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

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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.

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