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House arrest: the effects of underwater and low-equity mortgages on small business failure and mobility

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Abstract

This paper studies the effects of the recent housing crash on small business survival and household geographic mobility. Although a number of other works have studied these issues, our analysis differs from these because we do not focus only on underwater mortgages (less than 0% home equity), but also those slightly above water (0-10% equity). Homeowners with little or no equity face considerable constraints regarding moving, starting a business or keeping a current business open. They are more like underwater homeowners, but they differ enough to deserve a separate categorization in comparative studies, rather than being conflated with all other homeowners that have positive equity. We use the Federal Reserve's Survey of Consumer Finances panel data for 2007 and 2009, which allows us to track the exact same households during this critical time in the housing crisis.

Keywords:

Mortgage debt

household mobility

small business financing

underwater mortgages

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Notes

¹ Home foreclosure filings peaked in 2011 at 3,920,418 (completed foreclosures totaled 3,580,000) (Statistic Brain [2015](#)).

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