

Fear, Shame and Guilt: Economic and Behavioral Motivations for Strategic Default

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Abstract

This study examines underwater primary resident homeowners to identify why some decide to strategically default while others do not. We find that realized shame and guilt are consistent with *ex ante* expectations. However, the financial backlash experienced by strategic defaulters is less than anticipated, causing strategic defaulters not to regret their actions. State-specific bankruptcy exemption levels and real estate laws only marginally explain the decision to strategically default, partly because the decision to walk away from a mortgage is emotional, and partly because the implementation of these laws is uncertain and confusing to distressed borrowers. Rather, we find key strategic default drivers include the homeowner's expectation of future real estate price movements, frustration with the lender, moral evaluation of the decision to strategically default, loan knowledge, political ideology, gender, income and age.

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