The Optimal Choice for Lenders Facing Defaults: Short Sale, Foreclose, or REO

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options. We developed a model that allows simultaneous estimation of price and time-on-market effects of "short sales," foreclosures, and REO options. We find that the short-sale option has the lowest-price discount, but significantly higher costs associated with marketing time. The pattern of price discount and marketing time reverses as we move to a sale while in the process of foreclosure and to a sale with an REO status.

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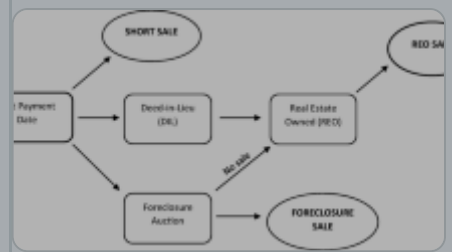
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4. Ruthless default occurs immediately when the value of the property falls below the value of the mortgage. The value of the mortgage is not the same as the mortgage balance. The former is determined partially with respect to market interest rates and the rate on the mortgage. Because of transactions costs and the fact that the put option may be more valuable if unexercised, few borrowers are expected to exercise the put option ruthlessly.

5. Those interested in determinants of default are directed to Jacoby (2008), Foster and Van Order (1984, 1985), Epperson et al. (1985), Kau et al. (1992), Avery et al. (1996), and Ambrose and Capone (1996, 2001).

6. In the first two types of sale the title will be in the name of the mortgagor. Only in the REO case will the title vest with the lender.

data that are collected and analyzed by the Center for Business and Economic Research at the University of Nevada, Las Vegas.

10. The total commission rate that is a part of the listing contract is not provided by the sources of our sample, the Greater Association of Realtors Las Vegas (GLVAR).

11. The GLVAR was not able to provide information on the year a broker joined the organization. Broker members, however, are given an identification number when they join the GLVAR. The ID number is assigned chronologically as members join. Given the limitations of this variable we are of the opinion that some information is better than none. Thus, using the assigned identification numbers, we can proxy the extent of the agent's

14. The negative marginal effect of number of bedrooms is also expected and consistent with the finding in the previous literature. Holding other physical characteristics, such as square feet of living area constant, consumers prefer a few large rooms rather than several small rooms.

15. Given that the dependent variable, price, is measured in natural logarithm, the precise percentage effect of the lake view variable on price is calculated as $Exp^{\left(\beta\ of\ lakeview \right)} - 1 = Exp^{\left(0.2966 \right)} - 1 = 34.5\%.$

16. See Eggers F. J. and Fouad Moumen, (June 2008), "Trends in Housing Costs: 1987−2005 and the 30-Percent-of-Income Standard," U.S. Department of Housing and Urban Development, Office of Policy Development and

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