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Paying Paul and Robbing No One: An Eminent Domain Solution for Underwater Mortgage Debt

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Abstract

In the view of many analysts, the best way to assist “underwater” homeowners — those who owe more on their mortgages than their houses are worth — is to reduce the principal on their home loans. Yet in the case of privately securitized mortgages, such write-downs are almost impossible to carry out, since loan modifications on the scale necessitated by the housing market crash would require collective action by a multitude of geographically dispersed security holders. The solution, this study suggests, is for state and municipal governments to use their eminent domain powers to buy up and restructure underwater mortgages, thereby sidestepping the need to coordinate action across large numbers of security holders.

Keywords: underwater mortgage, housing market crisis, negative equity, principal write-down**JEL Classification:** G18, G21, R31[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID2173358_code254274.pdf?abstractid=2173358&mirid=1\)](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=602726)[Open PDF in Browser \(Delivery.cfm/SSRN_ID2173358_code254274.pdf?abstractid=2173358&mirid=1&type=2\)](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=602726)

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