Securitization and Distressed Loan Renegotiation: Evidence from the Subprime Mortgage Crisis*

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Abstract

We examine whether securitization impacts renegotiation decisions of loan servicers, focusing on their decision to foreclose a delinquent loan. Conditional on a loan becoming seriously delinquent, we find a significantly lower foreclosure rate associated with bank-held loans when compared to similar securitized loans: across various specifications and origination vintages, the foreclosure rate of delinquent bank-held loans is 3% to 7% lower in absolute terms (13% to 32% in relative terms). There is a substantial heterogeneity in these effects with larger effects among borrowers of better credit quality and very small effects among borrowers of lower creditworthiness. A quasi-experiment that exploits a plausibly exogenous variation in securitization status of a delinquent loan confirms these results.

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