Discussion on “A Shortage of Short Sales”
by Calvin Zhang

Geng Li

Federal Reserve Board

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Disclaimer I

The views presented in this discussion are those of the author, and do not necessarily represent those of the Federal Reserve Board or its staff.
Disclaimer II

I am mostly working on consumer finance areas. What I am going to say should be properly weighted by my (lack of) real estate finance expertise
What we have learned from the financial crisis

• A lot, but

• the more we think we have learned, the more we seem to disagree, and certainly the more we realize what have not been learned

• The profession has not reached a consensus on  
  *Who, What, Where, When, Why, and How
• An important remaining gap in my (our) knowledge is the institutions of the mortgage and housing market
  • Property listing, real estate agents, bidding, loan applications, underwriting (income verifications, appraisals), originations, loan pricing, servicing, collection, short sales and foreclosures, securitizations, GSEs, rating agencies, government interventions (HAMP, HARP)…
  • Again, we have indeed learned a lot, but more can be done

• Christmas wish from an informed layman

  Guys, put together a “Handbook of the Mortgage Market and Financial Crisis”
Summary of Calvin’s paper

• A very nice paper, doing a very good job on the 6 Ws

• Key takeaways:
  • Transaction prices of short sales 9 percent higher than foreclosures
  • Smaller negative externality from short sales
  • However, foreclosures appear to offer more de facto free rents to homeowners under distress
    • Benefitting owners and having mixed effects on servicers
• Methodological highlights
  • State’s foreclosure law as an instrument
  • Using intent-to-sell to control for quality differences
  • Teasing out differential reactions of borrowers and servicers

• Policy implications
  • Increasing short sales among distressed properties helps stabilize the housing market
  • How institutions may influence outcomes in the market
Suggestions, Questions, and Comments

• Some historical and forward looking narrative would be helpful
  • When short sales and foreclosures came to existence, respectively?
  • Any differences in the timing of each state’s adopting either option?
  • Any re-thinking on short sales versus foreclosures?
• The gap in figure 1 is not constant, any insight on this?

Figure 1 - Foreclosure Sales and Short Sales Over Time

![Graph showing Short Sale and Foreclosure Sale Count by Quarter](image-url)
• Why owners want to do short sales at all?
  • In particular if doing so does not lead to a higher post-sale credit score
  • Do we observe short sale owners returning homeownership sooner?
  • If future homeownership motivates short sales, do we see any age effects (doesn’t seems so from table 2)

• Any evidence or anecdotes on the prevalence of rejected short sales
  • These could be the marginal properties
  • Also shed light on how interest conflicts among stakeholders were handled
  • Did such properties experience greater or more moderate foreclosure discounts?
• Price differences

• A typo in table 2 panel B?

• Large price differentials raise the possibility that these are different properties or properties in different markets

• Be curious to see the entire price distributions

• Consider some sort of similarity matching?
Focus on state level institutional differences

- Are there any within-state differences in counts of short sales versus foreclosures

- Do short sales and foreclosures tend to cluster
  
  - A map of a state or a county would be illuminating here
• Overall, a cool paper that I learned a lot from

• There are multiple dimensions this research can be further expanded and developed

• Again, please think about the *Handbook* idea