

Personal Bankruptcy Decisions of Lower-Income Homeowners

Mark Lindblad, Roberto Quercia, Sarah Riley, Tianji Cai, Ling Wang, Kim Manturuk
UNC Center for Community Capital

Melissa Jacoby
UNC School of Law
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Motivation

What Drives Bankruptcy Decisions of Lower Income Homeowners: Financial Gain and Adverse Events?

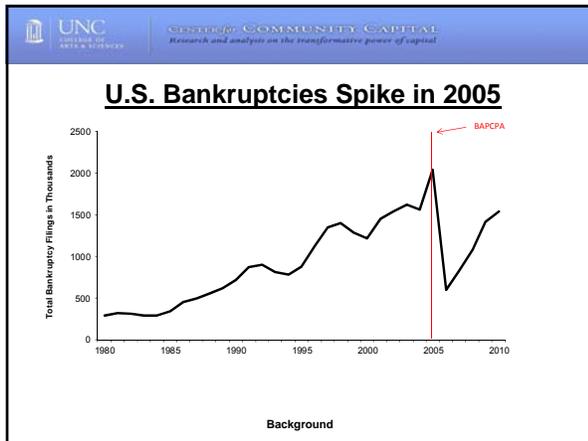


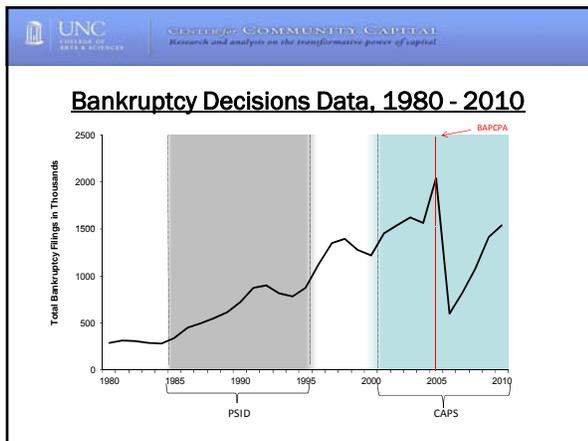
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Bankruptcy Primer

- Mortgages of primary residences can not be adjusted in bankruptcy
- Filers choose Chapter 7 or 13
- BAPCPA (2005)
 - Income-Driven Means Test
 - New Requirements for Debtors & Lawyers

Background





Community Advantage Program

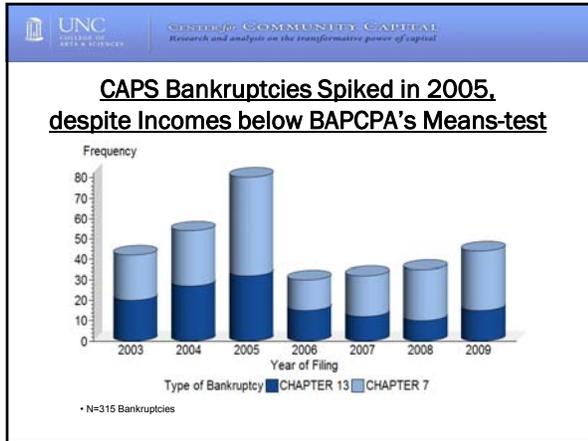
Affordable Housing Goals
Self-Help, Ford, Fannie, CCC

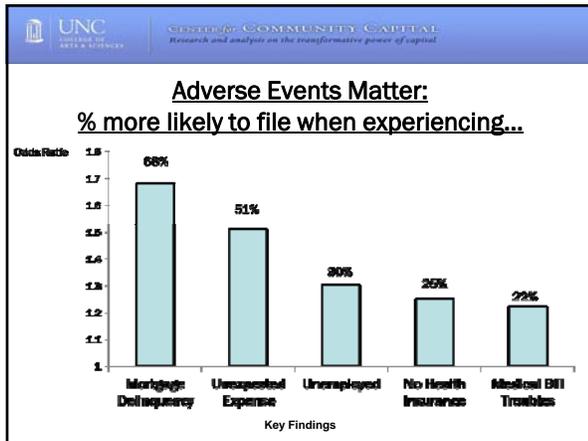
Mortgage Originations
Prime 30-year fixed
Loans: 97% of House Value
54% w/Credit Score <=680

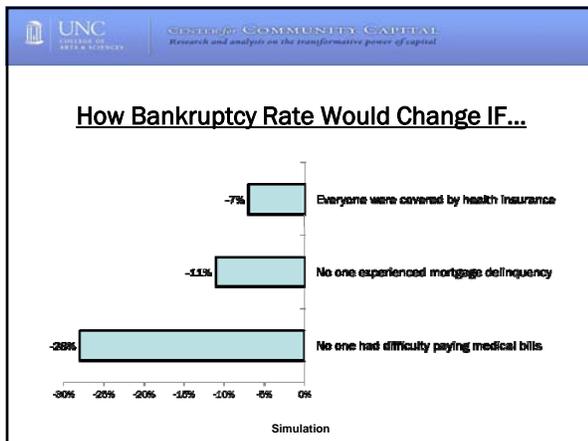
Sample:
Earned 62% AMI
40% minority
46% female head
53% have children

~46k CAP portfolio 1983-2010
~28k mortgages 1998-2004
Sample 3,743
315 File

Data Overview







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Increasing Financial Benefit of Filing by \$1,000

Smaller impact in raising bankruptcy rate among lower income households

Group	Impact (%)
General Population PSID 1984-95	7%
Lower Income Homeowners CAPS 2003-9	2%

Simulation

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Future Research

- Why Don't More People File for Bankruptcy?
 - Does stigma discourage debtors from filing?
- Bankruptcy Chapter Choice: 7 vs. 13
- Mortgage Performance and Bankruptcy
 - Does bankruptcy save homes from foreclosure?
- Researchers Need Better Data

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Policy Relevance

- Health Insurance Coverage
- Unemployment Aid
- Change Financial Benefit of Filing?
 - Exemptions and filing fees
- Bankruptcy Law
 - Should homeowners be allowed to modify mortgages on primary residences in bankruptcy?

Policy
