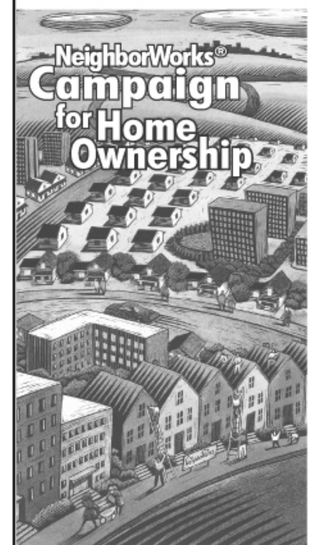
NeighborWorks® AMERICA

Formula for Success: Questions and Answers for Local Leaders Designing a Foreclosure Intervention Program

A NeighborWorks® America Publication

February 2007



**NEIGHBORWORKS® AMERICA,
THE NEIGHBORWORKS® NETWORK AND
THE NEIGHBORWORKS® CAMPAIGN FOR HOME OWNERSHIP**

Neighborhood Reinvestment Corporation, doing business as NeighborWorks® America, was established by an act of Congress in 1978 (Public Law 95-557). A primary objective of NeighborWorks® America is to increase the capacity of local community-based organizations to revitalize their communities, particularly by expanding and improving housing opportunities.

These local organizations, known as NeighborWorks® organizations, are independent, resident-led, nonprofit partnerships that include business leaders and government officials. All together they make up the NeighborWorks® network.

The publication was written based on research by J. Michael Collins and Rochelle Nawrocki Gorey. It was edited and formatted by Amy Christian.

Copyright © 2007 by NeighborWorks® America, 1325 G Street NW, Suite 800, Washington, DC 20005; (202) 220-2300; www.nw.org.

First edition: February 2007

**NEIGHBORWORKS® AMERICA
BOARD OF DIRECTORS**

NeighborWorks® America's Board of Directors:
Chair: Thomas J. Curry, Director, Federal Deposit Insurance Corporation
Rodney E. Hood, Vice Chairman, National Credit Union Administration
Randall S. Kroszner, Member, Board of Governors of the Federal Reserve System
Brian Montgomery, Assistant Secretary, U.S. Department of Housing and Urban Development
John Reich, Director, Office of Thrift Supervision
Julie Williams, First Senior Deputy Comptroller and Chief Counsel, Office of the Comptroller of the Currency

Overview

This document is designed to help local leaders who are in the early stages of planning efforts to develop interventions to address rising mortgage foreclosures in their community.

This serves as a companion to the NeighborWorks America® default counseling manual and presents a general framework for creating partnership-based solutions.

Using a question and answer format, this guide provides definitions of foreclosure and suggests some background regarding rising trends in default and foreclosure nationally.

This document also provides an overview of public data that can be obtained locally regarding foreclosure filings and how that data can be used to aid the development of programs.

Key tasks for starting a program are reviewed and include guidance on targeted marketing and outreach efforts, delivery of counseling and other support services and the management of foreclosed properties at risk for decline.

Ways to prevent default are also discussed, including workshops, counseling and neighborhood stabilization. Recent experience from existing programs is used to frame various strategies and provide recommendations for action.

Designed as a basic reference guide, this document will jump-start local initiatives to stem foreclosure problems in local communities.

Executive Summary

Each year hundreds of thousand of families lose their homes to mortgage foreclosure. In recent years foreclosures have been increasing in many communities, due in part to a massive expansion of mortgage lending to borrowers with poor credit. Concentrations of foreclosures in neighborhoods can undermine property values and become costly for local government and residents. Foreclosure can also be devastating to families, but there are ways to make foreclosures less harmful for communities and borrowers. Using a partnership approach, communities can work together to:

- promote access to default counseling services delivered through a telephone hotline
- provide locally-based services for borrowers with severe problems or troubled properties
- link borrowers to their lender or servicer to pursue alternatives to foreclosure
- develop processes to preserve properties going through foreclosure

This document is a primer for local public officials and staff, nonprofit leaders and advocates as they begin to design a foreclosure intervention program. Successful programs include:

- careful research documenting the problem;
- well-designed marketing materials and public awareness campaign;
- links to counselors at a national call center;
- well-trained local service providers who can work productively with borrowers and lenders as needed; and
- a system to document outcomes.

Partnerships between local government, nonprofit agencies and leading mortgage lenders and servicers are the foundation upon which effective foreclosure prevention programs are built. Public agencies provide credibility and trust that encourage borrowers to seek out help, as well as providing subsidies to pay for services and limited financial assistance to borrowers. Nonprofit agencies provide objective, third-party advice for borrowers, and can help borrowers develop better budgeting behaviors to become current on their loans. Lenders or servicers have an array of foreclosure alternatives available—precisely because the cost of foreclosures to the industry is so significant. But in order to play a role, mortgage lenders and servicers need cooperation from borrowers; also, they often can benefit from services provided by nonprofits.

Research and planning are an important component of programs in order to shape outreach efforts and counseling strategies. A critical consideration is the stress felt by borrowers in default, often leading to denial or evasive behavior. Important services include legal advice, home repair, social and family services and employment assistance.

As programs develop, preventative efforts may help stem rising foreclosures. These include pre-home purchase education, counseling for mortgage refinancing, and a consumer-focused review of home equity and home improvement loans. Special populations, including senior citizens, may be a particular focus of these efforts.

Contents

Overview 1
Executive Summary 2
UNDERSTANDING CHANGES IN THE MARKETPLACE 5
What is foreclosure? 5
How have rates of foreclosures changed over time? 6
Why are foreclosures a concern? 7
Is this just a temporary problem? 7
Where are foreclosures concentrated? 8
ANALYZING FORECLOSURES 10
What are the causes of foreclosure? 10
How are foreclosures measured? 10
Where can we find foreclosure data? 11
What kind of information is typically contained in foreclosure data? 13
What do we do with the data? 13
What about mapping foreclosure data? 17
How can we tell what causes foreclosure in our area? 18
PLANNING AN EFFECTIVE PROGRAM 19
Which borrowers do we target? 19
Understanding the roadblocks to borrower communication 20
How do we make initial contact? 20
Why conduct an outreach campaign? 21
What is the role of a 24-hour hotline? 22
Why don’t borrowers call for help? 22
SECTION 4: FORECLOSURE INTERVENTION COUNSELING 24
How does counseling help? 24
What should be covered in counseling? 26
What if the borrower cannot stay in the house? 26
What is the best way to approach the borrower? 27
Why use telephone-based counseling? 27
But don’t borrowers need face-to-face counseling? 28
What is the time frame for counseling to occur? 30
What is the role of the counselor? 31
SECTION 5: PROVIDING OTHER SERVICES 34
Do we need to offer “rescue” funds or other financial assistance? 34
What happens to homes that go through foreclosure? 35
Should the city or a local agency take over properties in foreclosure? 35
What other services should we refer borrowers to? 36
SECTION 6: TAKING ACTION TO PREVENT FORECLOSURES 38
Can we prevent mortgage delinquencies before they occur? 38
How can we work with borrowers who are at risk but not yet foreclosed? 39
What about predatory lending? 39
What about mortgage fraud? 40
What state and local policy changes can help? 41
How can prevention services be targeted? 41

SECTION 7: GETTING STARTED 42
What is involved in a public awareness campaign? 42
Who needs to be involved? 42
Why does the lender we are working with say they cannot offer any special deals for borrowers? 44
What about privacy laws? 44
What should we not do? 45
What is the role for political leaders? 45
What technology can support a foreclosure-prevention program? 46
What do we need to begin? 46
How do we know if it works? 46
Documenting Success Stories 49
How do we fund a program? 51
What's next? 51
Project Interviews 52
References 53
Web Sites for More Information 56
Appendix: State-by-State Foreclosure Rules 58

UNDERSTANDING CHANGES IN THE MARKETPLACE

Homeownership rates have reached record levels in the last decade. Many more families are enjoying the benefits of owning their own home. For many, it's the first opportunity to build assets through home equity. But even as the housing market has boomed, many families are finding themselves in a financial position where meeting their mortgage payment obligations is no longer possible. Some families may juggle their bills in order to pay their mortgage, but fall into a pattern of late or partial payments. Others reach the point where they cannot make any payments at all. As soon as a full payment is past due, borrowers are delinquent and foreclosure proceedings may follow. Depending on the state and the borrower's circumstances, borrowers may then lose their home to foreclosure.

As will be shown in the next section, foreclosures are most often due to mortgagees' loss of income, and they are often exacerbated by poor budgeting habits. The risk of foreclosure multiplies when combined with soft home values, risky mortgage lending, and even fraudulent lending.

Foreclosures can have devastating effects not just for the family that loses its home, but also for the neighborhood and the municipality. They result in declining property values and mounting costs for the local government as officials try to deal with the vacant building left behind.

Foreclosure rates have soared and have left many community organizations wondering how to stem the tide of foreclosures. This guide will help organizations better understand how foreclosures may be averted and, when they cannot, how to mitigate their negative effects. It will also provide a framework for foreclosure prevention efforts and provide useful lessons learned that can be utilized to develop a comprehensive, effective, and efficient program to help homeowners who are experiencing delinquency issues.

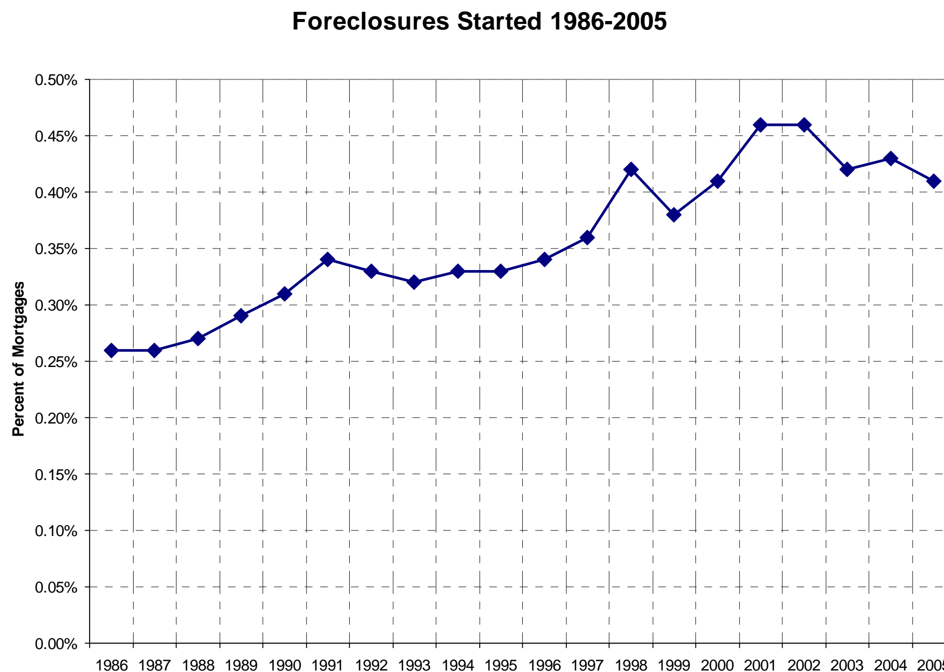
What is foreclosure?

When a consumer takes out a single-family mortgage to purchase a home, refinances an existing loan, or borrows against home equity, he or she is entering into a contract. That contract stipulates that the borrower will make payments under very precise terms. If the borrower does not pay as scheduled, he or she is in violation of the mortgage contract.[1] Typically, a lender begins efforts to collect missed payments begin shortly after the due date in an effort to bring the homeowner current on the loan. After 90 days, or three missed payments, lenders generally step up efforts to recoup past-due payments, and they lay the groundwork to foreclose on the home. Depending on the state and the borrower's circumstances, the home may then be sold at a foreclosure auction.

[1] A small number of loan products have been created which allow borrowers to miss a limited number of payments without violating the mortgage terms. These "skip-payment" loans are relatively rare and carry elevated fees and interest rates.

How have rates of foreclosures changed over time?

In 2005, there were nearly 900,000 properties in various stages of the mortgage foreclosure process in the United States, a 25 percent increase from the previous year (Hairston, 2006). Foreclosure rates for all loans increased by nearly 40 percent from 1994 to 2004 and grew by 58 percent from 1986 to 2005 (Mortgage Bankers Association, 2006). Mortgage defaults are particularly concentrated in the higher-risk subprime market, a market that more than doubled in the last decade, growing from less than 5 percent of mortgages originated to more than 10 percent between 1994 and 2004 (Gramlich, 2004). In 2005, one in ten subprime loans was delinquent, compared to fewer than one in 23 conventional, prime loans (HUD, 2005). A greater prevalence of subprime mortgages loans is associated with an increase in the incidence of borrowers in mortgage default.



Source: National Delinquency Survey, Mortgage Bankers Association

The expansion of subprime mortgages is largely due to the ability of lenders to make mortgages with variable prices based on the expected default risk of the borrower. Arguably the expansion of credit to a new class of borrowers, who were previously excluded from the marketplace, is a benefit for consumers. However, growing numbers of borrowers are exposed to the risk of default, leading to an increase in foreclosure filings. Of concern to consumer advocates is the concentration of subprime loans, and therefore foreclosures, among lower-income and minority households (Apgar et al., 2004).

Another aspect of delinquency and foreclosure trends is the tendency for regional or neighborhood concentrations of problem loans. This may result from lending practices or demographic patterns, but in most cases is exacerbated by weaknesses in local employment

and real estate markets. Many of the most significant "hotspots" in foreclosures are in the Midwest, where communities are suffering from the loss of thousands of jobs in the manufacturing sector, and demand for homes is lower than national averages. In other regions of the country, real estate markets have such strong property value appreciation coupled with historically low interest rates that even borrowers who experience a loss in income can sell their home to pay off their loan, or refinance their troubled mortgage into a more affordable payment. Clearly, the dynamics of the local housing and labor market are important driving factors in foreclosures; they must be well understood when crafting programmatic responses.

Why are foreclosures a concern?

Foreclosure is costly for borrowers, lenders and communities. Lenders typically lose $50,000 or more on a foreclosure, between payments, legal and other fees, and losses in the value of the property that serves as collateral for the loan (Quercia, Cowen and Moreno, 2004). In response to this hit to their bottom line, the financial industry is developing innovations in loss-mitigation techniques to reduce both the incidence and costs of foreclosures (Cutts and Green 2004). Meanwhile, local communities also face significant costs. Homes in the foreclosure process often become vacant, providing a place for crime or other problems in the neighborhood (Immergluck and Smith, 2005). Estimates of losses to local cities per foreclosure range from $400 to $34,000, depending on the circumstances (Apgar, Duda, Gorey, 2005). There is strong motivation for both lenders and local government to work to prevent the number of foreclosures from expanding (Crews Cutts et al., 2005; Immergluck et al., 2005; William Apgar et al., 2005). Meanwhile, borrowers themselves have much to gain from avoiding a seriously delinquent loan, the losses due to a foreclosure, and the enormous long-term negative impacts on their credit history.

Costs of Foreclosure

Lenders and investors do not "make money" on foreclosures. Losses range from 20 cents to 60 cents on the dollar.

- One estimate: Lender's cost for a foreclosure averages $**58,800.**

Vacant properties can attract crime and reduce neighborhood property values.

- One estimate: Each foreclosure associated with a 0.9% decrease in values of properties within 1/8th mile ($**139,000** per foreclosure).

Foreclosed properties incur public service costs for taxpayers.

- One estimate: Average municipal cost per foreclosure is $**6,937.**

Is this just a temporary problem?

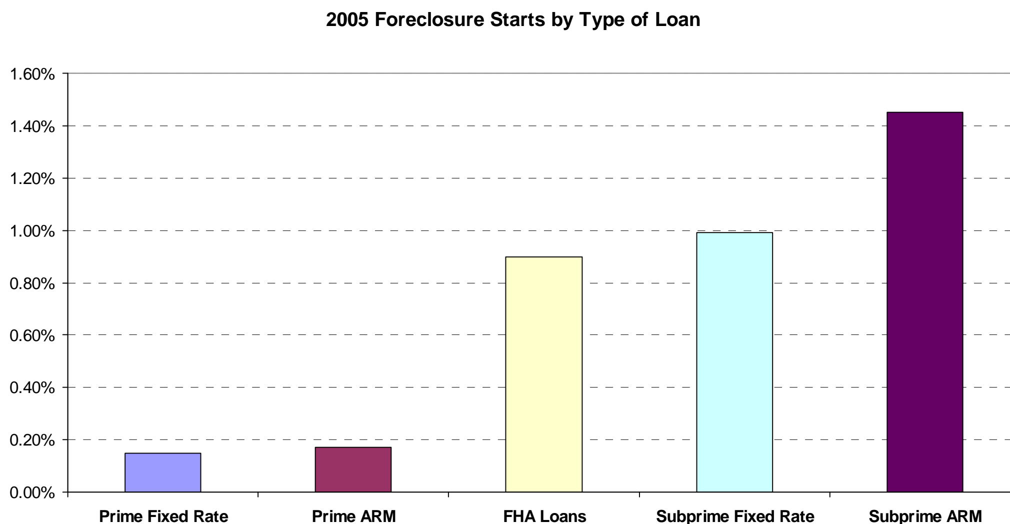
The mortgage market has changed significantly over the last two decades. Not long ago, policymakers worried about a lack of access to credit as a result of redlining (a lender's refusal to make loans in low-income and minority neighborhoods). Today concern about "predatory lending" and the complexity of mortgage products available to unsophisticated borrowers has consumer advocates, regulators and leaders in the financial industry taking a close look at the issue of foreclosure.

The array of loan products and terms available today is overwhelming. Meanwhile, the housing market has been operating at record volume levels and high home-appreciation

values. A surge in home-equity lending and the ease with which a homeowner can tap into equity has led many homeowners to refinance credit card or other high-cost debt, or to pay for purchases they cannot afford from their regular income with their home equity (MBA, 2005). But as the economy softened in 2000, especially in manufacturing-based economies, some borrowers could no longer keep up with their mortgage payments. Mortgage delinquencies began to rise, especially among higher-risk subprime mortgages and FHA-insured mortgages.

While the share of subprime loans in foreclosures has declined somewhat since 2002, subprime originations continue to increase. From 1994 to 2003, subprime lending increased by an average of 25 percent per year, compared to 17 percent for all mortgage loans (*Mortgage Statistical Annual*, March 2004). Industry analysts estimate an acceleration of that trend, with subprime mortgage originations growing as much as by 60 percent in one year (*Subprime Mortgage Loans, 2005,* SMR Research). As the absolute number of subprime loans increases, foreclosures will likely also increase.

The most risky class of loans is adjustable rate mortgages (ARMs). Foreclosures are up to 40 percent more likely on these loans, due to the risk profile of borrowers and the potential for borrowers to be trapped by rising loan payments as interest rates rise.

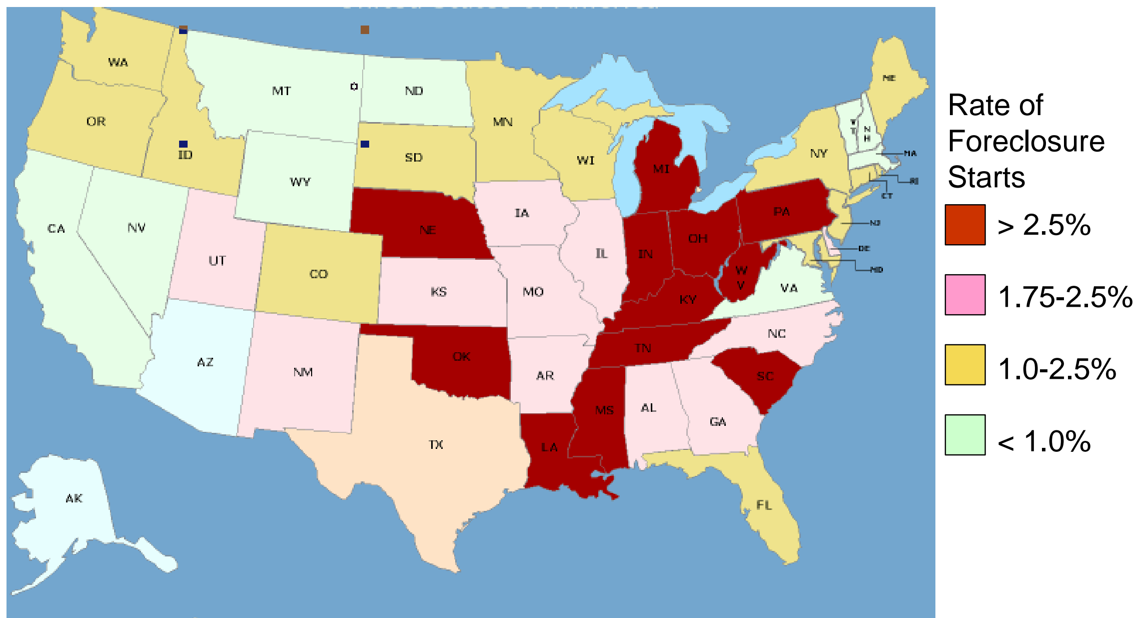


Source: National Delinquency Survey, Mortgage Bankers Association

Where are foreclosures concentrated?

Another aspect of delinquency and foreclosure trends is the tendency for regional or neighborhood concentrations of problem loans. Foreclosure starts are most likely in economies with weak job markets, soft housing markets and high levels of mortgage lending to high-risk borrowers. Obviously it is important to understand the dynamics of the local housing and labor market when crafting programmatic responses.

Midwestern states with cities undergoing a shift from manufacturing to service employment are among the most likely to experience problems, as are areas recovering from natural disasters that occurred in 2005, as seen on the map below.



Source: National Delinquency Survey, Mortgage Bankers Association
Note: Data for foreclosures initiated for all types of loans as of the start of the 3rd Quarter 2005

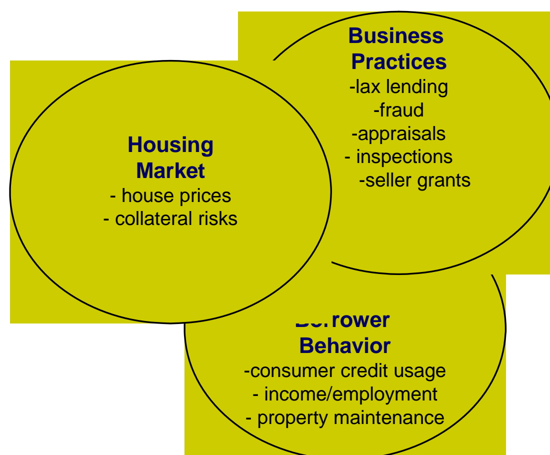
ANALYZING FORECLOSURES

What are the causes of foreclosure?

Many factors may contribute to a borrower's inability to pay the loan. While the concerns around predatory lending continue to be important, even borrowers who received a fair loan may face events beyond their control and that could not have been predicted by the lender. Based on data from Neighborhood Housing Services (NHS) of Chicago's Home Ownership Preservation Initiative, job loss, health problems, disability and a death in the family are among the trigger events frequently mentioned by lenders and mortgage counselors as leading to default. Other causes are more related to borrower behavior and a lack of financial management. A frequent cause of delinquency is related to problems paying property taxes, utilities or property insurance. These results are consistent with studies in other communities, and even similar studies of mortgage delinquency in the United Kingdom (See: Council of Mortgage Lenders, 2005; Getter, 2003, p. 86; and Quercia et al., 2004).

Most Frequently Cited Factors Related to Delinquency	
Job Loss	32%
Health Crisis / Health Insurance	25%
Taxes, Utilities or Property Insurance	16%
Problem with Rental Unit	14%
High Cost Auto or Consumer Loan	12%
Disability	10%
Overspending	10%
Death in Family	10%
Source: City of Chicago Jan 2004–Dec 2004. *Note: Factors may be combined; percentages exceed 100%.*	

Multiple Underlying Causes of Foreclosure



In short, foreclosures are primarily related to a loss of income, but often entail more complex problems exacerbated by poor budgeting habits. Combined with risky mortgage lending, soft home values and even fraudulent loans, the risk of foreclosure multiplies.

How are foreclosures measured?

Foreclosure filings are a public record, typically maintained by county government. These data can be difficult to access, however, unless the filings are recorded in an electronic

format and released for analysis. Private data vendors collect and sell these data to potential property investors, but few municipalities track these data on a regular basis, particularly at the neighborhood level.

A very important step in advancing solutions to foreclosure is for state and local governments to have access to foreclosure information. This allows them to assess conditions in their market (Duda and Apgar, 2005). With a better understanding of the situation, local leaders can design strategies to confront foreclosure problems in their community. While more data is not a solution in and of itself, quality information is critical for targeting program resources and monitoring outcomes.

Where can we find foreclosure data?

For many programs it was a piece of research, often in the form of a tabulation of local foreclosure statistics, that triggered political leaders and nonprofit advocates to focus on mortgage-foreclosure issues. Research helps spur public and private institutions into action and also garners media attention. For example, Chicago's HOPI program was jumpstarted thanks in part to the fact that an advocacy group, the National Training and Information Center (NTIC), purchased and analyzed data from a local company that catalogs foreclosures.

There are at least five sources of data on foreclosures:

- County courthouse or clerk of the courts
- Online databases
- Subscription-based databases
- Regional or citywide industry trade journals
- Industry data or surveys

The first source is the county courthouse or clerk of courts. This is the official depository of legal filings, including mortgage liens and real estate deeds. Court filings are always the best first place to check for foreclosure data.

The Foreclosure Legal Process

A foreclosure is a legal action. There are two types of foreclosures, depending on state laws governing mortgage loans and property liens: judicial and non-judicial.

A *judicial foreclosure* results from a court action where the lender takes the borrower to court.

In a *non-judicial foreclosure,* the process can be completed outside the court system.

Judicial foreclosures are employed in states that use mortgages; non-judicial foreclosures are used in states that use a deed of trust. Some states allow both. Deeds of trust are similar to mortgages.

Non-judicial foreclosures are started by a Notice of Default (NOD). The lender instructs the trustee to sign and record the NOD in the county recorder.

After a reinstatement period, a notice of sale can be recorded. A Notice of Trustee's Sale, indicating the place, date and time of the sale, is then published and the property is sold at public auction to the highest bidder.

See appendix for a list of state laws and procedures.

States which follow a non-judicial foreclosure process (see appendix for a listing) typically first record a notice of delinquency (or "NOD") or a "lis pendens." The file is then updated if a foreclosure is completed, meaning the home is sold at auction or ownership reverts to the

lender, becoming real estate owned (REO) by the financial institution. If data are not available in an electronic format, combing through paper files is a time-consuming endeavor.

There are several online databases, such as www.foreclosures.com, which sell limited access to online postings of foreclosures for selected cities. Again, these companies are established in order to sell data to potential investors. The data are usually stored electronically, but in a web-based, or html, format. These databases frequently have incomplete coverage, meaning some areas and time periods will be missing in the data.

The Timeline for California Foreclosures

Non-judicial California Foreclosures under a Deed of Trust.

Foreclosures begin with the trustor (borrower) not making the monthly payments to the beneficiary (lender).

The first missed payment is technical default, but in practical terms, most beneficiaries do not begin the process until the third payment is missed.

If the beneficiary cannot resolve the defaulted payment amount with the trustor through forbearance or other loss mitigation measures, the beneficiary will instruct the trustee to begin foreclosure proceedings.

- Day 1: Record Notice of Default
- Within 10 business days: Mail and publish Notice of Default
- Within 1 month: Mail Notice of Default
- After 3 months: Set sale date
- 25 days before sale date: Send notice of sale to I.R.S.
- Within 10 days from 1st publication: Send beneficiary request for property
- 14 days before sale date: Record Notice of Sale
- 7 days before sale date: If court action, 7day rule may apply
- 5 business days before sale date: Expiration of right to re-instate the loan
- Sale date: Property is sold to highest bidder

Source: RETRAN

In many communities vendors have developed databases of foreclosure filings with the intent to sell the data to real estate speculators interested in purchasing property at a discount. Accessing these data usually requires a subscription fee. These data are not always archived, meaning that while current foreclosure data may be accessible, historical data may not. There can also be problems with inaccurate data entry, or even issues of the vendor deleting records. These data vendors are often the only accessible source of foreclosure information and frequently receive media attention. Communities launching a foreclosure effort, however, should carefully review the data quality. Comparing the data for at least some areas and time periods to other sources, especially actual public records, can help validate the information.

Another secondary source are regional or citywide industry trade journals. In a few areas, these entities will print foreclosure listings or summaries of listings. This format requires extensive modification to be useful for analysis.

A last source of foreclosure data is industry data or surveys. Advocates may be able to request data from specific institutions, although one lender is just a portion of the entire market. Moreover, most lenders cannot share individual loan information, although some may provide summary data at as fine a level of detail as the zip code level. Data at the MSA or state level is available from surveys conducted by the Mortgage Bankers Association or LoanPerformance.com. Also, data on FHA claims is available at the www.hud.gov website at the MSA level. FHA claims are different from foreclosure, but still provide an indication of defaults, at least for FHA borrowers and loans.

What kind of information is typically contained in foreclosure data?

Foreclosure data can be overwhelming, especially when you first examine each item in the database. Depending on the time period, it can be a large volume of data and may require expertise in research and statistical analysis. Data may include multiple records for each loan. For, example, one record might represent a "lis pendens" or "notice of delinquency" (foreclosure start), then another might record the foreclosure completions (auction) or REO transactions. Also, each property may have multiple foreclosure listings, if more than one lien is on a home.

It is important to understand the foreclosure process in your state. In some states the foreclosure process lasts only two to three months, while in others it lasts six months or more. The dataset needs to capture enough data over enough time to be able to track changes in foreclosure levels over time.

Example of Data in Foreclosure File

Age of Building at Filing Date
Age of Loan at Filing Date
Date Auction Scheduled
Date First Missed Loan Payment Was Due
Date of Recording
Date Purchased
Days Delinquent at Time of Filing $
Delinquent Amount On Date of Filing $
File Number
Loan Balance $
Loan Court Record Number
Loan Origination Date
Minimum Bid $
Number Baths
Number Bedrooms
Original Loan Balance $
Payments Past Due $
Payments Past Due - Days
Property Has Pool (0/1)
Property Location - Census Tract
Property Location - City
Property Location - Zip Code
Property Type – single family detached/attached, condo, multifamily, manufactured
Square Footage of Building
Square Footage of Lot
Total Delinquent Amount $
Loan Rate and Terms

What do we do with the data?

Analyzing foreclosure data can be an enormous and time-consuming task. A first step should be to determine if any foreclosure data and analysis already exist for your city or community. If it does, approach the entity that did the analysis and request the ability to utilize the data. You may even want to consider asking them to join you in your efforts. In Chicago, the National Training and Information Center (NTIC) has taken the lead in obtaining foreclosure data from a local vendor, and then conducting analysis for the city of Chicago and nonprofits annually. In other communities the city or county performs the analysis. A local university or research center may also be a good partner for gathering and analyzing data. Finally, there are consultants who specialize in housing and real estate data who have access to and expertise with foreclosure filing data.

There are several approaches to the analysis that can prove useful:

1. Tables of foreclosure starts and foreclosures completed

   This is important data to capture because it allows you to see not only the number of foreclosure proceedings that are occurring in a time period and place, but also to examine the number of foreclosure that actually go to completion (REO/auction). Remember that

not all foreclosures started will be completed, thus ending in a loss of homeownership and transfer of property.

One example is a table of the number of foreclosure starts and completions for a three-year period, along with the percent change and foreclosures as a share of homes with mortgages (available from the Census), shown below.

	Foreclosure Completions		Mortgaged Units		Compl. Per Mort. Unit (%)	
Tract Minority %	LA County	LA City	LA County	LA City	LA County	LA City
<20%	377	79	74,416	19,081	0.51	0.41
20-40	1,120	53	222,069	14,395	0.50	0.37
40-60	1,552	53	155,151	9,716	1.00	0.55
60-80	1,880	119	179,908	12,742	1.04	0.93
80-100%	4,612	4,300	238,776	87,252	1.93	4.93
Total	9,541	4,604	870,320	143,186	1.10	3.22

Note: Geographic categories are mutually exclusive. Data are for April 22, 2001-April 22, 2004.

Source: Census Bureau, 2000 Census Table SF3. Retran, Inc.

Source: Duda and Apgar, 2005

Data showing that foreclosures completed were much higher in target neighborhoods versus other neighborhoods have helped organizations demonstrate to lenders that more concerted efforts were needed to help homeowners stave off foreclosure and remain in their homes.

2. Tables by Type of Loan

Foreclosure data often includes many types of loans, including “conventional” loans (usually including subprime loans) versus FHA, VA and other government-backed loans. Categorizing data into these types and providing a table of trends over time can help focus efforts where the most significant problems may be. These data can be combined with Home Mortgage Disclosure Act (HMDA) data on loan originations to provide even more detail on not only which loans are more likely to foreclose, but where those loans tend to be made in the first place.

The following table shows an example of foreclosures by loan type. Other variations include purchase loans versus refinance or home improvement loans.

Table 2: Trends in Foreclosures Started by Type of Loan

Type of Loan	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
Conventional	1,243			1,677	2,966	3,941	4,508	4,741	5,295	6,485	4,382	5,274	5,941	378%	13%
FHA/VA	2,490			1,883	1,814	2,158	1,708	1,474	1,885	1,750	1,578	1,145	825	-67%	-28%
N/A	1,183			1,165	1,044	1,091	897	729	1,362	1,255	2,326	1,076	809	-32%	-25%
Other	1			1	1	38	15	0	0	0	0	1	0	-100%	-100%
Total	4,917			4,726	5,825	7,228	7,128	6,944	8,542	9,490	8,286	7,496	7,575	54%	1%
Percent Change from Previous Year(s)[1]	-			-4%	23%	24%	-1%	-3%	23%	11%	-13%	-10%	1%		

[1] For 1996, the percentage change from previous year(s) is based on 1993.

SOURCE: NTIC analysis of weekly bulletins obtained from the Foreclosure Report of Chicago and data from Public-record.com.

3. Tables by Age of Loan

Most foreclosure filing data includes the date the loan was originally made and filed in public records. Based on this date, and the date of the initial foreclosure filing, an analysis can be conducted of how quickly loans are going into default. Quick or early defaults (usually within the first two years of loan origination) suggest loans were unsustainable from their initial origination. Most lenders monitor early payment defaults closely, using that metric as a tool to weed out sloppy loan staff or brokers. Having an average default time being later, 3 or more years after the loan was made, suggests changes in borrower circumstances or the housing market.

Table 4: Trends in Foreclosures Started by Age of Loan

Approximate Age of Loan	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
Less than 24 months old	214			894	1,276	1,832	2,149	2,099	2,304	2,099	1,922	2,159	3,164	1379%	47%
2 years following origination	305			490	831	1,130	1,225	1,362	1,611	1,877	1,398	1,304	1,184	288%	-9%
3 years following origination	376			250	485	630	725	772	1,065	1,484	1,079	775	647	72%	-17%
4 or more years following origination	1,477			998	1,295	1,398	1,269	1,226	1,670	2,271	2,302	2,108	1,754	19%	-17%
Origination year missing	54			210	123	42	37	11	7	9	7	4	1	-98%	-75%
Total	2,426			2,842	4,010	5,032	5,405	5,470	6,657	7,740	6,708	6,350	6,750	178%	6%
Percent Change from Previous Year(s)[1]	-			17%	41%	25%	7%	1%	22%	16%	-13%	-5%	6%		

[1] For 1996, the percentage change from previous year(s) is based on 1993.

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

4. Tables by Loan Terms

Some foreclosure databases will include loan rate, terms and structure. For example, the interest rate on the loan could be recorded as it is listed on the publicly filed mortgage documents. A generally practice is to compare the interest rate to the prevailing rate at the time the loan was made. This means finding weekly or monthly data on mortgage rates, or more typically a bond issued by the US Department of the Treasury (often the 10-year note). Then the difference in rate from the Treasury rate can be calculated for each loan. The table below categorizes loans by the spread to the Treasury security rate.

Interest rate data is not always included; even if it exists in the database, it may be incomplete. Adjustable rate mortgages (ARMs) may also be listed. For these loans the initial (often low) rate is recorded, but the loan is flagged as being an ARM. In general, ARM loans will have higher default rates, and are important to monitor. Balloon loans (loans with a large principal payment due in a specified period) are also often listed. These loans present huge repayment problems if the borrower does not have the ability to refinance or pay off the loan balance when the balloon payment is due.

Table 6: Trends in Foreclosures Started on Young Loans with ARMs or Balloon Characteristics

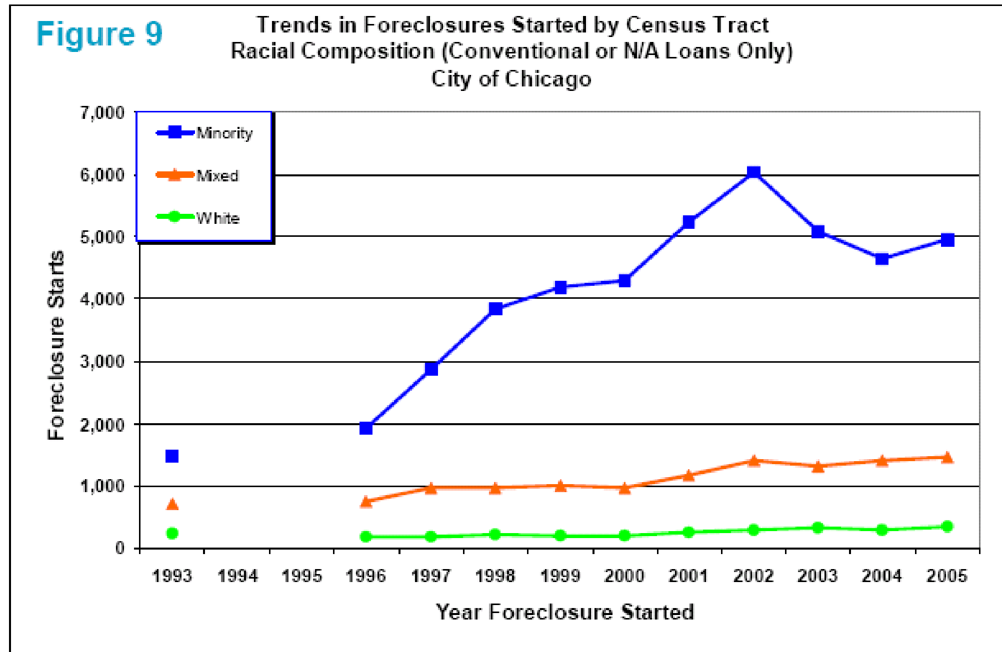
Interest Rate Level	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percent Change 1993-2005	Percent Change 2004-2005
Prime: Less than 3% above comparable Treasury Securities	0			13	73	98	35	51	50	86	272	597	1,506	-	152%
Subprime: Between 3% & 6% above comparable Treasury Securities	0			13	219	479	627	660	668	829	852	759	1,047	-	38%
High Cost: 6% or more above comparable Treasury Securities	0			20	106	173	248	207	325	223	37	25	16	-	-36%
No Interest Rate Information Provided	63			328	5	22	43	13	23	27	55	34	27	-57%	-21%
Total	63			374	403	772	953	931	1,066	1,165	1,216	1,415	2,596	4021%	83%
Percent Change from Previous Year(s)[1]	-			494%	8%	92%	23%	-2%	15%	9%	4%	16%	83%		

[1] For 1996, the percentage change from previous year(s) is based on 1993.

SOURCE: NTIC analysis of weekly bulletins provided by the Foreclosure Report of Chicago.

5. Tables by Neighborhood Characteristics

A final type of analysis to consider is by the neighborhood in which the loan is located. Most analysts use census tract or zip code as a proxy for neighborhood, and merge in demographic data of the neighborhood. The table below shows a chart of neighborhood racial categories, with minority areas experiencing increased foreclosures over time (a common finding).

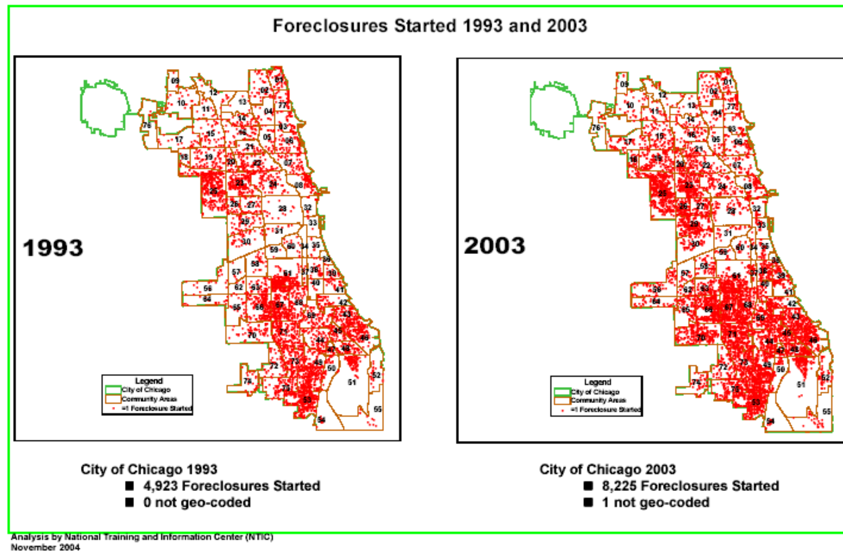


What about mapping foreclosure data?

It can also be helpful to geo-code data if the mailing address or zip code is available. With geographic identifiers, maps of data can be created, including overlays by race and income level. This analysis can help determine so-called "hot spots" that have a disproportionate number of foreclosures. This can help target specific zip codes to which to focus outreach efforts. It is important to include in these maps the number of owner-occupied properties in these areas, as well as other demographics variables, and the location of community institutions that can be useful in engaging borrowers.

Be cautious about drawing conclusions from data without adequate controls. Maps showing higher levels of foreclosures in minority neighborhoods, for example, does not necessarily indicate that minority borrowers are being discriminatorily foreclosed upon. The credit characteristics of loans made to minority borrowers would be required to assess this, and that is generally not available in public data.

Map Example: Chicago



How can we tell what causes foreclosure in our area?

Foreclosure causes tend to follow similar patterns, as demonstrated by data from Chicago, Minneapolis, and data from loan servicers. Nevertheless, it can be difficult to isolate one cause. Failure to pay a mortgage is typically rooted in the inability to pay, which in turn is related to income loss or competing expenses as result of poor budgeting or spending choices. Surveys can be conducted among borrowers in default, but such surveys are biased by respondent's interpretation of what happened to them as opposed to a more objective analysis. If a local foreclosure program exists, counselors can take note of causes for tabulation. Another option is to interview loan servicers or mortgage lenders with experience in the area.

If foreclosure data is available and will be analyzed, one thing to consider looking at is the origination date and interest rate, if available, as well as the type of loan. Early default — occurring within the first two years of origination — is often used by advocates as well as the industry as a signal that a loan may not have been originated properly.

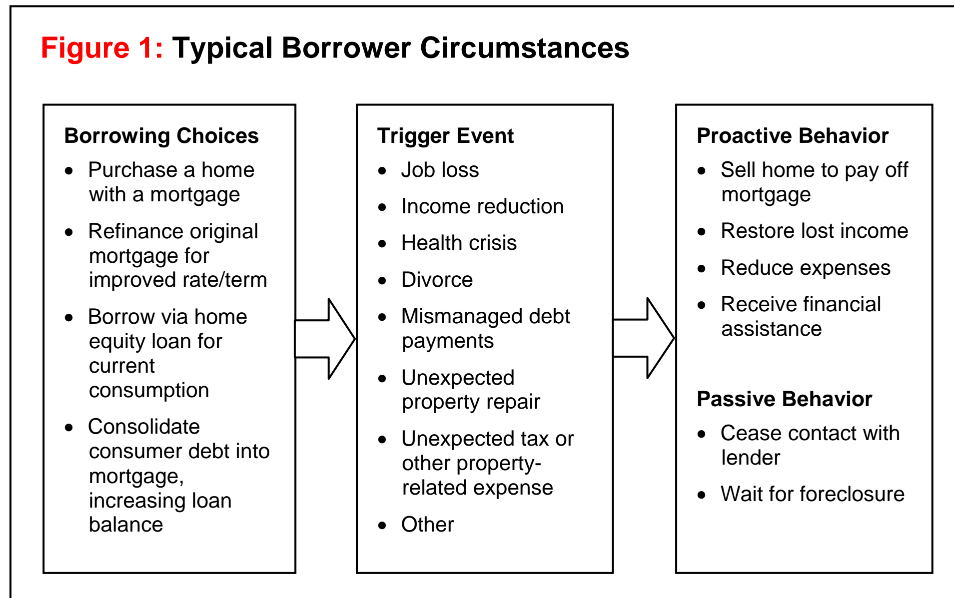
High interest rates may signal predatory or unscrupulous lending practices, and loan type, such as refinance loans, may signal that the homeowner used a refinance loan to help stave off delinquency issues or traded in an affordable loan for a more costly one in order to pay for repairs or some other expense and could no longer afford the new, higher payments.

It is important, however, to not get caught up in proving the specific cause of foreclosure. For many, the true cause of foreclosure will never be known. What is important is understanding and demonstrating that foreclosures are occurring at significant rates and are negatively affecting homeowners and properties in your service area and making it difficult to achieve community revitalization.

PLANNING AN EFFECTIVE PROGRAM

Which borrowers do we target?

The figure below illustrates the circumstances in which intervention programs typically find borrowers when the initial contact is made. While all individuals in these programs have mortgage loans, the type of loan they hold has an effect on their options in the event of a delinquency.



A foreclosure typically is triggered by an event in the borrower's life which results in the delinquency. The type and severity of this trigger event also has a profound impact on the borrower's ability to recover and the appropriate role of intervention programs. How a borrower reacts to the trigger event is very important — particularly whether he or she works proactively with the creditor or avoids the lender until the foreclosure auction occurs. Nearly 40 percent of borrowers in a 2005 study of NHS of Chicago clients failed to contact their lender even though they were not able to or were having trouble making their mortgage payment. This signals that greater effort must be made to communicate to homeowners that calling a lender at the first sign of trouble is a positive and necessary step toward keeping the home. Surveys and focus groups generally support the finding that between 30 percent and 50 percent of borrowers in delinquency do not have contact with their lender before foreclosure is initiated (Freddie Mac/Roper poll, 2005).

The borrower's circumstances typically involve four issues. First, there is the duration of the borrower's loss of income. If the borrower has a short-term disruption in employment or unexpected expenses, there is a good chance of recovery. If there is a more permanent loss of income from the inability to work, keeping the home may be a problem. The second aspect is the borrower's credit quality. A borrower with good credit can refinance his or her troubled loan into a loan with more affordable payments. A borrower with damaged credit may have few options but to work out the current loan. A third issue is the quality of the underlying

property used as collateral for the mortgage. A property in distress provides little value for resale or refinance. Finally, there is the borrower's behavior. A savvy borrower will pursue his or her lender for workout options; others will avoid their lender and ignore their problems.

Understanding the roadblocks to borrower communication

Making contact with borrowers is critical, but it is important to understand the psychology of borrowers in default. Borrowers in trouble experience feelings of shame, regret, embarrassment and fear. Borrowers in foreclosure are stressed and avoid bill collectors and loan servicers. They do not differentiate between nonprofit and lender; they express a lack of trust in any entity related to their failing loan. However, borrowers are often eager for financial assistance and can be enticed into seeking services with the opportunity to access resources. But most borrowers are not eager to be told what to do and are reluctant to tell their problems to loan servicers. Medical or health-care problems can also be barriers to accessing services. In addition, physical problems may hamper home maintenance and result in deteriorated properties.

Most mortgage servicers today operate on a national scale though centralized call centers. The loan servicer often has no connection to the community of the originating lender or broker, nor to the borrower. Borrowers view their loan servicer as a remote entity, communicating only through letters and telephone calls. Even though most lenders have special programs to help borrowers avoid mortgage foreclosure, as many as half of borrowers do not speak with their lender before a foreclosure action is filed (Collins, 2005). The sooner lenders and borrowers start communicating, the more likely a loan workout can be put into place.

A key role for public entities — city, county state governments — is to leverage the trust that borrowers have in them to encourage borrowers to seek help. Nonprofit counseling agencies can also play this role if their reputations are very strong and they are widely known among target populations. Public entities and nonprofits can not only provide valuable assistance in assessing the situation, but through partnership are often able to put the homeowner directly in contact with a designated person responsible for loss mitigation.

How do we make initial contact?

Making that first contact with a homeowner who is experiencing difficulty making his or her mortgage payment is probably the most difficult — yet underestimated — facet of a foreclosure-prevention program. Without borrower contact, any efforts to support foreclosure intervention will go unheeded. Typically, a successful program employs a range of strategies to make contact with borrowers, including:

- Coordinated outreach campaigns: In Detroit the city and faith-based institutions conducted an awareness and media campaign to promote default services
- Targeted mass mailings: The city of Chicago sent postcards to households in zip codes with high foreclosure rates, promoting a counseling hotline.

- Door knocking: ACORN partnered with a major lender in Cleveland to conduct door-to-door outreach to borrowers in delinquency.
- Advertising: CCCS in Atlanta placed ads promoting services at mass transit stops and on buses in areas with high foreclosure rates.

It is critical to understand the population being targeted for foreclosure-intervention services. Borrowers in default are a very small portion of the total population. Programs need to understand WHEN a mass-market public awareness campaign makes sense, as opposed to a more localized effort. Depending on the community, a focus just on the areas and populations where foreclosure problems are most severe is appropriate.

One strategy employed at the neighborhood level is door-to-door outreach based on public records or data provided by lenders. In Cleveland, ACORN has partnered with a major national lender to knock on doors and distribute literature on available services. University Neighborhood Housing in the Bronx also utilizes this approach, accessing data from local property data sources in order to determine who to target and to guide their door-knocking. This is staff-intensive work, but for borrowers in default who will not call hotlines this maybe the only successful approach.

Having trouble paying your mortgage?

Your home is your biggest investment. If you can't make your next mortgage payment, or if you are already behind, don't wait another minute to find help.

Financial difficulties can make you feel hopeless, but there are ways to find help. The Homeownership Preservation Foundation has joined forces with mortgage lenders, nonprofit organizations and city government agencies to provide homeowners with assistance and resources to help you get back on track.

Call the homeownership hotline at **1-888-995-HOPE** for immediate assistance:

- Receive FREE advice and support from **nonprofit**, **HUD-certified organizations** – 24 hours a day, 7 days a week
- Develop a realistic household budget to help ensure long-term homeownership
- Learn how to work with your lender to bring your mortgage up to date

Call 1-888-995-HOPE

http://www.995hope.org/

Why conduct an outreach campaign?

The most effective approach to reaching target populations is a coordinated outreach campaign, with a key role for the public sector, counseling agencies and lender partners. Community-level institutions, especially faith-based institutions, are effective outreach partners. An ideal campaign will be based on media advertisements or public service announcements, and include ongoing TV, radio and newspaper coverage of stories of

borrowers in trouble who were successfully helped. Typically, the campaign focuses in on neighborhoods that have experienced high foreclosure rates.

Any campaign must be maintained. It is very hard to sustain the initial level of interest from the media in a foreclosure-intervention program after the launch. Planning regular events to boost publicity for the effort, outreach strategies with local organizations, and other techniques are important to maintain some public level of knowledge about services. At least quarterly events or mailings are suggested.

Any campaign should have an action-oriented message. Materials developed in Chicago and other cities, including the NeighborWorks® Center for Foreclosure Solutions, emphasize calling a hotline number for help. Direct and simple messages are recommended.

What is the role of a 24-hour hotline?

One strategy being used is a hotline for troubled borrowers. Typically managed by a local United Way, 211 hotline connect callers to social services and other community resources. Designed as non-emergency "city services" hotlines, 311 lines are managed by local city government as a mechanism for citizens to contact the city for a range of services (Kiviat, 2005). In many cases, borrowers who are hesitant to seek help with their precarious financial situation perceive United Way or their city government not only as a trusted source of information, but also as a potential provider of financial assistance. This trust combined with the desire to obtain help in getting relief from collections efforts may motivate borrowers to call. With proper marketing and public awareness, the hotline can become a vehicle for borrowers to find local sources of counseling, financial help and ultimately to restart their dialogue with their lender.

It is important to note that 211 and 311 hotlines should not be used as vehicles for providing services directly. Counseling call centers exist nationally. The CCRC (Credit Counseling Resource Center) is a collaborative of four HUD-approved housing counseling agencies organized by the Homeownership Preservation Foundation (HPF). Borrowers can be "hot" transferred to one of the CCRC agencies directly from a 211 or 311 call center.

The Homeownership Preservation Foundation also provides a national hotline (888-995-HOPE) to help homeowners facing difficulty with their mortgage. Callers are connected to CCRC counselors who are trained to help develop a course of action designed specially for the homeowner's individual situation.

Why don't borrowers call for help?

Recently conducted focus groups with borrowers in foreclosure illustrate the stress people feel:

- "I was always week to week. I get paid, I pay my bills. I get paid, I pay my bills. Then it's not there. Then you're in trouble. I didn't know which way to turn. I didn't know there was help out there."

These same borrowers expressed that they felt little sympathy from their lender:

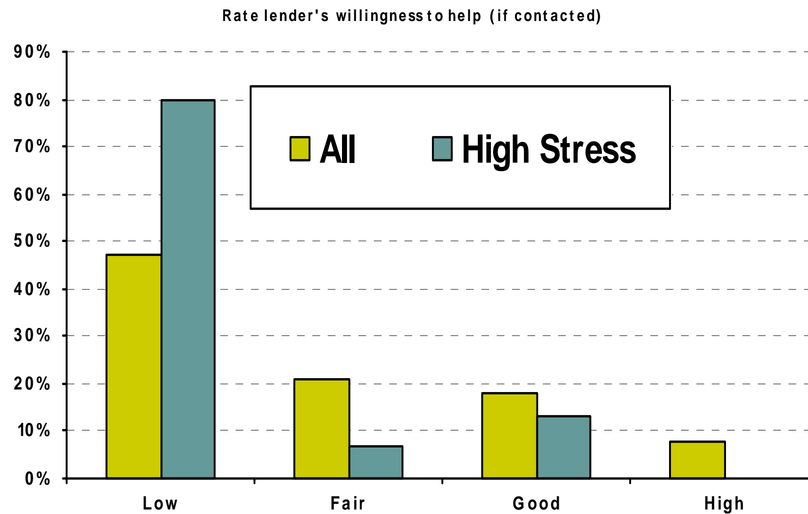
- "They make you feel like a deadbeat…the way they interrogate you, they seem like they want to catch you in a lie because the questions are repetitious…the only thing I'm going to say is blah, blah, blah. I'm not lying. I need help."
- "They want us to lose our homes. They don't care."

But, nonprofit providers are viewed differently:

- "They're a lot more compassionate...you don't feel like you're being put down. Even though they could hang up the phone and laugh…I don't feel that."

A 2005 survey of borrowers in default shows that the more stress borrowers are under, measured by an index of indicators including insomnia, headaches, anxiety and other factors, the less likely the borrower will have a positive view of working with his or her lender.

Most Have Low Opinion of Lender's Willingness to Help, Especially those Under Stress



Source: Chicago Mortgage Default Counseling Survey, 2005

SECTION 4: FORECLOSURE INTERVENTION COUNSELING

There is an array of services for default and foreclosure intervention. Counseling is the core of any effort to stem foreclosure, particularly budget counseling to help borrowers get into regular payment patterns, and default counseling to manage issues related to trigger events such as a job loss. Financial assistance adds another lay of support, often complemented by counseling. Grants and loans to borrowers can help them get through a difficult situation and become current. Finally, property services, such as home repairs to secure a roof or heating system, can both help preserve the lender's collateral and provide a family with safer, often lower-cost housing.

Types of Interventions

- Budget Counseling - often via telephone
  - managing income & expenses
- Default Counseling – often face-to-face
  - facilitate workout
  - support for home sale
- Financial Assistance – competitive applications
  - Grant to bridge temporary crisis
  - Loan to make loan current
  - Recurring payment assistance
- Property Services – locally-based
  - Inspections & Repairs

How does counseling help?

Nonprofit financial counselors bring a third-party perspective and can serve as an intermediary between borrowers and lenders (Quercia et al., 1995). Unlike a mortgage servicer working from a centralized office, a community-based counselor can create personal relationships, as well as refer borrowers to community services. If counseling has a positive effect, borrowers, lenders and communities all benefit.

Borrowers in Default:

- 32% are in bankruptcy
- 69% are first-time buyers
- 55% are first-time refinances
- 22% are retired seniors
- Average of 2.1 refinances
- Average of 11.6 years in the home
- Unpaid mortgage: $91,213

Source: Chicago Mortgage Default Counseling Survey, 2005

Counseling can play several roles. Ideally counseling strategies will be matched to borrower circumstances. One approach is to provide information, including an overview of the foreclosure process with emphasis on the urgency of action. Another approach is to work with borrowers to realize their situation,

recognize their problem and begin the process to resolve the issue, whether it is finding a job or cutting expenses, and to address other financial problems that may be contributing to the delinquency.

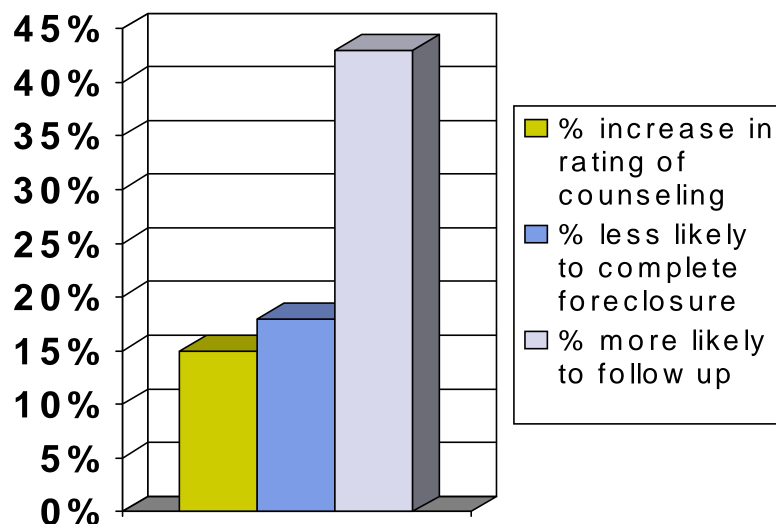
A common strategy is simply to facilitate a connection between the borrower and servicer. Often, due to language or literacy issues, a third party can help the borrower convey to the servicer the nature of the delinquency and help gather and develop the documents needed for any loan workout. Servicers have also reported that third-party agencies are useful in helping to get to the true nature and extent of the problem and help prepare financial documents to support this. Without a connection to a local counselor, many homeowners would be unable to provide the information necessary for the servicer to implement a workout.

Another useful role for counseling, often used in credit counseling, is to engage in a budgeting exercise, finding ways to cut back expenses and thus to meet mortgage obligations. Counseling can also help connect borrowers to resources in the local community, including services to come to the property and provide an initial assessment of property services needs.

According to analysis of data from the NHS of Chicago, a typical borrower counseling service includes 2.2 counseling sessions for 1.9 hours total time. But families facing health problems or a death in the family take longer, averaging 2.7 hours.

The chart below, also based on NHS of Chicago data, suggests that each additional hour in counseling pays off. Controlling for other factors, an added hour increases the borrower's perception of the value of counseling, reduces the odds that they will complete a foreclosure if they were already in the process, and significantly increases their cooperation level with the counselor and lender.

Impact of Additional Hour of Counseling



Source: Chicago Mortgage Default Counseling Survey, 2005

What should be covered in counseling?

The first counseling session is critical because the borrower is at risk of giving up on the mortgage and avoiding the situation. The first session should be engaging and emphasize the importance of action. Subsequent sessions can be conducted as needed, with an emphasis on budgeting, managing expenses and dealing with changes in income. The goal of the counseling should be to help the borrower avoid foreclosure by:

- Developing a realistic household spending plan;
- Determining the borrower's long-term viability for making mortgage payments on time; and
- Recommending loss-mitigation options that best fits the borrower's circumstances (in some cases, this may involve helping the homeowner to exit the property gracefully).

Programs can focus on a specific niche of borrowers. For example, hotlines target borrowers who are not in contact with their lender. Emergency loan funds focus on bridging a short-term income loss, and neighborhood-based programs may provide property-related services and intensive, face-to face counseling.

What if the borrower cannot stay in the house?

Borrowers with severe circumstances, for whom homeownership is no longer a viable option, need an exit strategy. It is often very difficult to make this determination. A skilled counselor, however, recognizes that for some situations, helping the homeowner to exit the home gracefully is the best answer.

Borrowers with equity can sell their home to pay off the loan, or negotiate a "short payoff" with their lender.

When planning a program, establish protocols to facilitate the sale of the home for borrowers for whom it makes sense. The program should make the process as easy on the borrower as possible; its goals should be to maximize the sale value for the benefit of the borrower and to provide a transition to rental housing.

Guidelines for Effective Mortgage Default Counseling

- **Understand your role.** Provide information that borrowers need to make an informed decision about their home.
- **Be fully informed on all options.** Stay abreast of industry changes.
- **Admit any limitations in knowledge.** Offer to find out the information and follow up with the borrower.
- **Educate and inform.** If legal issues arise, refer borrowers to attorneys or legal services.
- **Know your limits and disclose.** If the borrower wants something beyond your expertise or scope of service, try to make a referral if possible.
- **Maintain confidentiality.**

What is the best way to approach the borrower?

The first consideration when designing a counseling program is what approach will be most likely to encourage the cooperation of borrowers. A borrower who is behind on his or her mortgage is frequently under tremendous stress. Focus groups and surveys with borrowers in default in Chicago revealed extreme avoidance behavior, including not answering the phone, not opening mail, and physical symptoms of stress (including nightmares, insomnia, headaches and fatigue). Given the stress and fear that borrowers feel, simply offering generic counseling services may not be successful. Borrowers need help, but have a difficult time confronting their financial problems. They fear that their lender will accelerate the foreclosure process if they make contact or reveal their hardship. They also fear being manipulated by fraudulent broker or investor trying to take their house away. They are leery of anyone offering to help.

Counseling offered by a trusted third-party, such as a local government or nonprofit, can help cut through this resistance. Surveys and focus groups suggest that local government is most trusted and is also viewed as being a potential source of a financial assistance. Even though most borrowers will not qualify for a grant or loan from a local government, the possibility of such help will entice a borrower to call a hotline or to talk to a counselor.

It is important to show empathy for clients in default counseling. Focus groups conducted by NHS of Chicago suggest that borrowers know they made choices which led to negative outcomes. They express regret, often blaming themselves for their problems. But they also feel like their circumstances could happen to anyone, and hope others will understand their predicament. Borrowers are also embarrassed by their situation; most feel that since they are financially savvy enough to buy a home they should be able to manage their own situation. Counselors need to show compassion and understanding, at least initially. However, focus group respondents also appreciated a certain degree of paternalism by their counselors — formalized payment plans and budgeting, regular check-ins, and other forms of direction. One client said she liked to hear, “OK, you have these things to do now, *you* go do it, and *you* can make it.”

Why use telephone-based counseling?

There are several possible modes for delivering counseling, including telephone, face-to-face, and e-mail and Internet. In default counseling, telephone counseling is common for most cases, with face-to-face counseling serving as an important complement. Telephone counseling is generally cheaper and provides a standardized way to deliver an initial assessment of the borrower’s situation and conduct a budgeting session. Telephone counseling can be offered 24 hours a day, and currently is provided as such for consumer credit counseling regularly. The convenience that telephone counseling offers to borrowers, many of whom are stressed, up late at night or working odd shifts, is important. However, to be efficient telephone counseling needs to be delivered via large-scale call center operations. These are not easy to replicate, and because the cost per session or hour decreases with scale, there is a strong incentive for any community developing a foreclosure intervention program to affiliate with an existing service. A leading provider of mortgage default counseling services is the Credit Counseling Resource Center (CCRC).

CCRC offers the 1-888-995-HOPE hotline; services are also available online at www.995hope.org. Four leading nonprofit counseling agencies, all HUD-approved, provide services. These agencies include Auriton Solutions, Consumer Credit Counseling Services (CCCS) of Atlanta, Novadebt, and Springboard Nonprofit Consumer Credit Management. Since the hotline was founded, more than 55,000 homeowners have received free telephone-based counseling. CCRC is supported by the Homeownership Preservation Foundation through NeighborWorks® America.

But don't borrowers need face-to-face counseling?

Face-to-face counseling has several advantages over phone counseling, including:

- Ability to spend more time per session;
- Ability to go through paperwork;
- Improved ability to assess social-service problems and other needs;
- Can assess property conditions with home visit;
- Meets some borrowers' need or want for hand-holding and personal attention; and
- Ability to resolve the hardest cases.

Face-to-face counseling also has several disadvantages, including the added emotional stress of admitting problems to a stranger in person. There may also be lag time before an appointment can occur and the travel time and costs (such as transportation, parking and other costs). Face-to-face counseling is typically limited to routine hours and so is not as accessible as phone counseling, that may be available around the clock. Most counseling agencies cannot operate at the scale of call-center–based programs, with efficient transitions between cases. Meeting space and client record-keeping logistics add to delivery complexities. As a result, delivery costs are higher for face-to-face counseling.

The best approach is using a mix of complementary counseling strategies. A hotline with telephone counseling capacity, which can be conducted through a national call center like CCRC's 888-955 HOPE system, is a one such model. Clients can be referred as needed to local services for follow-up, perhaps to go through paperwork, have a more detailed session or meet property-services needs. Meanwhile, if clients call or stop into a counseling agency, they can be encouraged to receive phone counseling and assistance with their lender from a phone-based system in addition to any services provided in the office. This limits costly face-to-face work to its most valuable role.

Lender Provided Alternatives to Foreclosure

- *Special Forbearance* is a period of suspended or reduced payments that prevents delinquent reporting of the mortgage loan to the credit reporting agencies; late charge and fee accumulation; and referral to a foreclosure attorney, as long as the contract is being honored by the borrower.

- *Repayment Plan* is when past due amounts are divided and added onto the regular monthly payments for an extended amount of time to bring the mortgage loan current. Plans may be from 6 to 24 months in duration.

- *Modification* is when a loan is brought to a current status by adjusting one or more of the three terms of the loan – increasing the principal balance by adding the past due amount (principal, interest, taxes and insurance) to the existing principal balance; extending the term of the loan; or reducing the interest rate. For FHA loans, the loan must be at least 12 months old, and the first lien position must be maintained. For nonprime loans, most investors require the borrower to have made at least 12 monthly payments to be considered for modification.

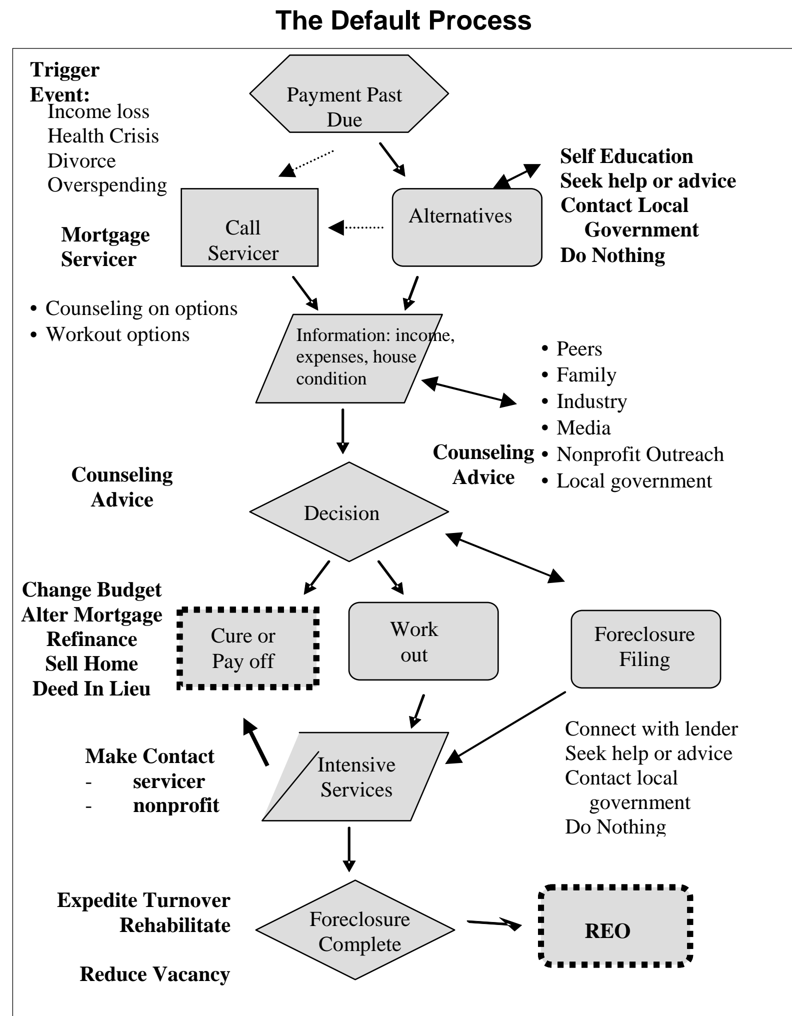
- *Partial Claim* is when a loan is brought current by securing up to 12 months of past due principal, interest, taxes and insurance as a separate interest-free note payable when the original mortgage is satisfied. This option is only available with FHA loans, and is intended to be used when modification is not an option due to a clouded title a loan origination that occurred less than 12 months prior. The interest-free note is tracked and serviced by a HUD vendor called First Madison and can be paid off early.

- *Pre-foreclosure Sale*, or Short Sale, is an approved sale of the property to an unrelated third-party for less than is owed on the mortgage, preventing a foreclosure on the borrower's credit report. Additional liens on the property need to be satisfied by the borrower prior to closing. Depending on the borrower's financial situation, the borrower may be asked to provide a cash contribution to offset the loss.

- *Deed-in-Lieu of Foreclosure* is when the property is voluntarily returned to the investor, preventing a foreclosure from occurring on the borrower's credit record. This prevents long-term foreclosure proceedings for those who cannot afford to keep the home. A deed-in-lieu of foreclosure is not a common workout and is typically the result of the death of the primary borrower(s). Investors generally prefer a short sale to be considered prior to a deed-in-lieu of foreclosure.

The key to such a system is ensuring appropriate record sharing and coordinating timely and accurate hand-offs between counselors. Clients need to know up front what the process will be, who will provide what service, and what each agency's role will be. Borrowers who have been working with their lender will know their loan number(s). Tracking loan numbers can be useful, especially when reporting back to lender partners. A web-based data system, such as Home Counselor Online, or NeighborWorks' software systems, can facilitate information-sharing across locations and institutions. However, it is important to guard the privacy of clients when sharing data files. Certain combinations of identifying information violate financial information privacy laws.

The Default Process



Source: PolicyLab Consulting Group, LLC, 2004

What is the time frame for counseling to occur?

The amount of time spent per client may vary widely depending on the borrower's circumstances. The vast majority of borrowers in default will need only one or two counseling sessions. Sessions range in average length from one hour to one and half hours. Some will simply need 30 minutes of advice on how to manage their mortgage payments and coaching to communicate with their lender.

Mean Time in Counseling by Cause Delinquency (Recoded Categories)		
	Telephone	Face-to-Face
Job or Income Loss	1.2	2.0
Health / Death in Family	1.4	2.7
Both Job and Health	1.3	2.1
Other	1.4	1.9
Total	1.3	2.2

Source: Tabulations of 2005 Chicago Mortgage Default Counseling Survey.

Counseling can become a long-term relationship, like a social worker might have with a regular client. The best programs schedule client check-ins three, six and nine months after the initial problem is overcome. This can help borrowers avoid relapses into poor spending habits, navigate budget pitfalls, maintain credit repair plans and stay clear of additional debt.

Some clients will have multiple and ongoing problems. Providing counseling to these borrowers can become very time-consuming and expensive. These clients also have among the lowest probabilities of a successful resolution. It is a difficult choice to make, but cost-efficiency may dictate triaging clients, including some who do receive access to intensive services unless they have a good chance of recovery.

What is the role of the counselor?

The role of the counselor can vary from program to program. Perhaps the most effective role for the counselor is to help connect the borrower with his or her lender and to facilitate a process by which the borrower can become current or avoid foreclosure. Counselors can do this by helping the borrower and lender to engage in open and honest communication, and by helping the borrower to provide the necessary information. Servicers interviewed for this report suggested that in most cases, the counselor or third-party intermediary should do what they do best, which is to counsel and to provide the servicer with the necessary information regarding the borrower's financial circumstances — rather than offer specific loan workout suggestions.

The figure below suggests how services can best be matched to customer type. The positive (left) client column represents services targeted to those with the best chances of success, while the negative (right) column suggests services targeted for clients with a less positive prognosis. Programs generally focus on either type of customer, implicitly or explicitly, but rarely both. Some borrowers may have prospects that are more positive in some factors and more negative in others. But these are the broad set of dimensions of approaches that need to be considered in program design. The capacities and skill sets required for each of these strategies are rarely encompassed within one agency or program.

Matching Strategies to Borrower Circumstances		
Prospects	**+**	**–**
Income Loss	Temporary loss: Emergency loan or grant	Long-term loss: Sell home
Credit	Good credit: Refinance, loan workout with lender	Poor credit: Debt management counseling
Property Condition	Good collateral: Can sell home	Distressed home: Requires property services/investments
Borrower Knowledge	Knowledgeable: Counsel regarding options with lender	In denial: Make contact; intensive counseling

Source: PolicyLab Consulting Group, LLC, 2004.

The next figure suggests four simple dimensions along which a delinquent borrower can be placed in order to determine possible intervention strategies. Borrowers might face a short-term, temporary income loss, or a longer-term, more permanent change in their ability to work. For borrowers who face an income loss, the quality of their credit rating will affect their options. Borrowers with poor credit will not have options to refinance or restructure their loans.

Likewise, the quality of the property subject to the mortgage is also important. A property in fair to good condition can be refinanced or sold to pay off a troubled loan; a distressed property will require work before it is acceptable for sale or refinancing. Moreover, a borrower in a distressed property in a depressed real estate market will be least able to avoid foreclosure.

Finally, the behavior of the borrower, as mentioned above, influences what options can be pursued. Borrowers out of contact with their lenders and those with low levels of financial literacy (especially when combined with a distressed property, poor credit and a long-term income loss) are among the hardest to serve.

Dimensions of Borrower Circumstances	
DURATION OF INCOME LOSS	
Temporary Income Crisis Job loss or other income reduction • High potential to be able to resume payments in 12 to 24 months	**Long-Term Income Loss** Disability, family health crisis, death in the family, divorce • Low potential to be able to resume payments, even with intensive services
CREDIT QUALITY	
Good Credit History/Low Debt-to-Income Ratio Potential to reduce expenses • Qualify for refinance loans • Restructure debt and savings	**Poor Credit History/High Debt-to-Income Ratio** Past history of foreclosure or bankruptcy; missed payments • Will not qualify for most refinance loans • Only options are reducing expenses or selling home
QUALITY OF PROPERTY AND COLLATERAL	
Good Home Value and Condition Well maintained property in strong market; positive net equity • High possibility of sale prior to foreclosure •	**Poor Home Value and Condition** Significant code or structural problems; high levels of deferred maintenance • Negative equity results in low possibility of sale prior to foreclosure
BORROWER KNOWLEDGE AND BEHAVIOR	
Strong Knowledge and Personal Financial Management Understand their mortgage; in contact with lender; history of savings and management of expenses • Likely to be proactive	**Poor Knowledge and Personal Financial Management** Lack of understanding succession of mortgages borrowed; no history of savings and expense management • Likely to avoid contact with lender

Source: PolicyLab Consulting Group, LLC, 2004.

SECTION 5: PROVIDING OTHER SERVICES

Do we need to offer "rescue" funds or other financial assistance?

As lenders have created more workout options for delinquent borrowers, the number of delinquent borrowers who ultimately avoid foreclosure is on the rise (Crews Cutts, et al., 2004). But the most difficult cases will remain — those requiring interventions beyond which lenders can manage. For these customers, there is an important need for public programs.

Short-term loans can help borrowers with temporary problems to maintain their mortgages through a crisis. While in some cases borrowers with good credit and a quality home could refinance their troubled mortgages, most frequently delinquent customers are not good candidates for a refinance loan due to their poor credit status.

While short-term emergency loans are relatively risky, with appropriate support they can develop into revolving loan pools that effectively stretch resources. Programs usually take care to target those that are risk of losing their home due to no fault of their own, such as a job loss, illness, disability or death in the family. The oldest example of this type of program is HEMAP in Pennsylvania (see sidebar).

Pennsylvania's Homeowner's Emergency Mortgage Assistance Program (HEMAP) and ACTION-Housing, Inc.

HEMAP was created in 1983 as a loan program to protect homeowners who, through no fault of their own, are temporarily unable to make their mortgage payments and are in danger of losing their homes to foreclosure. HEMAP provides funds to nonprofit agencies to counsel delinquent home-owners and assist them with their application for aid. Through HEMAP, qualified homeowners may receive either one-time assistance to bring them current on their mortgage or continuing assistance to help them pay their mortgage. Continuing assistance can be received for no longer than 24 months or cannot exceed $60,000. Mortgage payments are made by HEMAP directly to the lender on the home-owner's behalf, with HEMAP making up the difference between the applicant's monthly contribution and the lender's required payment. The state requires that all lenders must send a notice of the HEMAP to homeowners who are at least 60 days delinquent. In 2004, there were nearly 2,500 approvals for the program.

Minnesota Mortgage Foreclosure Prevention Association (MMFPA) and the Foreclosure Prevention Assistance Program (FPAP)

Minnesota provides a variety of services aimed at reducing foreclosures. Training for foreclosure-prevention counselors is offered through the Minnesota Mortgage Foreclosure Prevention Association (MMFPA). A statewide default counseling and loan program is offered by the Minnesota Housing Finance Agency (MN HFA) and administered by 15 nonprofit housing and counseling agencies throughout the state. Since 1983 the MMFPA has offered an annual two-week training course for default counselor certification, provided continuing education courses required to maintain certification, and served as a network for foreclosure-prevention counselors. The MN HFA provides participating agencies with counseling and loan funds to prevent mortgage foreclosure. The Foreclosure Prevention Assistance Program (FPAP) is a statewide program to assist delinquent mortgage borrowers. It includes in-depth financial counseling, debt-management and -repayment programs, negotiation with lenders, and access to financial assistance and emergency loans. Lenders are required to notify delinquent borrowers about the availability of the FPAP program. With its long history of foreclosure-prevention counseling training, Minnesota leads the way in providing a solid infrastructure for counselor training and certification. Approximately 130 to 150 loans are closed each year under the FPAP program, with an average loan amount of $2,300.

Making loans to borrowers in default is a risky proposition. Many borrowers have lost work and face multiple difficulties. However, carefully designed loan programs can be successful. Take into consideration the significant cost of setting up a lending program and then the ongoing costs of underwriting the loans and then servicing payments. Some programs instead offer small grants, or forgivable loans that are due upon resale of the home or written off under certain conditions.

Again, local programs need to be certain who they wish to serve. By looking at borrower circumstances and the factors behind default, program resources to help cure the delinquency can be identified and then developed to match.

What happens to homes that go through foreclosure?

Foreclosure can often be the beginning of a downward spiral for a property, particularly those occurring in areas of high foreclosures or where there is a weak housing market. A large portion of the loans that enter into foreclosure were initially taken out to cover the costs of home repair or improvement, at least partially. Depending on the status and quality of that work, the home may have had problems even before the borrower ran into financial difficulty. Borrowers experiencing delinquency also tend to have lower maintenance standards, in part because they know there is some chance they will not stay in the home, but mostly because they lack the resources to keep up with repairs. Some borrowers may engage in extreme neglect or even abuse the property as the process continues and they become more antagonistic toward their lenders. If a home becomes vacant due to foreclosure, it can become a magnet for vandalism and crime.

The priority for any lender, investor or agency interested in preserving a neighborhood is to make sure the property is safe; that it has a watertight roof and adequate heating systems; does not have plumbing and water problems; and has secure windows and doors. If resale is an impending option, cosmetic issues such as the condition of interior and exterior paint and floors and carpets are important for marketing purposes.

Most lenders are not in the business of owning and managing property. Lenders at a call center in another state cannot make property assessments from afar. They instead rely on local agents to inspect the property (often via a drive-by inspection) and on a broker’s price opinion (BPOs) as to the relative value of a property. They do no take into account neighborhood revitalization efforts nor can they hand over properties to local entities without compensation. While lenders cannot afford to view the property through the lens of neighborhood revitalization and preservation efforts, it is critical that some entity see the property through the process with this in mind.

Should the city or a local agency take over properties in foreclosure?

Even though lenders can face significant losses on properties in their REO, these properties are booked as assets on the lender’s financial statements. Investors in loan pools have strict rules about managing properties taken as REO. Rarely can lenders donate or sell properties at a discount; doing so is the equivalent of making a large charitable grant by foregoing a financial asset. Lenders are more likely to donate or discount a property if it is part of a larger

program, using properties in a deliberate way to support neighborhood revitalization, job training or another activity. The volume of properties donated through this type of program tends to be low, with many lenders donating fewer than a dozen properties nationally per year. In areas with a high concentration of foreclosed properties, developing a program to regain control of foreclosed properties may make sense.

Chicago's REO Program

Without timely interventions, properties can become vacant building that then become a magnet for crime and unscrupulous activity. Over the past 3 years Neighborhood Housing Services of Chicago has been working with City of Chicago's Department of Housing and many loan servicers to develop tools for dealing with Real Estate Owned (REOs). Those efforts have resulted in the purchase and direct development of 22 buildings by NHS, and while the numbers alone are not staggering, there has been much learning on both sides.

Photos below show a rehabbed REO.

Before

After

What other services should we refer borrowers to?

Research shows that trigger events are likely to cause a borrower to fall behind on his or her mortgage. The ability to provide delinquent customers with an appropriate referral to address such a trigger event may help sustain any workout that is developed. Below is a list of common services that may have an impact on a homeowner's ability to stay current (list provided by MortgageKeeper Referral Services, Inc).

- ***Childcare:*** Childcare can be a crucial need for parents returning to the workforce, but it can be difficult to find an opening. If a client has already tried looking for childcare but needs more assistance, there is often a community hotline to connect parents with qualified childcare providers. After getting childcare, some families are better able to get back to work and begin making mortgage payments.

- ***Credit Counseling and Debt Management:*** For some families, making and following a budget helps them to make their mortgage payments. There are agencies that help people

review all of their income, expenses and debts to come up with a budget and a plan for addressing other debts.

- ***Heating/Utility Costs Assistance:*** High utility bills can be the result of energy-inefficient houses. There special programs which can help qualified families increase the efficiency of their homes. Other programs can help reduce or spread out unexpectedly high electric, water or fuel bills. Some families find that getting these costs under control helps them to make their mortgage payments.

- ***Home Repair:*** With assistance in taking care of repairs, some homeowners find they are better able to keep paying their mortgage. Sometimes repairs can even help homeowners to save money in the long run by curing an ongoing problem in the house. There are programs that can help people repair their home; some offer loans and some help to pay for needed repairs through special grant programs. Others help homeowners find qualified contractors and get the work done correctly.

- ***Job Training:*** Laid-off workers are often eligible for financial assistance, job training or other help. These programs can help family members get back to work and thus continue their mortgage payments.

- ***Legal Services:*** There are local agencies in most communities that provide free legal assistance to qualified families. They will not take on all cases, but may help with certain disputes which prevent borrowers from paying their mortgage.

- ***Mental Health and Family Counseling:*** Most communities have agencies that provide help for families experiencing problems with mental health issues or family dynamics. Some specialize in issues with children, adults, or families from certain backgrounds. Often a referral hotline is available to direct clients to appropriate services.

- ***Property Tax Issues:*** Usually a local city or county agency or department will help homeowners review property tax bills for errors and apply for reassessments and exemptions for qualified families based on age, income or other criteria.

- ***Senior Services:*** There many agencies which provide services to senior citizens, generally people 65 and older. These might include help with managing a budget or accessing special loan funds aimed at home repair. These services can provide the support that can help an older person remain in his or her home.

- ***Substance Abuse:*** Problems with drugs or alcohol can disrupt work and family, resulting in mortgage defaults. Some people find that taking care of this problem in their family helps them to get back to a more normal life and keep up with their mortgage payments.

- ***Workers Compensation or Disability:*** There are support services available for people who are trying to collect disability payments. Receiving payments or other assistance can make it possible for people to catch up and keep their home.

SECTION 6: TAKING ACTION TO PREVENT FORECLOSURES

Can we prevent mortgage delinquencies before they occur?

Most lenders and servicers agree that if they can make positive contact with a borrower, early in the process or even before a delinquency occurs, they could find better solutions for the borrower and the lender. There are several strategies that can be employed to help homeowners understand what they need to do if they find themselves experiencing trouble with their mortgage:

- ***Public service announcement campaigns:*** These are support campaigns to inform and educate homeowners about homeownership. Campaigns should also encourage homeowners to call their lenders or national hotlines such as the 888-895-HOPE line to receive assistance with mortgage delinquency and foreclosure issues. Campaigns can be local, regional, or national in scope.

- ***Prepurchase counseling:*** Require any first-time buyer receiving assistance in buying a home to attend a class about the responsibilities of homeownership, including how to handle hardships and to avoid problems when borrowing or refinancing.

- ***Pre-refinance counseling:*** Borrowers frequently run into trouble after refinancing their original loan to access home equity; they may even refinance several times. At the time of the refinance, borrowers can be coached to develop a clear budget plan and learn what to do if they fall behind. Borrowers might also benefit from a trusted representative taking a “second look” at their loan, to provide objective advice on the relative cost of the loan. Borrowers also can be coached to look for certain features, such as escrow for taxes and insurance.

- ***Workshops offered to existing borrowers in targeted areas:*** Workshops through employers or based on mailings by lenders can be both an outreach tool to boost

Lender Workshops

In 2004, NHS of Chicago joined with partner lenders and servicers to offer workshops to their mortgage borrowers. These workshops are a chance for homeowners to make contact with NHS and their lender and learn some of the skills and strategies for avoiding foreclosure. The curriculum includes information on home maintenance, credit and budgeting, taxes and insurance, escrow accounts, and financing home repairs responsibly, as well as what to do when you cannot pay your mortgage. Attendees are offered a $25 gift card as a financial incentive to attend. NHS staff teach the classes, and staff from the servicing institutions are on-site to handle questions or schedule follow-up meetings. Homeowners gain valuable information to help them maintain and protect their investment, NHS expands its homeowner contact in the neighborhoods it serves, and servicers provide a positive experience for customers that increase the probability that homeowner will call in times of financial difficulty.

The workshops are now offered six times a year in neighborhoods with high rates of foreclosure. NHS has partnered with six lender/servicers to offer 14 workshops reaching 433 households from 2004 to 2005.

participation in programs and also teach borrowers at risk of default what to do if trouble occurs. Due to privacy regulations, financial institutions cannot share mailing lists, but they can do mailings based on various borrower criteria to promote workshops.

How can we work with borrowers who are at risk but not yet foreclosed?

One concerns for many servicers is contacting and communicating with delinquent borrowers. Lack of contact restricts the company's ability to offer repayment plans, loan workouts, or find other solutions to the delinquency — ultimately increasing the likelihood of foreclosure. Many lenders and servicers believe that if they can make positive contact early in the process, or even before the mortgage is delinquent, they could find better solutions for the borrower and lender. An effective way to make such contact is through partnership with a trusted third party, like NHS of Chicago.

One strategy is to conduct workshops with borrowers not currently in foreclosure, but who are part of an at-risk population. For example, borrowers who are current or up to 120 days delinquent can be targeted for workshops. These customers receive a letter from a local agency inviting them to attend a "Homeownership Workshop."

Working with lender partners, NHS of Chicago regularly offers evening workshops, using an incentive for attendance (a local grocery store debit card). Lenders participate, sometimes presenting material, and are available to schedule follow-up, face-to-face appointments for interested homeowners. This approach encourages borrowers to act proactively to address any current issues or to reach out if trouble does occur.

What about predatory lending?

Predatory lending is a serious problem. Depending on the definition used, predatory loans involve a mortgage broker or loan officer manipulating a borrower to take out a loan with unnecessary features, fees and costs. The loan has little or no benefit to the borrower but provides huge fees to the loan originator. Senior citizens and financially unsophisticated borrowers have typically been subjected to predatory loans. These loans are designed to extract fees. However unfair the fees are, many borrowers will pay their mortgage regularly. Few foreclosures are directly a result of predatory loans. In fact, the most egregious predatory lenders want to make sure their borrowers do not foreclose in order to preserve the borrower for another loan in the future. In short, rising foreclosures and predatory lending are both concerns, but are separate issues.

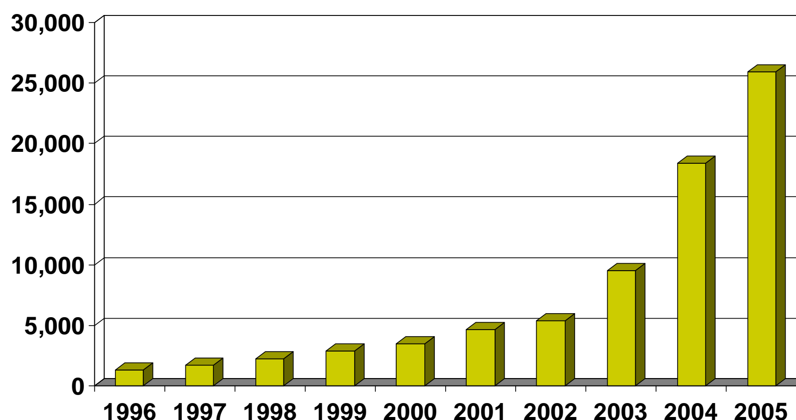
Most borrowers in default surveyed by NHS of Chicago feel that their loan was fair, that they do not regret taking out their loan, and that they shopped around adequately for their loan. If borrowers in default in this survey were victims of predatory loans, they are not aware of it.

Programs need to be careful to separate consumer fraud and predatory lending issues — often the cause of acrimony between local agencies and lenders — from the problem of rising foreclosures. All parties want predatory practices to end, and should work together to resolve them.

What about mortgage fraud?

Unfortunately, as foreclosures have expanded in some communities, the incidence of "rescue fraud" by shady nonprofits and unscrupulous property investors has increased. Rescue fraud involves offering borrowers in foreclosure a "solution," which typically involves signing the deed over to a third party in exchange for a payment on their mortgage. Borrowers then become tenants in their homes, paying rent in the hopes of being able to buy back the home. Often the new owner will raise the rent, evict the former homeowner and resell the home for a significant profit. Other cases involve fraudulent originations. A property investor will find a "straw man" to serve as the borrower on record, sometimes using stolen identities. A property might then be resold or refinanced repeatedly for many times its appraised value, with the investor pocketing the surplus. The home usually is vacant and the borrower of record disappears. According to the FBI, it has stepped up its enforcement of these scams in recent years in partnership with local officials, increasing its mortgage-fraud caseload by more than five times in three years (www.fbi.gov/congress/congress04/swecker100704.htm).

Growth in Mortgage Fraud



Source: Suspicious Activity Reports (SARS), Federal Bureau of Investigation, 2005

Mortgage Fraud Cases from FBI SARS Database

Year	2000	2001	2002	2003	2004	2005	% Change, 2000–05
Agent	503	523	1,078	661	956	1,138	126%
Appraiser	122	372	476	881	2,172	2,531	1975%
Attorney	45	47	67	74	104	191	324%
Borrower	5,100	6,151	6,809	8,866	14,410	19,988	292%
Broker	965	1,512	1,702	2,450	4,516	7,453	672%

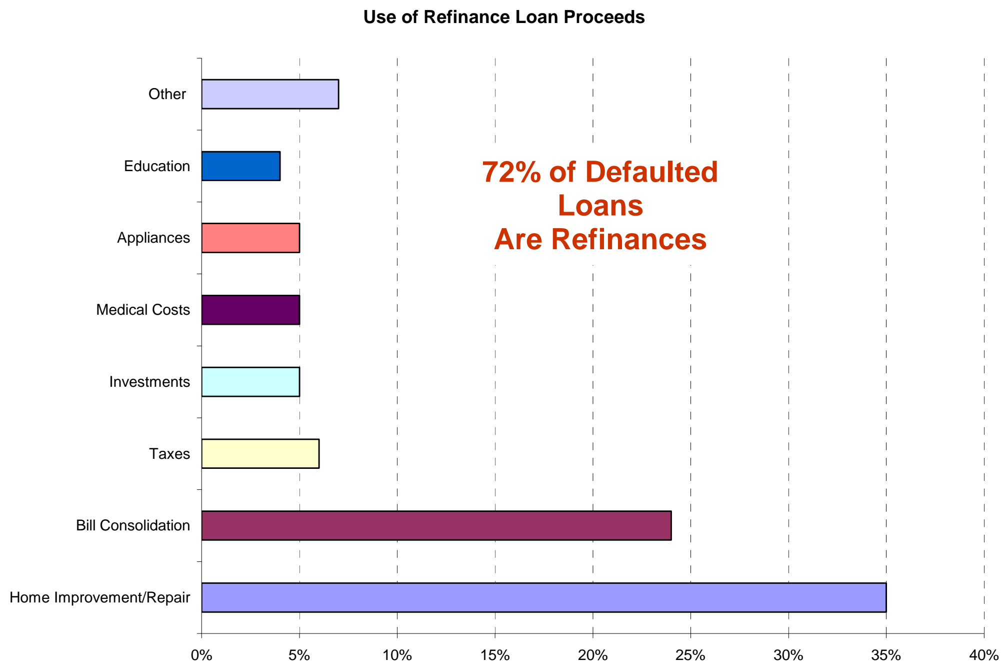
Source: Federal Bureau of Investigation Suspicious Activities Reports

What state and local policy changes can help?

One problem for providers of foreclosure prevention services is that many borrowers do not know what to do when they find themselves having difficulty making their payments. Some dismiss their payment problems as temporary, while others try to avoid their lender in hopes they will be able to develop their own solution. Few borrowers in crisis know about services available to help them. Some states have instituted mandatory referrals by mortgage lenders of the availability of services. When a lender in Pennsylvania or Minnesota sends out a notice of foreclosure document to a borrower, it is also required to notify the borrower of statewide programs designed to aid delinquent borrowers and their right to seek counseling. In Minnesota, which recently instituted this regulation, the number of borrowers seeking services has increased significantly.

How can prevention services be targeted?

As the figure below shows, most problem loans are refinance loans, not purchase loans. Often these are cash-out refinance loans, with the proceeds used for various activities. Because borrowers with troubled credit often purchase low-value homes, they often are confronted with more property-maintenance issues. As a result, a leading use of loan proceeds is for home improvement or repair. In some cases these loans are promoted by contractors seeking to do the work. Educating borrowers seeking to perform home improvements to help them make solid choices will pay off in preventing problematic loans from being made.



Source: Chicago Mortgage Default Counseling Survey, 2005

SECTION 7: GETTING STARTED

What is involved in a public awareness campaign?

Getting and maintaining public interest around foreclosure intervention efforts is important. In order to prevent additional foreclosures from happening, direct and consistent messages must be sent about what to do and where to seek help. The media will pick up stories on foreclosure, especially press conferences which highlight problems and solutions. Participation from government officials can obtain press attention, stimulate borrowers to call for help, and raise public awareness about foreclosure. Chicago's "Every Minute Counts" campaign includes City Hall press conferences, advertisements on mass transit vehicles, and cable television promotions by Mayor Daley. Each of these events generates more interest in the city's foreclosure-prevention programs. Attention from public officials also accelerates partnerships with lending institutions. In meetings convened by the city, senior executives from financial institutions presented the industry's perspectives and problems. Working collaboratively, win-win solutions were created, allowing more borrowers in the city to have access to servicers that ultimately reduce costs to lenders as foreclosures are avoided.

Who needs to be involved?

The key to interventions regarding foreclosures is to form solid public-private partnerships. This partnership should include:

1. Lenders and servicers,
2. Local government agencies, and
3. Counseling agencies and local service providers.

Financial institutions are a critical

Sources of Potential Partners for Foreclosure Intervention Programs

- Lenders and loan servicers;
- Nonprofit legal services for access to legal advice;
- Other nonprofit organizations that offer default counseling or housing rehabilitation assistance;
- State and local housing agencies that provide financial assistance to address foreclosure issues;
- American Association of Retired Persons (AARP) and other resources such as local Office for the Aging programs for advocacy, outreach and targeted services to senior citizens;
- Cooperative Extension Service of the U.S. Department of Agriculture for financial management counseling and training;
- Community colleges for financial management and home repair and maintenance training and education;
- Consumer Credit Counseling Service agencies for debt-management counseling;
- Sources of heating or utility cost assistance;
- Sources of "rescue funds" or "catch-up funds" to help households recover from short-term income disruptions;
- Sources of income tax assistance like the IRS's Volunteer Income Tax Assistance (VITA) programs;
- Sources of job training or job placement programs in cases where the affected household has lost employment;
- Sources of property tax assistance, especially in places that have property tax reduction programs for senior or disabled citizens;
- Mental health services and family counseling;
- Substance abuse services to assist with problems such as alcohol or drug abuse; and
- Unemployment assistance, workers' compensation or disability programs.
- Municipalities and counties for assistance through senior tax programs and utility programs.

Source: *Essential Components of Postpurchase Programs* by Christi Baker, Chrysalis Consulting, based on the work of Lucy S. Gorham, Roberto G. Querica and William H. Rohe for the Center for Urban and Regional Studies at the University of North Carolina at Chapel Hill.

part of the partnership. The top 10 lenders in any market usually account for the majority of foreclosures, with subprime and other lenders who take on riskier loans experiencing a disproportionate share.

It is important to remember that each institution is different. In the foreclosure arena, there are several types of entities, including:

- a mortgage originator,
- a mortgage servicer (master servicer, sub-servicer, specialty servicer), and
- a mortgage investor (or owner of the asset).

The same institution may play all three roles, but often loans are facilitated by brokers — originated by one firm and then sold to another. Servicing may also be sold to another company, while a myriad of investor structures exist, where investors receive interest, principal or other income flows. In some cases a pool of loans is structured into a security with levels of investors (or tranches). At the top investors receive a low rate of return but are virtually guaranteed payment. At the bottom are investors who take the first dollar of losses. Investors or owners of a pool of loans who are only paid with what is left after paying other levels of investors are called residual owners. It is this level that is directly and adversely affected financially by defaults and foreclosure losses. Understanding the role that servicers play is very important to the success of any partnership that is developed. Too often, servicers complain that nonprofit service providers lack an understanding of the role that servicers play and do not understand the regulations that limit their ability to develop workout plans.

The public sector is another important piece of the foreclosure intervention system. Borrowers may only make contact for help based on the trust they have for the public sector. Joint marketing campaigns, including media events and coverage, that include city or state officials will generate a lot of attention. The public sector is also perceived as a source for rescue funds, even if most clients will not qualify. Regardless it is often advisable to make known that some assistance available, but to make access limited. Involving the public sector also helps policymakers and lenders better understand the issues involved, and can help prevent the creation of regulations which do little to solve the foreclosure problem.

Nonprofits can play several roles. In addition to providing face-to-face counseling and triage, they also facilitate community-based connections and trust with borrowers in distress. Nonprofits with home repair and property management expertise can also play a role in assessing properties in foreclosure, arranging for property services related to sales and marketing, or to take possession of REO units. Many nonprofits lack capacity in all areas, and often a collaborative effort is required. Most nonprofits also require a grant or fee structure to cover their costs.

Coordination across these players is important. One agency needs to serve as a leader, with staff assigned to manage meetings and communication. If borrower data is being shared, sub-servicer agreements may need to be executed with the most frequently used lenders to overcome confidentiality issues.

Why does the lender we are working with say they cannot offer any special deals for borrowers?

There is a timeline for the way borrowers are treated by their lender. At the early stages of delinquency, such as less than two payments past due (60 days late), borrowers are usually dealing with collections staff at their lender. Collection departments typically focus on payment collection and levying late fees. Many borrowers find these interactions frustrating. But collection agents are doing their best to follow the guidelines developed as standards in the servicing industry and codified in investor/security agreements. Many times a lender is prevented from moving beyond simple collections in early delinquency by the security agreement with investors. Between 45 and 90 days, lenders will transition borrowers to specialists in loss mitigation. These agents may have the authority to negotiate loan workouts with borrowers. Most borrowers find interactions with these staff more favorable, although they are often afraid of their lender regardless. As the foreclosure progresses, specialized REO staff take over, with a goal of maximizing resale value of the home as quickly as possible with the least cost. Any program working with foreclosures needs to understand these processes.

What about privacy laws?

All counseling programs delivering foreclosure-intervention services face the issue of borrower privacy. Ideally, counseling programs would like to contact delinquent borrowers directly, but they are limited in doing this by provisions of the Gramm-Leach-Bliley Act of 1999. While this legislation was designed to protect consumers from fraud, it has introduced problems for well intentioned lenders and nonprofit counselors and government service providers seeking to contact delinquent borrowers in order to provide services.

Privacy Agreements

Momentive, a nonprofit counseling agency in Indiana which operates a mortgage preservation program, has developed a standard process for negotiating with each mortgage lender or servicer holding a loan for one of their clients. By standardizing the borrower privacy waiver, Momentive has been able to increase efficiency of its program.

Counseling agencies seeking to provide services in partnership with lenders and loan servicers must engage in a time-consuming process of negotiating agreements to satisfy privacy regulations. Both financial institutions and nonprofit counseling agencies find that this process impedes innovative approaches to contact troubled borrowers. Overcoming borrower privacy regulations can be perceived by some lenders as being too difficult or risky due to the fear of violating privacy laws. For some, it may seem too expensive to participate in the most proactive programs.

Without amending current legislation, collaborative agreements might be developed that satisfy privacy protections while reducing the need to negotiate individual agreements for each borrower. Some loan servicers have created contractual legal agreements in order to engage in programs where clients are referred to and from service providers without the release of borrower information to the service provider — thus providing compliance with privacy laws.

What should we not do?

The Illinois legislature recently passed a bill which mandates prepurchase counseling in areas with high foreclosure rates. While counseling for first-time homebuyers is a valuable service, requiring counseling for all mortgage-loan borrowers in a specific geographic area presents a time-consuming burden for borrowers not at risk of foreclosure who may not benefit from counseling sessions. It also challenges the agencies that must deliver counseling services. In order to complete a mortgage closing, nonprofit counseling agencies may deliver low-quality programs to meet the requirement. While legislative concerns over foreclosure are well placed, a more targeted approach for at-risk borrowers might prove more successful.

In Columbus, Ohio, concerned officials passed an ordinance to slow down the foreclosure sale process. A similar foreclosure moratorium in Philadelphia, Pennsylvania, was suggested in 2004. Again, while policymakers' concern for troubled borrowers is sincere, mortgage providers say this ordinance raises the costs of making and servicing loans. Over time, regulations which significantly slow the foreclosure processes could reduce lenders' willingness to originate loans, especially if financial markets perceive such laws to undermine the collateral backing mortgages. Foreclosure-delaying provisions will not, in the end, stop foreclosures for borrowers unable to make payments, yet they may be costly to neighborhoods and municipalities if properties in the foreclosure process languish. Few borrowers are protected, lenders perceive such laws as restricting their ability to lend, and this approach often hampers the public-private collaboration needed to create foreclosure prevention programs.

As difficult as foreclosures can be, it is important to recognize that seriously delinquent borrowers may no longer be appropriate to remain as homeowners. For these borrowers the best strategy can be to sell the property or sign over the deed to the lender. This can mitigate the negative effects of a foreclosure on the neighborhood and surrounding property values.

What is the role for political leaders?

About half the programs reviewed for this project involved a member of Congress, governor or mayor in some way during their development. A high-level politician helps gain media attention and thus increase public awareness about foreclosure. Attention from public officials also accelerates partnerships with lending institutions. Chicago's mayor has used his role to engage lenders in the HOPI partnership and to maintain their interest in the program. In meetings convened by the mayor, senior executives from financial institutions presented the industry's perspectives and issues. The collaboration has allowed more borrowers in the city to have access to servicers that also reduce costs to lenders.

Related to the role of public officials is the role of research on foreclosure trends. While anecdotal evidence is often published in the press or asserted by advocates, careful analysis of foreclosure rates and patterns can serve as a platform for public officials to call for meetings and attract media attention. Momentive in Indiana was able to capitalize on foreclosure data and Congresswoman Julia Carson's concern about rising foreclosures to create the state Helpline in a relatively short period of time; NHS of Chicago used foreclosure data to attract lenders and servicers to its partnership.

What technology can support a foreclosure-prevention program?

Technology is playing an increasingly important role in foreclosure-prevention programs. The first area of technology needed by programs is software to track clients. Packages such as Home Counselor Online, Counselor Max, DebtPlus and proprietary systems are commonly used. But these programs are not ideal for tracking borrowers in the delinquency process; many lack specialized modules for this purpose. Moreover, as programs expand their ability to exchange data with lender/servicers, platforms becomes more important. Programs that use a network or service provider also need a mechanism to share information on borrowers. The second area of technology used by foreclosure-prevention programs is related to call centers. Telephone counseling requires specialized hardware and software systems, as well as a facility to house phone-based counselors. While many CCCS programs have existing call centers, the scale and hours required for mortgage counseling can strain their capacity. According to the experience of one call center, it costs an estimated $100,000 to upgrade phone systems to provide the level of support required for a foreclosure hotline (interview with Momentive, March 10, 2005).

What do we need to begin?

The checklist below suggests a minimum of 10 components or capacities that need to be developed in order to launch a foreclosure-prevention effort. Fortunately, templates and models are available from other successful efforts in cities such as Chicago or Atlanta, which can be used to accelerate the process of building partnerships and launching outreach efforts. The work of the Center for Foreclosure Solutions, CCRC and the National Ad Council also provide significant support. In many communities grant and loan funds exist through local government or nonprofits, and simply need to be expanded and applied to this purpose. Legal issues and research are critically important to creating a sustainable program. They frequently rely on outside expertise, but this is generally not very costly.

1. **Partnership:** Local government, lending community, nonprofits
2. **Outreach:** Campaign including a mix of advertising and other strategies
3. **Hotline:** 24-hour counseling, connected to the CCRC call center
4. **Local Services:** Referrals to locally based services
5. **Counseling:** Referral system to local providers on specialized default or housing issues
6. **Grant funds/loans:** Access to property services and rehab subsidy
7. **Rescue Funds:** Access to rescue fund for special circumstances
8. **Research:** Data on foreclosure trends; data tracking system for clients ongoing
9. **Cooperative Agreements:** Legal agreements for information exchange
10. **Follow-up:** Ongoing borrower communication and support

How do we know if it works?

It can be challenging to evaluate a foreclosure prevention system. How do you measure something that does *not* happen? There are strategies to do that, but it can be complicated.

Rather than conducting an evaluation to prove how the effort causes foreclosures not to happen, focus instead on basic data tracking. Simple, Web-based data systems used for managing client data and sharing information across agencies is ideal. For all clients collect:

1. Referral number
2. How heard about service
3. Counselor name
4. Servicer name
5. Account or loan #
6. Last/First/MI
7. Address
8. City/State/Zip
9. Phone
10. Agency Tracking ID
11. Referral received date
12. Referral type
13. Referring person's name
14. Loan status at first contact
15. Loan amount
16. Income level
17. Causes of foreclosure
18. Employment status
19. Referrals to other services
20. Date(s) of service
21. Consent forms to share information
22. Result or action
23. Date counseling summary sent to lender
24. Homeowner talked to servicer in last 30 days?
25. Cumulative length of counseling
26. Monthly net income
27. Presenting issues/Main reason(s) for default
28. Recommended action items
29. Follow up notes after initial counseling

The data will provide many insights into who is being served. Regular reports, perhaps on a monthly or quarterly basis, can show how many clients have been served. Regular, tangible data is very important to garner ongoing support for a foreclosure-intervention project, especially for private sector partners.

NHS tracks counseling cases through an Internet-based database program, *Home Counselor Online* (HCO), provided by Fannie Mae for all of its counseling clients. HCO includes information on demographics, financial status, time spent in counseling, address, and length of residency, along with notes from each counseling session. During FY2005, NHS served 800 clients with foreclosure intervention services and tracked their characteristics and appointments using HCO. An analysis of the 800 client files compiled by NHS intern Charles Corrigan in 2005 found:

- Over 73 percent of default counseling clients are women.
- 81 percent of clients are African-American, 15 percent are Hispanic/Latino, and 3 percent White.[2]
- Average length of residency is 10 years, and the median is 7 years.
- Average household size is 3.6.
- 90 percent live in census tracts where the average income is under 80 percent of the area median.
- Average annual income is $27,000, with a third below $18,000.
- Average debt was $1,222 per month; the majority have debt-to-income over 50 percent.
- Almost half of the properties in the NHS database have open tax years in public data.
- Two-thirds have started the foreclosure process before they enter NHS for services.
- Average delinquency was 5.3 months; median was 3 months.
- Average time in counseling was 111 minutes, or slightly less than two hours.

[2] In the 2000 Census, Chicago's population was 37 percent African American, 26 percent Hispanic/Latino, 31 percent White (not Hispanic/Latino), and 4 percent Asian.

After applying regression analysis to the characteristics of these clients, Corrigan concluded, "There is no better indicator in the entire sample [of success] than the time a client spends with NHS counselors. If a client meets with a counselor briefly, then decides not to pursue further counseling, the odds of saving the property are low…However, more than two-thirds of clients who receive at least three hours of one-on-one counseling result in a Direct or Indirect Save."

In addition to the data collection described above, a follow-up survey can be conducted though the mail to a sample of clients. This can include questions about how services were perceived and how helpful they were to the borrower's outcome.

Another approach is to monitor public records to see how borrowers seeking help fare after receiving services. If few borrowers move into foreclosure, then the program is having a positive effect. Even better is to compare the performance of borrowers receiving services to those who do not, providing a stronger comparison group.

In some cases, lender partners may be willing to track the loan performance of borrowers receiving help compared to other borrowers. Often such data is difficult to track and share, but this data is very valuable for monitoring services. Such sharing can be the foundation of a lender partnership.

A final approach is to request reports from the CCRC call center providing phone counseling. Analysis of calls by month, zip code, borrower type, and other factors can provide further details about who is served and who drops out of the process.

Documenting Success Stories

One strategy used in foreclosure programs is to regularly document the stories of clients. These are useful in marketing services to other clients, useful for media opportunities and critical for showing the impact of a program.

Success Story

Mr. and Mrs. R bought their home in the Chicago Lawn neighborhood in 1998. A few years later, the couple decided to refinance. When the mortgage company came to their house for the closing, the terms of the agreement were different than those the family had originally been offered. The company promised to revise the terms within three days but advised the couple that it was normal to sign the documents and make the changes later. The Rs called the company for three days straight, but no one ever called them back. Their payments went up $800 and they struggled to pay the bills and save money.

In 2005, Mr. R was temporarily unable to work because of an injury and the family was forced to live on the disability payments collected by Mrs. R. “We were robbing Peter to pay Paul,” said Mrs. R of their strategy at the time. They read about the 311 “Every Minute Counts” campaign in the paper and contacted the city. They were referred to NHS for in-depth intervention.

Once Mr. R was able to return to work, NHS approved a foreclosure intervention loan for the family. The $10,000 loan prevented the foreclosure and caught the family up on their mortgage. They are now working to repair their credit so that they can refinance at a better rate. The family is hopeful that if they keep up their payments for the next six months and clean up their credit that they will be able to lower their payments with an NHS homeownership preservation refinance. In the meantime, they are thankful that NHS was able to save their home from foreclosure.

Potential Outcomes of Foreclosure Intervention Programs by Participant

Payments Current

Potential Interventions: Workshops, Preventive telephone or face-to-face counseling, Outreach

Borrower: Budgeting to insure regular payments
Lender: Receive expected payment of principal and interest
Servicer: Collect payments; receive servicing fees
Investor: Receive coupon payments through trustee
Community: Benefit from owner-occupied homes; households with access to credit

Payments Initially Delinquent

Potential Interventions: Hotline, Refer to counseling (telephone or face-to-face), Outreach

Borrower: Re-arrange budget; remedy income shortfall; manage consumer debt
Lender: Avoid delayed revenue streams; reduce costs of providing customer services
Servicer: Avoid delayed/lost revenue; minimize administration costs
Investor: Avoid delayed/lost revenue
Community: Avoid migration of loan to foreclosure

Payments Severely Delinquent

Potential Interventions: Aggressive outreach campaigns, Hotlines, Intensive counseling, Outreach

Borrower: Intensive budgeting; accessing financial assistance, emergency or refinance loans
Lender: Reduce probability of migration; preserve collateral in case of REO;
Servicer: Reduce lost servicing revenue; reduce costs of collections
Investor: Avoid payments foregone; preserve quality of security
Community: Maintain quality property conditions; avoid migration to foreclosure and abandonment

Foreclosure Filing

Potential Interventions: Programs with servicers, Loan/Payment Assistance funds, Property services

Borrower: Recognize seriousness of problems; seek out resources; consider sale or workout
Lender: Accurately assess payoffs from workout or aggressive foreclosure proceeding
Servicer: Reduce costs of contacting borrower; reduced broker and legal functions
Investor: Maximize potential for recouping assets; mitigation up to breakeven point
Community: Reduce probability home will be vacant; maintain property conditions

Foreclosure Complete

Potential Interventions: REO/Property disposition programs

Borrower: Find quality housing; re-structure finances; rebuild credit
Lender: Avoid long vacant period; manage property services, utilities and taxes
Servicer: Maximize sale price; minimize legal and administrative costs
Investor: Minimize losses; spend on property improvements up to breakeven point
Community: Quickly turn property over to quality occupant; minimize oversight and clean-up costs by municipality; recoup back taxes and other liens

Source: PolicyLab Consulting Group, LLC, 2004

How do we fund a program?

Foreclosures have huge financial implications for financial institutions, local communities and borrowers. Some nonprofit programs — and private entrepreneurs — have examined the amount of money involved in foreclosure with an eye towards generating revenue. The reality is that while there are large amounts of money at stake, all parties to the transaction are facing losses. Spending more money in fees or grants is not usually feasible at scale. Foreclosure-mitigation programs generally require public subsidies, such as federal block grants, and state and local funds, to pay for counseling, home repair and other services. Lenders will often pay a small fee for counseling services, if these services are high quality and are held accountable for measurable outcomes. Foreclosure-intervention programs are intensive, time-consuming and difficult to provide, and are not likely to be lucrative.

What's next?

Foreclosure can be devastating to families and communities, but there are ways to make foreclosures less harmful for them. Using a partnership approach, communities promote default counseling services, link borrowers to their lender or servicer to pursue alternatives to foreclosure, and preserve troubled properties.

This document is designed to provide an overview for local public officials and staff, nonprofit leaders and advocates as they begin to design a foreclosure-intervention program.

Partnership, research and planning are important components of program planning, in order to shape outreach efforts and counseling strategies. As programs develop, preventative efforts may help stem rising foreclosures. These include prepurchase homebuyer education, counseling for mortgage refinancing, and a consumer-focused review of home equity and home improvement loans.

There is no "one size fits all" solution for foreclosures. Each community needs to assess its situation, resources, capacity and needs. While some borrowers need intensive help, many do not. But in most cases borrowers do not know help exists in any form, and are avoiding their lender while their troubles compound.

It is also important to recognize that this is a nascent field and program strategies and innovations will continue to evolve. Only by working together and sharing challenges and best practices can we be successful with efforts to reduce the number of foreclosures and minimize the ill effects of foreclosures that cannot be avoided.

Project Interviews

Michael VanZalinger
NHS of Chicago
(773) 329-4104
mvanzalinger@nhschicago.org

Sortiros Assimacopoulos
Pradoneck Foundation
(212) 431-9700
sotirios@parodneckfoundation.org

Carol Gilbert
The Goldseker Foundation
(410) 837-5100
www.goldsekerfoundation.org

Marina Peed
The Impact Group
(678) 808-4477
marina.peed@theimpactgroup.org

Dean Caldwell-Tautges
Homeownership Preservation Foundation
(952) 857-6738
dcaldwell-tautges@hpfonline.org

Odette Williamson
National Consumer Law Center
(617) 542-8010
owilliamson@nclc.org

Stephanie Barnes-Simms
North Carolina Self-Help
(919) 956-4659
stephans@self-help.org

Wilbur McKesson
Affordable Housing Government, Housing & Industry Relations
Option One Mortgage Corp.
(949) 790-7329
wilbur.mckesson@oomc.com

Amanda J. Stark
Homeownership Preservation Office
JP Morgan Chase
(614) 422-3184
Amanda.stark@chase.com

Carolyn Kroll
Center for Responsible Lending
(919) 313-8556
Carolyn.Kroll@responsiblelending.org

Sonia Garrison
North Carolina Self Help
(919) 956-4669
Sonia@self-help.org

Mary Holder
North Carolina Self Help
(919) 956-4440
mary.holder@self-help.org

Heidi Coppola
Citigroup
(212) 559-6810
coppohah@citigroup.com

Jacqueline V. Prior
National Alliances Expanding Markets
Freddie Mac
(703) 918-5085

Bruce Dorpalen
ACORN Housing
(215) 765-0048
ahclcdirect@acorn.org

Lauren Crandell
Homeownership Preservation Foundation
(952) 857-6718
lauren.crandelll@hpfonline.org

References

__________. *Repossession Risk Review,* The Council of Mortgage Lenders, July 2005 London. Retrieved January 14, 2007 from www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pub_research_researchrpts.

Apgar W.C., and Duda M. (2004) Preserving homeownership: Community development implications of the new mortgage market. Retrieved January 14, 2007 from www.nw.org.

Apgar W.C., and Duda M. (2005). Collateral damage: The municipal impact of today's mortgage foreclosure boom. Minneapolis, MN: Homeownership Preservation Foundation. Retrieved January 14, 2007 from www.hpfonline.org.

Collins J.M., (2007) "Exploring the Design of Financial Counseling for Mortgage Borrowers in Default" Journal of Family and Economic Issues, 28(2) *in production.*

Collins J.M., and Gorey, R N. (2005). Analyzing Elements of Leading Default-Intervention Programs. Unpublished manuscript. www.policylabconsulting.com.

Collins, J.M., Belsky, E.S., and Case, C.E. (2005). Exploring the welfare effects of risk-based pricing in the subprime mortgage market. In N. Retsinas and E. Belsky (Eds.), *Building assets, building credit: Creating wealth in low-income communities* (pp. 132-151.*)* Washington, D.C.: The Brookings Institution Press.

Cordell, L. (2001). Innovative servicing technology: Smart enough to sustain homeownership gains? Panel presentation at the Research Institute for Housing America: 2001 Conference on Housing Opportunity: Will Technology Expand Housing Opportunity? Washington, DC.

Council of Mortgage Lenders, "Repossession Risk Review," July 2005, London.

Cutts, A C., and Green, R. K.. (2005). Innovative servicing technology: Smart enough to keep people in their houses? In N. Retsinas and E. Belsky (Eds.), *Building assets, building credit: Creating wealth in low-income communities (*pp. 348-377) Washington, D.C.: The Brookings Institution Press.

Federal Bureau of Investigation, "Statement of Chris Swecker, Assistant Director, Criminal Investigative Division, Federal Bureau of Investigation, Before the House Financial Services Subcommittee on Housing and Community Opportunity, October 7, 2004"; retrieved on February 25, 2007, from www.fbi.gov/congress/congress04/swecker100704.htm.

Getter, Darryl E. (2003) "Contributing to the Delinquency of Borrowers" *Journal of Consumer Affairs* 37 (1).

__________. Repossession Risk Review, The Council of Mortgage Lenders, July 2005 London. Retrieved January 14, 2007 from www.consumerinterests.org/i4a/pages/ index.cfm?pageid=3517.

Gramlich, E. M. (2004, May 21) Subprime mortgage lending: Benefits, costs, and challenges. Remarks at the Financial Services Roundtable Annual Housing Policy Meeting. Chicago, IL.

Hairston, J. (2006, May 12) Home foreclosures soar; Lender-friendly Georgia has highest rate in nation, *The Atlanta Journal-Constitution*, p. 1G.

Hartarska, V., and Gonzalez-Vega, C.. (2005). Credit counseling and mortgage termination by low-income households. *Journal of Real Estate Finance and Economics*, *30*(3), 227-243.

Hirad, A., and Zorn, P. M. (2002). Pre-purchase homeownership counseling: A little knowledge is a good thing. In N. Retsinas and E. Belsky (Eds.), *Low-income homeownership: Examining the unexamined goal* (pp. 146-174). Washington, D.C.: The Brookings Institution Press.

Immergluck, D., and Smith, G. (2006). The impact of single-family mortgage foreclosures on neighborhood crime. *Housing Studies 21*(6), 851-866.

Kiviat, Barbara. “The Magic Number, Launched as 911’s Unglamorous Cousin, 311 Service is Proving to be a Vehicle for Urban Reform.” *Time Magazine.* February 7, 2005.

Moreno, A. (1994). Assessment of post-purchase needs of low- and moderate-income homebuyers. (White Paper). Minneapolis, MN: Family Housing Fund.

Mortgage Bankers Association. (2005). *National Delinquency Survey*. Retrieved January 14, 2007 from www.mbaa.org.

Perry, V.G., and Morris M. D. (2005). Who is in control? The role of self-perception, knowledge, and income in explaining consumer financial behavior. *The Journal of Consumer Affairs. 39*(2):299-314.

Quercia, R., Cowan, S, and Moreno, A. (2004). The Cost-Effectiveness of Community-Based Foreclosure Prevention. Joint Center for Housing Studies of Harvard University Retrieved January 14, 2007, from www.jchs.harvard.edu.

Quercia, R.G., and Wachter, S.M.. (1996) Homeownership counseling performance: How can it be measured? *Housing Policy Debate 7*(1),175-187.

Quercia, R.G., McCarthy, G.W., and Stegman, M.A. (1995). Mortgage default among rural, low-income borrowers. *Journal of Housing Research 6*(2): 349-369.

RealtyTrac. (2006). Irvine, CA. January 23, 2006 Retrieved January 23, 2006 from www.realtytrac.com.

Roper Public Affairs and Media. (2005) Freddie Mac, Roper survey asks why more delinquent borrowers don’t call lenders for help. Retrieved January 12, 2007 from www.freddiemac.com.

Salant, P., and Dillman, D.A. (1994). *How to conduct your own survey.* New York: John Wiley.

Staten, M.E., Elliehausen, E.C., and Lundquist, G. (2003). The impact of credit counseling on subsequent borrower credit usage and payment behavior. Washington, DC: Georgetown University.

Strauss, L., and Phillips, S. (1997). Housing counseling in rural America. Washington, DC: Housing Assistance Council. Retrieved January 12, 2007 from www.ruralhome.org.

U.S. Department of Housing and Urban Development. (2005a) Housing Counseling Assistance: 2005 Summary Statement and Initiative. Retrieved January 12, 2007 from www.hud.gov.

U.S. Department of Housing and Urban Development. (2005b) *U.S. Housing Market Conditions* Washington, DC: HUDUSER.

Vandell, K.D. (1995). How ruthless is mortgage default? A review and synthesis of the evidence. *Journal of Housing Research 6*(2):245-264.

Web Sites for More Information

Center for Responsible Lending
The Center for Responsible Lending (CRL) is a unit of the Center for Community Self-Help (Self-Help), based in Durham, NC. Self-Help is one of the nation's leading community development lenders and has provided $3.5 billion in financing to help more than 40,000 underserved families own homes or small businesses. The CRL is partnering with other like-minded organizations to sustain the initial success of anti-predatory lending laws and continue reform efforts federally and in other states. The main components of its work are legislative and policy advocacy, coalition-building, litigation, and industry research. www.responsiblelending.org.

Homeowners Emergency Mortgage Assistance Program (HEMAP)
One of the first of its kind, the HEMAP program provides eligible Pennsylvania residents who are facing foreclosure with assistance through its loan fund. www.phfa.org.

Homeownership Preservation Foundation
The Homeownership Preservation Foundation creates partnerships with local governments, nonprofit organizations, borrowers and lenders to help families overcome obstacles that could result in the loss of their homes. HPF offers 1-888-895-HOPE, a national homeowner assistance line to help individuals and families who are struggling financially. www.hpf-online.org.

Mortgage Referral Services, Inc. and **Nonprofit Referral**
Mortgagekeeper.org provides a link for mortgage servicing specialists to connect to local nonprofit organizations, charities and programs that can help clients facing issues which may prevent them from maintaining regular loan payments. www.Nonprofitreferral.org and www.mortgagekeeper.org.

National Consumer Law Center (NCLC)
The National Consumer Law Center is America's consumer law expert, helping consumers, their advocates and public policy-makers to use powerful consumer laws to build financial security and assure marketplace justice for vulnerable individuals and families. The NCLC also provides training to attorneys interested in doing pro-bono work for nonprofit organizations. www.consumerlaw.org

National Training and Information Center (NTIC)
NTIC's mission is to build grassroots leadership and strengthen neighborhoods through issue-based community organizing. NTIC provides training and technical assistance as well as research on community-based issues. www.ntic-us.org.

Neighborhood Housing Services of Chicago, Inc.
A nonprofit organization established in 1975, NHS is committed to offering Chicago residents affordable resources so they can buy, maintain and sustain their home. It partners with residents, lending institutions, the city of Chicago, block clubs, insurance companies, corporations and foundations so that families can protect and preserve their single biggest

investment — their home. NHS of Chicago is a leading innovator of foreclosure prevention strategies. www.nhsofchicago.org.

NeighborWorks® America

NeighborWorks® America is a national nonprofit organization that works to revitalize communities through affordable housing opportunities, training and technical assistance. The Center for Foreclosure Solutions was created by NWA to reduce the rate of foreclosures as well as the negative impact of foreclosures on borrowers and communities. The Center is convening and supporting a coordinated foreclosure prevention and intervention strategy in communities nationwide**.** www.nw.org.

PolicyLab Consulting, LLC

PolicyLab Consulting Group, LLC, is a leading consulting practice with experience working on mortgage default and foreclosure, financial literacy and capital markets. www.policylabconsulting.com.

The Reinvestment Fund

TRF is a national leader in the financing of neighborhood revitalization. What began in 1985 as a small community development organization working in Greater Philadelphia has evolved into a progressive, results-oriented, socially responsible community investment group that today works across the Mid-Atlantic region. Recent work includes studies on foreclosure filings in Delaware and Pennsylvania. www.trfund.org.

Minnesota's Statewide Foreclosure Program

The Foreclosure Prevention Assistance Program assists Minnesotans facing foreclosure due to a temporary financial crisis by providing case-management services and, if applicable, mortgage-payment assistance or other financial assistance on a one-time basis. The program is delivered through community-based nonprofit organizations statewide. www.mhfa.state.mn.us/homes/homes_foreclosure.htm.

New York City Foreclosure Initiative

The City of New York Department of Housing Preservation and Development's Owner Services Program (OSP) works with homeowners to prevent foreclosures and predatory lending. The program offers both short-term counseling and more extensive, ongoing assistance. www.nyc.gov/html/hpd/html/homeowners/foreclosure.shtml.

MBA Home Loan Learning Center

The Home Loan Learning Center is the Mortgage Bankers Association's (MBA) consumer Web site. It is a comprehensive, unbiased source that provides information to prospective homebuyers about the home loan process. www.homeloanlearningcenter.com/default.html.

MBA Research Data

The MBA Research and Economic Group provides access to the most current information and analysis on the latest trends and statistics in mortgage finance. www.mortgagebankers.org/ResearchandForecasts/ProductsandSurveys.

Appendix: State-by-State Foreclosure Rules

State	Judicial or non-judicial	Process days	Sale publication days	Redemption period	Details
Alabama	Both	49–74	21	365 days	Usually non-judicial.
Alaska	Both	105	65	365 days judicial only	Non-judicial requires 30 days default.
Arizona	Both	102	41	Up to 6 months	Junior lienholders can also redeem.
Arkansas	Both	70	30	365 days judicial only	Property must be sold for two-thirds of appraised value.
California	Both	117	21	365 judicial only	Non-judicial more common.
Colorado	Non-judicial	91	14	75	Judicial foreclosures not usual. Lender must still obtain a court order after sale is scheduled.
Connecticut	Judicial	62	N/A	Judge decides	Winning bidder at foreclosure auction has 30 days to pay. Type of foreclosure depends if equity in property.
Delaware	Judicial	170–210	60–90	None. But borrower could contest the sale.	Sale can be held at courthouse or property by sheriff.
District of Columbia	Non-judicial	47	18	None	Sale conducted by licensed auctioneer, usually at their office.
Florida	Judicial	135	N/A	None	Sale date about 30 days after judgment. If borrower cannot be served in person, guardian *at litem* must be appointed. Sale by clerk of court.
Georgia	Non-judicial	37	32	None	No right to reinstate mortgage.
Hawaii	Non-judicial	220	60	None	
Idaho	Non-judicial	150	45	365 for judicial only; otherwise none	
Illinois	Judicial	300	NA	90	Court has to confirm sale after full bid price is paid.
Indiana	Judicial	260	120	None	The preforeclosure delay depends on the age of the mortgage.
Iowa	Judicial	160	30	20–365	Redemption time depends on various factors, including whether the lender has waived a deficiency judgment.
Kansas	Judicial	130	21	90–365	365 days redemption if one-third of principal has been paid.
Kentucky	Judicial	147	NA	365	Lender can repossess immediately if is house abandoned. Redemption period only if house sells for less than two-thirds of appraised value.

State	Judicial or non-judicial	Process days	Sale publication days	Redemption period	Details
Louisiana	Judicial	180–270	NA	None	Two types of foreclosure: ordinary and executory. Executory quicker and requires authentic act that includes borrower's confession of judgment.
Maine	Judicial	240	30	90	Lender must serve default notice on borrower. Borrower has 90 days after judgment to stay in house and pay off mortgage.
Maryland	Judicial	46	30	Court decides	No need for lender to inform borrower of foreclosure until sale date is set by court. Sale conducted by licensed auctioneer.
Massachusetts	Judicial	75	41	None	Must get ruling from land court that borrower is not protected from foreclosure by Soldiers and Sailors Relief Act. Borrower is entitled to any surplus if property is sold for more than loan amount. Licensed auctioneer sells.
Michigan	Both	60	30	30–365	Usually non-judicial. Sheriff sells property.
Minnesota	Both	90	7	180–365	Usually non-judicial; usually 180-day redemption period. But depends on property type and wording of mortgage.
Mississippi	Both	90	30	None	Usually non-judicial. Trustee sells property. Surplus of sale proceeds goes to secondary lenders.
Missouri	Both	60	10	365	Usually non-judicial. Borrower must be served notice of default. Redemption allowed only if the lender was the successful bidder. Cumbersome procedure for redemption.
Montana	Both	150	50	None	Usually non-judicial. Trustee sells property. No deficiency judgment allowed.
Nebraska	Judicial	142	NA	None	Non-judicial much quicker. Needs Deed of Trust. With non-judicial, borrower has 30 days after being given notice to reinstate loan.
Nevada	Both	116	80	None	Non-judicial much more common. Lender begins foreclosure by filing notice with court and mailing borrower.

State	Judicial or non-judicial	Process days	Sale publication days	Redemption period	Details
New Hampshire	Non-judicial	59	24	None	Most mortgages require lender to give borrower 30 days notice of default. Sale usually at the property.
New Jersey	Judicial	270	NA	10	30 days written notice given to reinstate mortgage. Sale at courthouse by sheriff.
New Mexico	Judicial	180	NA	30–270	Winning bid must be at least 80% of fair market value of property. Usually 30 days for borrower or other lien holder to redeem.
New York	Judicial	445	NA	None	Need a court ruling that can take 7–9 months. The sale set for 4 months later.
North Carolina	Both	110	25	None	Non-judicial more common. Sheriffs sale. Borrower given 10 days notice of hearing before clerk of court.
North Dakota	Judicial	150	NA	180–365	Lender must give borrower 30 days notice of intent to foreclose. Borrower can reinstate by making up back payments. Borrower usually has 180 days after the sale to redeem property, failing which property is transferred to bidder.
Ohio	Judicial	217	N/A	None	Borrower can be served in person or by certified letter. Is advertised if borrower cannot be found. Sales price must be two-thirds of the appraised price. Sheriffs sale.
Oklahoma	Both	186	N/A	15	Judicial more common. Lender files in court and notice of action served on borrower. Borrower has 20 days to respond. If appraised then opening bid must be two-thirds of appraisal. Sheriffs sale.
Oregon	Both	150	30	None–180	Non-judicial more common. Trustee sells. Borrower can reinstate up to 5 days before sale by paying off back payments and costs. No redemption period with non-judicial foreclosure.

State	Judicial or non-judicial	Process days	Sale publication days	Redemption period	Details
Pennsylvania	Judicial	270	N/A	None	Cannot start foreclosure till 60 days late. Borrower has 2 to 4 months to try to solve problem before lender continues. Borrower can prevent sale by paying off full amount owed up to 1 hour before the sheriffs sale.
Rhode Island	Both	62	21	None	Non-judicial more common. Attorney must give borrower at least 20 days notice before advertising sale weekly for 3 weeks. Auctioneer sells.
South Carolina	Judicial	150	N/A	None–30	Lender files lis pendens in court. With 20 days borrower must be personally served. Borrower has 30 days to respond. Hearing officer handles for court. No redemption period if lender waives deficiency judgment. Otherwise 30 days for another bid to be given.
South Dakota	Both	150	23	60–180	Judicial more common. No need to mail default notice, but borrower has 30 days to respond to court filing. Borrowers and lien holders have 6 months to redeem unless property vacant, then 2 months.
Tennessee	Non-judicial	40–45	20–25	None–730	Most trust deeds provide no right to redeem. If not included, borrower has TWO YEARS. Trustee sale.
Texas	Both	50	NA	None	Non-judicial more common. Lender gives borrower 20 days notice to reinstate, then can foreclose. Must give borrower 21 days notice of sale. Trustee sale.
Utah	Both	110	30	None	Non-judicial more common. Foreclosure started by filing notice with court and mailing to borrower. Borrower has 3 months to reinstate. Then must publish sale weekly for 3 weeks. Auction at courthouse.
Vermont	Both	95	NA	90 but varies	Usually non-judicial. Borrower may reinstate prior to the sale by paying back payments and costs. Borrower receives notice of sale 60 days prior.

State	Judicial or non-judicial	Process days	Sale publication days	Redemption period	Details
Virginia	Both	45	14–28	None	Non-judicial more common. Borrower gets 30 days notice to reinstate. Lender may pursue deficiency judgment. Trustee sale.
Washington	Both	135	90	None	Non-judicial more common. Lender mails notice of default and either personally serves on borrower or posts the property. Notice of sale recorded 90 days before actual sale. Sale advertised twice. For court foreclosures, 1 year right of redemption, otherwise none.
West Virginia	Both	60–90	30–60	None	Non-judicial more common. 10 days notice to reinstate. May not be able to reinstate if served default 3+ times. Borrower can thereafter pay off entire loan any time before the sale.
Wisconsin	Both	290	NA	60–365	Judicial more common. Sheriff sale. 2 month redemption period with abandoned properties. If property sells for less than judgments, sale will not be confirmed unless court is satisfied fair market value of property is credited to mortgage.
Wyoming	Both	60	28	90	Non-judicial more common. Sale published once per week for 4 weeks. Sheriff sale at courthouse. To redeem must pay winning bid plus 10% interest and property taxes owed.