



# The Mortgage Servicing Collaborative

## THE PROBLEM

The housing market has rebounded significantly since the 2008 economic crisis, yet millions of consumers remain unable to purchase a home because they cannot qualify for a mortgage loan. This lack of access to credit is especially acute among first-time homebuyers, people of color, and low- and moderate-income borrowers.

One clear cause of this lack of access has emerged: too many lenders are restricting mortgage lending to a narrow band of consumers who are able to meet stringent income, asset, and other eligibility requirements. But what is driving lender wariness is less transparent.

The evidence tells us that it's more expensive than ever to originate and service mortgages. And we know that this increased expense is due, at least in part, to the persistence of regulations meant to minimize homeowner losses during the crisis, that remain on the books today, despite a more stabilized delinquency environment and lower foreclosure rates.

Further complicating the mortgage servicing landscape is the rapid growth of nonbank servicers, which collectively manage more than half of the nation's mortgage loans and have introduced new regulatory, risk and capital questions that need to be analyzed.

While most experts and policymakers recognize that increasing costs and additional regulatory requirements are impeding lending, research on the scope of the problem and viable solutions is sparse. We need to better understand how we can remove or minimize the impediments to lending in a way that better serves consumers, and enables a more efficient market.

## THE APPROACH

The Mortgage Servicing Collaborative (the Collaborative) is an initiative of the Urban Institute's Housing Finance Policy Center that seeks to improve access to credit by identifying and generating support for servicing reforms that will better serve consumers and create a more efficient market.

The Collaborative will convene key industry stakeholders—including lenders, servicers, consumer groups, researchers, and policymakers—to develop an evidence-based understanding of key factors and barriers and to develop and analyze possible solutions and implications. The Mortgage Servicing Collaborative seeks to:

- **Identify the obstacles to more robust lending** including the FHA conveyance model, the FHA modification process and tools, the lack of alignment of servicing standards across federal agencies and possibly across states, the high cost of originating and servicing mortgages and inconsistent and overly stringent timelines.
- **foster debate and analysis** on how we can remove or minimize the obstacles identified to better serve consumers and enable a more efficient market; and
- **produce and disseminate research findings** and policy recommendations, including those by Collaborative members, or a collection of policy options that can clarify and advance the debate.<sup>1</sup>

## THE DATA

**Drop in lending to vulnerable populations.** Between 2006 and 2015, loans to low- and moderate-income borrowers decreased 35 percent; loans to African American and Hispanic borrowers decreased 64 percent.

**Skyrocketing costs.** The cost to service a performing loan tripled between 2008 and 2015 (from \$59 to \$181); the cost to service a nonperforming loan increased fivefold (from \$484 to \$2,386). Servicer compensation did not change during this same period.<sup>2</sup>

**Domination of nonbank servicers.** From 2013 to 2016, the share of nonbanks servicing FHA loans increased from 35 percent to more than 70 percent. The share of nonbanks servicing GSE loans increased from 30 percent to 50 percent.

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## ∴ The Mortgage Servicing Collaborative

### FUNDING

The Collaborative is funded with industry and other stakeholder support. We estimate that funding will be required for 18–24 months.

### HOUSING FINANCE POLICY CENTER

In convening the Collaborative, the Urban Institute's Housing Finance Policy Center (HFPC) hopes to identify key areas for research, conduct and disseminate that research, foster a robust policy discussion and produce and disseminate a set of policy recommendations.

HFPC: will

1. **Frame the discussion and bring critical policy and practical issues** to the forefront, particularly the effects of proposed policies on consumers' access to and cost of credit;
2. **convene and direct the work of stakeholders**, including financial industry leaders, consumers, civil rights leaders, community advocates, researchers, experts, and policymakers;
3. **provide data, analytics, and insight** to inform and support debate within the Collaborative;
4. **be an active member of the Collaborative** and contribute to deliberations; and
5. **provide communications support** to disseminate key findings and recommendations.

**For more information about the Mortgage Servicing Collaborative** contact Alanna McCargo at 202.261.5981 or [amccargo@urban.org](mailto:amccargo@urban.org).

### HFPC Mortgage Servicing Collaborative Program Team

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### Financial support:

The Housing Finance Policy Center was launched with generous support at the leadership level from the Citi Foundation and John D. and Catherine T. MacArthur Foundation. Additional support was provided by The Ford Foundation and The Open Society Foundations. HFPC also receives unrestricted research support from the Housing Finance Innovation Forum (HFIF), a group of organizations and individuals that support high-quality independent research.

Financial support for the Mortgage Servicing Collaborative is provided by a subset of HFIF members.

<sup>1</sup> The Collaborative will seek consensus where possible but will acknowledge and share the views of all collaborative participants wherever appropriate.

<sup>2</sup> Source: Mortgage Bankers Association

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### URBAN INSTITUTE

The nonprofit Urban Institute is dedicated to elevating the debate on social and economic policy. For nearly five decades, Urban scholars have conducted research and offered evidence-based solutions that improve lives and strengthen communities across a rapidly urbanizing world. Our objective research helps expand opportunities for all, reduce hardship among the most vulnerable, and strengthen the effectiveness of the public sector.

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