reading group summer 24
Liquidity versus Wealth in Household Debt Obligations: Evidence from Housing Policy in the Great Recession (2024)

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Outline

Introduction

- hello

Context

- massive expansion in tourism in Amsterdam
- increased supply of private rentals, increased supply of STRs
- New regulation in Amsterdam severely restricting STR supply (hotels and Airbnbs)

Related Literature

- spatial equilirium models
- effects of STR entry on the housing market and hotel revenue
- discrete-choice tools from the empirical io literature applied to urban residential markets

Outline

Data

- Two datasets
- First, HAMP data: loan-level dataset includes information on borrower characteristics and mortgage terms before and after modification
- it also includes the expected gain calculation run by servicers when evaluating borrowers for each modification type
- match to consumer credit bureau records from TransUnion
- Second, Chase Bank data: account-level monthly information on all mortgages serviced by Chase Bank and spending by mortgagors who also had a Chase credit card
- ncludes all borrowers who receive either a government-subsidized HAMP or private modification

Outline

Background on HAMP

- introduced in 2009 in response to foreclosure crisis
- provided government subsidies to help facilitate mortgage modifications for borrowers struggling to make their payments
- primary goal of HAMP modifications is to provide borrowers with more affordable mortgages
- all borrowers who receive modifications have their payment reduced to reach a 31 percent payment-to-income (PTI) ratio for at least five years
- set of elgibility criteria
- mean payment reduction is $680 per month

Background on HAMP

- contrasting borrowers assigned to two distinct modification types
- "payment reduction" modification vs "payment and principal reduction" modification

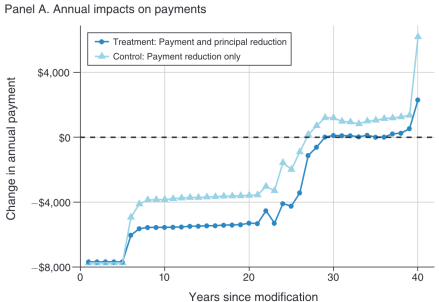


Figure 1:

Identification

- based on cutoff rule (CUTOFF $\implies$ RDD!!)
- servicers calculate the expected NPV of cash flows for lenders under the status quo and under each of the two modification types
- principal reduction is determined in part by a calculation examining which modification type is expected to be most beneficial for the lender

(a) Figure 1

(b) Figure 2

Results

- principal reduction has no impact on default
- principal reduction was also costly to lenders: estimate that they had to forgive at least $1.3 million in principal to prevent one foreclosure
- government spent about $8,000 per modification to support the additional principal reduction of the size we analyze in our treatment group. This translates into a cost of at least $365,000 per avoided foreclosure, almost an order of magnitude larger than common estimates of the social costs of foreclosure
- inconsistent with prior evidence which relied on cross-sectional evidence

Outline

Identification

- diff-in-diff design
- control group: set of underwater borrowers who were eligible for principal reductions, but who instead received only payment reduction modifications
- treatment captures the effect of long-term debt forgiveness holding short-term payments and access to liquidity fixed

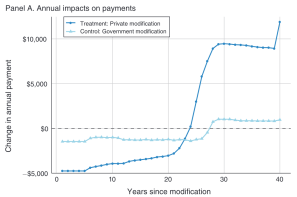
Figure 2: parallel trends

- result: no effect on consumption

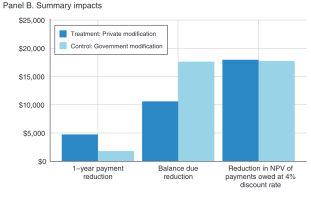
Outline

Background

- compare HAMP to private modifications
- private modifications used a payment reduction target (vs PTI) - larger decreases in payments
- they use maturity extension as a low-cost tool for achieving deeper immediate payment reductions without reducing long-term obligations



(a) Figure 1



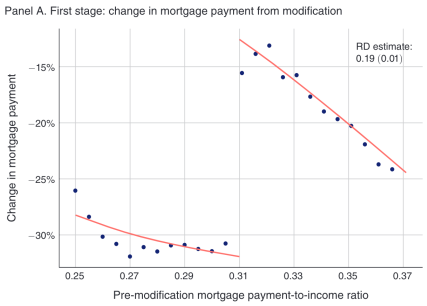
(b) Figure 2

Identification

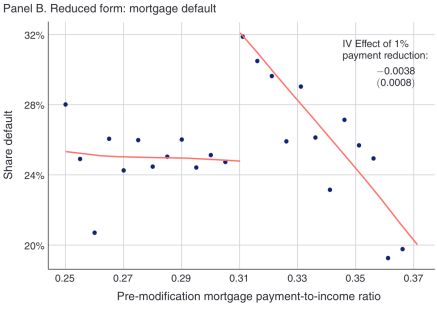
- used HAMP elgibility cutoff of 31% PTI
- those below cutoff: only private modifications; above the cutoff: half and half
- PTI cutoff therefore serves as an instrument for allocating borrowers between HAMP modifications with small payment reductions and private modifications with large payment reductions

Identification

- payment reductions are approximately constant below the cutoff and increasing above the cutoff
- the default rate falls sharply by 7.3 percentage points



(c) Figure 1



(d) Figure 2

Outline

Dicussion: default

- key result: liquidity drives default and negative equity does not affect default
- time frame matters: this treatment was implemented in 2010
- more generous principal reductions could affect default rates
- principal reduction is ineffective for borrowers and costly to both lenders and taxpayers
- payment-focused modifications are able to successfully reduce defaults for borrowers, at zero cost to taxpayers and at negative cost to lenders

Dicussion: consumption

- two key channels for relationship between housing wealth and consumption: wealth and collateral constraints
- MPC from principal reduction is effectively zero ...
- ... suggesting that the wealth channel is weak
- the timing of liquidity matters
- show that current consumption is unresponsive to changes in future liquidity

Conclusion

- applied to the main government program for distressed borrowers during the Great Recession, our results imply that 267,000 defaults could have been avoided
- i liked this paper but some parts were way too boring
- the appendix had a bunch of models ???

See ya