

[Download This Paper \(Delivery.cfm/SSRN_ID881618_code120508.pdf?abstractid=881618&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN_ID881618_code120508.pdf?abstractid=881618&mirid=1&type=2\)](#)[Add Paper to My Library](#)Share: [!\[\]\(56549452e01ca28bdf2500ced9653143_img.jpg\)](#) [!\[\]\(235f8f87c36d896db1ddff2848125c86_img.jpg\)](#) [!\[\]\(4c4afa2dcab95991c60f31fce713d641_img.jpg\)](#) [!\[\]\(1205f6f8a2eee5164f325ab7908828d5_img.jpg\)](#)

Call Protection in Mortgage Contracts

41 Pages

Posted: 15 Feb 2006

Michael LaCour-Little (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=3101556)

California State University - Fullerton - Department of Finance

Date Written: November 22, 2005

Abstract

Call protection in debt contracts is ubiquitous in the bond market, customary in the commercial mortgage market, yet reviled and highly restricted in the residential mortgage market. We examine the reasons for these differences and use Monte Carlo techniques to calculate the economic value of call protection (prepayment penalties) in residential mortgage contracts. Results explain why prepayment penalties are more prevalent in the subprime, compared to the prime, market segment. From the simulation results we also compute the reduction in equilibrium contract rates call protection allows and then verify those predictions using empirical using data on actual contracts, extending the existing literature. Results strongly suggest that call protection has significant economic value to both borrowers and lenders and that, hence, the trend toward greater restrictions on this contract feature is bad public policy.

Keywords: mortgage, callable debt, prepayment, prepayment penalty**JEL Classification:** G21, G28[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID881618_code120508.pdf?abstractid=881618&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN_ID881618_code120508.pdf?abstractid=881618&mirid=1&type=2\)](#)

38 References

1. Jesse M Abraham , Scott Theobald
A Simple Prepayment Model of Commercial Mortgages
Journal of Housing Economics , volume 6 , p. 31 - 59 Posted: 1995
Crossref (<https://doi.org/10.1006/jhecon.1997.0203>)
2. Brent Ambrose , Anthony B Sanders
Legal Restrictions in personal Loan Markets
Journal of Real Estate Finance and Economics , volume 30 , issue 2 , p. 133 - 152 Posted: 2005
Crossref (<https://doi.org/10.1007/s11146-004-4876-y>)
3. Brent Ambrose , Michael Lacour-Little
Prepayment Risk in Adjustable Rate Mortgages Subject to Initial Year Discounts: Some New Evidence
Real Estate Economics , volume 29 , issue 2 , p. 305 - 327 Posted: 2001
Crossref (<https://doi.org/10.1111/1080-8620.00012>)
4. Amitabh Arora , David K Heike , Ravi K Mattu
Risk and Return in the Mortgage Market: Review and Outlook
Journal of Fixed Income , volume 10 , issue 1 , p. 5 - 18 Posted: 2000
Policy (<https://www.elsevier.com/legal/cookiepolicy>)

0 Citations

Fetch Citations

Do you have negative results from your research you’d like to share?

Submit Negative Results (<https://www.ssrn.com/index.cfm/en/Negative-Results/>)

Paper statistics

DOWNLOADS	215
ABSTRACT VIEWS	1,912
RANK	258,958

1 Citations

38 References

PlumX Metrics



(https://plu.mx/ssrn/a/?ssrn_id=881618)

Related eJournals

Contracts & Commercial Law eJournal (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=140588)

Follow ⓘ

Real Estate eJournal (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=1492470)

Follow ⓘ

View more >

Recommended Papers

The Impact of Local Predatory Lending Laws (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=761106&rec=1&srcabs=881618&pos=1)
By Giang Ho (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=497417) and Anthony Pennington-cross (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=819037)

State and Local Anti-Predatory Lending Laws: The Effect of Legal Enforcement Mechanisms (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1005423&rec=1&srcabs=881618&pos=2)
By Raphael W. Bostic (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2136), Kathleen C. Engel (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=190112), ...

The Impact of Local Predatory Lending Laws on the Flow of Subprime Credit (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=885514&rec=1&srcabs=881618&pos=3)
By Giang Ho (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=497417) and Anthony Pennington-cross (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=819037)

View more >

Feedback

SSRN Quick Links	▼
SSRN Rankings	▼
About SSRN	▼

f (<https://www.facebook.com/SSRNcommunity/>)

in ([https://www.linkedin.com/company/493409?](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3)

[trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3)

🐦 (<https://twitter.com/SSRN>)

(<http://www.elsevier.com/>)

Copyright (<https://www.ssrn.com/index.cfm/en/dmca-notice-policy/>) Terms and Conditions (<https://www.ssrn.com/index.cfm/en/terms-of-use/>)

Privacy Policy (<https://www.elsevier.com/legal/privacy-policy>)

All content on this site: Copyright © 2023 Elsevier Inc., its licensors, and contributors. All rights are reserved, including those for text and data mining, AI training, and similar technologies. For all open access content, the Creative Commons licensing terms apply.

We use cookies to help provide and enhance our service and tailor content.

To learn more, visit [Cookie Settings](#).



(<http://www.relx.com/>)

(<https://papers.ssrn.com/sol3/updateInformationLog.cfm?process=true>)