

DISCUSSION PAPER REVIEW

White, Brent (2009). *Underwater and Not Walking Away: Shame, Fear and the Social Management of the Housing Crisis* [Discussion Paper]. Retrieved from <http://ssrn.com/abstract=1494467>

Dear Friends and Colleagues,

It is more likely than not that each of us knows someone who owes more on their home than it is worth. Brent White's name and paper have been appearing on various news media sources lately and I became interested in what he had to say. Needless to say, news media clips are so short that they cannot do justice to a well written and researched 54 page paper, nor can my own review. I enjoyed reading and learning from it. I hope you do too.

Apparently businesses and homeowners are held to two different standards, a business person who makes a bad business decision is not frowned upon for realizing their mistake and declaring bankruptcy thus leaving some of their creditors on the hook. A homeowner, to the contrary, is held to a moral standard that one must honor their obligations. This paper helps us better understand the mindset of the underwater homeowner, as we deal with them in a personal or business capacity.

The author begins with an overview of the mortgage crisis, explains the difference between "recourse" and "non-recourse" states when it comes to lenders pursuing defaulting homeowners for a deficiency judgment, as well as why most foreclosures result from necessity (job losses, divorce) rather than from a rational and well planned strategic default.

It then makes the case that some homeowners are better off "strategically defaulting," that is, walking away from their home and mortgage while preparing for a few years of bad credit. It also suggests "that most underwater homeowners don't default as a result of two emotional forces: 1) the desire to avoid the shame or guilt associated with foreclosure; and 2) fear over the perceived consequences of foreclosure."¹

It then goes on to argue that "social control agents such as the government, the media, and the financial industry"² cultivate this mindset and tilt the balance of power in favor of lenders over borrowers.

The paper concludes by criticizing the government's top-down approach and focus on affordability as the only means of aiding underwater homeowners, reviewing alternative proposals such as a government bailout of underwater homeowners, forcing lenders to write off some of the principle of underwater mortgages, or amending the bankruptcy law to allow for prepackaged mortgage cram-downs, and finally making its own proposal "to amend the Fair Credit Reporting Act to prevent lenders from reporting mortgage defaults and foreclosures to credit rating agencies."³

Dan

¹ Page 2

² Page 2

³ Page 44