

Did bank delays cause 800,000 foreclosures?

New research identifies the number of homeowners the federal HAMP program could have helped if banks had moved more efficiently.

By MSN Money partner 5 hours ago

This post comes from Marilyn Lewis of MSN Money.

News outlets are reporting on a new study that computes the effectiveness of the \$75 billion federal effort to stop foreclosures through HAMP, the Home Affordable Modification Program. Or, looked at another way, the study sizes up the damage from banks' failure to modify loans in the early years (2009-2010) of the foreclosure crisis.

If the largest banks had moved faster and more efficiently, about 800,000 foreclosures would have been averted, the study found.

The Consumerist's headline: "Study says 800K homeowners should've avoided foreclosure but big banks messed it all up."

Writes CBS News:

While HAMP did modify loans and prevent roughly 800,000 foreclosures, the study found it could have helped another 800,000 homeowners if all lenders had been operating at the same high level of capacity. That would have meant around 2 million homeowners would have been able to modify their loan instead of 1.2 million.

The research was the work of scholars from the Federal Reserve Bank of Chicago, the government's Office of the Comptroller of the Currency, the University of Chicago, Columbia Business School and Ohio State University. They used a massive trove of government data covering about 60% of all U.S. mortgages.

The scholars also looked at why some banks did so much better than others at helping homeowners renegotiate their debt.

Long tradition

The American tradition of government offering household debt relief and foreclosure-prevention programs in troubled times dates back at least to the Great Depression. Yet, oddly, little evidence has been gathered about the effectiveness of these programs, the researchers said.

In one sense, the study uncovered what we already know -- which is that HAMP has fallen far short of its goal of helping 3 million to 4 million indebted households.

Bloomberg Businessweek writes, "The program also had no effect on consumer spending -- no extra bump in auto loans, home prices, lower credit card delinquencies, or other ancillary benefits." (*Post continues below.*)

Instead of giving money to homeowners, HAMP pays servicers -- the companies (often bank-owned) that send mortgage statements, collect payments and foreclose when homeowners fall too far behind.

HAMP pays servicers \$1,000 per loan after they've finished negotiating with a homeowner, plus \$1,000 a year for three years if the borrowers keep paying on time. That's on top of the servicers' normal fees of about \$400 to \$1,000 a year for a \$200,000 outstanding loan balance mortgage, the study says.

The budget for HAMP is hard to pin down, but \$75 billion is the number used most. Much of it still is unspent. "I've seen HAMP alternately described as a \$75 billion, \$50 billion, \$45.6 billion and \$29 billion program," writes David Dayen on Firedoglake.

Disorganization

Some banks responded well to the HAMP incentives and did lots of modifications to keep borrowers in their homes. But the biggest banks had much less impressive records. "A few large servicers . . . responded at half the rate (of) others," the study says.

Since 75% of the mortgage servicing business is concentrated in the hands of a few big banks, that meant HAMP's effectiveness was severely limited. Writes Bloomberg Businessweek:

The researchers did find strong correlation between a servicer's success with HAMP and the operational skill it had before the program was introduced. Banks that previously had fewer loans per employee, more training for staff, and shorter wait times for phone calls took far more advantage of HAMP.

Nonprofit news agency ProPublica writes: "As a result of banks' disorganization and understaffing -- particularly at the peak of the crisis in 2009 and 2010 -- homeowners were often forced to run a gauntlet of confusion, delays, and errors when seeking a mortgage modification."

The researchers did not identify the problem banks. But ProPublica points out "the largest mortgage servicers are Bank of America, JPMorgan Chase, Wells Fargo and Citi."

\$25 billion settlement

Public attention shifted away from HAMP after a \$25 billion settlement was negotiated in March between banks and state and federal governments over abusive foreclosure practices.

But the settlement, too, has been disappointing. It has largely failed to stop foreclosures, which was the goal. Rather, banks are using the fines they agreed upon in the settlement to facilitate short sales, in which borrowers sell their homes for less than they owe.

"In a short sale, homeowners still lose their home, though under less punitive terms than a foreclosure," Bloomberg Businessweek writes.

The researchers conclude:

Our findings reveal that the ability of government to quickly induce changes in behavior of large intermediaries through financial incentives is quite limited, underscoring significant barriers to the effectiveness of such policies.