Abstract

Using HMLR Data to Estimate Forced Sale Discount in Residential Mortgages

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In residential mortgage lending it is important to understand the drivers of loss in the event of a default: for many residential mortgages, losses crystallize with the taking into possession and subsequent sale of the security property, often with a discount being applied due to the timing of the sale being unable to take account of changes in the housing market. Combine benign economic conditions in the UK housing market and proactive steps being taken by government and third parties to reduce the number of repossessions and the sample size from which to build a predictive forced sale discount as a component part of loss given default reduces. In this paper we describe the process undertaken, for England and Wales only, of use of whole-of-market data collated by HM Land Registry for identification of post-possession sales and the subsequent calculation of their forced sale discount using various measures including time between transactions, region, property type and new build indicator.