Mortgage Modification's Dirty Little Secret

By: Brian O'Connell

NEW YORK (**BankingMyWay**) — Some mortgage holders have a big advantage over others when it comes to a home **loan modification**, but neither party has any say in the matter. What banks do with their customers' mortgages isn't doing those homeowners any favors, and they like to keep the reason a secret.

That's the opinion of Itzhak Ben-David, a finance professor at Ohio State University, and co-author of a new **study** on mortgage modifications. Ben David and his fellow researchers found that mortgage lenders were up to 36% more likely to OK a home loan modification if the institution actually owned the mortgage. But if the original lender sold that mortgage to investors, a lender was less likely to renegotiate a home loan deal.

Unfortunately, it's a situation where homeowners have no impact; it's not up to them if their mortgage is sold into the securities market or not. "Homeowners don't have a say in whether their bank sells their mortgage or not, but that can have a significant impact on whether their loan is re-negotiated," Ben-David notes. "From the homeowners' perspective, whether their mortgage is traded among investors is completely outside of their control."

With its focus on financial reform over the past two years, the federal government hasn't gotten to the issue of mortgages that are repackaged and sold to investors, and it probably won't, at least in the next few years. It's perfectly legitimate for the original mortgage lender to sell your mortgage, and it's usually not a problem as long as you keep up with your mortgage payments.

But if you're delinquent on your payments and you need to renegotiate with your lender to keep your home, not "owning" the mortgage is a significant problem, the study authors say. When your lender doesn't own your loan anymore, this reduces any leverage it might have had in deciding to grant a home loan modification.

"You may not even know that your mortgage has been sold, but it could have real effects on you if you ever become delinquent in your payments," Ben-David adds. If your mortgage is sold (usually to mortgage servicers owned by a big bank), the servicing companies take control over any home loan modification decisions, and that's usually not good news for delinquent homeowners.

In looking at 1.6 million delinquent U.S. mortgages from 2008 to 2009, the study authors found that servicers "were not quick" in making modification decisions. Six months after a request was made for a mortgage modification, more than half had gone largely ignored. After a year, one-quarter of those homeowners hadn't received a decision from the mortgage servicer.

Worse, it didn't matter if the **homeowner** had a great credit score. As long as the mortgage wasn't owned by the original lender, the homeowner was significantly less likely to be granted a modification deal.

"This is a very significant economic effect," Ben David says. "[It's] likely due to the fact that servicers have better information about borrowers whose loans they own directly."

While there's not much a homeowner can do if his mortgage was sold off, he should check their mortgage's status anyway. Just knowing who you're dealing with in a home modification deal can help, the study authors say.

Still, until the major home loan services have some incentive to renegotiate a home loan, they'll likely drag their feet. In a paperwork-intensive process, it seems the holder of the ownership document has all the leverage. And there's not much a delinquent homeowner can do about that.

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