

Comments on
Homelessness as Bad Luck
by Brendan O'Flaherty

Sewin Chan, NYU

Homeownership and homelessness

Traditionally, few transitions from homeownership to homelessness

- Selection?
- Homeownership reduces risk of homelessness?
- Homeownership increases risk of homelessness, but selection effects dominate?

How does homeownership reduce the risk of homelessness?

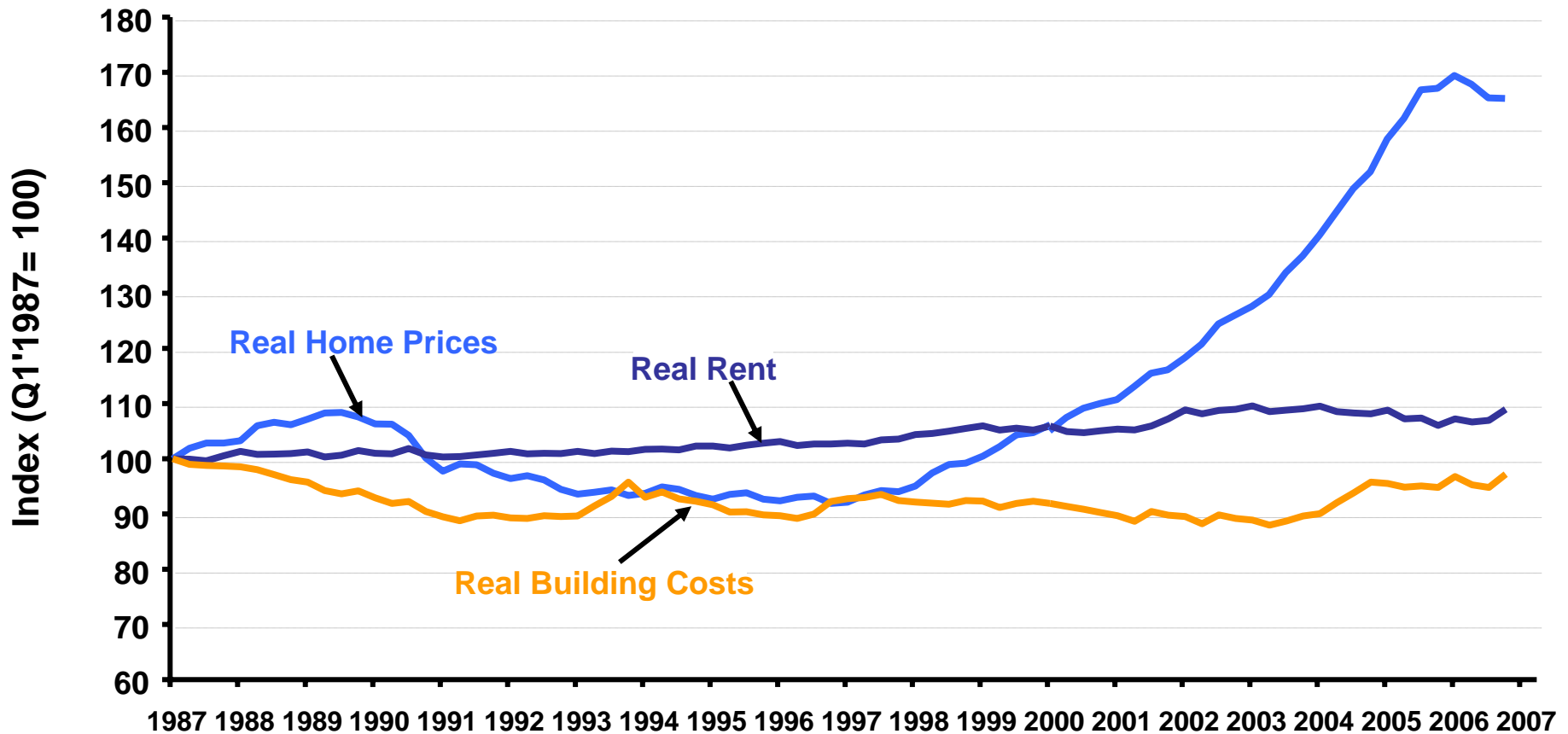
- Not subject to rent shocks
- Ability to borrow against home equity in bad times

The additional risks of homeownership

- House price depreciation

House price depreciation

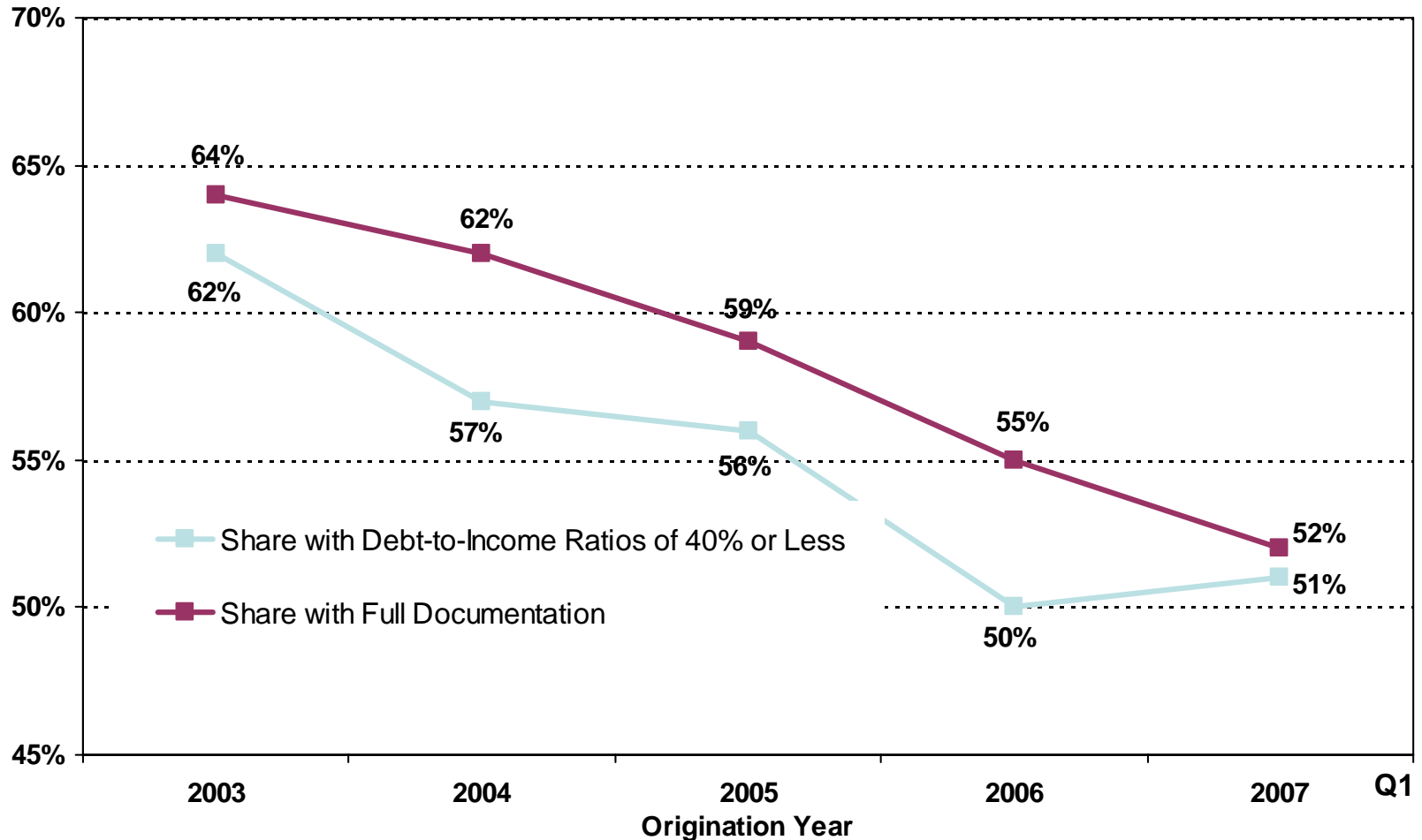
1987–2006 Quarterly Data, Rescaled to Q1'1987=100



The additional risks of leveraged homeownership

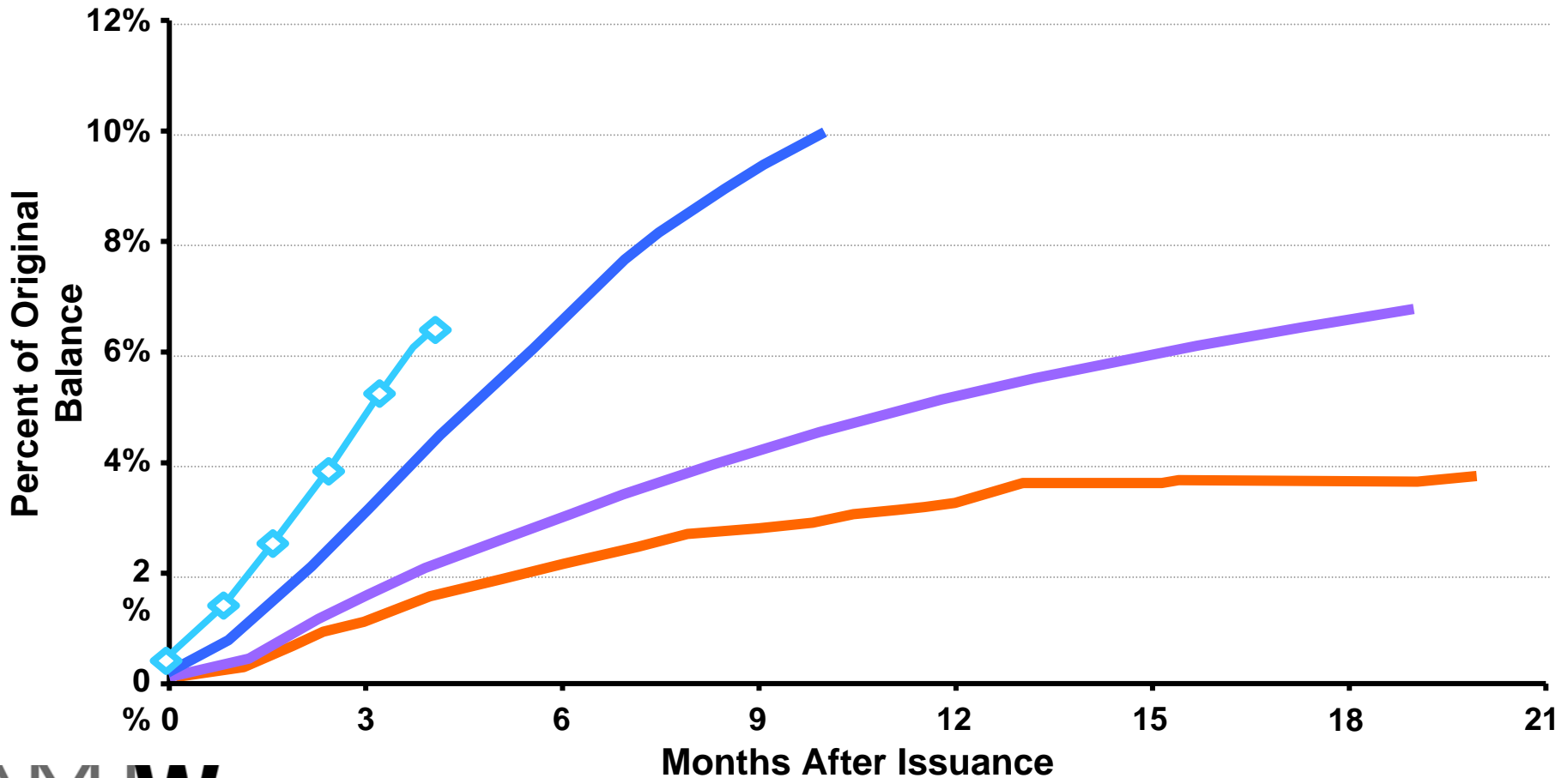
- House price depreciation
 - home equity
 - ability to refinance mortgage
 - ability to move
- Interest rate increases (ARMs)
 - increases in the market rate
 - rate resets after the initial teaser period

Easier mortgage qualification



Subprime problems

Mortgages 60 or More Days Delinquent, in Foreclosure or Held for Sale



Loans Securitized In: 2004 2005 2006 2007*

Source: Moody's

* Delinquencies on transactions closed in first half of 2007.

Homeowners in trouble

- Underwater: home worth less than mortgage
- Can't afford mortgage payments

Shared equity

- Rescuing current homeowners
 - Government as equity partner
 - Original lender as equity partner
- Other homeowners
 - Shared equity substantially reduces house price risk

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