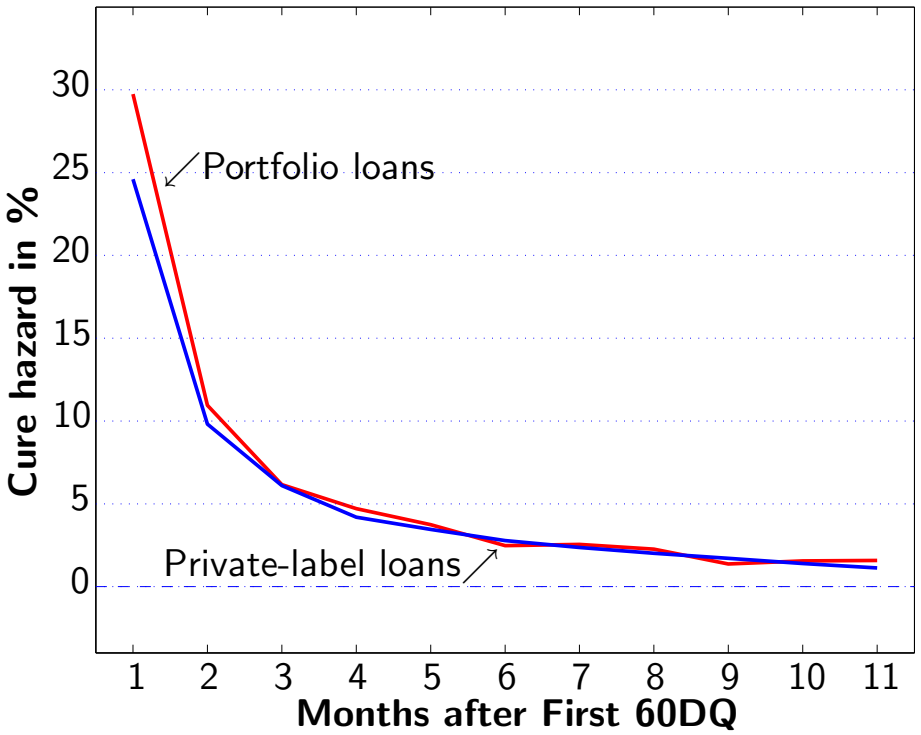

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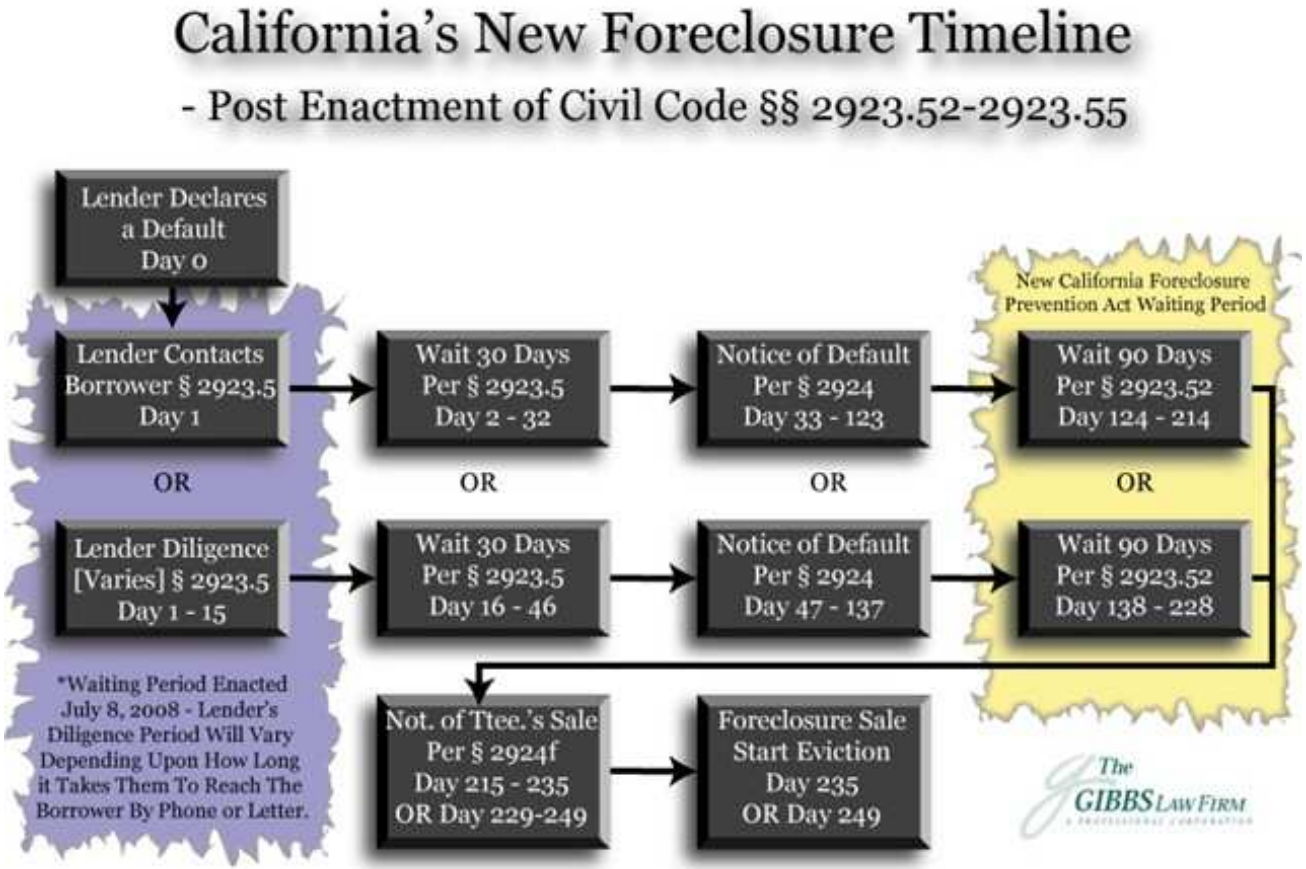
Foreclosure Timeline



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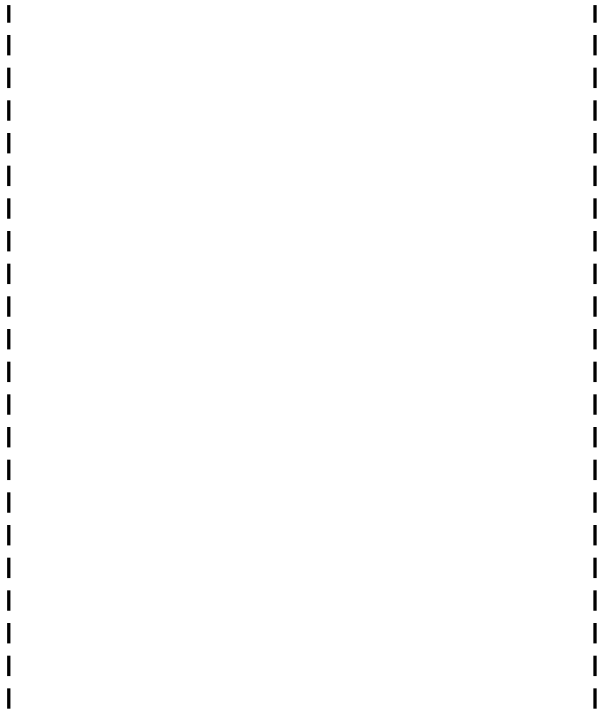

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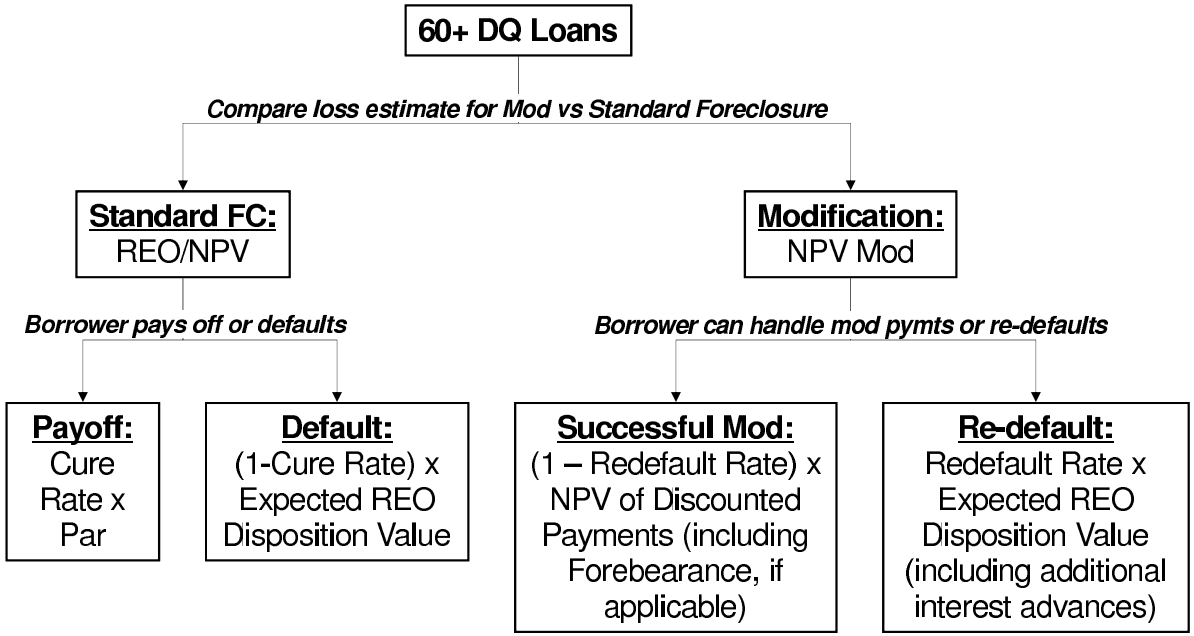
Modification/Foreclosure Decision Tree



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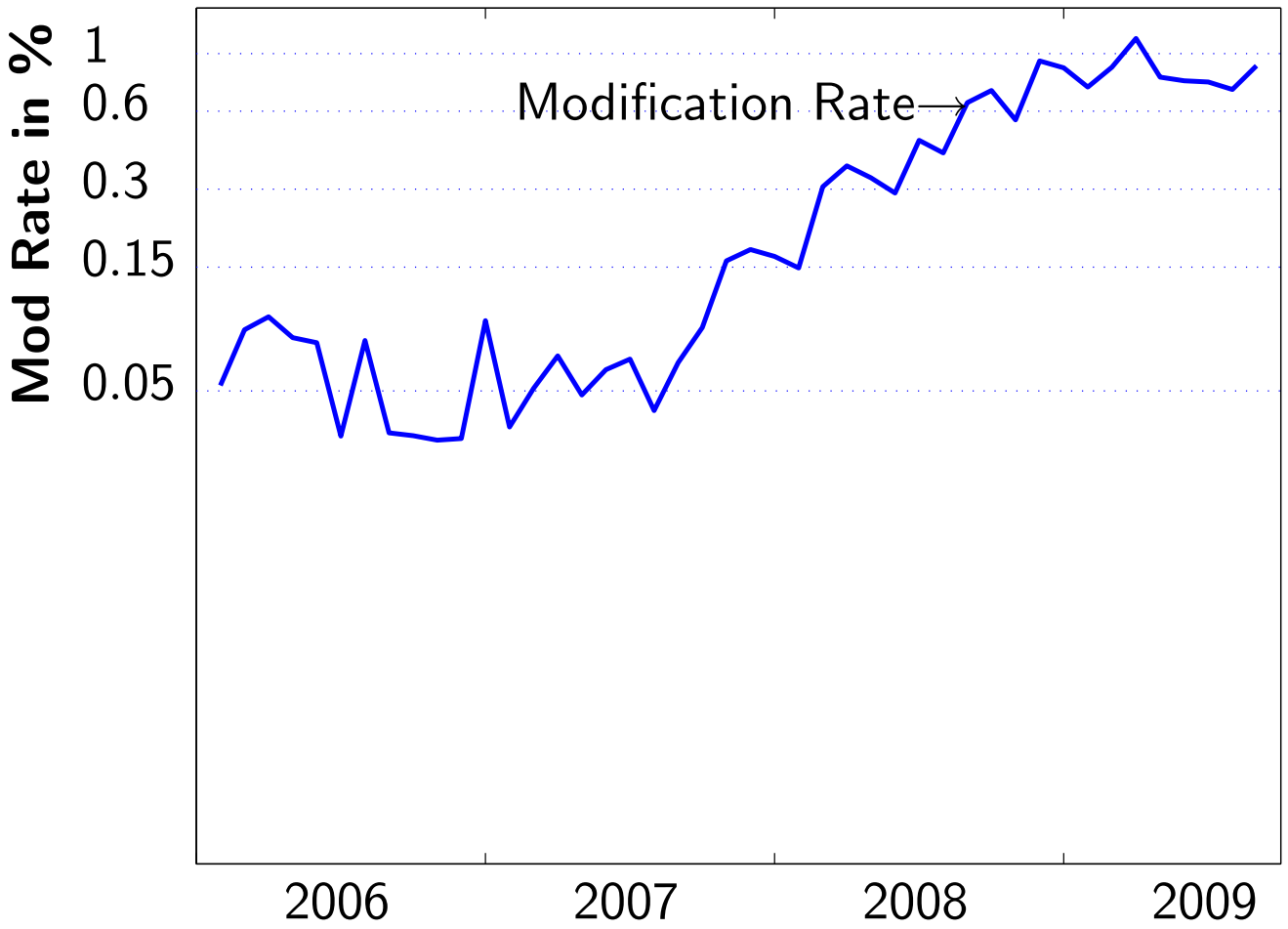

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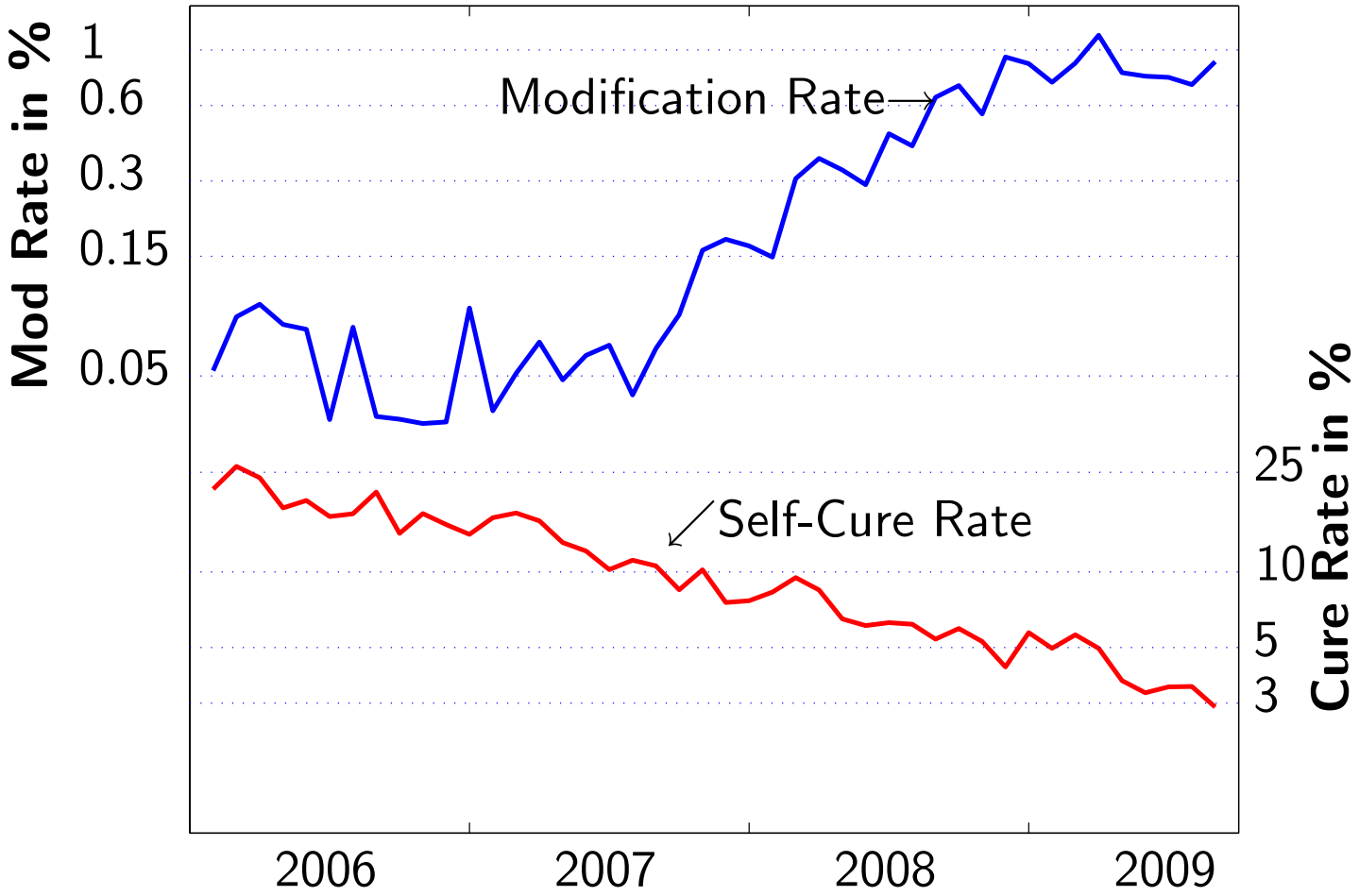

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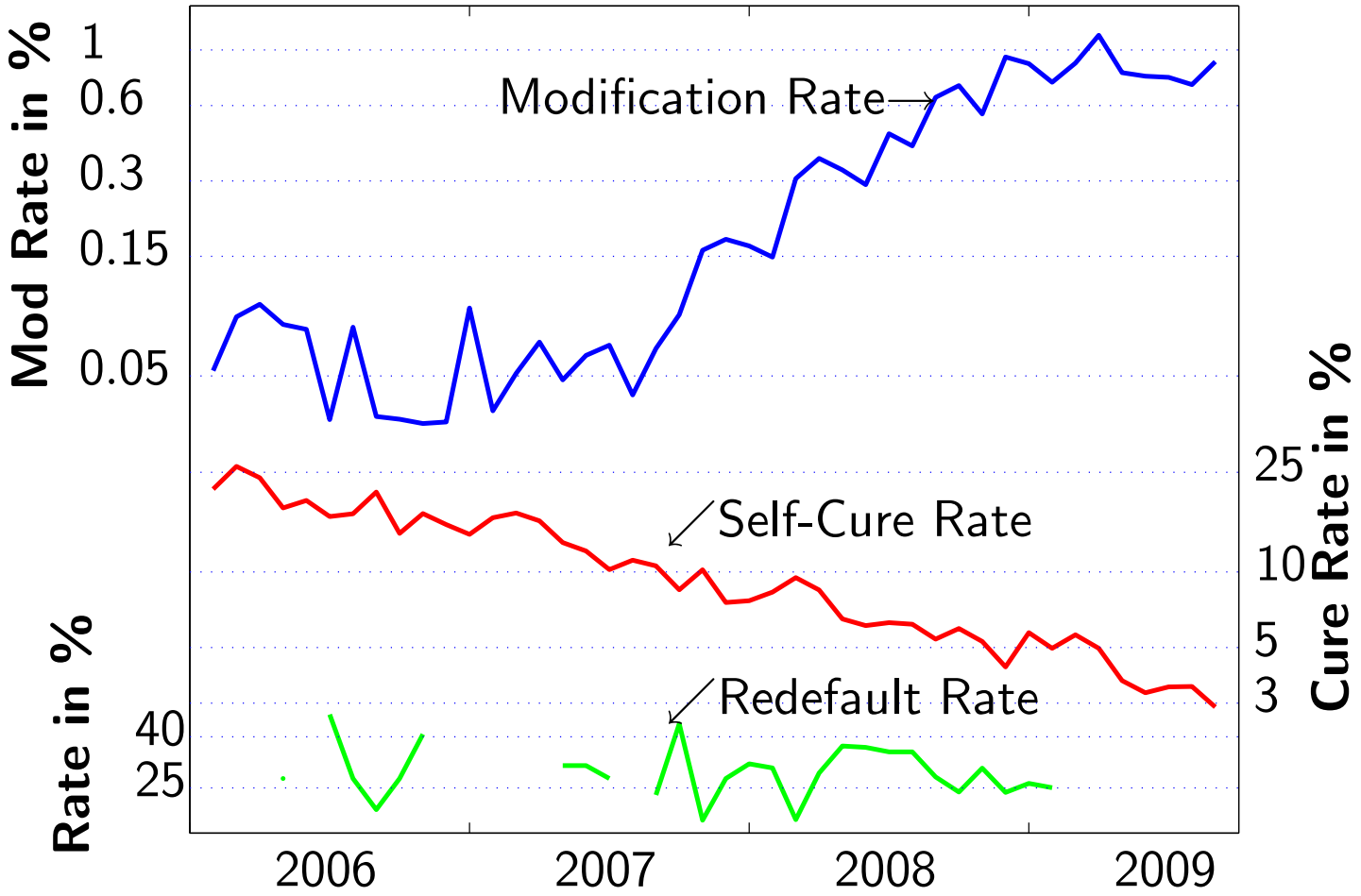
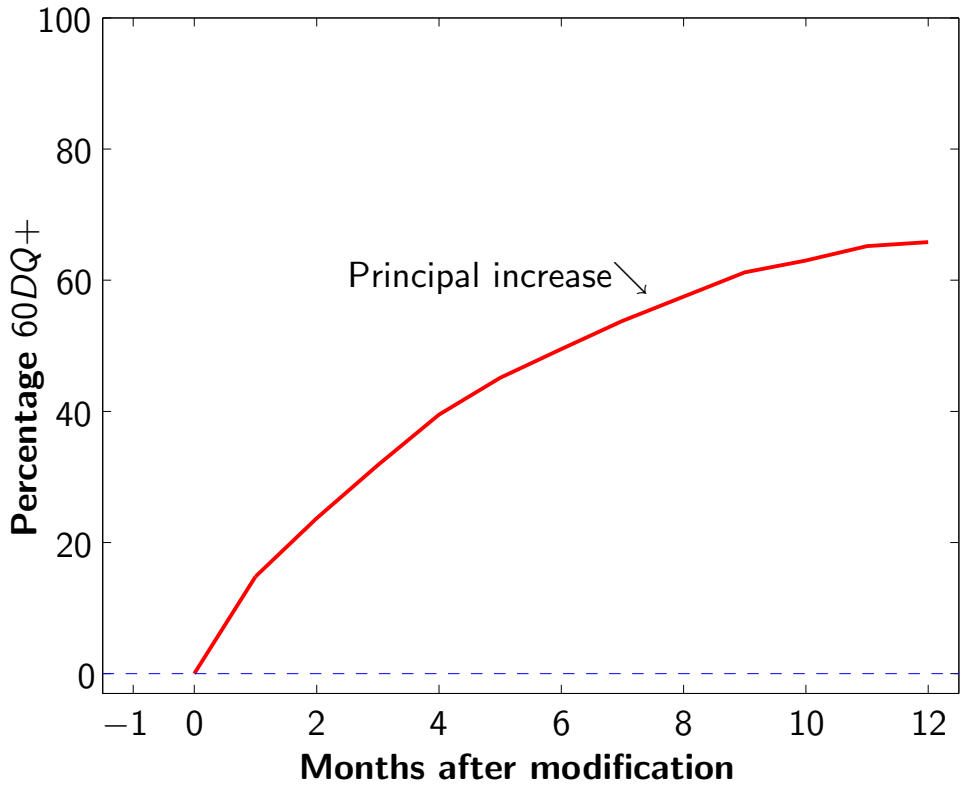


(3) But aren't most mods still positive NPV?

- Some more criticism

> *In any event, the Boston Fed study never actually tests the rates it cites in the net present value calculation it presents. The Panel's staff tested the Boston Fed staff's NPV formula with very conservative assumptions, and found that even when using the Boston Fed staff's much higher- than-current self-cure and redefault rates, there is still room to undertake a NPV maximizing modification.*
>
> – TARP Congressional Oversight Panel, October 10, 2009.

What types of mods work?



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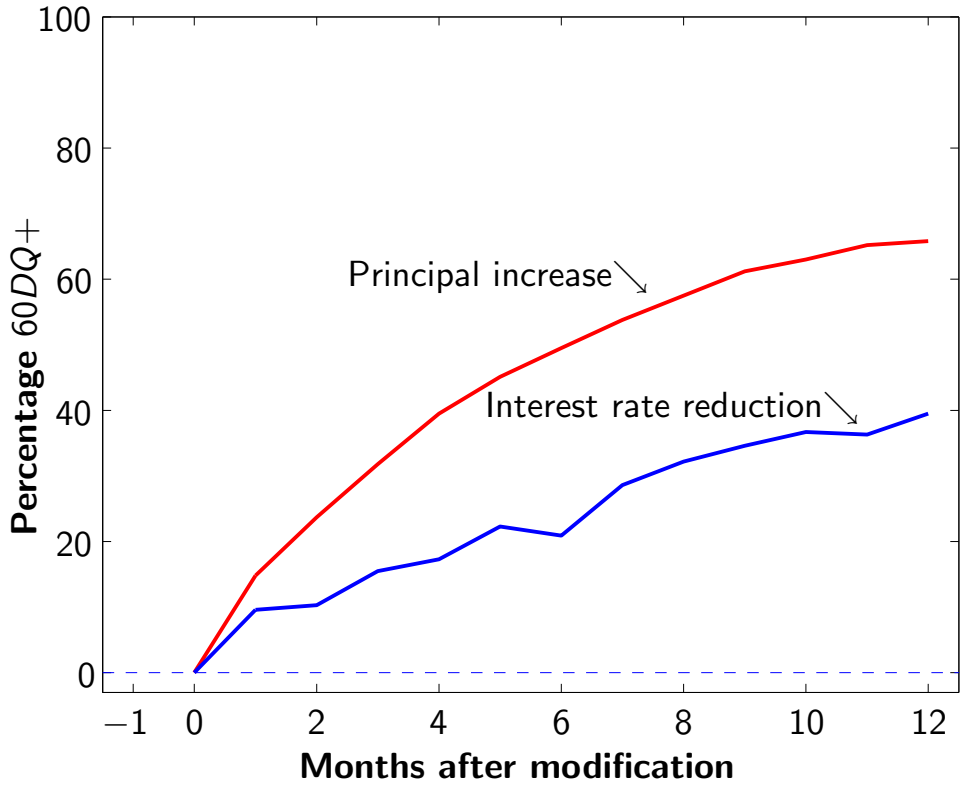

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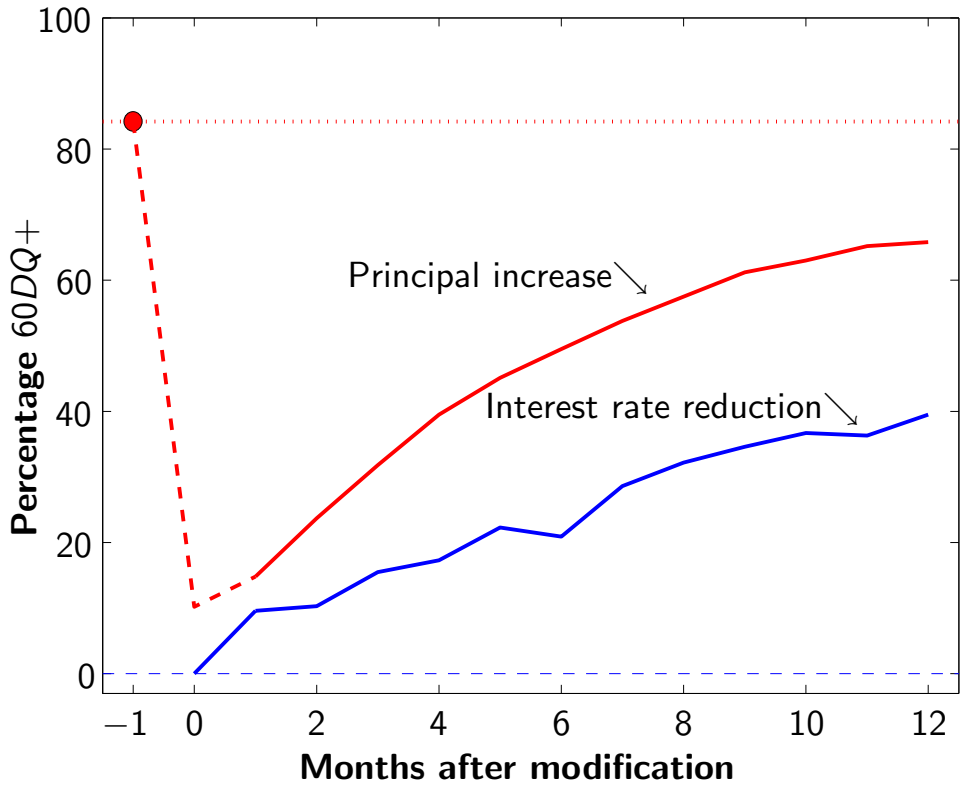

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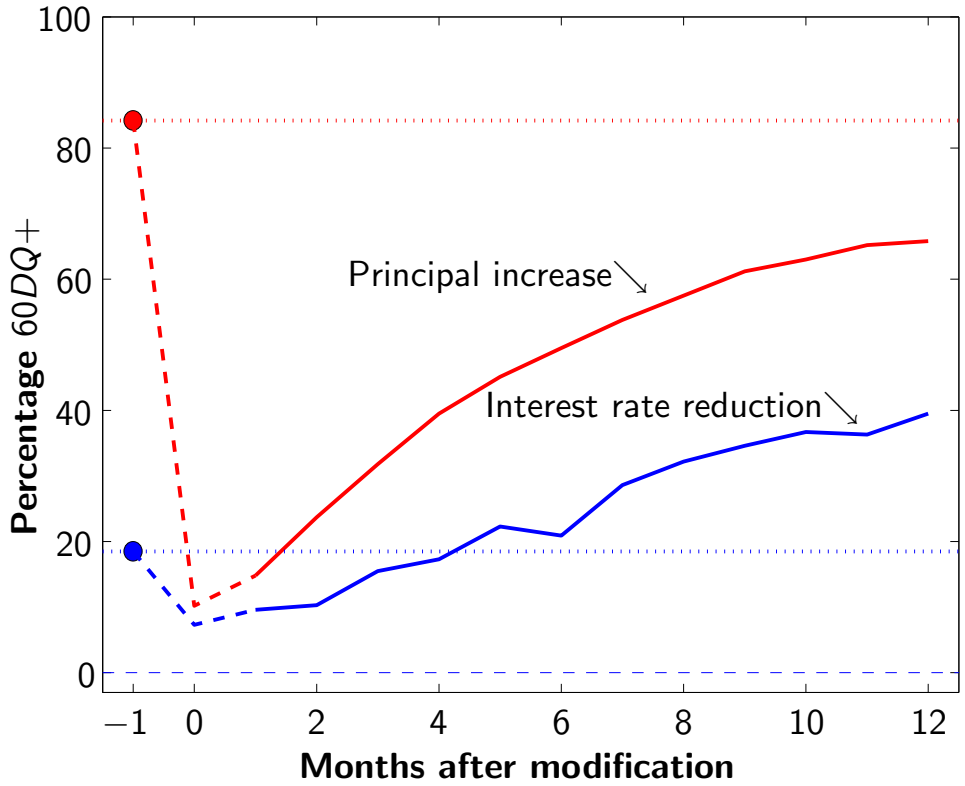

The slide you've all been waiting for...

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- The end.