

SUMMARY OF "BANKRUPTCY LAW REFORM—A NEW TOOL FOR FORECLOSURE AVOIDANCE"

ISSUED BY CREDIT SUISSE, JANUARY 26, 2009

Judicial modifications would save hundreds of thousands of families from foreclosure.

"We [Credit Suisse] expect the bankruptcy plan will provide about a 20% reduction in foreclosures." (p. 1)

"[T]he new plan adds an important new tool in the foreclosure avoidance arsenal..." (p.4)

The ability to modify mortgages in bankruptcy will also increase voluntary loan modifications.

"We [Credit Suisse] expect the new bankruptcy reform will increase loan mods, particularly principal reduction mods, as it is likely to both pressure and also give justification to servicers to more actively pursue principal reduction mods." (p.1)

Judicial modifications are a useful option for stopping foreclosures.

"Perhaps among all loss mitigation alternatives, bankruptcy may have the least moral hazard. ... [B]orrowers who chose bankruptcy to deal with negative equity have to really want to stay in their homes, have to be able to service the secured portion of the mortgage, be willing to live on a budget for five years and have expenses tightly controlled, etc. ... Borrowers who are looking for a 'free ride' and want to expunge their negative equity should find foreclosure a more palatable alternative." (p. 6)

"Chapter 13 may actually result in a higher monthly payment to investors relative to other loss mitigation alternatives, as the secured portion bears a market interest rate and the borrower has to pay back some amount of the unsecured debt." (p. 6)

"We [Credit Suisse] expect the failure rate under a bankruptcy cram down to be much lower than the failure rate under the old bankruptcy law." (p. 9)

Judicial modifications won't affect the cost of future mortgages.

"[W]e [Credit Suisse] don't believe the bankruptcy reform will materially impact the pricing or availability of mortgage credit." (p.13)