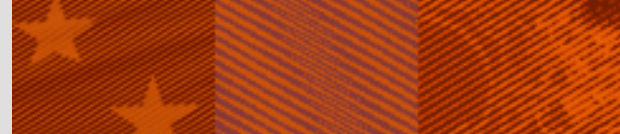# DISCUSSION OF "A MICRO-POWERED MODEL OF MORTGAGE DEFAULT RISK: THE CASE OF CHILE" BY D. AVANZINI; J.F. MARTINEZ; AND V. PEREZ

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1. **Summary of the paper**

2. **Some comments**

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- **A paper on mortgage default determinants**

- **Theoretical model (i.e. a partial equilibrium model) featuring full recourse**

- **An empirical model based on detailed households survey data**

- **Income (per capita), current loan to value, financial (negative) shocks and their interactions are the relevant explanatory variables for mortgage defaults in Chile**

- **It is an excellent paper, combining theoretical and empirical work**

- **A very good idea to focus the paper around the full recourse**

- **It looks even better what is announced in footnote 14 and in the Final remarks:**

  - a general equilibrium framework being developed to simulate the response of the economy to macro-prudential policies

- **It is a pity that the banking sector is not more developed (i.e. capital levels and bank default)**

- **In Remark 3, I do not understand why default frequency decreases with a higher interest rate and with a decrease in house prices**

- **I do not understand the gap in Table 2 between defaulted mortgages and delinquent mortgages, in particular being the definition the same (i.e. 90 days past due)**

- **Is the household panel biased for some reason to worse credit quality?**

- **Some variables' calculations are not clear enough in the paper**
  - House values? In the survey? A guesstimate by household? An appraisal value?
- **A simple partial correlation coefficient between variables would be very useful before entering into the empirical exercise**
- **Why separate income and number of people per house?**
- **Why not to have a per capita (or per household) income variable?**
- **The negative shock should be clearly explained: how is it computed?**
- **Why not to include an interest rate in the regressions?**

- **How different are logit results?**

- **Is there any information about the lender in the households survey? Type of lender? Size? Business model? Financial strength?**

- **In Table 5, Model 2, what happens to CLTV if initial house price is excluded?**

- **It would be very useful to have the elasticity of mortgage defaults to key variables? What if interest rates increase 1 standard deviation? What if house prices increase by 10%?**

- **All in all, a very interesting paper, very well developed both theoretically and empirically but still lacking robustness analysis as well as the policy dimension**

THANK YOU

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