



INSIDE MORTGAGE FINANCE®

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Mortgage Servicers Need to Educate Borrowers Before Default, IMF-Sponsored Study Suggests

Mortgage servicers looking to stem the tide of rising defaults need to focus their attention on borrowers who are current on their loans – and not just those who are delinquent. That’s one of the major findings of a new *Inside Mortgage Finance*-sponsored study of mortgage borrower behavior during periods of financial stress.

The research, which is based on a nationwide survey of homeowners conducted by Campbell Communications in August and September, provides new insight into the current mortgage crisis by examining what happens when borrowers face financial trouble and how they prioritize credit payments. The study also examined borrower attitudes towards late fees and penalties as well as a number of other delinquency and default issues.

One of the most significant areas of focus in the new study relates to the changing psychology of homeowners as they get behind on their mortgage payments. The survey results suggest that borrowers are much more willing to take steps to avoid foreclosure before they get behind on payments. But once borrowers become delinquent, they look at ways to stay in their homes and delay eviction as long as possible.

For borrowers who were current on their mortgage, the study found that more than two-thirds of respondents would sell their homes if they were unable to pay their loans. However, the share of respondents willing to sell dropped to less than half for borrowers who were already delinquent.

“The survey results provide a fascinating insight into the plans and psychology of homeowners with mortgages,” commented Tom Popik, designer of the Campbell Communications survey. “In general, the survey results indicate that if servicers wish to educate borrowers or positively influence their behavior, they stand the best chance of doing this before the borrower has gone into default.”

One of the more surprising findings in the new study was how little borrowers knew about their legal liability if they were to participate in a short-sale of their property, abandon their home, or just default on their mortgage. Less than one fifth of all survey respondents recognized any potential financial consequence from any of these actions.

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“After default, borrowers tend to put aside plans such as selling their house to pay off the mortgage. Instead, they develop alternative plans that result in a higher loss severity for servicers or investors, such as declaring bankruptcy or staying in the house until eviction. They also generally are unaware of the financial repercussions of defaulting on their mortgages,” Popik reported.

The study also found a strong correlation between equity in a home and mortgage borrower performance. For example, borrowers with some home equity were two and half times more likely to plan to sell their home if they were unable to pay their mortgage as borrowers without equity. Similarly, borrowers with negative home equity were much more likely to be delinquent on their mortgage than borrowers with positive home equity.

The number one reason cited by respondents for not making mortgage payments in periods of financial stress was “increase in monthly payments.”

And somewhat surprisingly, more than three quarters of respondents who were past due on their mortgage were willing to have missed payments, penalties and late fees added to their mortgage balance if it helped them avoid foreclosure.

For information on how to obtain the complete report entitled “Homeowner Attitudes Regarding Mortgage Payments under Financial Stress,” contact John Campbell at Campbell Communications at john@campbellsurveys.com or (202) 363-2069. ♦

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