

A Time Series Analysis of Spanish Judicial Foreclosures

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Abstract

The global financial crisis, Spain experienced an unprecedented wave of foreclosures and evictions. The Great Recession that followed had serious economic, social, and environmental consequences. The frequency of permanent shocks in foreclosure quarterly rates is investigated in this paper. We investigate whether the foreclosure rate is a stationary series, a unit root, or stationary around a process with structural breaks. This analysis clearly shows that not all shocks have transitory effects on the foreclosure rate. The percentage of unit root rejections is around 40%, indicating both stationarity around occasional shocks with long-term effects and a unit root in which all shocks have a long-term effect on the foreclosure rate. We also look for unit roots that permit the presence of one or two structural breaks. The majority of structural breaks are positive, and the majority of them occur after 2008, coinciding with the financial crisis and the subsequent collapse of the Spanish housing bubble. We also discover a later decrease in foreclosures in some regions, which can be attributed to the effectiveness of the 2012 Code of Good Practice for banks and financial institutions. In any case, the level of the foreclosure rate time series has not returned to levels.

Keywords: Legal reform • Judicial foreclosures • Structural break

Introduction

For many Spanish households, the global financial crisis and subsequent Great Recession were a massive shock. Prior to the Great Recession, the unemployment rate was around 8%, and economic optimism encouraged many families to purchase a new home; between household debt in the form of mortgage loans rose from 66.1% to 66.2%. The construction boom was one of the main drivers of economic growth during that time period, but the excessive volume of financial resources absorbed by this sector and mortgage loans reduced credit to other sectors, raising concerns about the sustainability of that economic growth and its potential environmental consequences. Activities that are more productive or green industries were displaced by construction in credit institutions' financial portfolios, with significant implications for future economic growth, the environment, and sustainability. Dagar et al. for example, discover that financial development significantly increases environmental contamination because the finance systems of the countries allocate monetary assets to pollutant activities and do not encourage green industries. However, following the global financial crisis, unemployment rose to more than more than tripling the rate seen during the economic expansion. Furthermore, the crisis marked the abrupt end of the housing bubble, leaving many people unemployed and trapped in underwater mortgages. This was a common occurrence following the housing market crash, when many homeowners saw their homes lose a significant portion of their value.

Description

Although the housing crisis had an international scope, highlighted by housing market crashes in wealthy countries and the loss of many homes to foreclosure, the United States and Spain were the hardest hit the number of

mortgage loan defaults, as well as foreclosures and evictions, has increased. Furthermore, the crisis marked the abrupt end of the housing bubble, leaving many people unemployed and trapped in underwater mortgages. This was a common occurrence following the housing market crash, when many homeowners saw their homes lose a significant portion of their value. The frequency of permanent shocks in Spanish judicial systems was investigated in this paper. In the first case, only a few rare shocks have long-term effects on judicial foreclosures; in the second, all shocks have long-term effects on judicial foreclosures. Nonetheless, we should not expect judicial foreclosures to return to pre-Great Recession levels in any case, because we find a significant break raising the mean level of judicial foreclosures [1].

Although the housing crisis had an international scope, highlighted by housing market crashes in wealthy countries and the loss of many homes to foreclosure, the United States and Spain were the hardest hit. The number of mortgage loan defaults, as well as foreclosures and evictions, increased significantly. Spain has the country's unprecedented wave of foreclosures and evictions created a situation of high social tension, making it a central issue in public debate. To address this situation, the government and parliament enacted a number of new regulations, reforming the banking sector and creating new tools to protect low-income mortgage debtors facing eviction. González-Val used panel data models to examine the effects of these reforms on mortgage debtor protection, concluding that the Code of Good Practice for banks and financial institutions significantly reduced the number of foreclosures, but that this effect was transitory, fading six years later. Furthermore, the effect was not uniform across regions. The purpose of this paper is to investigate regional differences in the evolution of judicial foreclosures across Spanish regions, as well as the response of regional time series to various shocks observed in recent years [2].

We previously concentrated on determining whether the judicial foreclosure series are stationary; summarises the main findings. Nonetheless, because the previous analysis enabled us to identify the dates when structural breaks occurred, we now have useful information for investigating whether a structural break in a specific period can be linked to a specific event. This analysis is interpretive because we simply compare the timing of the reforms with the break dates to determine whether policy reforms have had a permanent impact on the foreclosure rate. As a result, we discuss potential explanations for the observed permanent changes in the judicial foreclosure time series in this section. This analysis, however, has two limitations. First, we acknowledge that this explanation is interpretive, based on statistics, and that using this methodology, we cannot strictly speak about a causal relationship between judicial foreclosures and legal reforms. Second, despite the fact that the Royal Decree-Law establishing the Code was a national rule, we only find a significant

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negative second break in of the provinces, indicating regional heterogeneity in the Code's effectiveness. Unfortunately, the data on applications are not disaggregated by region, so we cannot determine whether there are significant differences in the number of applications received by financial institutions across regions. Depicts the spatial distribution of provinces with a negative and significant second structural break and no third structural break [3-5].

Conclusion

The frequency of permanent shocks in Spanish judicial foreclosures was investigated using quarterly data from 2001 to 2019. A time series analysis was carried out. The main benefit of this approach is that it allows the data to "speak for themselves" allowing us to test whether there have been permanent changes in the quarterly number of foreclosures per 1000 inhabitants and when those permanent changes occurred, without imposing any a priori timing. We notice that there is no single scenario that can be used to predict the behaviour of the judicial foreclosure series. There is evidence of stationarity around a process that may be subject to one or two structural breaks in nearly half of the provinces.

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Conflict of Interest

None.

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