

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

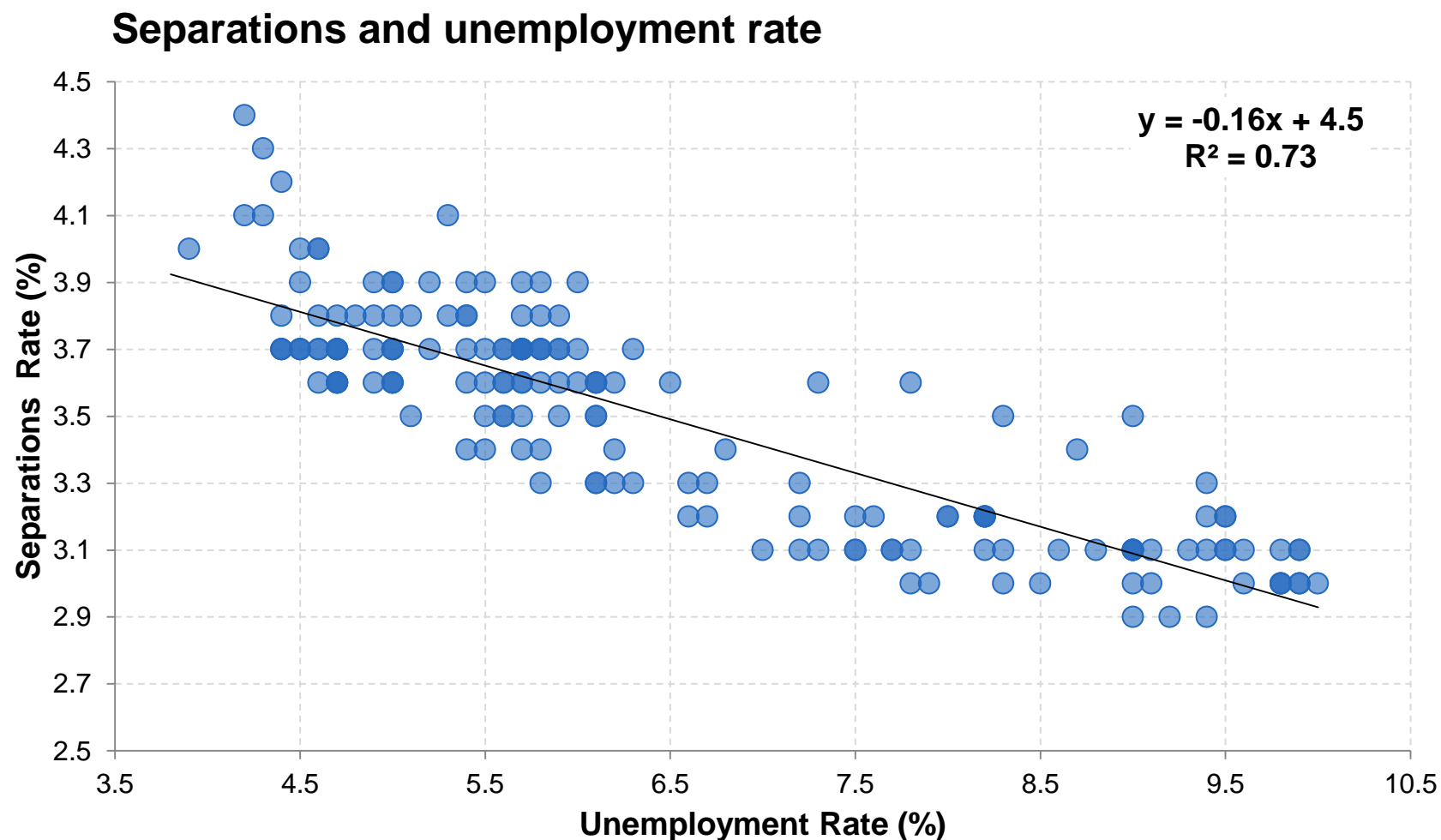
Comments by: Leonard Kiefer*, Freddie Mac Deputy Chief Economist

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

1) Attenuation bias

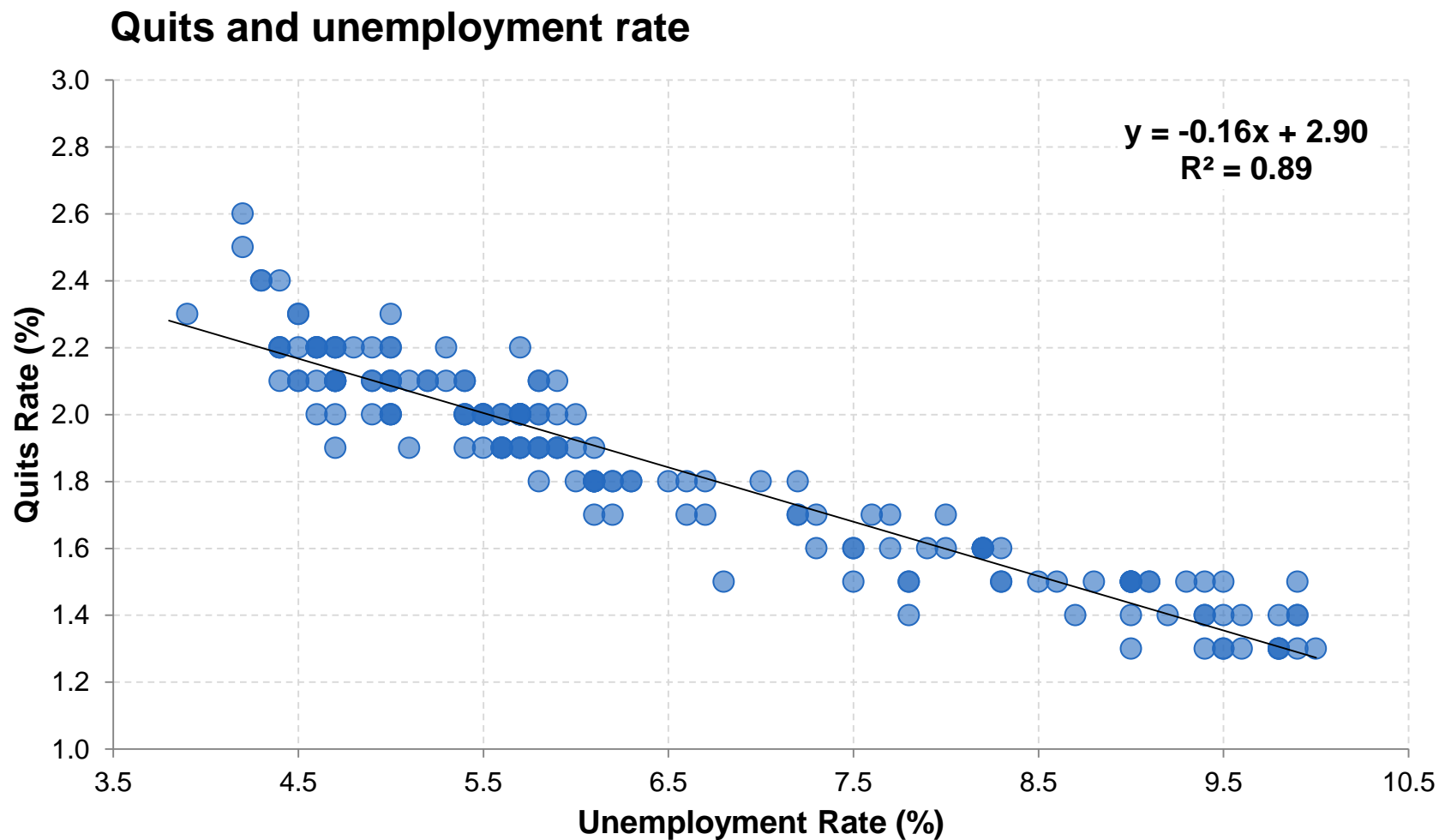
Problems with modeling
mortgage default as a function
of the unemployment rate

Separations negatively correlated with unemployment...



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

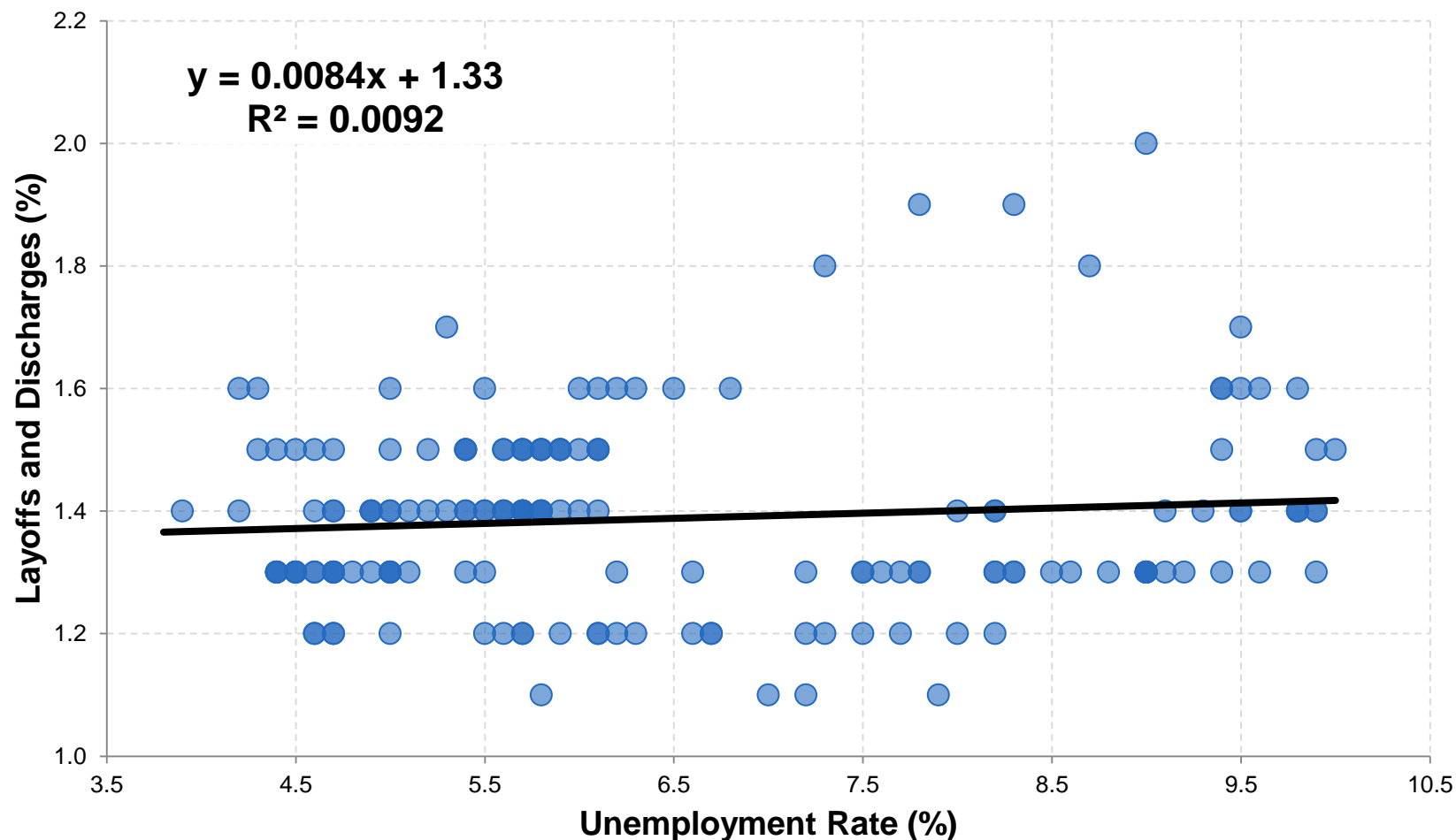
...because when unemployment rises quits fall...



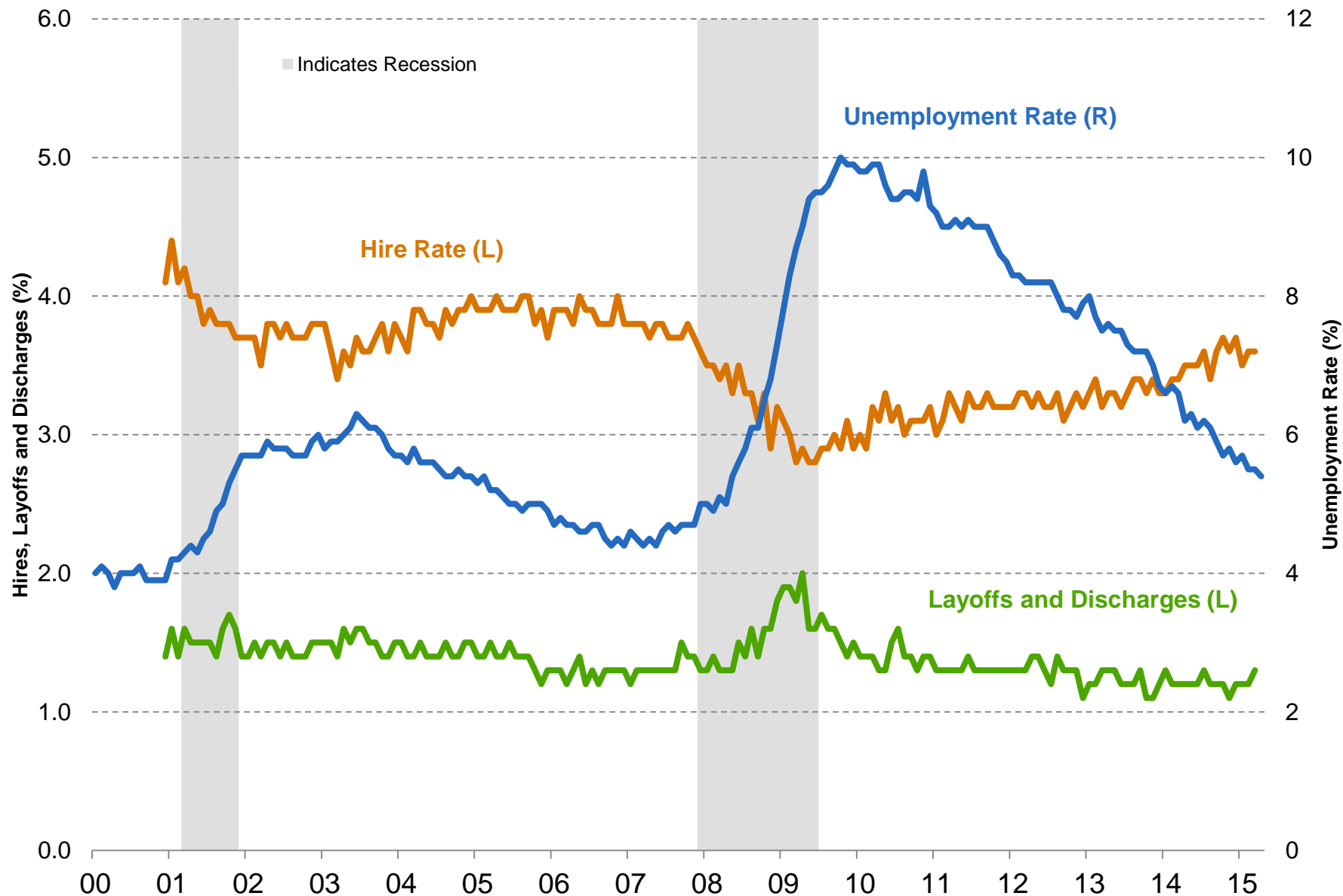
Source: U.S. Bureau of Labor Statistics (BLS): Current Population Survey (CPS) and Job Openings and Labor Turnover Survey

...and low correlation of unemployment and layoffs

Layoffs and discharges and unemployment rate



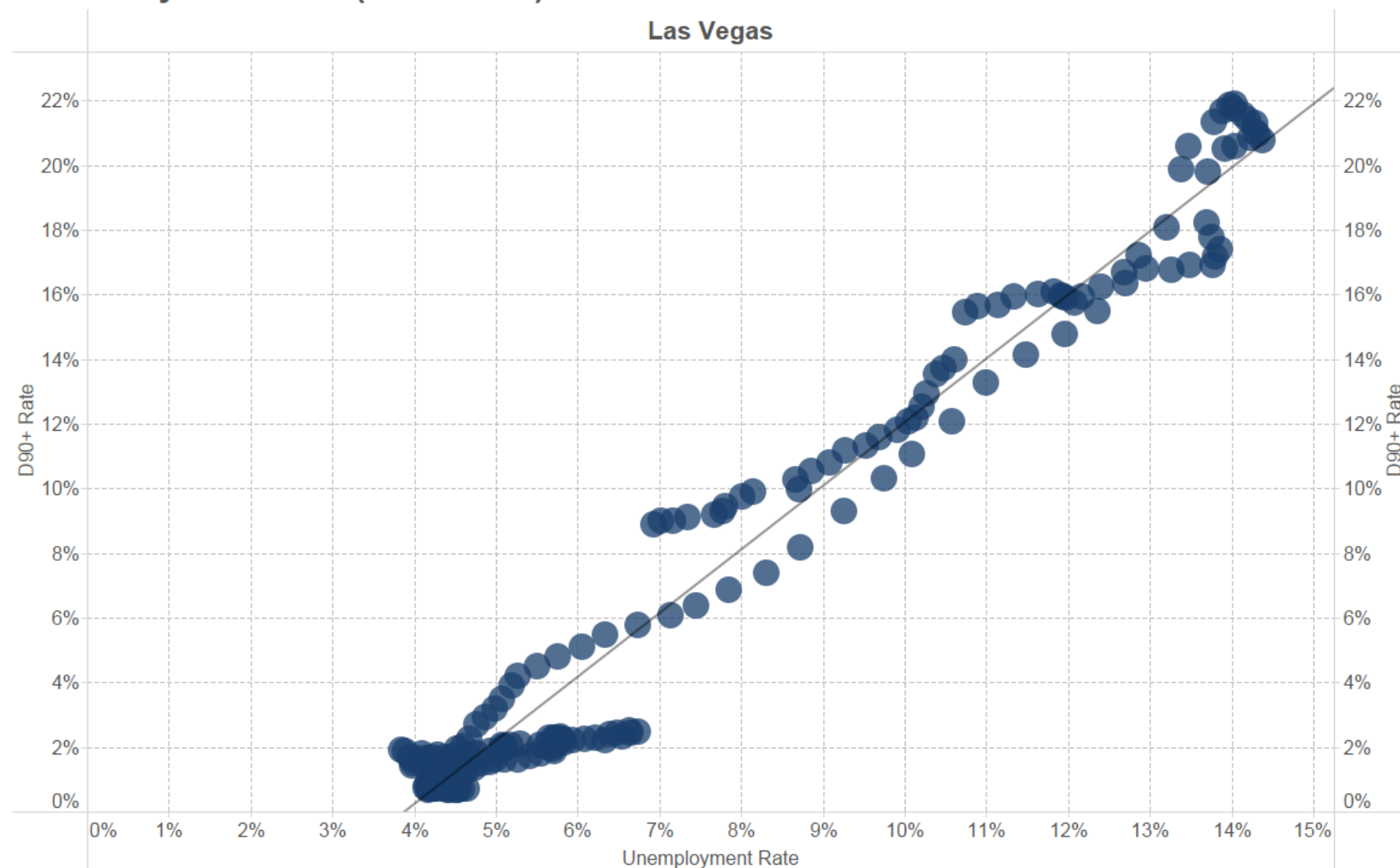
Labor Market Dynamics: Hires, Layoffs, and Unemployment Rate



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

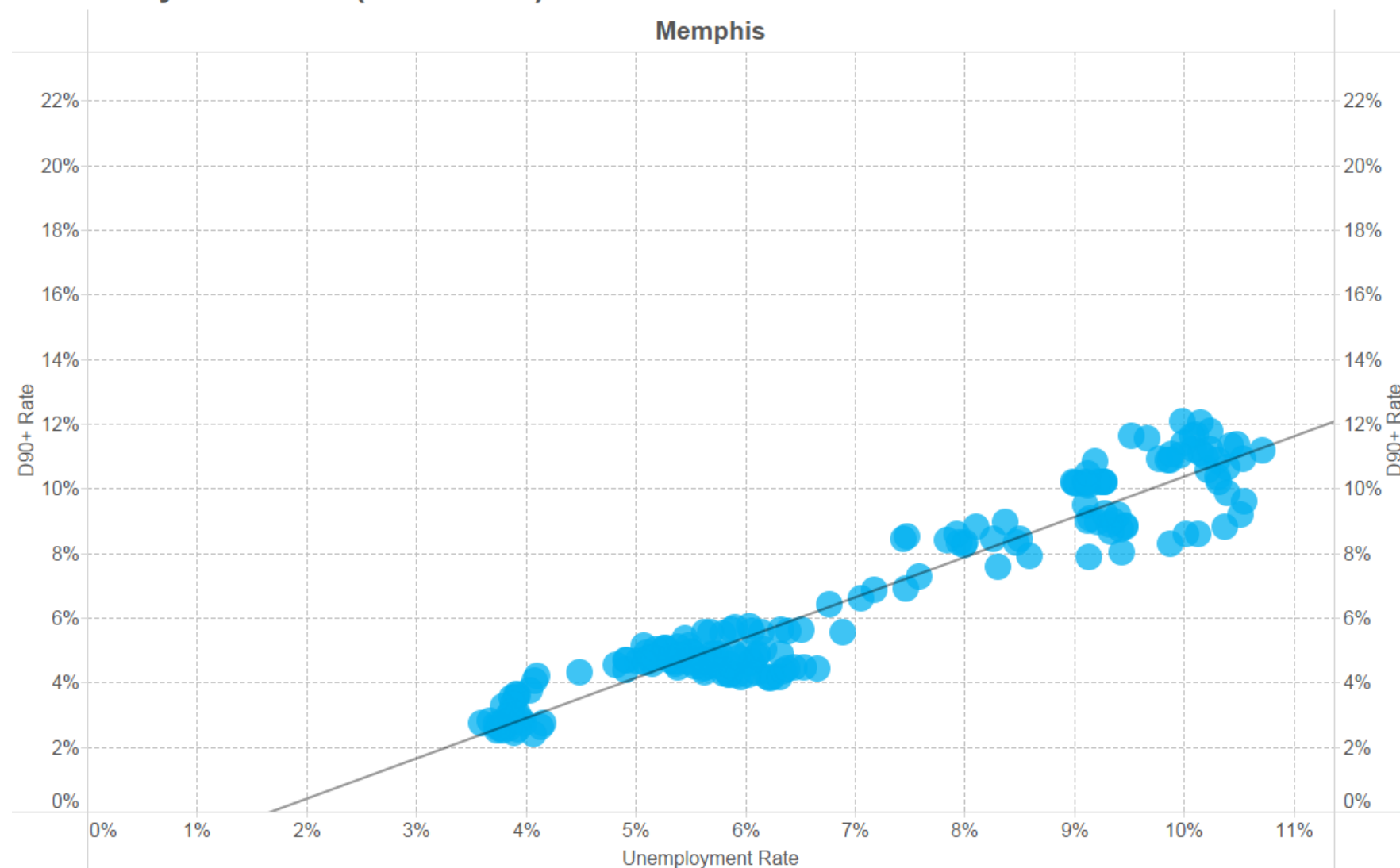
2) Unemployment, house prices
& mortgage delinquencies
or
Why none of this might
matter to you

How did monthly mortgage seriously delinquent rates (D90+) and unemployment rates vary over time (1999-2014)?



$R^2: 0.97$

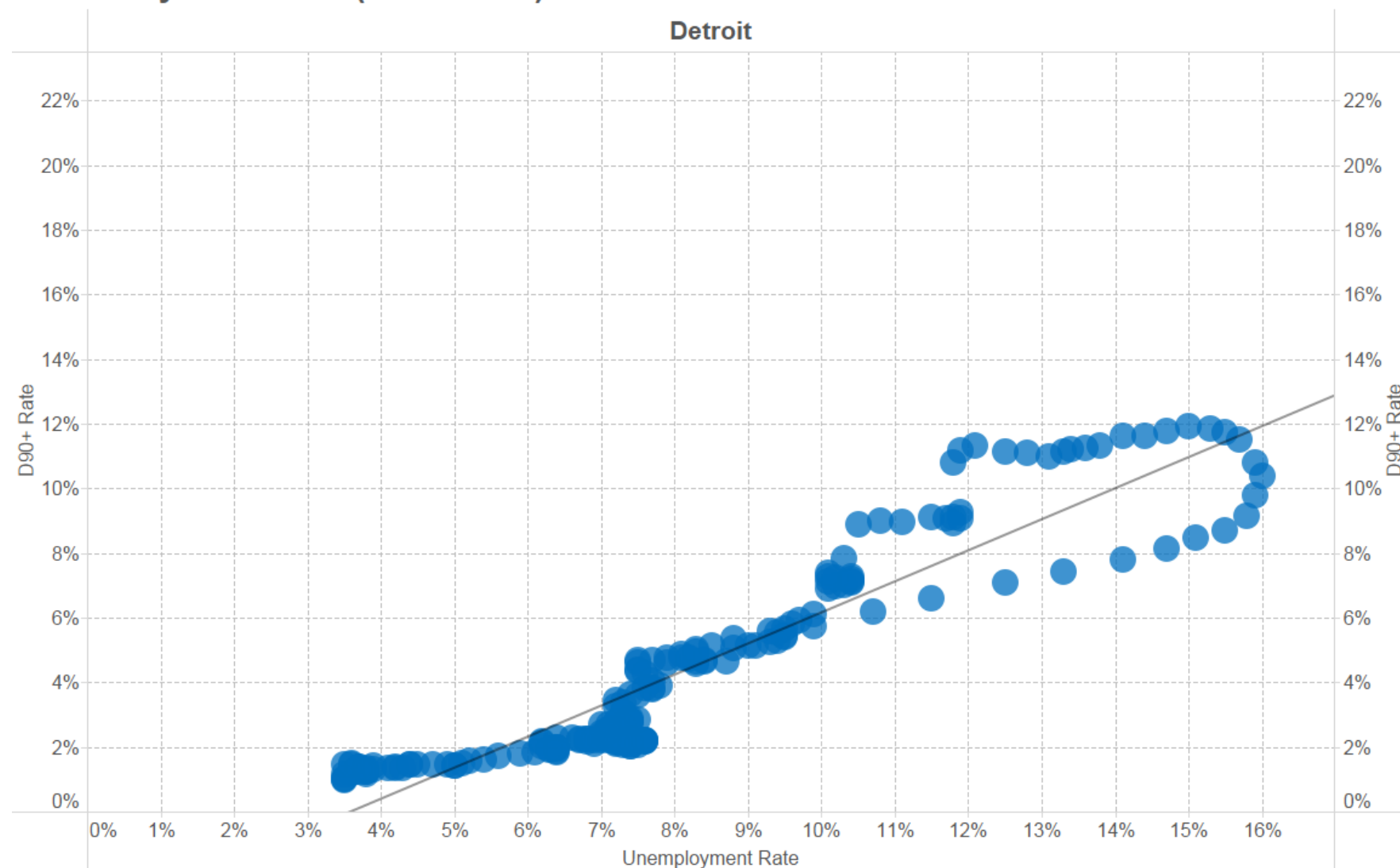
How did monthly mortgage seriously delinquent rates (D90+) and unemployment rates vary over time (1999-2014)?



Source: CoreLogic, BLS

$R^2: 0.92$

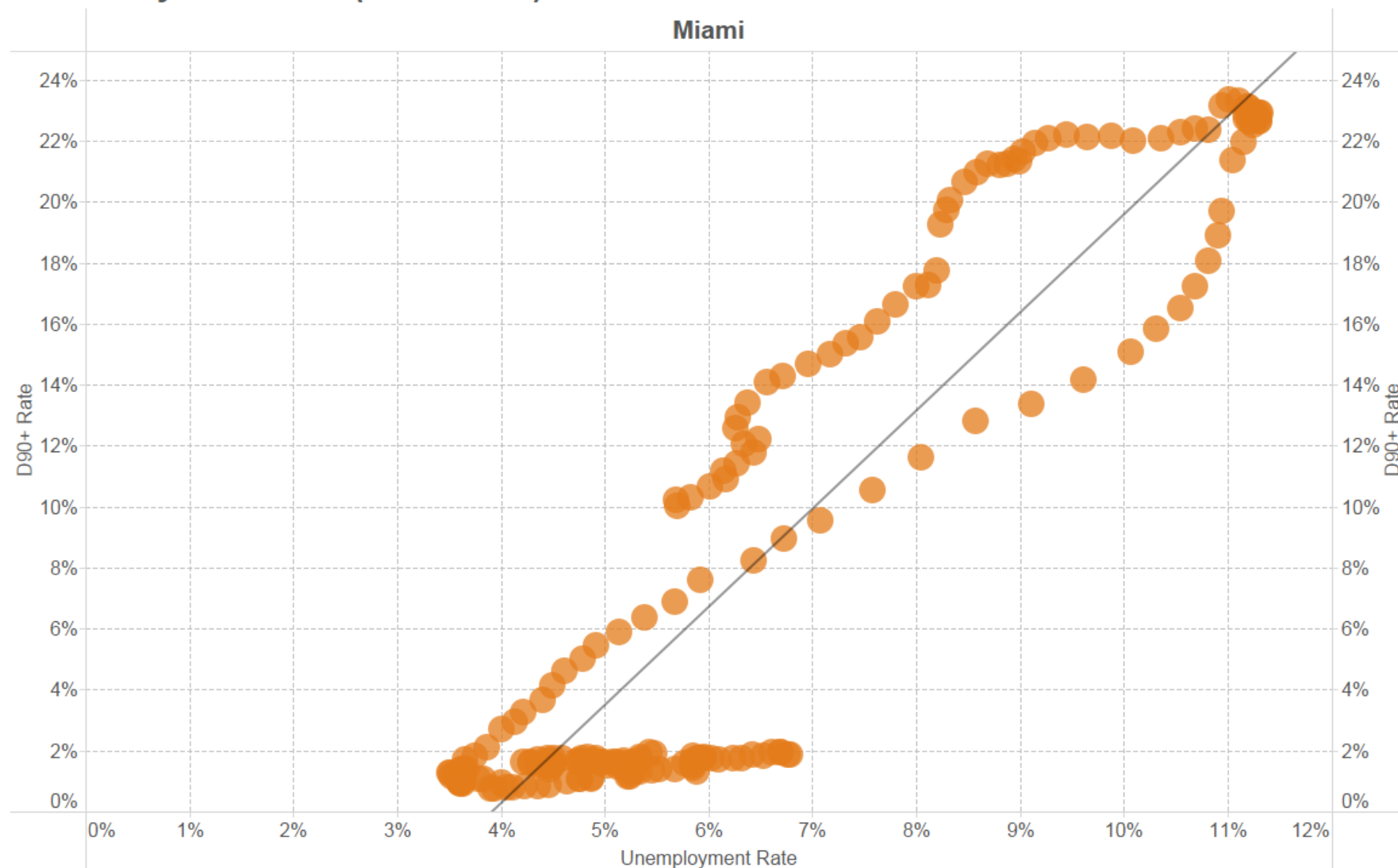
How did monthly mortgage seriously delinquent rates (D90+) and unemployment rates vary over time (1999-2014)?



Source: CoreLogic, BLS

$R^2: 0.88$

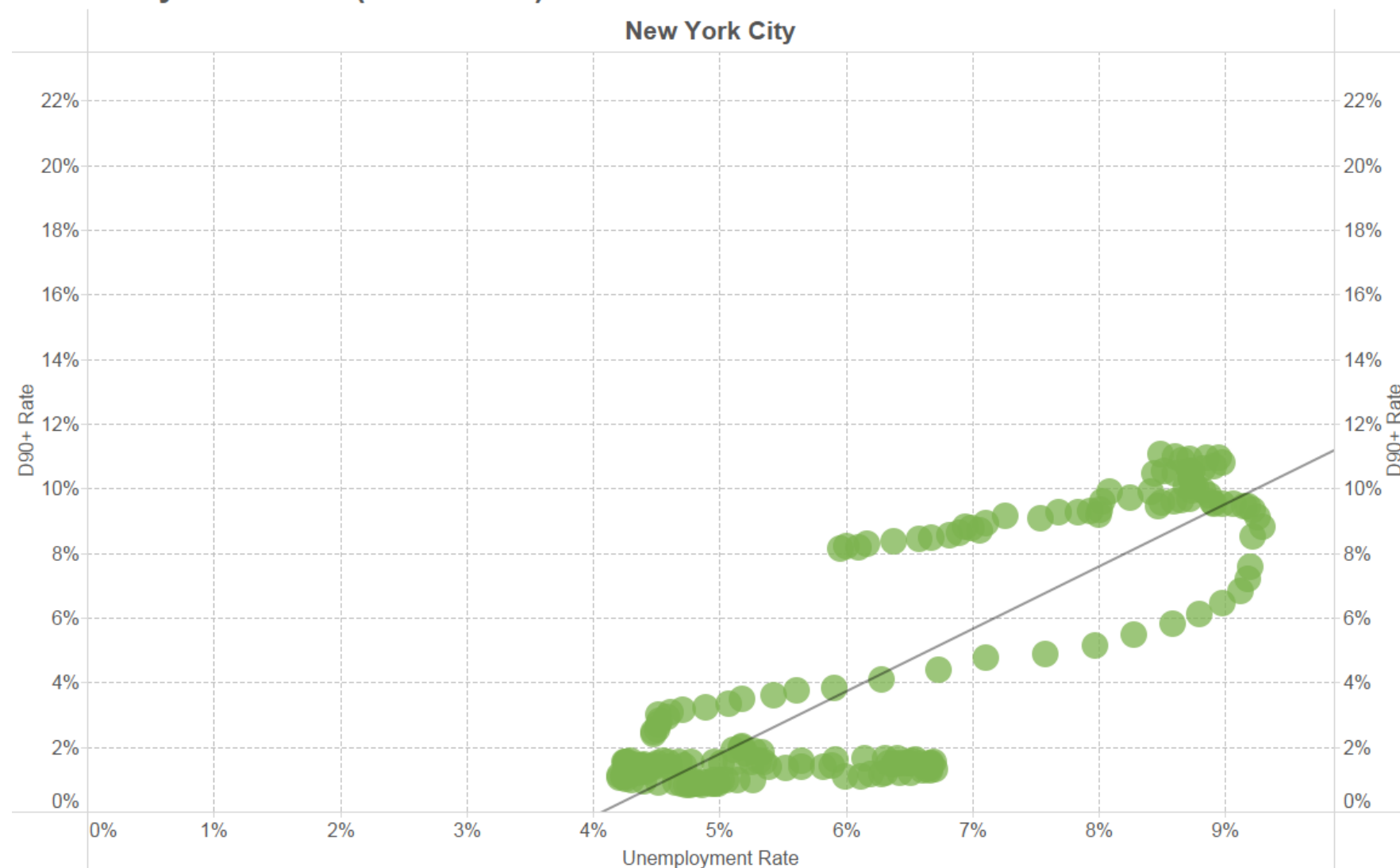
How did monthly mortgage seriously delinquent rates (D90+) and unemployment rates vary over time (1999-2014)?



Source: CoreLogic, BLS

$R^2: 0.84$

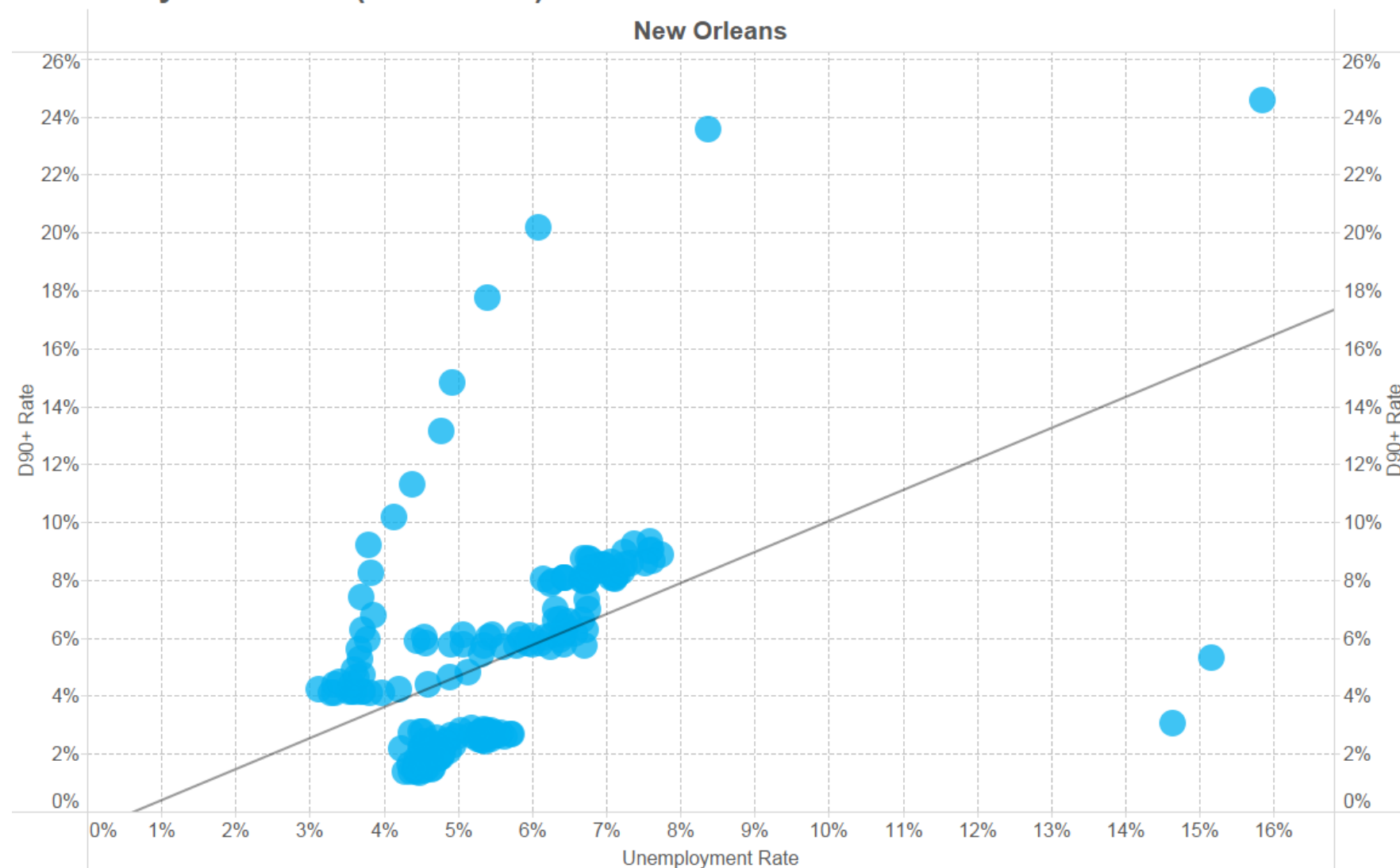
How did monthly mortgage seriously delinquent rates (D90+) and unemployment rates vary over time (1999-2014)?



Source: CoreLogic, BLS

$R^2: 0.73$

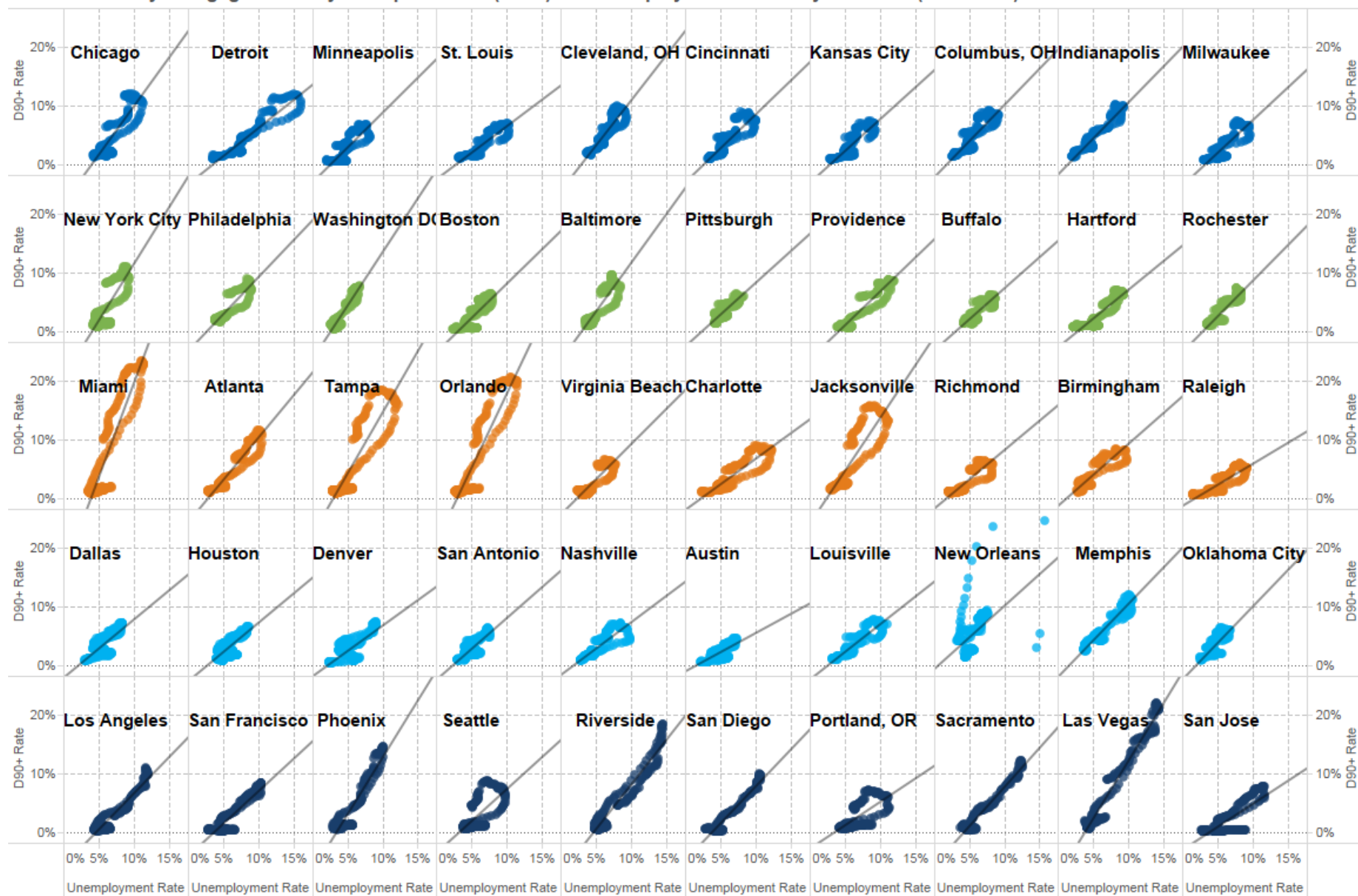
How did monthly mortgage seriously delinquent rates (D90+) and unemployment rates vary over time (1999-2014)?



Source: CoreLogic, BLS

$R^2: 0.25$

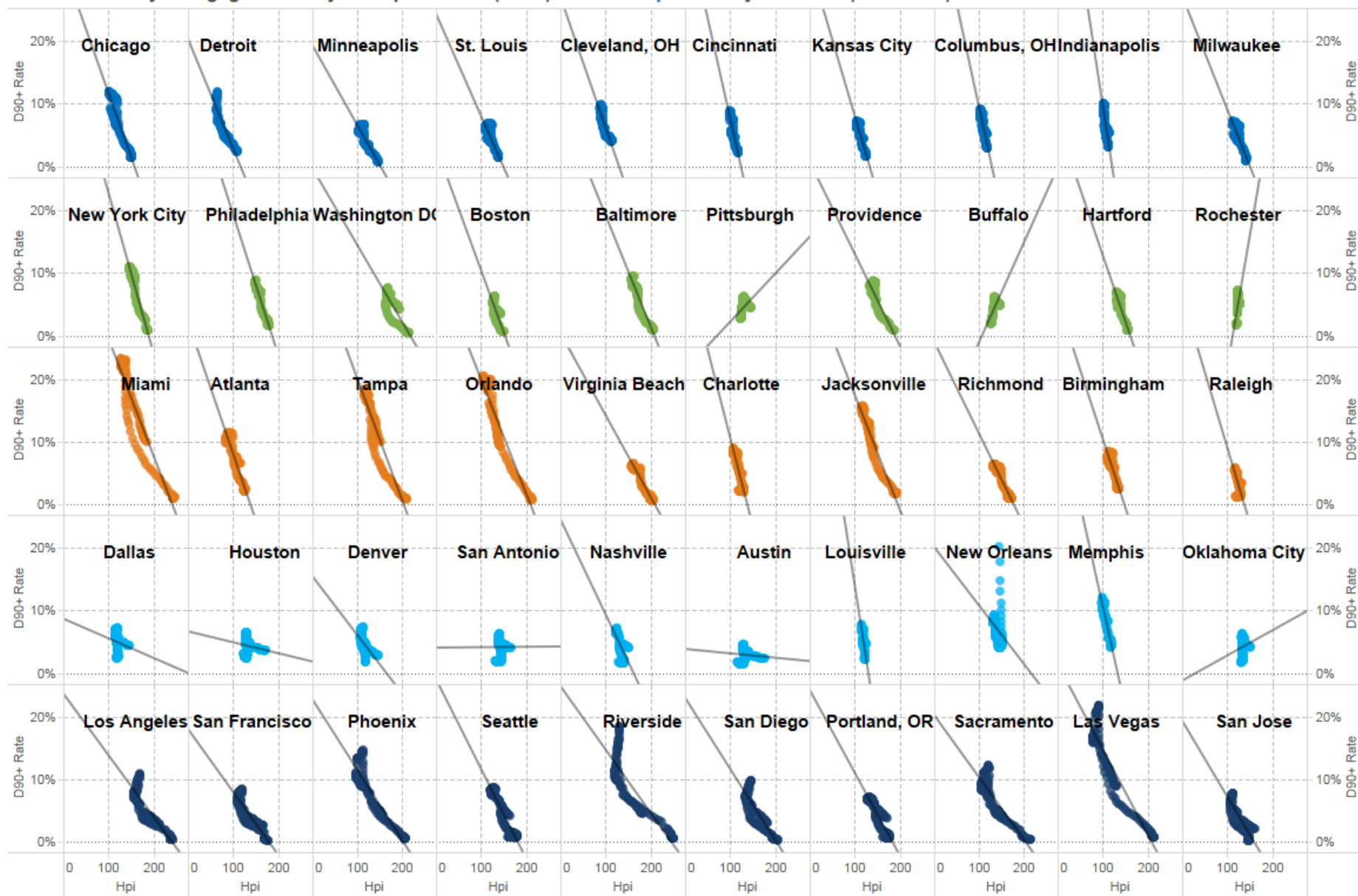
How did monthly mortgage seriously delinquent rates (D90+) and unemployment rates vary over time (1999-2014)?



Source: CoreLogic, BLS

Over top 50 metros average R^2 : 0.84

How did monthly mortgage seriously delinquent rates (D90+) and house prices vary over time (2006-2014)?



Source: Freddie Mac House Price Index, CoreLogic

Over top 50 metros average R^2 : 0.89