Mortgage modification policies slow employment recovery, economists say

September 15 2011, By Meg Sullivan

In a new study, UCLA economists estimate that means-tested mortgage modifications, which significantly reduce mortgage payments to households whose incomes have declined, have raised the unemployment rate by approximately 0.5 percentage points. In the absence of these policies, they say, there would be about 750,000 more jobs filled, and that output and income would be about $140 billion higher than it is.

Means-tested mortgage modifications substantially reduce the cost of staying in a home by reducing mortgage payments, with the payment reduction based on the household's current earnings; this can include cases in which the borrower's income is limited to unemployment benefits. These policies, the researchers argue, reduce incentives for workers to relocate to areas with lower unemployment rates and better job-finding prospects.

The findings could help policymakers better tackle the current unemployment problem by highlighting the potentially negative effects of means-tested modifications; policies could instead be directed toward solutions that do not reduce incentives for individuals to move to better labor markets.

More information: The study is currently a National Bureau of Economic Research working paper and will appear in the fall edition of the *Cato Journal.*

Provided by University of California Los Angeles