

Contacts:

Jan Kruse jkruse@nclc.org 617-542-8010;
Diane Thompson dthompson@nclc.org

REPORT: ROADMAP TO EFFECTIVE MORTGAGE SERVICING REFORM

NCLC Analyzes the Successes, Failures, and Potential of the HAMP Loan Modification Program

Download the report (with stories of real people harmed), charts, and recommendations for mortgage servicing reform: <http://www.nclc.org/issues/at-a-crossroads.html>

WASHINGTON, DC—As the United States begins to emerge from the worst foreclosure crisis in its history, a new report from the National Consumer Law Center (NCLC) analyzes the successes, failures, and potential of the government’s Home Affordable Modification Program (HAMP) as a roadmap to effective mortgage servicing reform. “We will lose too many more homes, now and in the future, unless the federal government takes immediate steps to fix systemic faults in our mortgage markets,” said Diane Thompson, of counsel to the National Consumer Law Center and an author of the report. “HAMP modifications have been outstandingly successful for those individual homeowners who have gotten them, but the lack of an enforceable loan modification mandate has limited the reach of HAMP. As the Consumer Financial Protection Bureau prepares to issue its rules on mortgage servicing, we hope that the CFPB will learn from Treasury’s mistakes. Creating effective, uniform, national servicing standards can directly address failures in the mortgage market, save millions of homes in the near future, and reduce losses to investors, homeowners, and communities for decades to come.”

[At a Crossroads: Lessons from the Home Affordable Modification Program \(HAMP\)](#) draws on the available quantitative data and on the experience of attorneys and housing counselors around the nation who have assisted homeowners struggling to access the program. HAMP is the most successful loan modification program to date, even though it has failed to live up to its full promise. HAMP, is, however, scheduled to sunset at the end of this year.

A key positive lesson of HAMP is that ‘win-win’ loan modifications, which benefit both homeowners and investors, are possible. HAMP modifications must pass a rigorous economic analysis, the net present value test, to ensure that investors will benefit from the modification, after accounting for the risk of the modification’s failure. HAMP also reduced the risk of failure. Modifications made before HAMP failed more often than not, but over 80% of HAMP-compliant modifications are still performing a year after they have been made. HAMP modifications continue to perform substantially better than non-HAMP modifications. Yet, despite the benefits to homeowners and investors (and to the broader economy), servicers have failed to provide HAMP modifications to millions of eligible borrowers. In fact, the number of HAMP modifications started each month is actually *declining*, despite continued need for the program.

HAMP’s failure to reach its intended scale has one root cause: massive servicer noncompliance. Without strong mandates and enforceable consequences for noncompliance, servicers will continue to implement modifications haphazardly or not at all, leaving the economy in a tailspin.

As of May 2012, nearly four million homeowners have lost their homes due to foreclosure, and up to ten million homes are at high risk for foreclosure over the next several years. National mortgage servicing standards are gravely needed. The delay in stemming the housing crisis has already cost trillions of dollars.

By examining the HAMP experience, policymakers can shape servicing standards that will build on the program's successes and avoid its failures.

Key Recommendations

Drawing on the lessons of HAMP, the report identifies five core principles for effective loan modification standards, a crucial component of national mortgage servicing standards.

Five Principles for National Loan Modification Mortgage Standards

1. Efficiency: Loan modification evaluations should be standardized, universally applicable to all loans and servicers, and mandatory for all loans before the foreclosure process can go forward.

Loan modifications must be mandated for qualified homeowners facing hardship where the modification also produces more income for the investor than foreclosure. Outreach to homeowners and loan modification evaluation should be completed before any steps are taken toward foreclosure.

2. Affordability: Loan modification terms must be affordable, fair, and sustainable. HAMP has proved its worth by dramatically reducing re-default rates. National standards should follow HAMP's template by requiring affordable monthly payments and prioritizing interest rate reduction and principal forgiveness for long-term sustainability.

3. Accessibility: Hardship must be defined to reflect the range of challenges homeowners face. HAMP has put up barriers to access for many homeowners, including those with second mortgage debt, extended unemployment, or subsequent hardships after modification, and those who succeed to the mortgage after death or divorce. The morass at servicers restricts access to HAMP for all homeowners, but particularly those with limited English proficiency.

4. Accountability: Transparency and accountability throughout the loan modification process are essential. National loan modification standards must require transparency in all aspects of the modification process, from application through review and approval or denial. Servicers must be held to account for what they do and when they do it.

5. Enforceability: Homeowners must be protected from servicers' noncompliance. Good rules on paper are not enough. National loan modification standards will only be effective if they are followed.

This report builds on NCLC's advocacy and training work over the past 43 years to promote sustainable homeownership for all and to strengthen the mortgage market and our economy. For more information, visit <http://www.nclc.org/issues/foreclosures-and-mortgages.html>.

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