

The Conditional Probability of Foreclosure: An Empirical Analysis of Conventional Mortgage Loan Defaults

Richard A. Phillips, James H. VanderHoff

First published: 19 November 2004

<https://doi.org/10.1111/j.1080-8620.2004.00103.x>

Citations: 41

Abstract

This paper analyzes the factors affecting the conditional probability that defaulted residential mortgage loans will foreclose. We analyze a large national sample of conventional loans, which have been in default at least once during the 1988 to 1994 period. For such loans, lenders and borrowers either individually or jointly make choices which lead to the following outcomes: (1) resumption of payments, (2) termination by prepayment, or (3) foreclosure. Our estimates of a logit model indicate that termination option values and local area economic and housing market conditions affect default resolution probabilities. Perhaps more importantly, simulations using the logit model indicate that the efficiency of the default resolution process may be substantially improved by legal and regulatory reforms.

References

Ambrose, B.W. and R.J. Buttimer, Jr. 2000. Embedded Options in the Mortgage Contract. *Journal of Real Estate Finance and Economics* 21(2): 95–111. DOI: [10.1023/A:1007819408669](https://doi.org/10.1023/A:1007819408669)

[Web of Science®](#) | [Google Scholar](#)

Ambrose, B.W., R.J. Buttimer, Jr. and C.A. Capone. 1997. Pricing Mortgage Default and Foreclosure Delay. *Journal of Money, Credit, and Banking* 29(3): 314–325.

[Web of Science®](#) | [Google Scholar](#)

Ambrose, B.W. and C.A. Capone, Jr. 1996. Cost-Benefit Analysis of Single Family Foreclosure Alternatives. *Journal of Real Estate Finance and Economics* 13(2): 105–120. DOI: [10.1007/BF00154051](https://doi.org/10.1007/BF00154051)

[Web of Science®](#) | [Google Scholar](#)

Ambrose, B.W. and C.A. Capone, Jr. 1998. Modeling the Conditional Probability of Foreclosure in the Context of Single-Family Mortgage Default Resolutions. *Real Estate Economics* 26(3): 391–429. DOI: [10.1111/1540-6229.00751](https://doi.org/10.1111/1540-6229.00751)

[Web of Science®](#) | [Google Scholar](#)

Ambrose, B.W. and C.A. Capone, Jr. 2000. The Hazard Rates of First and Second Default. *Journal of Real Estate Finance and Economics* 20(3): 275–293. DOI: 10.1023/A:1007837225924

[Web of Science®](#) | [Google Scholar](#)

Clauretje, T.M. and T. Herzog. 1990. The Effect of State Foreclosure Laws on Loan Losses: Evidence from the Mortgage Insurance Industry. *Journal of Money Credit and Banking* 22(2): 315–329.

[Web of Science®](#) | [Google Scholar](#)

Foster, C. and R. Van Order. 1984. An Option Based Model of Default. *Housing Finance Review* 3(4): 351–372.

[Web of Science®](#) | [Google Scholar](#)

Haurin, D.R., P.H. Hendershott and D. Kim. 1991. Local House Price Indexes: 1982–1991. *Journal of the American Real Estate and Urban Economics Association* 19(3): 451–472.

[Web of Science®](#) | [Google Scholar](#)

Kau, J.B. and D.C. Keenan. 1995. An Overview of the Option Theoretic Pricing in Mortgages. *Journal of Housing Research* 6(2): 217–244.

[Google Scholar](#)

Kau, J.B., D.C. Keenan and T. Kim. 1993. Default Probabilities for Mortgages. *Journal of Urban Economics* 32: 302–314.

[Google Scholar](#)

Kau, J.B., D.C. Keenan and T. Kim. 1994. Waiting to Default: The Value of Delay. *Journal of the American Real Estate and Urban Economics Association* 22(3): 539–551.

[Web of Science®](#) | [Google Scholar](#)

Kau, J.B., D.C. Keenan, W.J. Muller, III and J.F. Epperson. 1992. A Generalized Valuation Model for Fixed-Rate Residential Mortgages. *Journal of Money, Credit, and Banking* 24(3): 279–299.

[Web of Science®](#) | [Google Scholar](#)

Phillips, R.A., E. Rosenblatt and J.H. VanderHoff. 1996. The Probability of Fixed and Adjustable Rate Mortgage Termination. *Journal of Real Estate Finance and Economics* 13(2): 95–104. DOI: 10.1007/BF00154050

[Web of Science®](#) | [Google Scholar](#)

Quercia, R.G. and Michael A. Stegman. 1992. Residential Mortgage Default: A Review of the Literature. *Journal of Housing Research* 3(2): 341–370.

[Google Scholar](#)

Citing Literature



[Download PDF](#)

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)

Copyright © 1999-2024 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY