

# New England Community Developments

Emerging Issues in Community Development and Consumer Affairs

## Servicer Performance in Processing HAMP Loan Modifications: A Survey of Massachusetts-Based Counseling Agencies

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Home foreclosures have negatively impacted communities throughout New England, and loan servicing firms have received special scrutiny in light of this crisis.<sup>1</sup> Many homeowners could avoid foreclosure by modifying the terms of their mortgages with

their loan servicing agency. One government program that attempts to address the issue by compensating servicers that allow homeowners to modify their mortgages, the Home Affordable Mortgage Program (HAMP), has had mixed results.

Members of financial/homeownership counseling agencies in New England have raised concerns about how servicers are processing loan modifications; the issues range from lost documentation to the length of time to make decisions. To measure progress under HAMP the Boston Fed's Community Development Unit administered two surveys of Massachusetts-based counseling agencies, first in August 2010, and again with a similar, revised survey in February 2011. This article reports results from these surveys and follow-up interviews with counselors and servicers. The key results indicate that (a) it takes far longer than guidelines indicate for homeowners to obtain a decision on a loan modification, although that has improved a bit, and (b) a key impediment to speedier decisions is obtaining complete documentation. With regard to the latter point, it's not clear whether the documentation burden is onerous, whether servicers are adequately staffed or trained, or whether homeowners are not following instructions. This article describes the results.

## Elements of the Surveys

Reliable data about the home loan modification process are hard to come by, especially data regarding how long the process takes and how it might differ by loan servicer. Consequently, Community Development researchers at the Federal Reserve Bank of Boston developed and tested a series of surveys to learn more from housing counselors about their experience with the HAMP. The sidebar outlines the loan modification process stipulated by HAMP.

The surveys asked representatives from counseling agencies for details about HAMP cases taken out on behalf of troubled borrowers. The survey questions covered aspects of loan modification processing, such as the number of times documents needed to be submitted or resubmitted, and the number of days or weeks to receive a decision on a trial and permanent loan modification. The survey covered only HAMP cases, not lender-specific modifications. Crucially, the survey asked for this information by servicer, to allow for comparisons and to distinguish relative high and low performances. We conducted a pilot survey in August 2010.<sup>2</sup> We administered our final survey in February 2011, covering the first half of 2010, distinguishing between the first and second halves of that year.

## Respondents

Ten counseling agencies responded to the survey,

covering 1,088 borrower cases. The servicers for which data are reported had cases with most if not all of the counseling agencies. Eleven servicers were included, with an average of 99 cases and a median of 58 cases per servicer (ranging from 426 cases at Bank of America to 10 for Carrington). Based in different cities and regions, the agencies covered an overlapping range of areas of Massachusetts, including most locations with high concentrations of foreclosures. We compiled data for all servicers that had at least 10 cases reported by the counseling agencies. All the responding agencies met recognized foreclosure counseling standards, whether HUD approved or NeighborWorks affiliated or other designations, and are supported by outside local, state, or national funders under reporting guidelines.

## Survey Considerations

- The survey relies on self-reported data. Counselors were asked to compute servicer averages based on their intake forms, approval or denial letters, and other summary documents. In most cases, counseling agencies receive funds from Neighborworks or from city or state agencies that require detailed reporting. Thus, for measures like time to a decision (acceptance or denial), most agencies were able to use their reporting files as the basis for analysis.
- Other measures were necessarily self-reported without recourse to paper documentation, and thus may be subject to inaccuracy.
- Boston Fed staff independently verified data on time to decision at two counseling agencies. Importantly, this review did not attempt to determine whether fault for any delay on an individual case principally lay with the servicer, borrower, counselor, or other party. This review did not include open cases, due to the inability to complete a final time to decision. That could allow for a conservative estimate, though also it may be unable to capture any of the most recent changes.
- During the course of 2010, HAMP underwent several substantive process changes. Recognizing the problems of documentation review, the U.S. Treasury Department and Department of HUD require that servicers verify borrower information before placing them into trials, instead of accepting verbal financial information. That may have the effect of lengthening time to trial while diminishing time to permanent modification.

- It is difficult to determine the representativeness of our sample. Treasury does not report the total number of borrower applications in Massachusetts. They do report that there were 13,947 permanent modifications granted in Massachusetts as of February 2011 but they do not report the number of denials. Our sample included 1,088 borrower applications, including denials.
- The survey results only cover cases for which borrowers sought a housing counselor, so we cannot comment on the outcomes for borrowers who submitted without counselor assistance.
- The overall number of active cases in New England has dropped (Figure 1). That could have the effect of reducing the time to decision.

## Survey Results

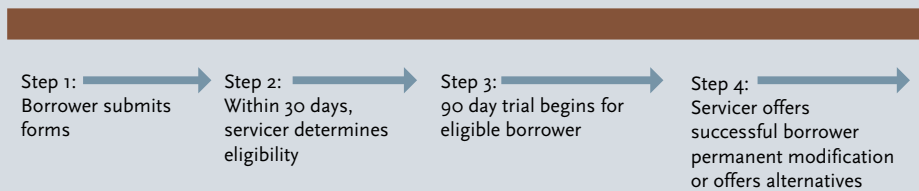
### 1. Time to a decision to grant a borrower a trial loan modification

The survey asked counselors to estimate the time it took servicers to respond to a borrower's request for a loan modification trial. HAMP guidelines indicate that decisions on a trial should be made within 30 days after submission of a complete HAMP application. Program guidelines ask for such performance.<sup>3</sup> Our survey asked counselors for the time to a decision for a trial after all documentation was submitted for their cases. As Figure 2 shows, counselors reported that the average time for a decision on a trial for those initiated in the second half of 2010 was more than three months (99 days).<sup>4</sup> That is down slightly, by about two weeks, for the comparable figure for the first half of 2010. The figure also details performance by servicer. Performance ranged from a 68-day average for a decision with Ocwen Financial Corporation to a 144-day average with JP Morgan Chase.

## Borrower Eligibility for HAMP

Borrowers must demonstrate financial hardship and either delinquent or imminent default. (According to program data, about 78% of trial modifications started were more than 60 days delinquent.) They must be the owner occupant of a one- to four-unit property and have sufficient documented income to support the modified payment (as measured by payment-to-income ratios). The loan must have been originated prior to Jan. 1, 2009, and be less than \$729,750 for a one-unit property, with larger limits for multiunit properties. Borrowers who apply under the imminent default criteria must meet additional documentation requirements.

## Process for Applying to HAMP



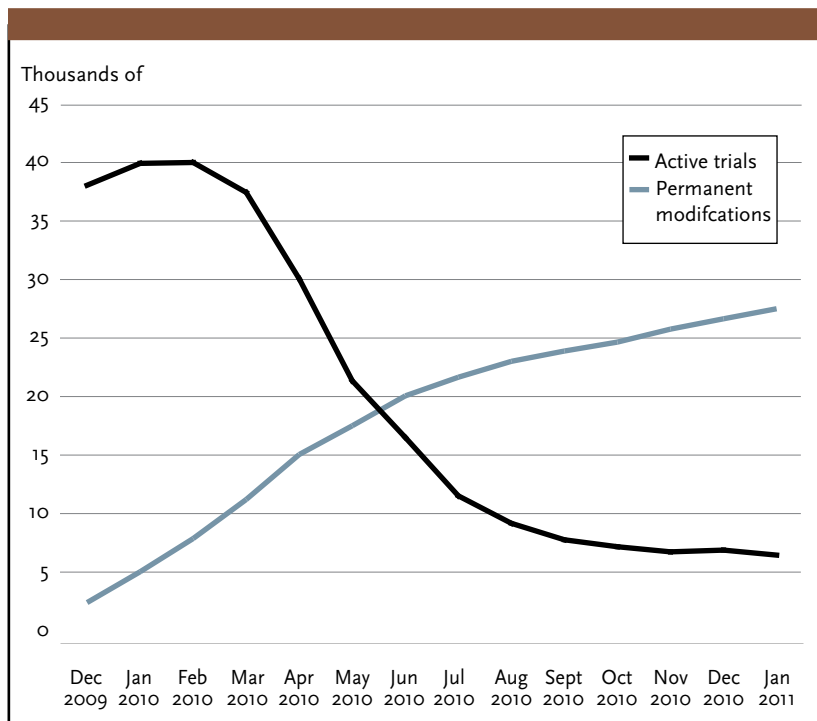
**Step 1:** Borrowers must submit four items: (i) a Request for Modification and Affidavit Form, which asks for borrower income, expenses, subordinate liens on the property, and liquid assets, and a Hardship Affidavit; (ii) an IRS form that permits the mortgage servicer to request a recent tax return. (iii) proof of income such as pay stubs or profit and loss statements, along with two additional forms; and (iv) borrowers must also certify they have not been convicted of a mortgage or real estate crime in the past 10 years.

**Step 2:** Within 10 business days, servicers must acknowledge receipt. Within 30 days, they must either send a borrower a notice of insufficient documentation or else communicate their decision according to detailed program guidelines along with all applicable laws and contractual obligations.

**Step 3:** Following underwriting, NPV evaluation, and a determination, based on verified income that a borrower qualifies for HAMP, servicers will place the borrower in a trial period plan (TPP). The trial period is generally three months long.

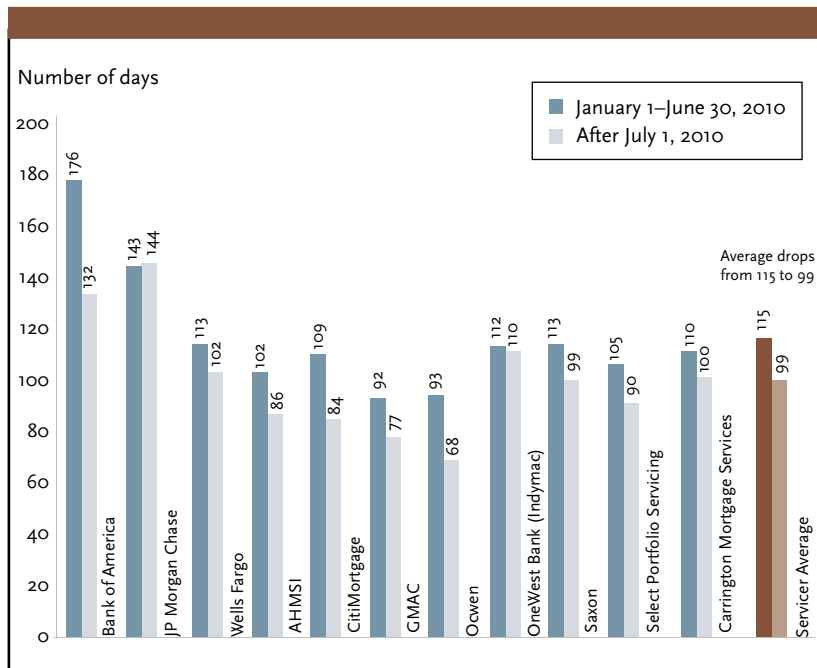
**Step 4:** Borrowers who make all trial period payments in a timely fashion and who satisfy all other trial period requirements will be offered a permanent modification. Otherwise, the servicer must work with the borrower to cure the delinquency or else consider the borrower for other loss mitigation options, including refinance, forbearance, non-HAMP modifications, and, to the extent a borrower does not qualify for a home retention alternative, a short sale or deed in lieu.

Figure 1: HAMP Trials Slow in New England



Source: US Treasury.  
 'HAMP' - Home Affordable Modification Program. Figures do not include private lender modifications.

Figure 2: Time-to-Trial Decision



Source: Federal Reserve Bank of Boston

Counselors indicate that the decision for a trial modification is often delayed because servicers ask borrowers to resubmit their applications, citing incomplete information. Following the submission of information, counselors reported that servicers ask

borrowers to resubmit additional documents nearly twice (1.9 times), on average, after the complete package has been sent (Figure 3). That has declined from 2.3 times from the first half of the year. Counselors reported that the most common reason for resubmitting documents is because of delayed processing on the part of the servicers. Often, more than 60 days have passed since the initial submission and according to what counselors hear from servicers, the information must be resent. Program guidelines report that proof of income cannot be more than 90 days old as of the date the documentation is received by the servicer, and that no refresh is needed during the trial period.<sup>5</sup>

There are alternative views on the reasons for resubmission. Anecdotally, servicers report that borrowers often neglect to sign the proper forms, do not show adequate proof of income or have missing profit and loss statements, do not verify rental income, or have seemingly minor omissions of required material, such as the first page of their bank statement (the cover page containing their address). However, counselors report that they have a checklist of these items before submission to prevent such errors. In its Making Home Affordable Servicer Performance Reports, the U.S. Treasury Department reports that insufficient documentation as one of the top three reasons servicers cite for denial of modification.<sup>6</sup>

The survey also asked counselors how long servicers take in cases where servicers did communicate that they judged the application to be complete. In those cases, agencies reported decisions were processed within an additional 70 days from the time of notice.

## 2. Amount of time to receive notice of a permanent modification

The survey also asked counselors to estimate the amount of time servicers took to convert successful trial modifications to permanent ones. According to HAMP guidelines, participants must make timely mortgage payments under the modified terms of the three month trial. After that period, borrowers are to be immediately considered for conversion to a permanent modification.<sup>7</sup> The survey results find that the average time taken by a servicer for a decision on a permanent modification is 60 days (Figure 4). Performance ranged from 43 days at Ocwen Financial to 79 days at Bank of America. The overall average is down from 105 days in the survey covering the first half of the year.

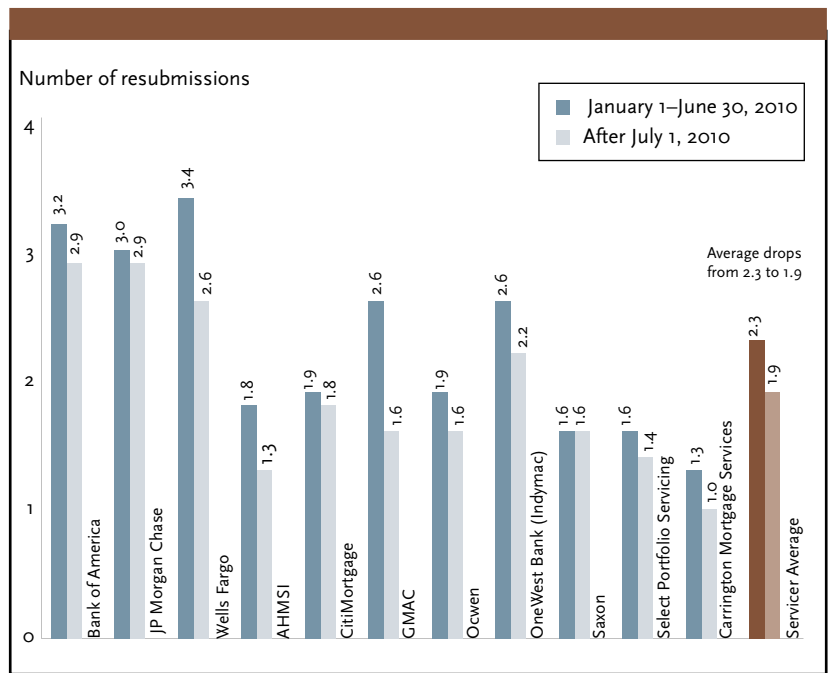
Many participants in the trial modifications are denied permanent modifications, but given the large number of open cases it is difficult to pinpoint the likelihood of that occurring. Nationally, at the end of November 2010, 32% of trials started at least three months ago had been converted to a permanent modification. Overall, 24% of all trials granted since program inception had either been converted (16% of all trials) or were approved awaiting borrower acceptance (8% of all trials).<sup>8</sup> The most common outcome from a denied permanent modification (where a trial was granted) is a private lender modification. Some agencies reported that another common outcome was a short sale, in which the borrower finds a third-party buyer for the property for a purchase price of less than the outstanding balance on the mortgage, and the lender agrees to accept that amount instead of foreclosing.

## Follow-up Interviews

We followed up with both counselors and servicers who offered some commonsense ways to make the home loan modification decision process work better. Some suggested that the number of resubmissions could be reduced using a portal, speeding the transmission process and making it more transparent. One software program is BestFIT, developed by Just Price Solutions, a nonprofit subsidiary of Neighborhood Housing Services of America. The software also computes the ability of the borrower to afford mortgage payments under various circumstances. A second—the HOPE LoanPort—grew out of a development of the HOPE NOW alliance of mortgage companies, counselors, and mortgage market participants. It, too, aims to reduce lost paperwork and speed time to a decision, as well as allow servicers and counselors to analyze options. Many servicers reported that they use the software,<sup>9</sup> and both the nonprofit and some servicers report the portal yields faster results. According to the survey, only half of the counseling agencies report using the HOPE LoanPort with at least one servicer. There was a general view that it cut down the process time up front.

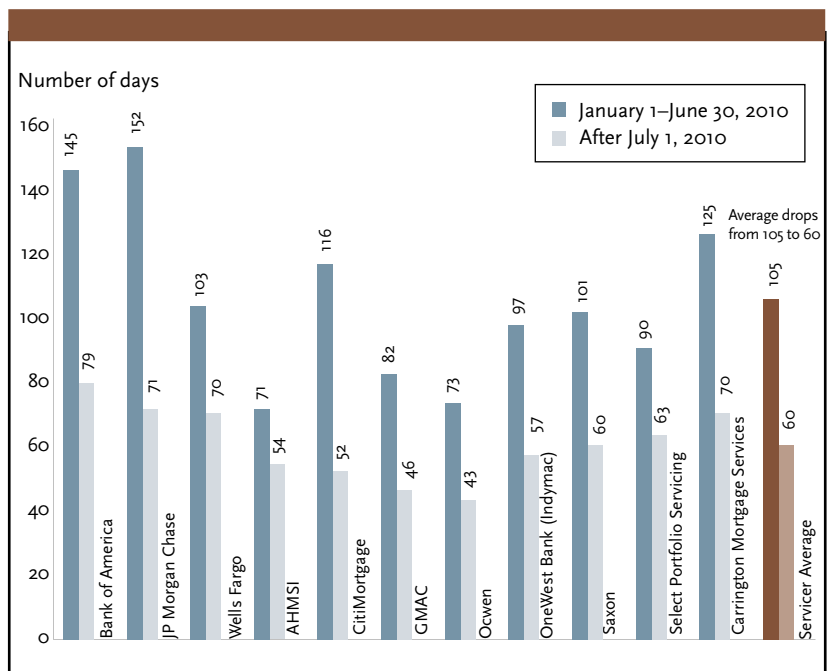
Counselors also suggested that servicers be required to provide applicants with a notice of application completion. Two of the 11 servicers were sending letters to borrowers or their designated third-party counseling agencies that the application was complete as reported by at least half of the surveyed agencies. Counselors indicated that designating this application as completed allows the

Figure 3: Number of Resubmissions



Source: Federal Reserve Bank of Boston

Figure 4: Time to Permanent Modification from End of Trial



Source: Federal Reserve Bank of Boston

borrower to know his or her application is moving forward; lacking this, there may be fatigue from the waiting period under financial distress or frustration with the prospect of submitting more documents.

Counselors also found that a dedicated point of contact at the servicer was extremely helpful. Few

counselors reported that a dedicated line was available to counselors.<sup>10</sup> Of the 11 servicers included in the analysis, only one had a dedicated number that counseling agencies reported that they used. Several counselors reported that previously existing dedicated lines no longer were effective, and they called the general homeowner phone numbers.

In addition, counseling agencies report lengthy waits to reach the correct person to help them with a particular case. They report an average of nine minutes to reach the right person who can help them with their case on each call, ranging from six minutes at Carrington Mortgage Services to more than 13 minutes at JP Morgan Chase.<sup>11</sup>

## Conclusion

While these findings are self-reported, the survey results help gauge how well the loan modification process may be working from the homeowner perspective. Given the training and experience of foreclosure counselors, one would expect that they would achieve somewhat faster results than an individual borrower seeking help on his or her own. If true, these results could be viewed as representing a conservative estimate of the amount of time for homeowners to receive a decision. Several media accounts describe the frustration experienced by borrowers with the process.<sup>12</sup>

Notably, some servicers perform more poorly than others. Not enough is known about whether good performance is due to superior processes or other features of the servicing portfolio. Differences among servicers could also be because borrower characteristics vary across servicers.

The U.S. Treasury has announced compliance goals for 2011 administered by Freddie Mac as the compliance agent of the Making Home Affordable program.<sup>13</sup> The process is meant to include “second look” review to determine whether modification decisions were made accurately. It also incorporates on-site reviews, reviews of the net present value test (a multifactor decision model used by servicers to determine whether offering a loan modification would return more than a foreclosure), reviews of individual loan files, and incentive payments made to servicers. The Treasury intends to take a close look at cancellations made by loan servicers to determine whether they were made appropriately.

We hope these results serve as a baseline with which to judge the process by which distressed borrowers seek help. Given the large financial and emotional disruption posed by a foreclosure, the process deserves a speedy resolution whether the borrower is or is not eligible, allowing him or her to move on to seek the right solution for the circumstances.

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## Endnotes

- <sup>1</sup> The Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation conducted a study of banking organizations which identified a pattern of misconduct and negligence related to deficient practices in residential mortgage loan servicing and foreclosure processing. The Federal Reserve Board subsequently took formal enforcement actions requiring 10 banking organizations to actions to ensure that firms under its jurisdiction promptly initiate steps to establish mortgage loan servicing and foreclosure processes that treat customers fairly, are fully compliant with all applicable law, and are safe and sound.
- <sup>2</sup> We developed and tested the survey in consultation with housing counselors by conducting one-on-one discussions with agency representatives. We presented results from the pilot survey to servicer and counseling agencies to receive comment. We asked both a counselor and a representative from a major servicer to review the final survey. The final survey differed from the pilot in trying to capture more information about the reasons for denial, paying more attention to the use of web-based portals, and clarifying some of the language. The final survey also benefited from having enough time to judge the impact of changed procedural guidelines put in place by the program administrators, the Treasury Department, and the Department of Housing and Urban Development as of June 1, 2010.
- <sup>3</sup> According to the *Making Home Affordable Handbook*, servicers must acknowledge receipt of the initial package within 10 business days, and must provide notice of insufficient documentation within 30 *calendar* days. If the application is complete, the servicer must send a trial modification payment period notice or else decline the application and communicate this to the borrower. See page 58 of [https://www.hmpadmin.com/portal/programs/docs/hamp\\_servicer/mhahandbook\\_30.pdf](https://www.hmpadmin.com/portal/programs/docs/hamp_servicer/mhahandbook_30.pdf)
- <sup>4</sup> A US Treasury Making Home Affordable Servicer Performance report on aged trials details about 32,000 active trials were initiated over six months ago, or 22%, out of about 142,000 active trials nationally (February 2011). No average figures were reported. That differs from the survey finding in that it includes the period after the decision was made and the homeowner begins making payments in the three-month trial. Therefore, our survey findings seem to show longer delays than Treasury figures.
- <sup>5</sup> See page 58 of *Making Home Affordable Handbook*, [https://www.hmpadmin.com/portal/programs/docs/hamp\\_servicer/mhahandbook\\_30.pdf](https://www.hmpadmin.com/portal/programs/docs/hamp_servicer/mhahandbook_30.pdf)
- <sup>6</sup> See <http://www.treasury.gov/initiatives/financial-stability/results/MHA-Reports/Documents/Feb%202011%20MHA%20Report%20FINAL.pdf>
- <sup>7</sup> See page 77 of *Making Home Affordable Handbook*, [https://www.hmpadmin.com/portal/programs/docs/hamp\\_servicer/mhahandbook\\_30.pdf](https://www.hmpadmin.com/portal/programs/docs/hamp_servicer/mhahandbook_30.pdf)
- <sup>8</sup> Making Home Affordable Servicer Performance Report February 2011.
- <sup>9</sup> See <https://www.hopeloanportal.org/index.php> for a current list of servicers that accept the software.
- <sup>10</sup> The question of how to expedite cases has been raised in the Government Accountability Office report on the program, which finds that few homeowners know that they may use the HOPE hotline for escalation or to register a complaint.
- <sup>11</sup> This metric differs substantially from time to reach a live person on the Homeowners HOPE hotline, presented in U.S. Treasury *Making Home Affordable* reports as an average of 5.1 seconds (February 2011). The question was worded differently, to include any transfers from the initial receipt to the person who could help with a particular case.
- <sup>12</sup> See Powell, M. and Martin, A., "Foreclosure Aid Fell Short, and Is Fading Away," *New York Times*, March 30, 2011, page A1. See also McKim, J. and Woolhouse, M., "Hope, Hardship in Mortgage Battle," *Boston Globe*, March 7, 2011, page A1.
- <sup>13</sup> Making Home Affordable Servicer Performance Report February 2011.