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Debt Portfolios
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(April 2011)

Abstract:
We provide a model with endogenous portfolios of secured and unsecured household debt. Secured debt is collateralized b owner-occupied housing whereas unsecured debt can be discharged according to bankruptcy regulations. We show that th calibrated model matches important quantitative characteristics of observed wealth and debt portfolios for prime-age consu in the U.S. We then establish the quantitative result that home equity does not serve as informal collateral for unsecured d since, as in the data, unsecured debtors hold small amounts of home equity in equilibrium. Thus, observed variations in homestead exemptions, which are an important part of U.S. bankruptcy regulation, have a small effect on the quantity and of unsecured debt.

Text: See Discussion Paper No. 5653

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