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Take-up of mortgage assistance for distressed homeowners: The role of geographic accessibility

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ABSTRACT

Program participation is a necessary but not sufficient condition for the success of housing policies such as mortgage assistance for distressed homeowners. Low rates of take-up of available assistance among eligible homeowners have hampered the potential success of programs such as the U.S. Treasury's Hardest Hit Fund initiative. This paper investigates the effect of accessibility and related transaction costs, measured in terms of geographic access to application intake agencies, on the likelihood of application completion for homeowners who begin the assistance application process. Using data from a large-scale mortgage assistance program in Ohio, the work is motivated by the observation that a surprisingly small percentage of eligible homeowners who register for assistance submit a completed application. Consistent with the literature on access and transaction costs, we find that proximity to intake agencies increases the probability of application submission in a small, but significant, way. The results suggest that further emphasis should be given to the interactions at the front lines of mortgage assistance programs.

1. Introduction

The unprecedented housing crisis that began in 2007 left millions of American homeowners with unsustainable mortgage payments at increasing risk of delinquency and foreclosure. As part of a large-scale federal response to the crisis, the U.S. Department of Treasury created the Hardest Hit Fund (HHF) in 2010 as a program under the Troubled Asset Relief Program (TARP). The HHF set aside $7.6 billion of funding to 18 states that were most severely affected by the foreclosure crisis, with intervention programs to be designed and implemented by the state Housing Finance Agencies (HFAs). Like other federal foreclosure initiatives, the initial impact of the national HHF program was limited due to lower than expected take-up, a fact noted by both federal auditors[1] and the popular press.[2]

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[1] See SIGTARP, "Factors Affecting the Implementation of the Hardest Hit Fund," available at: http://www.sigtarp.gov/Audit%20Reports/SIGTARP_HHF_Audit.pdf.

[2] See, for example, *Los Angeles Times*, "Audit Faults Execution of Program to Aid Homeowners," April 12, 2012, available at: http://articles.latimes.com/2012/apr/12/business/la-fi-mortgage-hardest-hit-20120412.

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Empirical analyses to date of the low take-up rates of mortgage assistance programs have focused primarily on variations in program requirements, servicer structure, capacity and incentives, and mortgage financing structures (e.g., U.S. GAO, 2011a; Agarwal et al., 2010, 2011; COP, 2010; Immergluck, 2011). However, drawing on the literatures of social assistance take-up, transaction costs, and accessibility (Heckman and Smith, 2004; Moffitt, 1983; Currie, 2006), the homeowner's persistence through the program may also affect the take-up of mortgage assistance. Potentially-eligible homeowners may lack information about the program, its benefits, or the probability of receiving assistance from the program. While general information on the program may be available, because of the complexity of eligibility requirements, benefit levels, and application procedures, eligible beneficiaries may not accurately interpret the information or their probability of being approved for assistance (e.g., Bucks and Pence, 2008). Further, the expected effort required on the part of the applicant, such as the time costs of completing required paperwork, may outweigh the predicted benefits, weighted by the perceived probability of receiving those benefits. While informational frictions and transaction costs may be difficult to measure directly, both may be proxied by the physical accessibility of intake agencies, which are often required to assist homeowners with the application process. Specifically, as distance to intake agencies increase, transaction costs associated with the application process increase, and opportunities for information sharing through repeated interactions decrease, thereby reducing the probability of application completion.

This paper investigates the relationship between accessibility and persistence through the mortgage assistance process using unique data from Ohio's HHF program, referred to as Restoring Stability: A Save the Dream Ohio Initiative (hereafter "Restoring Stability"). The Ohio program was allocated \$570.4 million in 2010 and 2011 to be used over 5 years and was intended to serve up to 63,000 households, targeting assistance to homeowners facing specified financial hardships such as unemployment, decreased wages or increased medical expenses. The paper examines the initial 18 months of the Restoring Stability program, during which more than 50,000 homeowners began the application process for mortgage assistance by registering with the program ("registrants"), while only roughly 10,000 of these registrants submitted a complete application that entered the underwriting process for funding consideration ("applicants"). While some registrants drop out of the application process because they are not eligible for the program, many other registrants who do meet initial eligibility requirements do not follow through the process of submitting an application. Using program data on roughly 30,000 eligible registrants for Restoring Stability assistance, this paper evaluates the relationship between variation in homeowner geographical proximity to intake agencies and persistence through the process. Across multiple specifications, distance is consistently found to be an impediment to completing applications, suggesting that transaction costs and informational barriers may prevent homeowners from receiving mortgage assistance. To the extent that these implementation barriers can be addressed through policy design, mortgage assistance programs may achieve greater success. This paper contributes not only to the broader literature examining the impediments to program take-up but also more specifically to the housing policy and mortgage assistance literature.

The remainder of the paper is organized as follows. First, a brief review of federal mortgage assistance programs and existing analyses is provided, followed by a discussion of the factors that may affect take-up rates. While the section highlights some of the borrower and loan characteristics and supply-side constraints that may affect take-up, specific attention is given to the application phase. Factors are identified that might affect borrower persistence through the process, including expected benefits and transaction costs measured by geographical access. Next, a short description of the Restoring Stability program and its application process is provided, thereby informing the empirical strategy and data. Finally, results and robustness checks are presented, followed by conclusions and implications for housing policy.

2. Mortgage assistance programs & take-up

A variety of new public and private mortgage assistance programs have been implemented since 2008 in an attempt to stem the tide of foreclosures. The programs have been motivated by the idea that foreclosure assistance potentially not only directly benefits recipients, but it can also protect the value of neighboring properties, which can be affected by foreclosures (Biswas, 2012; Schuetz et al., 2008). At the beginning of 2012, roughly two million home mortgages were in the process of foreclosure, with more than four million mortgages foreclosed upon between 2008 and 2011 (Harvard Joint Center for Housing Studies, 2012). Proprietary and public mortgage modification programs are intended to renegotiate the terms (interest rate, duration) or principal balance of the mortgage for a borrower in distress, thereby reducing the probability of foreclosure, which is costly for both homeowners and lenders. For example, from the beginning of 2008 through the second quarter of 2012, the Office of the Comptroller of the Currency (OCC) reported more than 2.7 million mortgages had been modified by mortgage servicers (OCC, 2012).

The largest federal initiatives include those implemented under the U.S. Treasury's Troubled Asset Relief Program (TARP), beginning in 2009 with both the Home Affordable Mortgage Program (HAMP) and the Home Affordable Refinancing Program (HARP) and then subsequently with the HHF program in 2010. As a proportion of total modifications, federal programs have had an impact. Roughly half of the modifications reported by the OCC from 2009 to 2012 were modified under the federal HAMP program, with the remainder modified through proprietary programs (OCC, 2012). However, the actual number of homeowners that received assistance by 2012 was well below initial program intent—just over 1.2 million homeowners received permanent modification under the federal HAMP program through December, 2012 (U.S. Department of the Treasury, 2013), compared with 4 million projected (U.S. GAO, 2011a). The state-administered HHF program has also come under criticism for low partic-