MarketWatch

Banks delayed foreclosures to influence discussion of Dodd-Frank, paper finds

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A 'novel' way to influence legislation?

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A foreclosure sign hangs on a fence in front of a foreclosed home in Richmond, California.

In 2009-2010, the housing crisis was at its worst: an average of nearly 300,000 new foreclosures were started every month during those two years.

But those numbers should have been higher, according to a paper released in October.

Banks that serviced delinquent mortgages held off on starting foreclosure proceedings on loans located in the electoral districts of members of the House Financial Services Committee in order to influence Congressional action on the Dodd-Frank financial reform bill, researchers found.

The paper, The Politics of Foreclosure, was published by researchers from Georgetown University, Ohio State University, Rutgers University, and the Chicago Fed. The delays happened even though "there was no difference in delinquency rates between committee and non-committee districts," the researchers noted.

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In a blog post, the researchers explained that the threat of onerous legislation was what prompted banks to delay the foreclosure.

"If they wanted to try to reshape and water down the Dodd-Frank Act, they would have to do so while the bill was being debated in Congress. One potential mechanism to do so would be through lowering the number of foreclosures initiated in the districts of Dodd-Frank committee members so that the committee members wouldn't hear complaints from their constituents about the hardship of the mortgage crisis and would be more lenient during the debate on the bill."

The authors concede that "this is an awfully complicated and cumbersome way to influence politicians." Still, banks spend huge sums on lobbying efforts all the time, they noted.

The top 10 mortgage servicers, which include Bank of America BAC, -0.02% , Citi C, +0.39% , J.P. Morgan JPM, +0.07% and Wells Fargo WFC, -0.17% , spent $44 million collectively lobbying, and about $1 million on campaign contributions to committee members.

The researchers estimated the direct cost of delay to lenders to be about $30 million.

And delaying foreclosures could have other benefits. "These delays may help politicians who have a reputation for being sympathetic to the banks' perspective to get reelected," they wrote, and added, "the politicians themselves might pressure the banks for leniency on delinquent borrowers in their district."

The fact that the delay tactics helped only targeted Congressional constituents is "novel," the researchers wrote.

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