A Discussion of

Unemployment, Negative Equity, and Strategic Default

by Kristopher Gerardi, Kyle F. Herkenhoff, Lee E. Ohanian, and Paul S. Willen

- 1) Attenuation bias
- 2) Unemployment, House Prices & Mortgage Delinquencies

AREUEA National Conference May 28, 2015 Comments by: Leonard Kiefer*, Freddie Mac Deputy Chief Economist

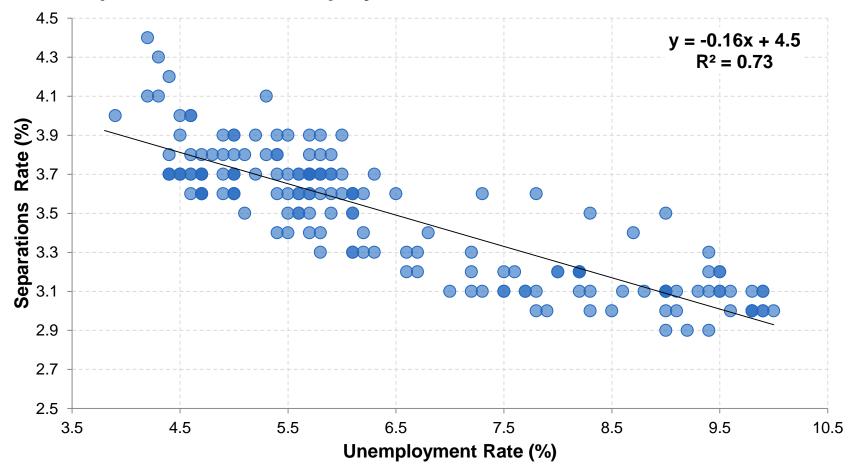
^{*}The views expressed in this discussion do not necessarily reflect those of Freddie Mac, its board, or any of its regulators.

1) Attenuation bias

Problems with modeling mortgage default as a function of the unemployment rate

Separations negatively correlated with unemployment...

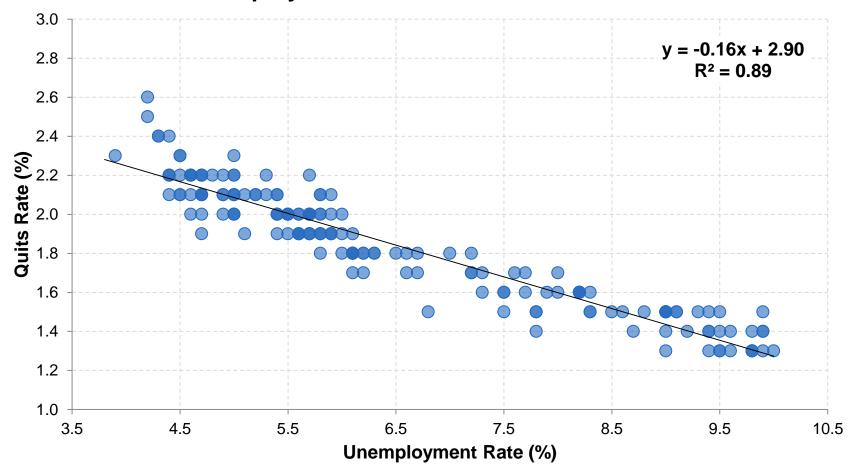
Separations and unemployment rate



Source: U.S. Bureau of Labor Statistics (BLS): Current Population Survey (CPS) and Job Openings and Labor Turnover Survey

...because when unemployment rises quits fall...

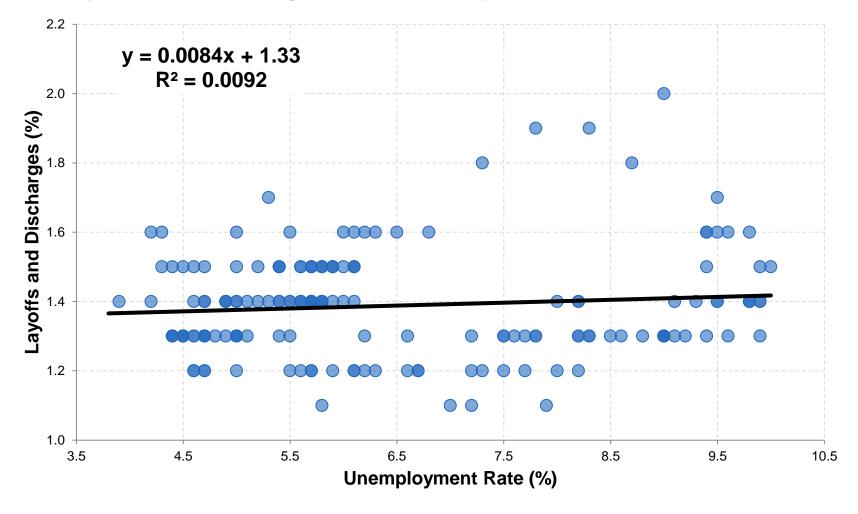
Quits and unemployment rate

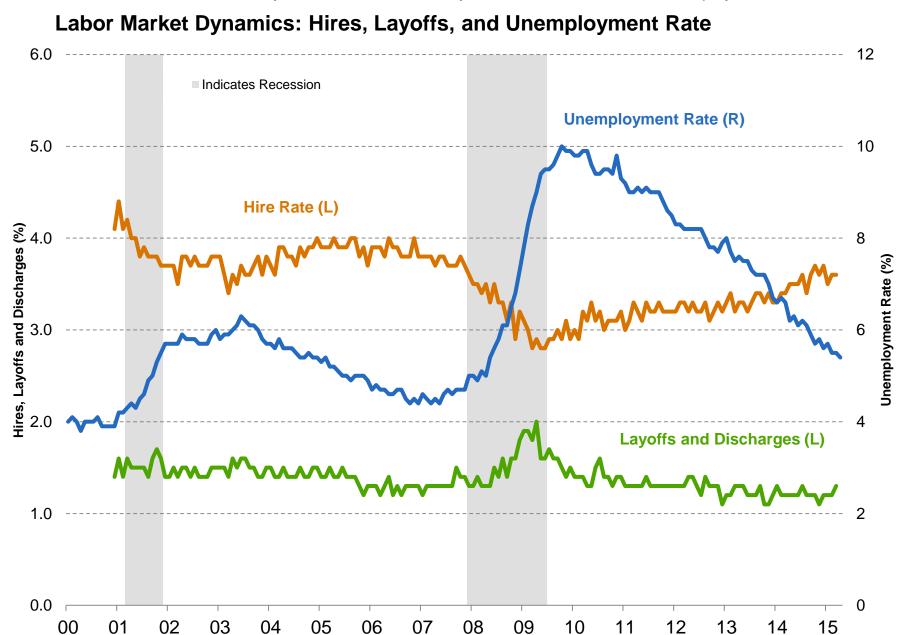


Source: U.S. Bureau of Labor Statistics (BLS): Current Population Survey (CPS) and Job Openings and Labor Turnover Survey

...and low correlation of unemployment and layoffs

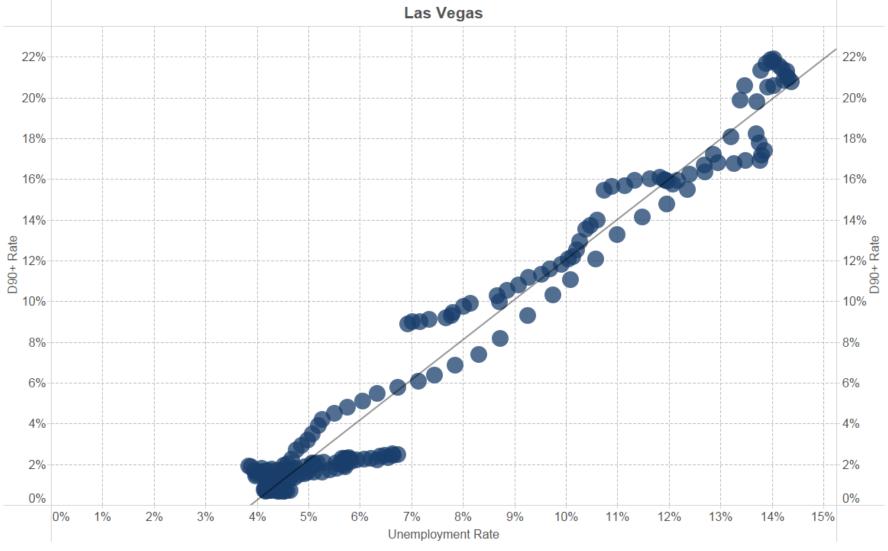
Layoffs and discharges and unemployment rate

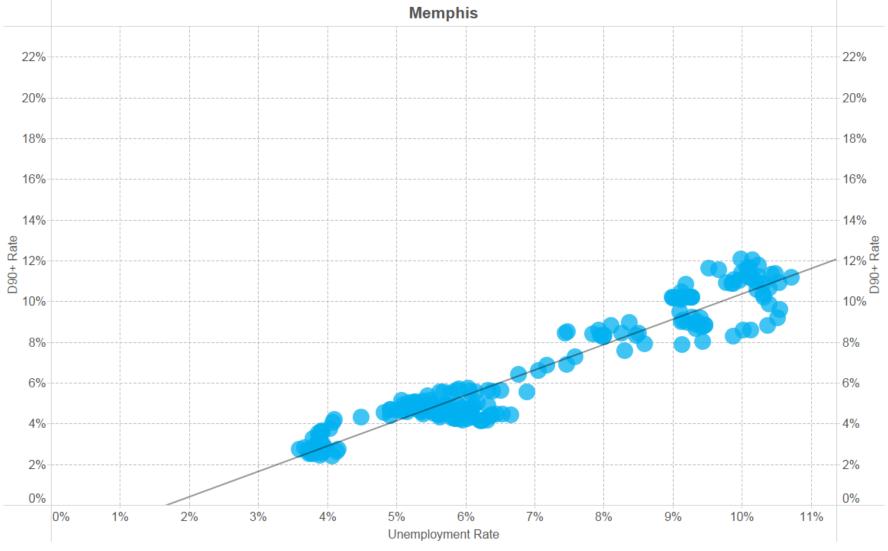


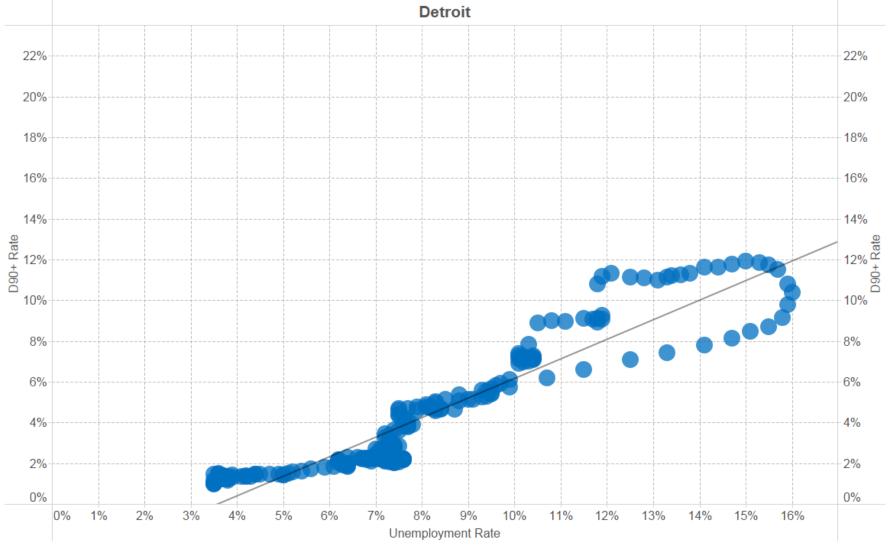


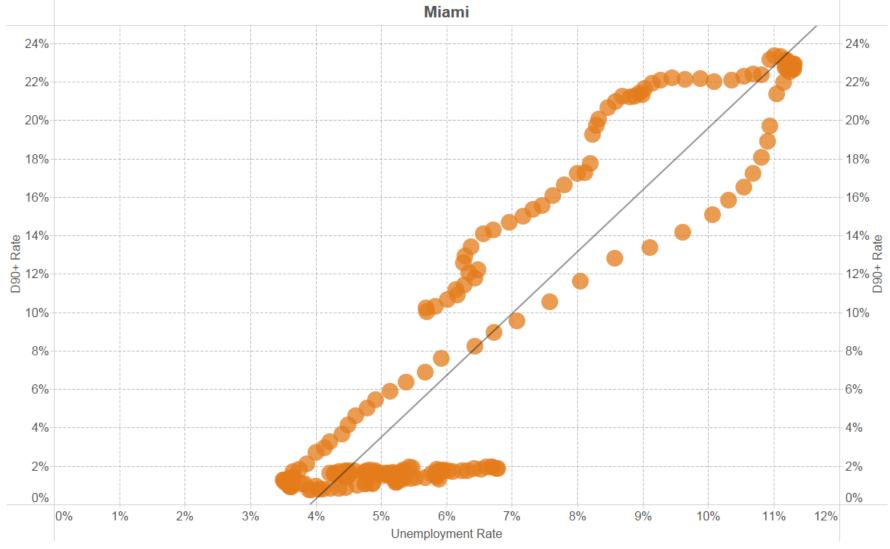
Source: U.S. Bureau of Labor Statistics (BLS): Current Population Survey (CPS) and Job Openings and Labor Turnover Survey

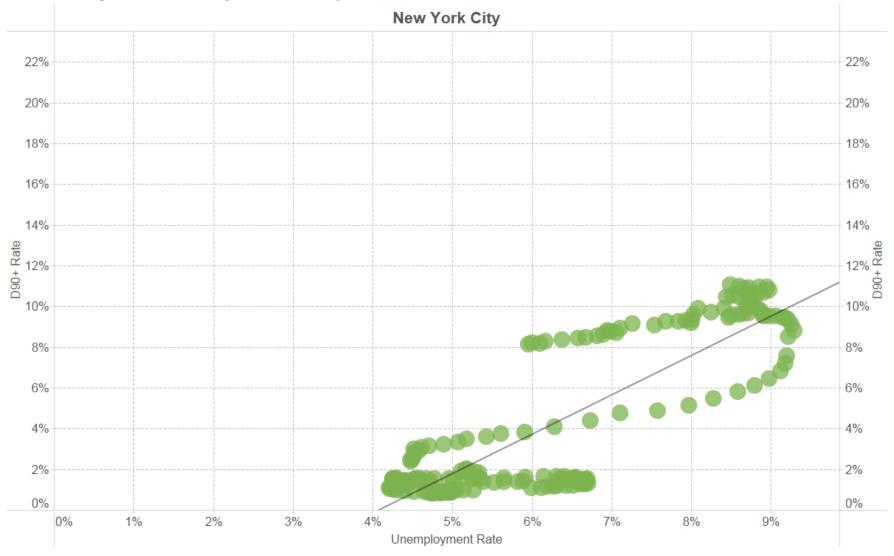
Unemployment, house prices
& mortgage delinquencies
or
Why none of this might matter to you

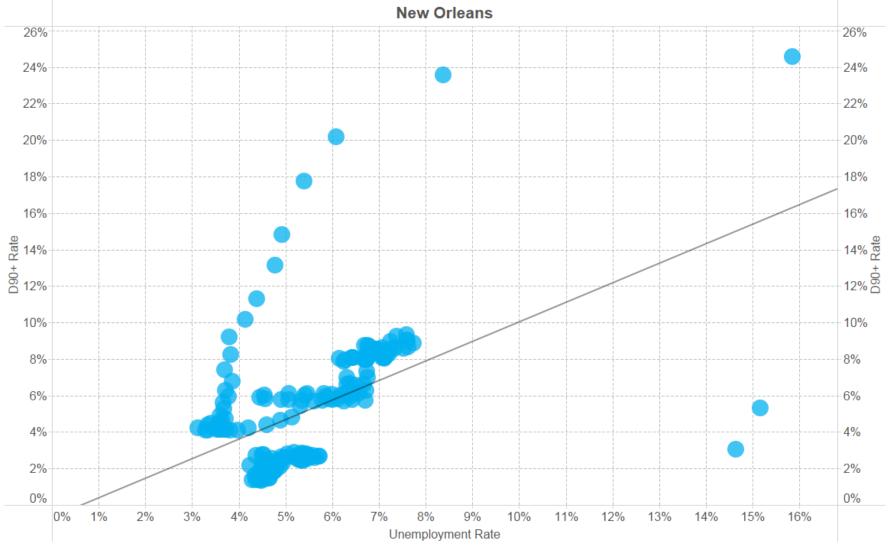


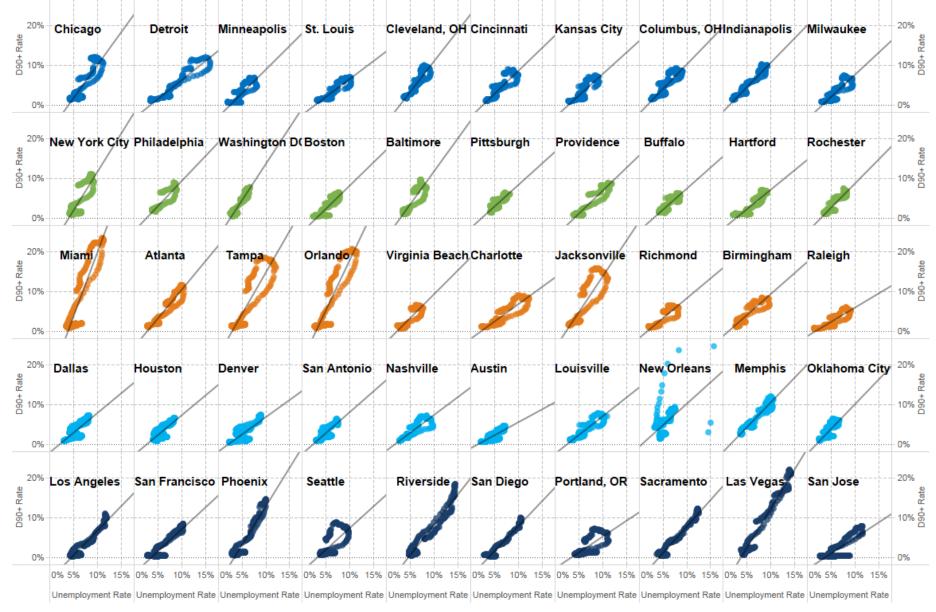












How did monthly mortgage seriously delinquent rates (D90+) and house prices vary over time (2006-2014)? 20% Chicago Minneapolis Cleveland, OH Cincinnati Kansas City Columbus, OHIndianapolis Detroit St. Louis Milwaukee D90+ Rate %01 0% 0% New York City Philadelphia Washington D(**Boston** 20% **Baltimore** Pittsburgh Providence Buffalo Hartford Rochester D90+ Rate %01 0% 0% 20% 20% Orlando Virginia Beach Charlotte Jacksonville Richmond Birmingham Raleigh Miami Atlanta Tampa Rate ģ 10% 0% 0% 20% New Orleans Memphis Oklahoma City 20% Dallas Denver Nashville Louisville Houston San Antonio Austin D90+ Rate %01 0% 20% Los Angeles San Francisco San Diego Portland, OR Sacramento Las Vegas **Phoenix** Riverside Seattle San Jose D90+ Rate %01 0% 0% 0 100 200 0 100 200 0 100 200 0 100 200 0 100 200 100 200 0 100 200 0 100 200 0 100 200 100 200 Hpi Hpi

Source: Freddie Mac House Price Index, CoreLogic

Over top 50 metros average R²: 0.89