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Finance

Mortgage Delinquency and Default: A Tale of Two Options

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Abstract

The Basel capital rule framework and much of the recent literature on mortgage default have used 60-day or 90-day delinquency, rather than actual loss of property, to define mortgage default; yet the differences between default (loss of the property) and delinquency have been neither clearly recognized nor well understood. By distinguishing borrowers' delinquency option (borrowing by not making payments) from their default option (giving up property in exchange for the mortgage), we find that borrowers' delinquency options are more affected by personal trigger events or shocks, while default options are mostly affected by negative equity. Moreover, while underwriting standards contribute to increasing delinquencies, their influence on default is decreasing over time. As a result studies that have used delinquency in models designed to analyze actual losses appear to have made major errors in understanding causes of financial losses during the Great Recession. A possibility is that they have overestimated the importance of subprime loans and underestimated the importance of cyclical and regional property value changes as they effect the position of financial institutions.

Date: **15 February, 2017 (Wednesday)**
Time: **10:30~12:00**
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A Short Biography of Prof. Robert VAN ORDER

Robert VAN ORDER holds the Oliver Carr Chair in Finance and Real Estate at George Washington University. He was Chief Economist of Freddie Mac from1987 until 2002. He has taught at the University of California, Los Angeles, Purdue University, the University of Southern California, Queens University in Canada, American University in Washington, D.C., Ohio State University, the Wharton School at the University of Pennsylvania, the University of Aberdeen in Scotland and the University of Michigan. He has consulted on mortgage markets in Sri Lanka, India, Latvia, Russia, Ghana, Nicaragua, Brazil, Egypt, Colombia, Poland and Pakistan. He is currently on Sabbatical and is Visiting Scholar at the Urban Institute.

His current research interests are modeling credit risk and modeling the behavior of financial institutions and financial policy. His most current interest is in shadow banking with an emphasis on Chinese banking. He received the George Bloom Distinguished Service Award: American Real Estate and Urban Economics Association, 2007

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