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## Mortgage servicers dropped the ball, study says

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The Home Front

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A new study on the Home Affordable Modification Program estimates that 800,000 foreclosures could have been prevented if large mortgage servicers had been better equipped to deal with the crush of troubled homeowners who needed help.

The report comes as the Treasury Department's latest report on the \$75billion HAMP showed that as of the end of June more than 1 million temporary and permanent modifications have failed since the administration kicked off its program shortly after President Barack Obama took office in 2009.

The authors studied government data on mortgages, their performance and the outcome of mortgage renegotiations and found that even under the best circumstances, the mortgage modification program would not have reached the 3 million to 4 million households that the administration expected to help. At best, it would have been one-third that, according to the study by economists at the Federal Reserve Bank of Chicago, the University of Chicago, the Office of the Comptroller of the Currency, the Columbia Business School and Ohio State University.

"If you take it relative to the benchmarks that the administration set, it's dramatically lower," said Amit Seru, an assistant professor at the University of Chicago's Booth School of Business and co-author of the paper that was published last month by the National Bureau of Economic Research. "But if your expectation is you want to save one foreclosure in the economy, they have saved some."

The researchers found great inconsistency in how large servicers responded to the program. Notably, in what they called a "muted" response, some large servicers offered half as many loan modifications as other companies. The more active, more successful servicers that renegotiated mortgages were those with programs and trained staff in place well before the government-backed program started.

"This industry is mainly about accepting checks," Seru said. "One wasn't expected to be dealing with so many distressed borrowers."

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The study also found the federal government was quite limited in its ability to change servicer behavior by offering financial incentives, and that's a big drawback of any voluntary program. But the data also showed that private modifications negotiated outside of the program tended to become less aggressive and less effective. The authors conjecture that servicers might have put the more promising homeowners into HAMP intentionally to receive the incentive payments offered for successes.

Unfortunately, the data also showed little in the way of spillover effects in neighborhoods where HAMP modifications were made. There was no positive impact on house prices. Nor were there the changes in auto sales, employment and delinquencies in auto and credit card loans that might be expected if consumers felt more financially secure about their homeownership status.

Now about that 800,000 number, researchers arrived at it by digging into the data and asking how many homeowners could have been saved from foreclosure if their loans were serviced by a more capable servicer.

One notable omission from the study: It doesn't call out the bad actors among the mortgage servicers.

"We're not trying to put blame on anyone here," Seru said. "We could have named names. For policymakers, when they design subsequent programs, implementation and who implements them is going to be important. Organizations have their business agenda, business perspective and capabilities and it may not go on the way everyone thinks it should."

Part of the reason for the report was to look at how to better handle the next housing crisis from a policy perspective. According to Tomasz Piskorski, an assistant professor at the Columbia Business School and one of the co-authors, one potential solution going forward would be the development of special mortgage servicers. Those companies would only be brought in to handle distressed residential loans, much like what already exists for the commercial real estate sector.

"There is potential, they could become the industry leaders," Piskorski said.

Improving markets. Finally there's an Illinois city on the National Association of Home Builders/First American monthly report of housing markets that are showing improved economic health. New to the list this month is Springfield, and the overall list grew to 99 cities from 80 last month. To date, the closest city to the Chicago area was Kankakee, which joined the list last year but has since fallen off.

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