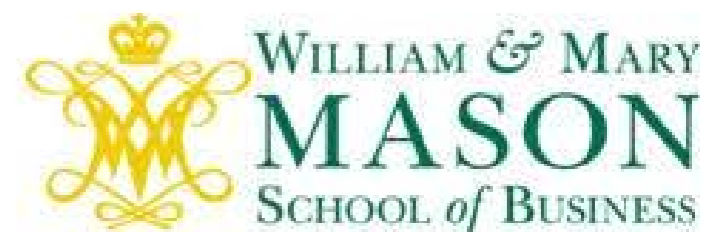




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Strategic Mortgage Default and the Impact on Surrounding Homes and Homeowners

**Dr. Michael J. Seiler, The College of William & Mary
K. Dane Brooksher Endowed Chair of Real Estate**





Some Past Studies

■ Harvard, MIT, JHU, USC, NUS, OCC, etc...

- Seiler, Michael J., and Eric Walden, “A Neurological Explanation for Strategic Mortgage Default,” ***Journal of Real Estate Finance and Economics***, forthcoming.
- Seiler, Michael J., “Do as I Say, Not as I do: The Role of Advice versus Actions in the Decision to Strategically Default,” ***Journal of Real Estate Research***, forthcoming.
- Seiler, Michael J., “The Role of Informational Uncertainty in the Decision to Strategically Default,” ***Journal of Housing Economics***, forthcoming.
- Seiler, Michael J., Mark A. Lane, and David M. Harrison, 2014, “Mimetic Herding Behavior and the Decision to Strategically Default,” ***Journal of Real Estate Finance and Economics***, 49:4, 621-653.
- Seiler, Michael J., 2014, “The Effect of Perceived Lender Characteristics and Market Conditions on Strategic Mortgage Defaults,” ***Journal of Real Estate Finance and Economics***, 48:2, 256-270.
- Gangel, Marshall, Michael J. Seiler, and Andrew J. Collins, 2013, “Exploring the Foreclosure Contagion Effect Using Agent-Based Modeling,” ***Journal of Real Estate Finance and Economics***, 46:2, 339-354.
- Seiler, Michael J., Vicky L. Seiler, Mark A. Lane, and David M. Harrison, 2012, “Fear, Shame, and Guilt: Economic and Behavioral Motivations for Strategic Default,” ***Real Estate Economics***, 40:S1, 199-233.
- Seiler, Michael J., Vicky L. Seiler, and Mark A. Lane, 2012, “Mental Accounting and False Reference Points in Real Estate Investment Decision Making,” ***Journal of Behavioral Finance***, 13:1, 17-26.
- Seiler, Michael J., and Vicky L. Seiler, 2010, “Mitigating Investor Risk-Seeking Behavior in a Down Real Estate Market,” ***Journal of Behavioral Finance***, 11:3, 161-167.



What is Behavioral and Experimental Real Estate?

- **Behavioral RE:** Recognizing that people care about more than money.
- **Experimental RE:** A (primary) data collection method required when other data does not exist.



What is Strategic Mortgage Default?

- **Economic Default:** When a homeowner defaults on his mortgage due to an inability to make monthly payments
- **Strategic Default:** When a homeowner makes the conscious choice to default on his mortgage even though he is fully capable of making his monthly payments



Strategic Mortgage Default

- **25% of all homes are underwater (regional)**
 - Yet far fewer loans are in default
- **Strategic Defaults (SD) are on the rise**
 - Estimated to be from 10%~26%
 - Guiso, Sapienza, and Zingales (2013), FICO (2011), and Wyman (2010)
- **Viewed as a major reason for the slow economic recovery**



Informational Uncertainty

- **Financial life after mortgage breach is currently extremely uncertain**
 - And varies greatly by state
 - strategicdefault.org & youwalkaway.com
 - Cost of time, legal expenses, and even health concerns (anxiety, marital problems, etc.)



Informational Uncertainty

- **Why is SMD potentially attractive?**
 - Live rent-free (in the meantime – for years)
 - Low Probability of Lender Recourse
 - Even in states that allow for lender recourse
 - Lenders are overwhelmed with cases
 - Legal pursuit is expensive
 - Many borrowers do not have the money
 - Winning is not the same as collecting
 - May reach a settlement below UPB (BR threat)



Morality of SMD

- **SMD is widely viewed as being immoral – even by people who do it**
 - 80%~90% of people view SMD as immoral
- **Many mitigating circumstances**
 - Lender Characteristics (egregious lender; distant versus local lender; common vs. uncommon default)
 - Borrower Characteristics (age, gender, blame game, previous default, malleability)

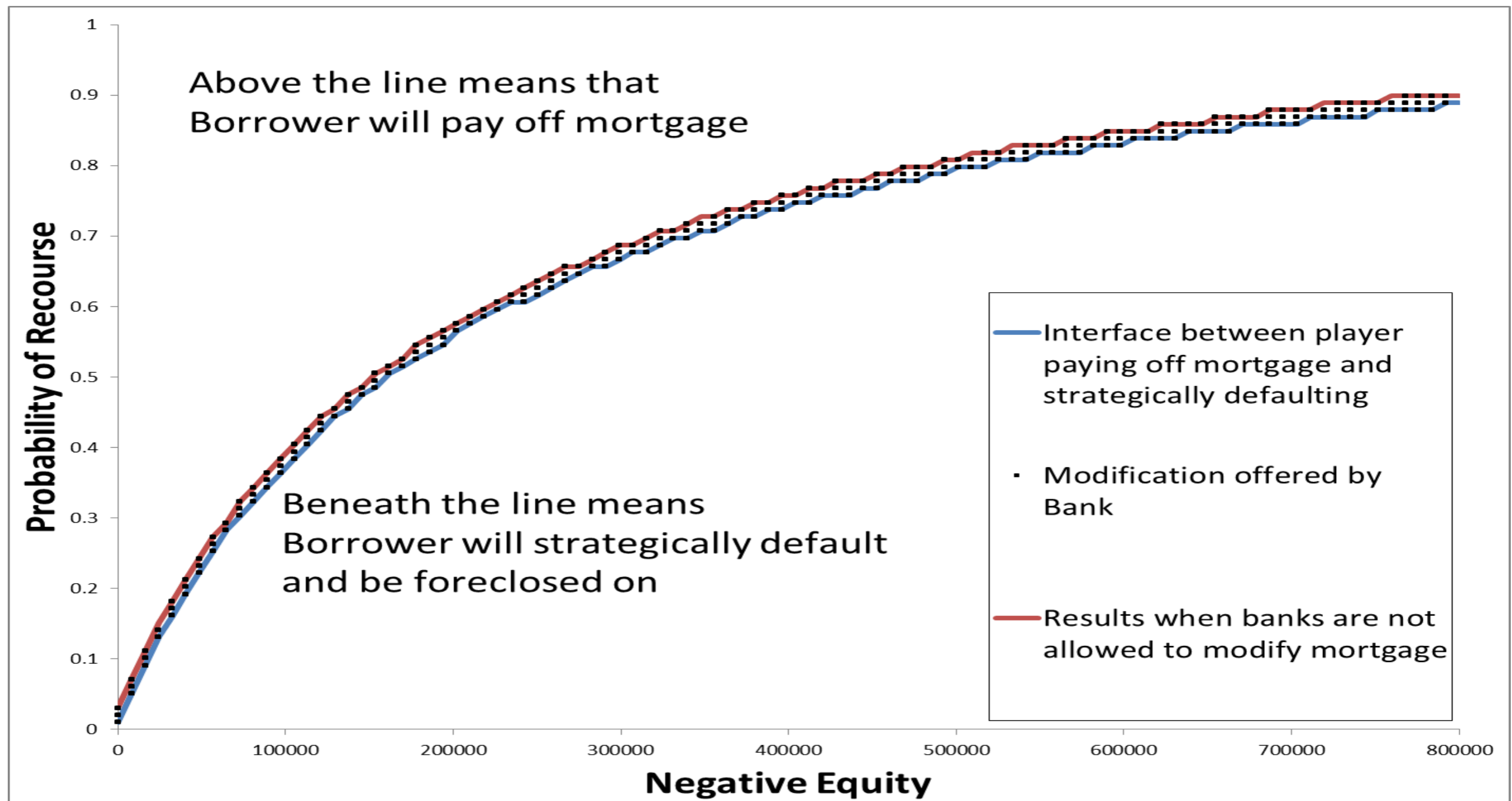


NeuroScience (fMRI)





Game Theory: It almost NEVER Makes Sense to Modify a Loan !!





Epidemiology: Social Network Study

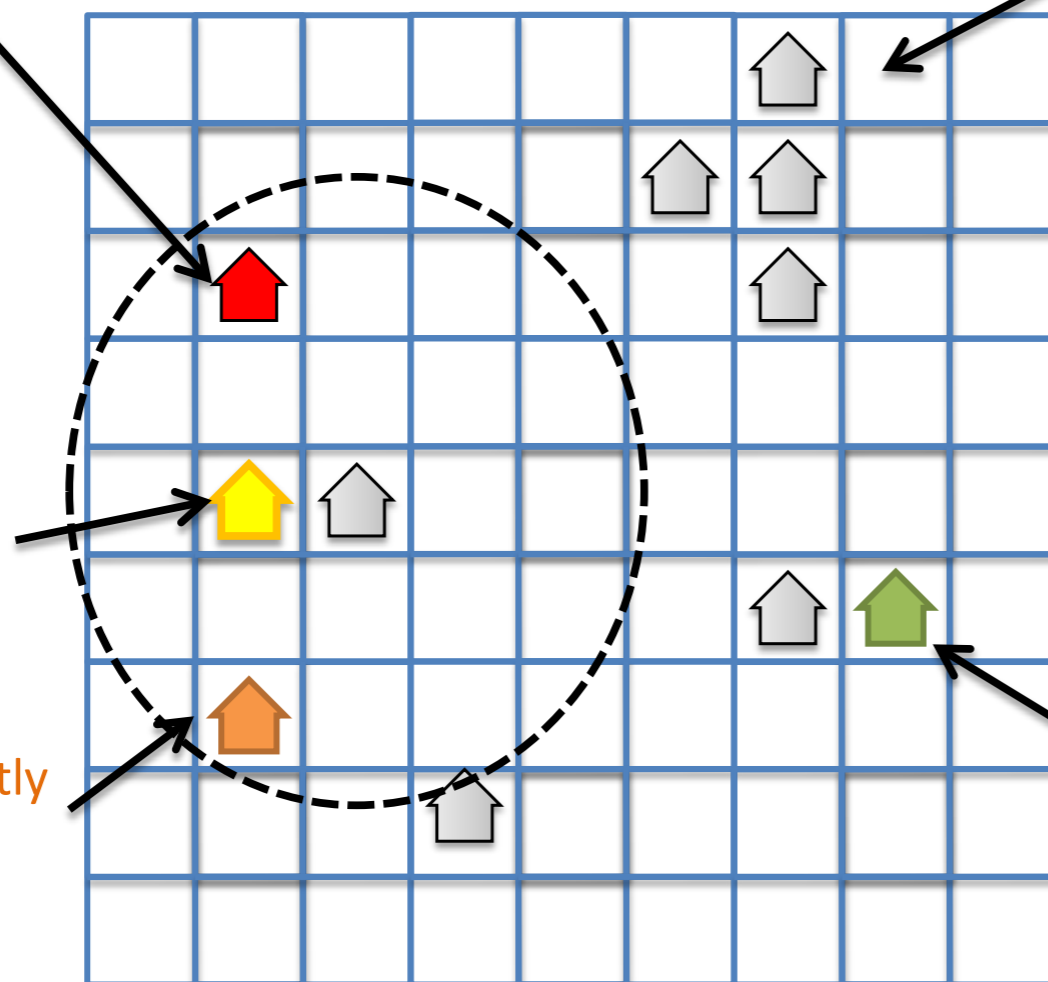
Red: Foreclosed House

Gray: Normal House

Yellow: marginally
underwater.

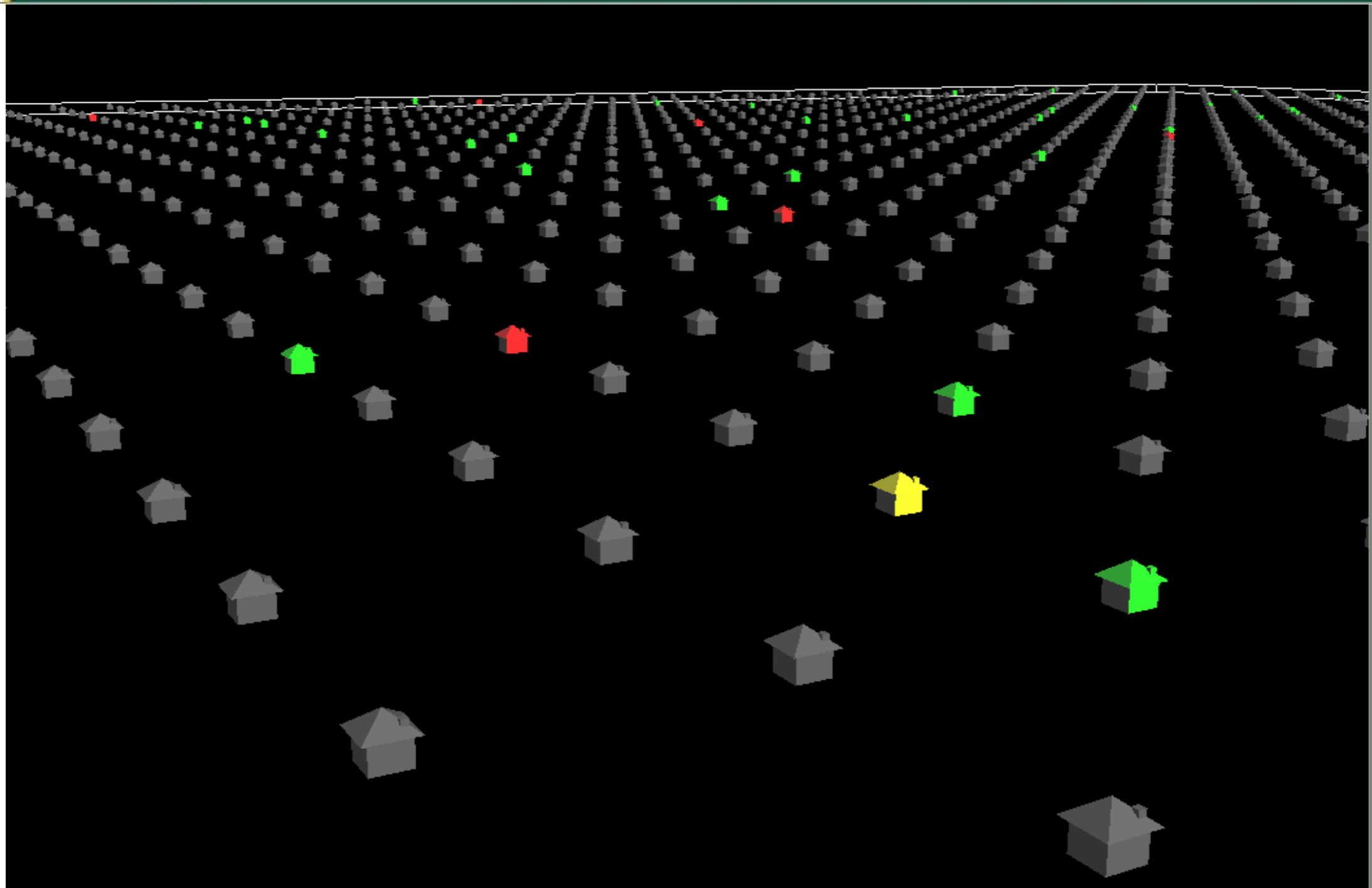
Orange: significantly
underwater.

Green:
Indicates on
market



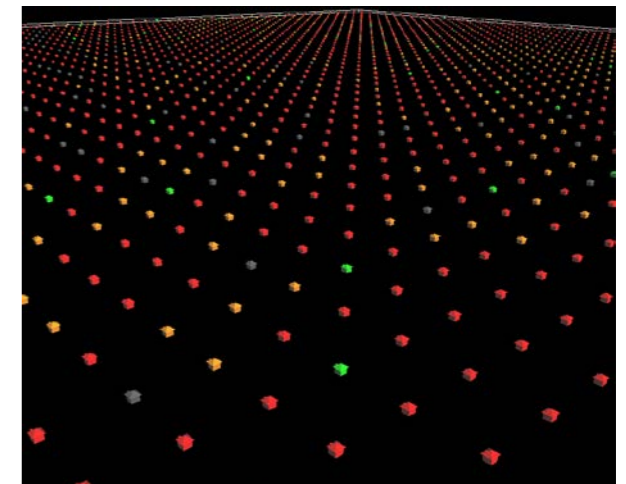
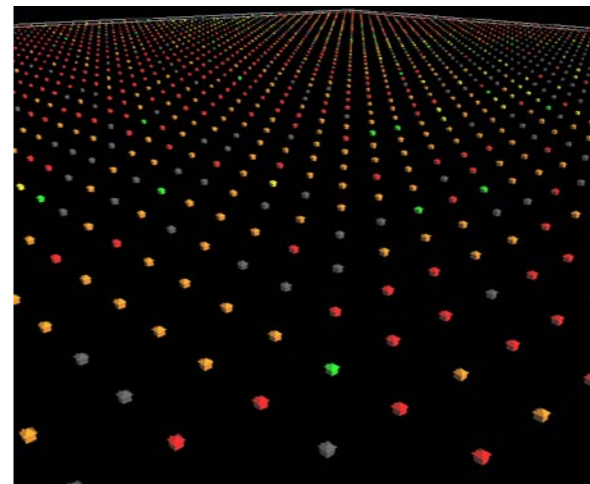
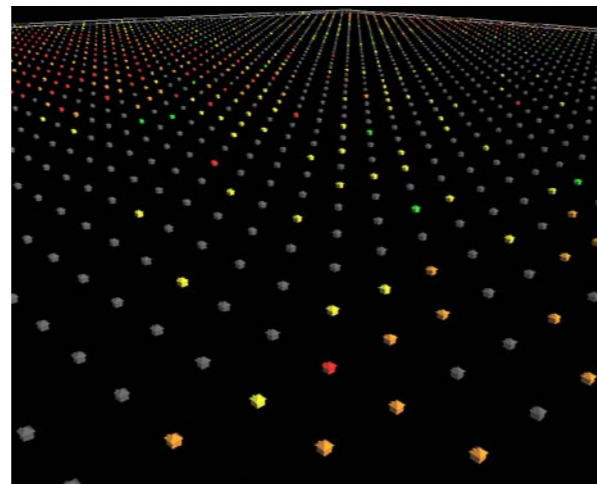
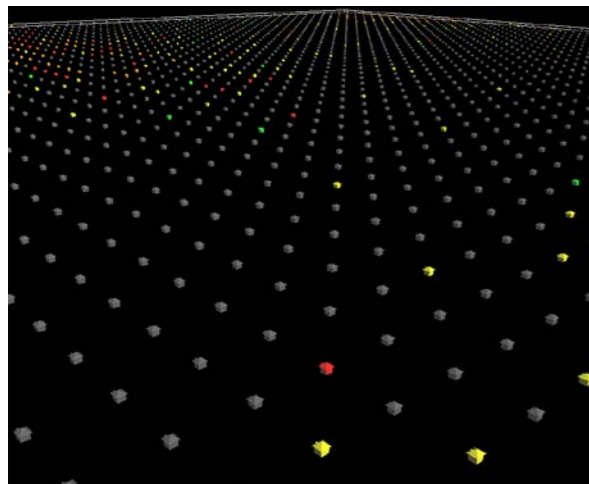
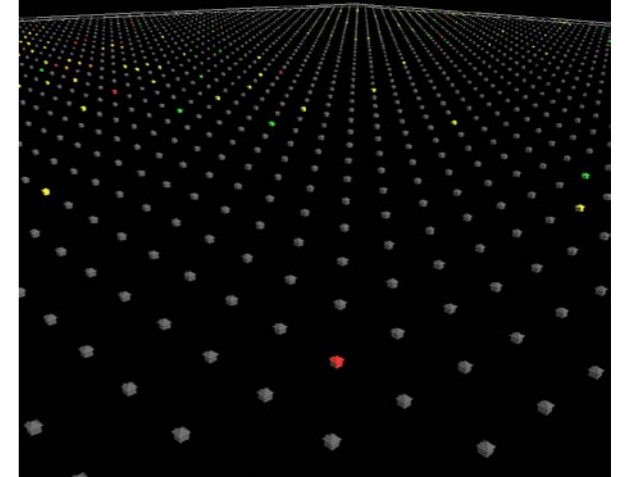
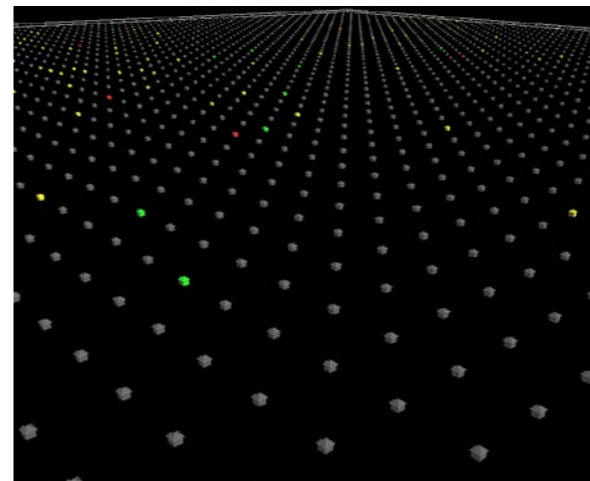
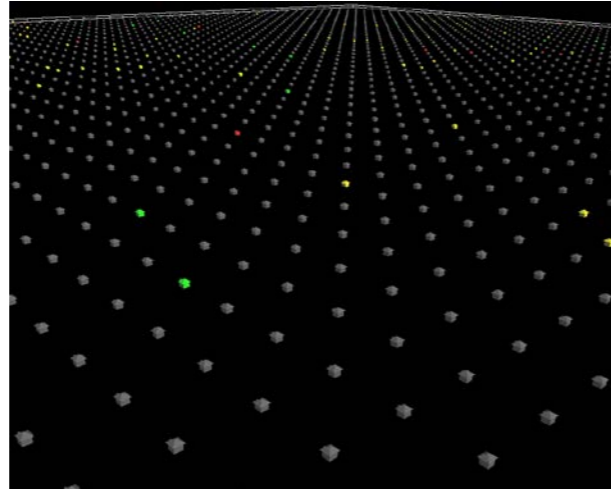
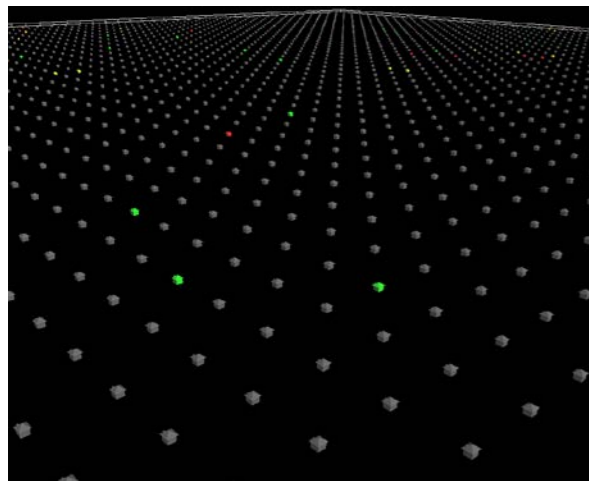


Social Network Study





Social Network Study





Summary & Conclusions

- Humans are social, and look to their peers and Mavens (consciously or subconsciously) when forming their opinions, habits, and behaviors
- Easier to bring a market down than up
- Media efforts affect Fear, Shame, and Guilt associated with Strategic Mortgage Default
- Outcome uncertainty causes unpredictable behavior
- A need for understanding all sides of the issue



**Thank You for
inviting me !**