

Professor: Fear, Shame Keep Homeowners From Defaulting

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Metropolitan Statistical Area	Current Percent Underwater
Merced, CA	85
El Centro, CA	85
Modesto, CA	84
Las Vegas, NV	81
Stockton, CA	81
Bakersfield, CA	79
Port St. Lucie, FL	79
Riverside-San Bernardino, CA	78

In his newly released working paper, Brent T. White reports that certain cities in California, Florida and Nevada are experiencing rates of homeowners "underwater" at 75 percent and more.

(PhysOrg.com) -- Brent T. White, a University of Arizona associate professor of law, said policymakers must consider ways that emotions drive financial decisions.

Millions of American [homeowners](#) are "underwater" on their mortgages - owing more than the value of their homes - and would be better off walking away.

That is the suggestion Brent T. White, a University of Arizona associate professor of law, makes in his newly released working paper, "[Underwater and Not Walking Away: Shame, Fear and the Social Management of the Housing Crisis.](#)"

White, whose article was published in this month's issue of *Arizona Legal Studies*, said fear, guilt and shame are what keep many homeowners from making rational economic decisions.

"These emotional constraints are deliberately cultivated by the government and lenders who self-servingly tell borrowers that they have a moral and social obligation to pay their underwater mortgages," said White of the UA's James E. Rogers College of Law.

"Meanwhile, lenders ruthlessly seek to maximize profits or minimize losses irrespective of concerns of morality or social responsibility," he added.

White calls this a double standard, one that has resulted in "distributional inequalities."

He argues that while irresponsible lenders have received government bailouts, responsible homeowners "who just happened to buy at the wrong time continue to bear a disproportionate burden of the housing collapse."

In his article, White cited figures finding that, in the second quarter of this year, more than 15 percent of homeowners had negative equity that was more than 20 percent of the value of their homes. Also, more than 22 percent had negative equity that amounted to at least 10 percent of the value of their homes.

This situation is exasperated in a number of states, including California, Florida, Nevada and Arizona. Cities that have reached the 60 percent threshold, including Miami Beach, Fla.; Las Vegas, Nev.; Bakersfield, Calif.; and Phoenix, Mesa and Scottsdale. Numerous cities in California also make the list, including Fresno, Madera and Yuba City.

"The government, lenders, and credit-counseling agencies bombard homeowners with moral and fear-laden messages that overstate the consequences of foreclosure," said White.

"Moreover, as a way of enforcing the double moral standard, lenders hold borrowers' credit scores as collateral and will trash it in retaliation for the borrower's exercise of their contractual option to default."

"Lenders don't want these houses and, with the government's help, do what they can to scare and shame borrowers into making what is in many cases a bad financial decision to stay in their home."

But White, whose article is already gaining attention across the nation, said he is not advocating that people walk away from their mortgages.

Instead, he is simply pointing out that there is a double standard: lenders are expected to minimize their economic losses regardless of moral concerns, while homeowners are expected to behave in "morally responsible" ways regardless of the economic costs.

"To the contrary, walking away may be the most financially responsible choice if it allows one to meet one's unsecured credit obligations or provide for the future economic stability of one's family," he said.

White also suggested limiting the ability of lenders to report mortgage defaults to credit reporting agencies and, at a minimum, housing counseling agencies should give homeowners accurate information about both the advantages and disadvantages of letting go of their homes - rather than simply telling them that foreclosure should be avoided at all cost.

"The current housing bust should be viewed for what it is: a failure to regulate - not a moral failure on the part of American homeowners," White said.

"That being the case, it is time to take morals out of the picture," he said, "and search for an equitable solution to the negative equity problem."

Provided by University of Arizona ([news](#) : [web](#))

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