How Did the US Housing Slump Begin?
Role of the 2005 Bankruptcy Reform

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Abstract

Most analyses of the recent Great Recession focus on the consequences of the dramatic slump in housing prices that started in the mid-2000s, without explaining what caused the reversal of housing price growth in the first place. We argue that the passage of the 2005 Bankruptcy Reform Act (BAPCPA) contributed significantly, by generating negative wealth effects for some homeowners, lowering prices of their homes, spreading to other homes via a process of contagion. Evidence consistent with this hypothesis is provided: changes in housing prices and mortgage interest rates at the MSA level following the reform were significantly correlated with BAPCPA-exposure.

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