Discussion on '*Effect of foreclosures on Homeowners, Tenants and Landlords*', Guren et. al.

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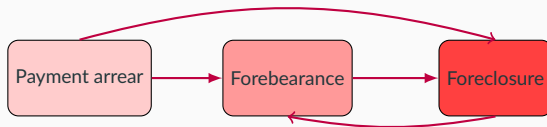
Introduction, summary of results

Foreclosure, what is

- Foreclosure, or repossession following a mortgage delinquency:

- Rates of foreclosures

	Arrears	Foreclosure
US (2015-2017)	4.6%	0.6%
US (2010)	9.3%	2.2%

- Foreclousres were widespread during the last financial crisis and impose a heavy cost [negative externalities] when they take place. (Campbell et. al. (2011), Mian et. al. (2015), Gupta (2019), , Guren and McQuade (2020))

Research question, empirical design

Research question: How costly is foreclosure for homeowners, landlords and renters?

Research design: Causal effect of foreclosure on financial/non-financial outcomes faces severe identification issues [simultaneity]. Paper's solution:
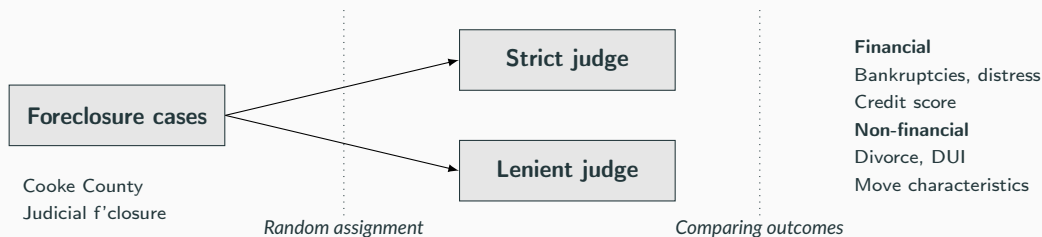
Assumption I: Random assignment of foreclosure cases to judges/calendars.

Assumption II: Monotonicity or unbiased judges

Assumption III: Exclusion

Summary of results

(+): more likely; (-): less likely

	Homeowners	Landlords	Renters
Housing	Change of address **(+)**; Home-ownership **(-)**; Neighborhood **(-)**	Change of address; Home-ownership; Neighborhood	Change of address **(+)**; Home-ownership; Neighborhood
Financial	Mortgages **(-)**; Unpaid-collections **(+)**; Bankruptcy **(+)**	Mortgages **(-)**; Unpaid-collections; Bankruptcy **(+)**	Mortgages **(-)**; Unpaid-collections; Bankruptcy
Personal	Divorce **(+)**; DUI	Divorce; DUI **(+)**	Divorce; DUI

Contribution: Causal effects of foreclosures; unique in studying non-pecuniary effects.

My comments

Summary of comments

- Comments on identification

- Comments on interpretation

- Comments on policy implications

C1 - Comments on indentification - Monotonicity (I)

Assumption II: Unbiased judges, or 'monotonic responses' to cases. Appendix B.2

- Current approach: Report Γ in sub-samples of by judge and borrower characteristics. F_k is the case-level foreclosure outcome; $Z_{k,c,t}$ is the leave-out mean for case 'k', calendar 'c' at time 't'.

$$F_k = \Gamma \cdot Z_{k,c,t} + \alpha \cdot X_i + ...$$

- For instance, coefficients estimated for non-white judges by sub-samples of defendants are as follows:

	Non-white Judge
White defendant	0.669***
Non-white defendant	0.449***

- Strict non-white judges are stricter in sub-groups of both white and non-white defendants.
- But are they **as strict** to non-white defendants as they are to white defendants?

C1 - Comments on identification - Monotonicity (II)

- Suggestion I: Alternative approach to **show judge monotonicity using full sample**:

$$F_k = \Gamma \cdot \mathbb{D}_k^{Race} \cdot \mathbb{D}_j^{Race} + \alpha \cdot X_i + \beta \cdot X_j ...$$

Note: $\mathbb{D}_j^{Race}$ is based on $Z_{k,c,t}$ and indicates strict judges of a particular race.

- Suggestion II: Rule out **judge bias towards specific lenders**.
  - Could judges be biased against specific lenders perceiving them to be riskier, or otherwise?
  - Additional benefit of ruling out corruption as a confounder.

C1 - Comments on identification - Exclusion

Assumption III: Exclusion: does judge assignment affect borrower behaviour?

- Compliers (particularly among owners) have larger mortgages and live in better neighborhoods
- Compliers are **more likely to have a lawyer** or self-represent.
- Do compliers—who have more to lose from a negative outcome—respond to judge assignment?
- Do the outcomes studied for homeowners **conflate effects of a tough foreclosure** [higher legal fees, emotional costs] with those of a foreclosure?

Suggestion I: More information on the legal process - is judge strictness common knowledge?

Suggestion II: Show that the likelihood of having a lawyer does not change upon assignment.

C2 - Comments on interpretation

- Authors find significant negative outcomes compared to the more benign effects on renters.
- They argue that the combination of a financial shock and eviction for renters explains this outcomes.
- However, **are evictions for a homeowner and a renter comparable**?

Suggestion I: Compare individual and family renters

Suggestion II: Control for differences in tenure for homeowners and renters.

Suggestion III: Potential for expanding number of renters by expanding types of properties (?)

C3 - Comments on policy

- Costs of foreclosures are an **outcome of the institutional framework**. Foreclosures in Illinois and judicial, and lenders have recourse. This—roughly—applies to 20 states in the United States.

Source: Ghent and Kudlyak (2010)

	Recourse	Non-recourse
Judicial	**20**/42%	3/3%
Non-judicial	19/32%	8/23%

- Are the causal effects of foreclosures for homeowners **relevant only during the crisis?**
- What policy recommendations do we draw from the findings?
  - Are the personal outcomes externalities that should be addressed via policy?
  - Are these additional costs on top of the spillover costs reported in the literature so far?

Conclusion

Conclusion

- An important contribution on an important question/topic.

- Convincing research design to make causal claims on costs of foreclosures

- Exemplary transperancy in describing data and strengths/weaknesses of empirical design
  - I learnt a lot!

- Look forward to reading subsequent versions of the paper. Thanks for this opportunity!

Miscellaneous comments I

- With reference to C2 - including renters not in apartments may be useful. For instance, are renters in detached/semi-detached homes overwhelmingly share the same last name as the landlord?

- Table 6: landlord compliers are very unlikely to have a lawyer. What explains this?

- If feasible, expand the discussion on deficiency judgements. What is the average rate of deficiency judgements in Illinois during the crisis? A potential confounder - could strict judges also be issuing more deficiency judgements which drive divorces etc.?

- Specific idea for Suggestion 2 in C1c - you can show that the likelihood of having a higher lawyer is similar for compliers in strict judge and lenient judge groups.

- A suggestion related to monotonicity: to show whether judges are consistent over time,

  - Plot $Z_{.,c,t}$ and show that strict judges are consistently strict, and vice-versa.

Miscellaneous comments II

- Page 24—first pagragraph—probably trivial, but why restrict to the 5 most characteristics for propensity scores? Why not use all the data available?
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