



JSPS Grants-in-Aid for Creative Scientific Research

Understanding Inflation Dynamics of the Japanese Economy

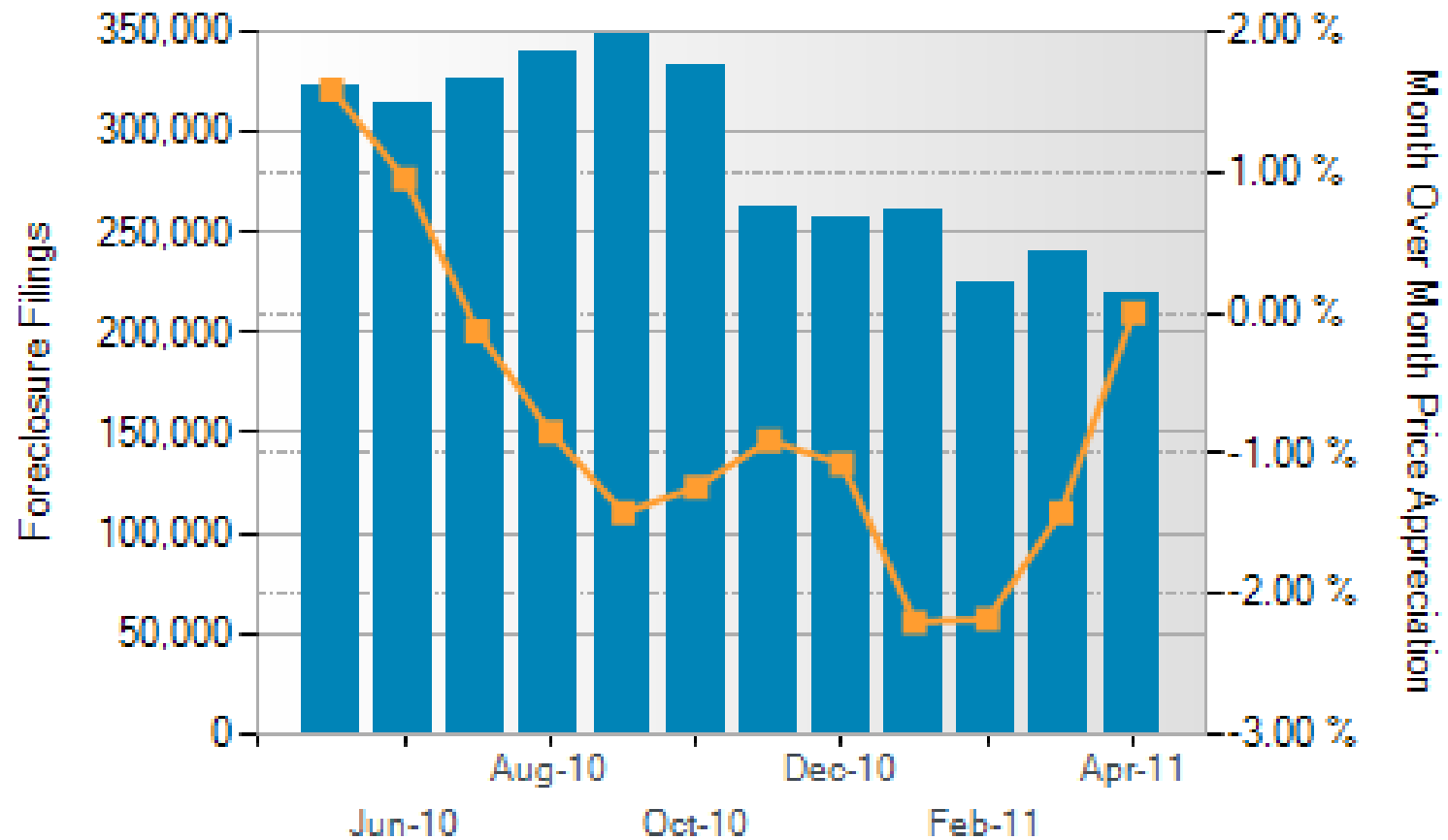
**Discussion of
Foreclosures, House Prices, and the Real Economy
by A. Mian, A. Sufi, and F. Trebbi**

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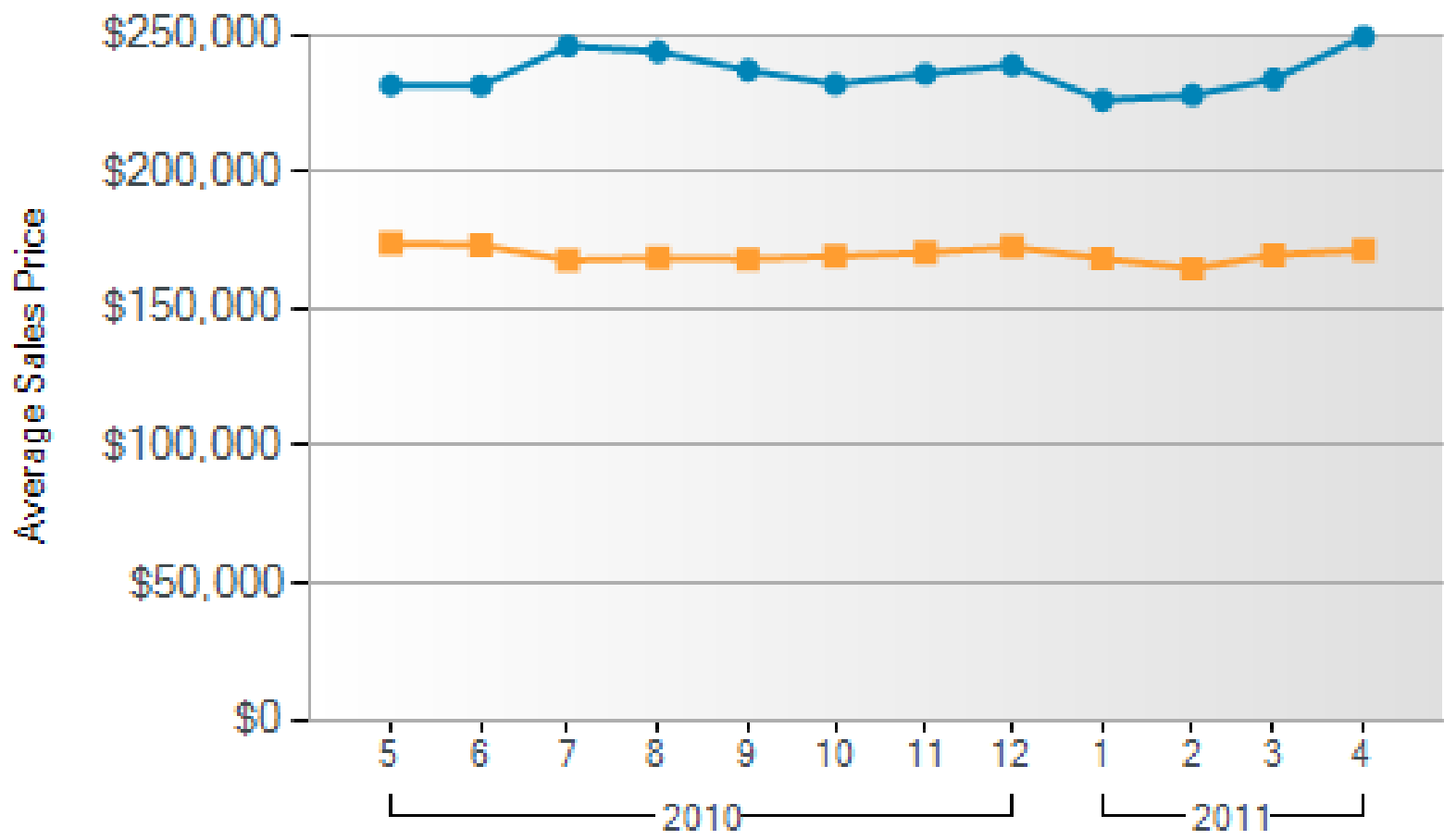
June 2, 2011

Total Foreclosures ■ Home Price Appreciation (m-o-m) ■

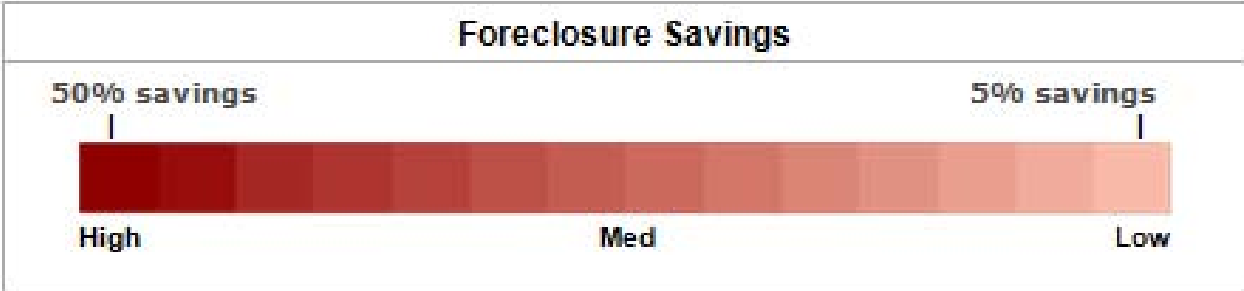
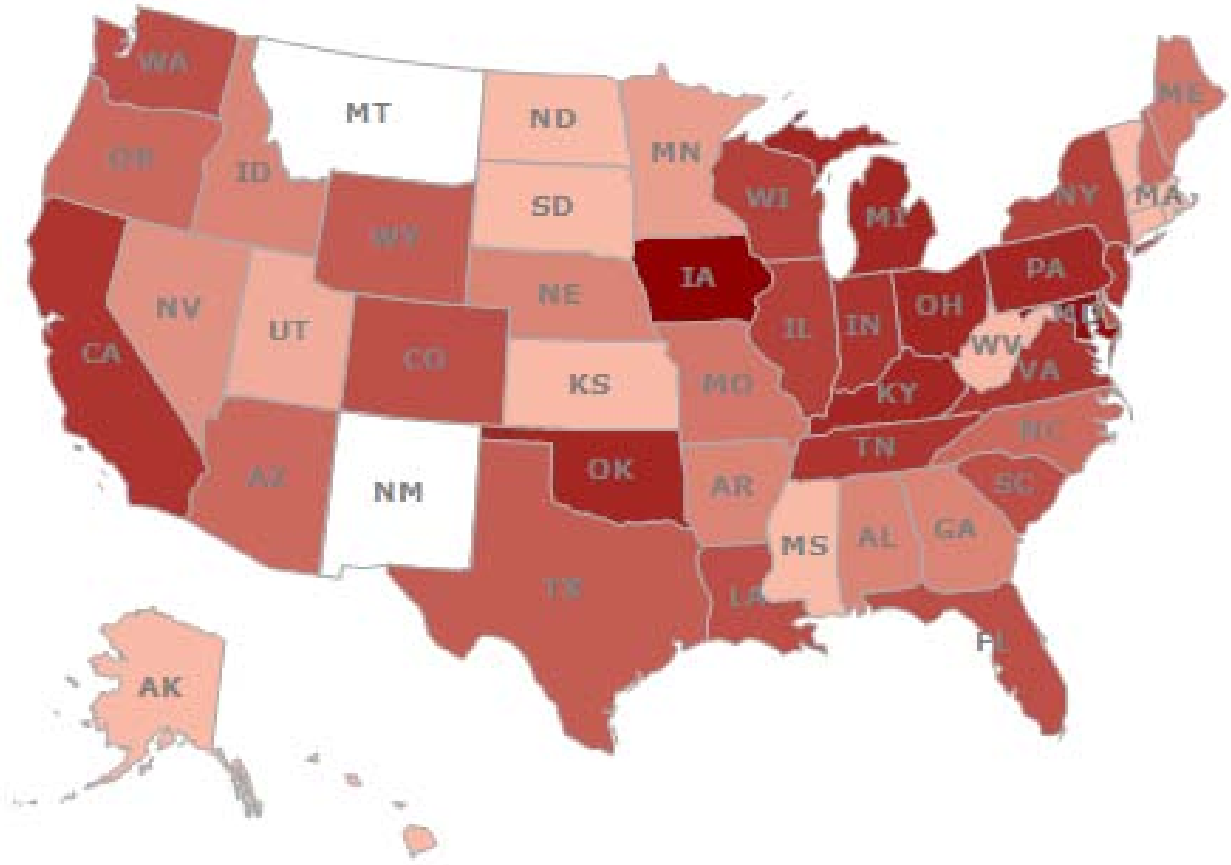


“Sales of bank-owned homes and those in some stage of foreclosure accounted for **28 percent of all U.S. residential sales** in the first quarter of 2011”

Average Sales Price ■ Average Foreclosure Sales Price ■



<http://www.realtytrac.com/trendcenter/>



Comment #1:
Mechanical price-foreclosure correlation

Mechanical correlation between price and foreclosure

- “A necessary condition for foreclosure is that a borrower have negative equity.”
- “Foreclosures and house prices will be strongly negatively correlated in the data, even if foreclosures have no independent effect on house prices.”
- “An empirical strategy seeking to estimate the effects of foreclosures on house prices must employ plausibly exogenous variation in foreclosures.”

(My understanding about)

Foreclosure process in the US

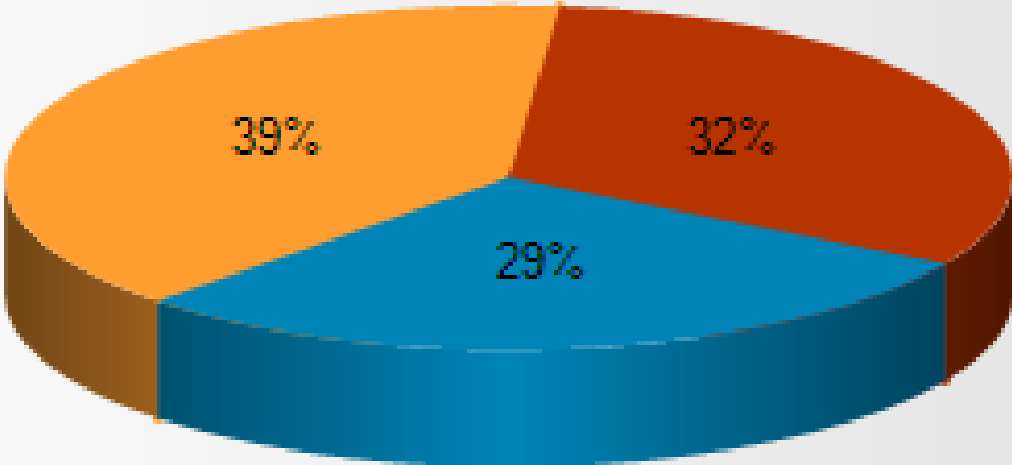
Outstanding mortgage balance < market value of a house

- Lender may have incentive to foreclose, but borrower may not.
- Distinction between state laws in terms of judicial requirement for foreclosure may play an important in identification

Outstanding mortgage balance > market value of a house

- Both lender and borrower have incentive to foreclose
- The source of **mechanical** correlation
- The opening bid at the auction is set at **the total amount owed to the foreclosing lender.**
- In most cases, no one bids above that amount. Then, **the foreclosing lender will take possession of the property** (Bank-owned, REO).

Pre-Foreclosure ■ Auction ■ Bank-Owned ■



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(My understanding about)

Foreclosure process in the US

Outstanding mortgage balance < market value of a house

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Outstanding mortgage balance > market value of a house

- Both lender and borrower have incentive to foreclose
 - The source of **mechanical** correlation
 - The opening bid at the auction is set at **the total amount owed to the foreclosing lender.**
 - In most cases, no one bids above that amount. Then, **the foreclosing lender will take possession of the property** (Bank-owned, REO).
- The latter case should be excluded from the analysis.
 - This case suffers substantially from the mechanical correlation
 - Foreclosure occurs both in every state (i.e. with or without judicial requirement for foreclosure).

**Comment #2:
Definitions of price indexes**

FCSW and Zillow.com indexes

“When they can be identified from a deed record, non-arms-length transactions are excluded from the pairing process. **The most typical types of non-arms-length transactions are property transfers between family members and repossessions of properties by mortgage lenders at the beginning of foreclosure proceedings.** Subsequent sales by mortgage lenders of foreclosed properties are included in repeat sale pairs, because they are arms-length transactions.”

S&P/Case-Shiller Home Price Indices Methodology, page 17

“Zillow Home Value Index

Mid-point of Zestimate valuations for the US.

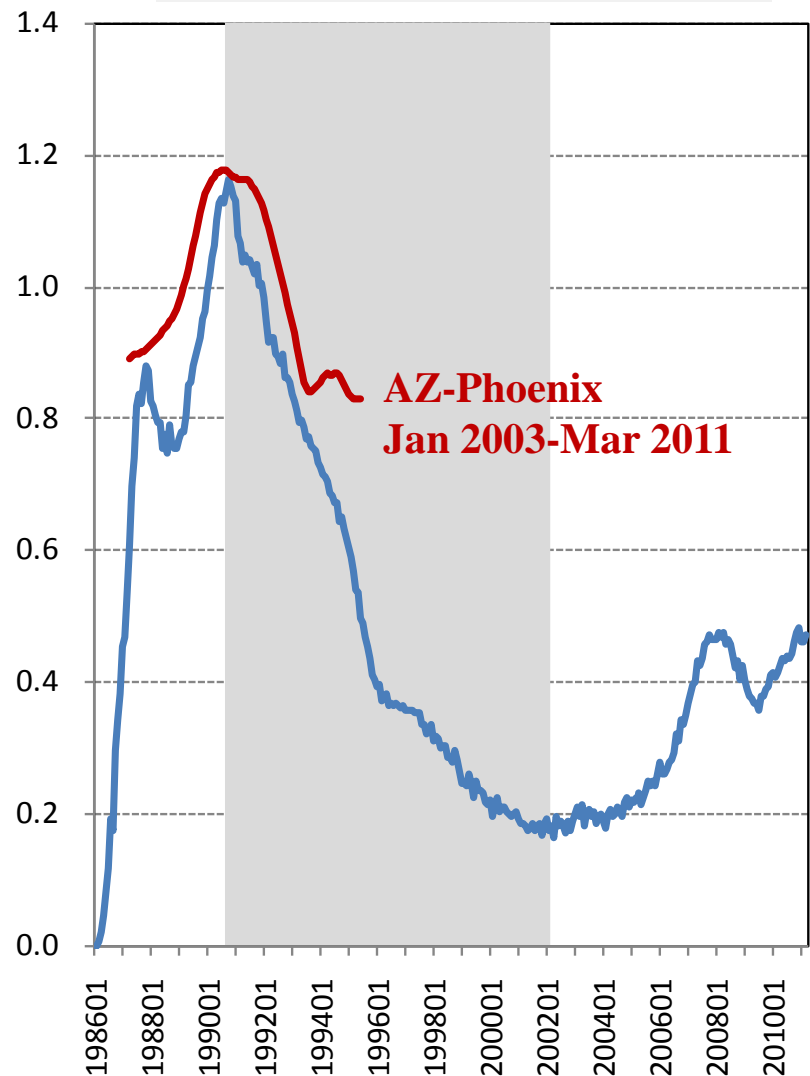
Half the Zestimates are above this number and half are below it.”

<http://www.zillow.com/>

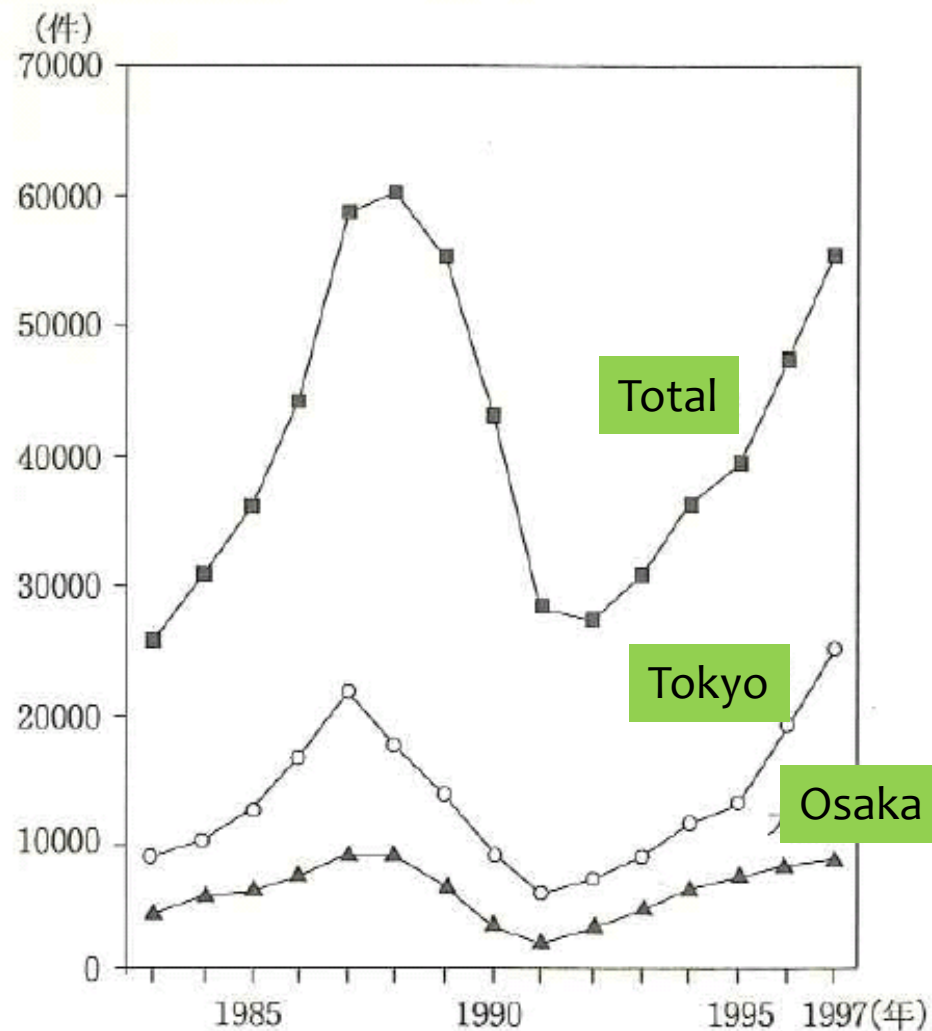
**Comment #3:
Bubble burst in the US and Japan**

Foreclosures in Japan

House Price Index for the Greater Tokyo Area



Number of foreclosure filings in Japan



出所)『司法統計年報 1 民事・行政編』最高裁判所事務総局

Judicial Foreclosure Requirement and Actual Foreclosures

Zip Codes Near Border Sample

