International Journal of Information and Management Sciences
Volume 23, Number 2, pp. 149-157, 2012

A Note on the Emergency Homeowners' Loan Program: Modeling Bank Equity Volatility

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Abstract

Previous research on housing policy has emphasized helping homeowners meet their mortgage payments. No attempt was made to explicitly analyze the risk characteristics of financial lender assets. The aim of this paper is to model bank lending explicitly and calculate the loan-risk volatility and sensitivity of the bank's return with the Emergency Homeowners' Loan Program (EHLP). A simulation exercise shows that an increase in the income assistance from the EHLP results in a reduced interest margin and volatility of the bank's return. The effectiveness of the mortgage assistance policy may capture the decreasing default of the bank, and increase the scale of the loans needed by borrowers.

Keywords: Emergency homeowners' loan program, interest margin, bank equity volatility, housing market.