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Putting Numbers to HAMP's Limited Impact

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That President Obama’s signature anti-foreclosure measure never reached its full potential is conventional wisdom by now. No one expects the Home Affordable Modification Program (HAMP) to hit its original goal of modifying the loans for 3 million to 4 million struggling homeowners. A new academic paper using data from more than 30 million mortgages now quantifies just how limited the impact will be.

Six economists and researchers used data on individual loans from the Treasury Department covering about 60 percent of all mortgages to look at HAMP. They found the program will increase the number of loan modifications banks make by about 0.7 percent, or 1.2 million mods—about a third of the original goal. That in turn could reduce the annual foreclosure rate by a maximum of 0.48 percent, which over the life of the program totals about 800,000 fewer foreclosures. 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.

“The program in some sense failed,” says Tomasz Piskorski, a professor at Columbia Business School who worked on the paper. When looking for reasons why the program didn’t take off as much as the White House expected, the researchers found great discrepancy between the bank servicers that implement HAMP. For example, some servicers converted trial modifications into permanent ones as much as 80 percent of the time, while others did so for as little as 30 percent of borrowers. After stripping away other factors such as quality of the loans, the characteristics of the borrower, or regional differences such as companies with a lot of business in California or Florida, there will still huge discrepancies.

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. Banks with weaker infrastructure previously—mostly the largest servicers—didn’t take up the program en masse relative to the size of their portfolios. “The program incentives were not enough to make them invest more in the process,” Piskorski says. Because the mortgage servicing market is very concentrated—Piskorski says 75 percent of loans are serviced by large banks—the program’s impact was curtailed.

Much of the focus on helping homeowners has shifted from HAMP to the banks’ $25 billion settlement over abusive foreclosure practices. The settlement’s court-appointed monitor released his first report on Aug. 30 and found most of the borrower aid came from short sales, not modifications. In a short sale, homeowners still lose their home, though under less punitive terms than a foreclosure. Take HAMP and the settlement's early progress together, and fewer homeowners will get to stay in their homes.