

## 7 Conclusion

This paper analyzed the determinants of the strategic default decision of households with negative home equity after the Subprime Crisis. The 2002-2006 house price boom relieved credit restrictions, especially for low-income families that borrowed to buy a home for the first time. These families recognize that this favorable credit environment may not arise again, so they are likely to keep paying an underwater mortgage.

In this paper we proposed a model in which families take into account their perspective of accessing the mortgage market when deciding whether to default strategically. We showed that low-income families have a low chance of having a mortgage request accepted if house prices are not expected to increase continuously. Hence, they are less likely to walk away from an affordable mortgage contract. To support the importance of the proposed wealth effect on mortgage default behavior, we provide evidence that the impact of house price drops on delinquency is higher in states with a high per capita income.