



NEIGHBORHOOD HOUSING SERVICES OF CHICAGO, INC.

Lessons from the Front Lines: Counselor Perspectives on Default Interventions
Sponsored by the Homeownership Preservation Initiative (HOPI)



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Summary

Neighborhood Housing Services of Chicago, founder of the Home Ownership Preservation Initiative, sponsored a series of surveys of mortgage default counselors in May and October 2007. The results suggest there are substantially increasing demands on the mortgage counseling field. One in three counselors have seen their client volumes more than double in 2007 alone. Much of the increase in demand is due to borrowers with adjustable rate or other loans that are unaffordable. Weaknesses in the housing market make finding solutions challenging without loan workouts from lending institutions and servicers. There are some signs financial institutions are offering more alternatives to foreclosure, but many counselors feel more aggressive restructuring of existing loans is necessary. Counselors report many borrowers fail to seek help or communicate with their lender when alternatives to foreclosure are appropriate, largely due to borrower's high levels of stress and anxiety. The most significant issue raised in these surveys is that when counselors have gained the trust of a borrower and can help facilitate a solution, too often they cannot efficiently make connect with a lender. Lenders or servicers offering hotlines or specially-trained staff to work with counselors are deemed to be more successful from a counseling perspective.

HOPI provides a platform for counselors, government agencies and lending institutions to share information and explore solutions. The results of this research suggest further directions for this initiative, including establishing better communication links between counselors and lenders, as well as approaches to help borrowers become more willing to seek help and to encourage lenders to offer more aggressive alternatives to foreclosure earlier in the default process.

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1. Introduction

HOPI was created to provide a mechanism for financial institutions, nonprofits, local government and other interested parties to work collaboratively to develop solutions to foreclosure in Chicago. Chicago was one of the first cities to experience a rapid rise in foreclosures—as early as 2001. NHS of Chicago and the City of Chicago convened a series of meetings at the Federal Reserve Bank of Chicago with leading subprime lending institutions. HOPI has strived to create a platform for positive change—to document the environment and facilitate collaboration across sectors. To that end HOPI has sponsored a number of research projects, beginning with an analysis of foreclosure trends neighborhood by neighborhood. NHS provided an analysis of its administrative data on counseling provision and outcomes, finding intense needs among lower-income minority borrowers and a number of clients with a troubling trio of problems: income instability, health problems and costly home repairs. A client survey provided some of the first evidence on the impact of default counseling, finding each additional hour of counseling reduces the odds of foreclosure by 18%. That survey also documented the roles of stress, anxiety and fear as impediments to borrowers contacting their lender when they know paying the mortgage may not be possible. NHS then sponsored a series of borrower focus groups, further documenting the problems of borrowers being too intimidated or anxious to pursue alternatives to foreclosure.

In May 2007 NHS developed an email-based survey sent to mortgage default counselors nationally, the first attempt to collect information about mortgage default interventions from professionals on the ‘front lines’ working with borrowers and lenders. This report provides a summary of the data collected in the May survey as well as an October 2007 follow-up survey. The intent is that the results are suggestive of trends in the counseling field and directions for new innovations.

2. Methodology

This survey was developed by a collaborative of NHS staff and consultants. A list of email addresses was obtained from NHS partners, including the attendees of train-the-counselor classes held nationally by NeighborWorks America. The final list included 558 unique email addresses, of which approximately 80% were identified as counseling professionals. An estimated 150 (27%) of the emails addresses were no longer valid, leaving 400 addresses in the survey pool. Some survey respondents had direct client contact and a close knowledge of the counseling process, while others worked in city government, lending institutions or other areas not involved in counseling. Only respondents who indicated they had direct contact with counseling clients were included in this analysis. The total number of responses per survey was:

May: 139 responses, 113 from practicing counselors, and
October: 78 responses, 61 from practicing counselors.

Since about 80% of the email addresses queried were counseling professionals (81% in May and 78% in October), the estimated maximum number of respondents was 320 practicing counselors. Based on this pool of potential responders, the resulting response rate was 35% in May (113/320) and 19% (61/320) in October. The lower response rate in October is suspected

to be as a result of the added workload demands on counselors in the latter half of 2007. This report combines responses across the two surveys unless there were statistically significant differences between the two periods.

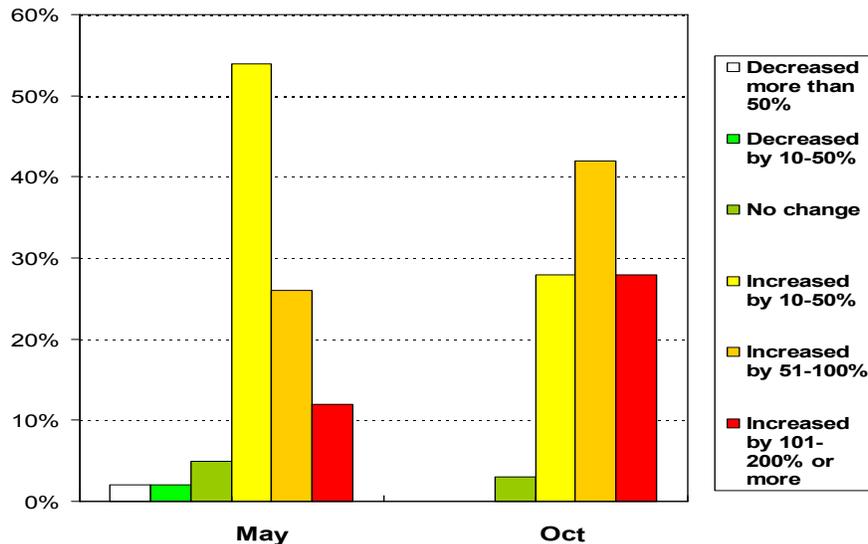
3. Trends in Demand

In total the organizations at which the counselors surveyed worked served an estimated 25,000 clients in the last 12 months, or an average of 144 per organization. Most counseling agencies have 5 or fewer counselors focused on mortgage default, implying each counselor at the least worked with 29 clients during the previous year. For many respondents this figure was well over 100 clients per year, with call center-based counselors serving several hundred clients each month.

Figure 1 displays counselor’s perceptions of demand for services. Regardless of the type of counseling agency or scale of the counseling operation, counselors responding to the survey experienced more demand for help from borrowers in distress, and at an increasing rate over 2007. In May 2007, only 13% of practitioners responded that demand for counseling services increased by more than 100% in the previous six months. By October that share increased to 28%. Less than 40% responded that demand for services had increased by at least 50% as of the May survey, while 70% did by October. There were no statistical differences in reported demand for services across organization type or numbers of clients served.¹

Figure 1

Which best describes changes in demand for default counseling services in the last 6 months?



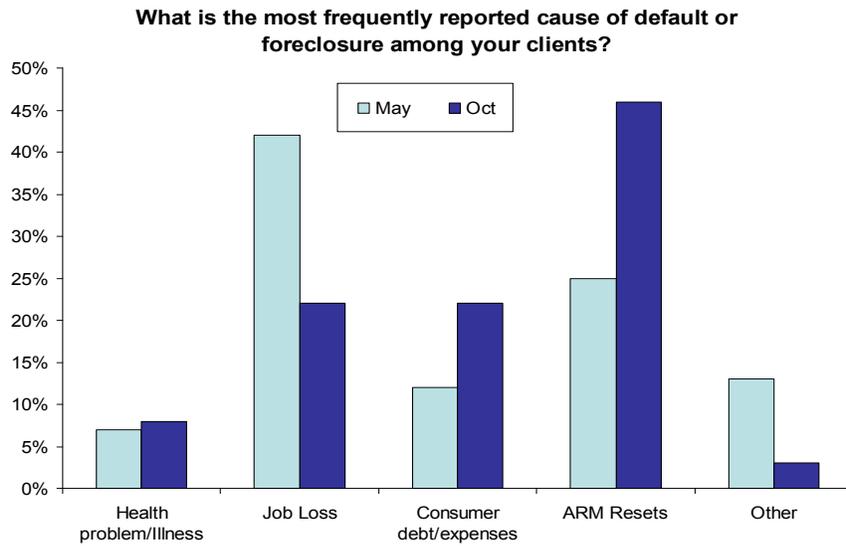
Source: NHS Default Counselor Surveys 2007

¹ Statistical significance based on a 90% confidence interval, or p<.10.

4. Causes of Default

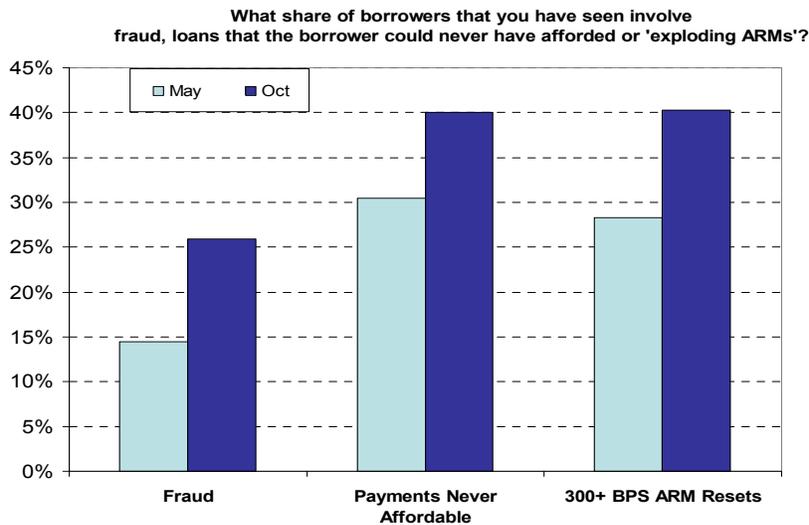
Figure 2 shows that as of May, job loss was the most often reason cited by counselors as the cause of default for their typical client, followed by ARMs (adjustable rate mortgages) resetting to a higher interest rate. By October this order switched, with ARM resets becoming a dominant problem. While smaller in scale, consumer debt was cited twice as often in October than May. Figure 3 shows that by October counselors estimated 1 in 4 clients had a loan with elements of fraud and 2 in 5 clients had unaffordable loans or an ‘exploding’ ARM.

Figure 2



Source: NHS Default Counselor Survey 2007

Figure 3



Source: NHS Default Counselor Surveys 2007

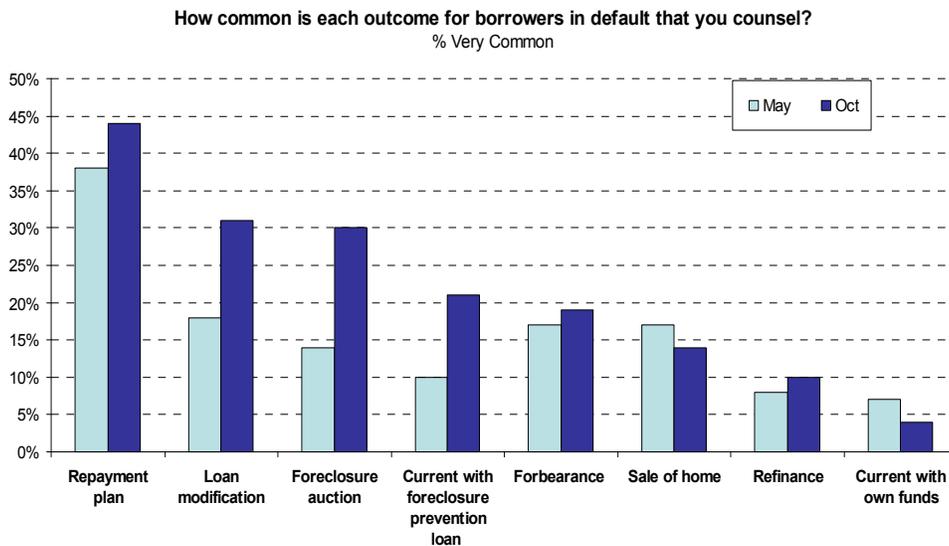
5. Common Client Outcomes

Figure 4 presents an estimate by counselors of the frequency of some typical outcomes for clients in default. Counselors estimated that their clients very commonly end up in repayment plans—temporary changes in the mortgage payment—most frequently. The frequency of counselors suggesting that modifications—a restructuring of the loan—were a very common outcome for their clients increased from 18% to 31% from May to October. This could be viewed as a positive signal among counselors that lenders are more likely to offer better alternatives to foreclosure. Many counselors mentioned in the May survey that lenders were too slow to offer modifications to clients who needed them. One counselor commented “I have seen clients who needed a mod [modification] get something less flexible from the servicer. Then 3 months later we are back at it and again I push for a mod. If they would just do the damn mod in the first place we’d all be better off.”

Based on counselor’s reports, the macroeconomic environment limited sale or refinance options more in October than in May. With declining home values, borrowers are less likely to be able to sell their home and lack the equity to refinance. As a result, the share of counselors suggesting their clients very commonly end up having their home sold at auctions more than doubled from 14% to 30%. The share of counselors suggesting foreclosure prevention loans were a very common outcome increased dramatically between May and October. While still only cited as being very common by 1 in 4 counselors in October, this suggests an increase in available third-party resources to help borrowers facing foreclosure.

Unsurprisingly, counselors were unlikely to suggest that borrowers were able to become current with their own funds very often, and were less likely to do so by October, when only 4% of counselors suggested this was a very common outcome.

Figure 4



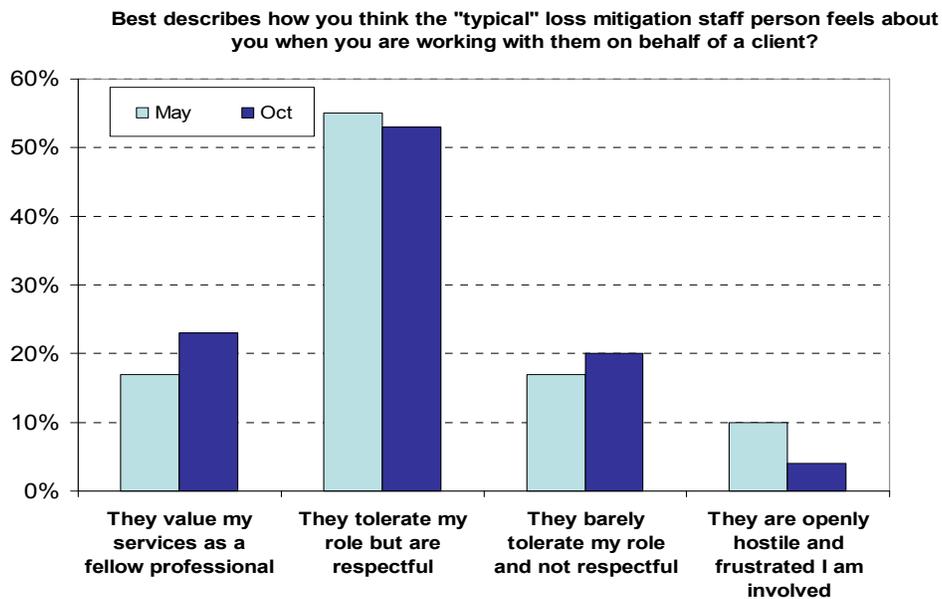
Source: NHS Default Counselor Surveys 2007

6. Measuring the Quality of Interactions with Servicers

Both the May and October surveys asked counselors to rate how difficult a number of financial institutions were to work with, based on the counselor’s personal experience in the previous 6 months. No ratings were provided if the counselor did not have direct personal experience; the intent was to gather information on actual interactions rather than opinions based on general reputations. The average lender was rated at 2.5, a score between “fairly good” and “fairly difficult”. There were no major changes in counselor ratings of lenders on average from May to October, although the share of counselors rating any lender “very difficult” as opposed to “fairly difficult” declined about 15%. The typical large-scale subprime loan servicer had about 40% of counselors rate it negatively (difficult or very difficult to work with). More importantly, no firm was rated uniformly as good to work with. Every institution was rated as “very good” to work with by some counselors and “very difficult” by others. This variation within institutions was more extreme in the October survey. This suggests that while institutions may be implementing training and process changes intended improve how servicing and loss mitigation staff work with borrowers and counselors, these strategies are not reaching all corners of each firm’s servicing operation.

Counselors were also asked to rate how the typical loss mitigation staff person they talk to seems to feel about counseling’s role in the foreclosure prevention process. As of October, 23% of counselors said servicers valued their role in the process of foreclosure prevention, and 75% suggested they at least felt respected. Fewer than 1 in 4 counselors felt they were not respected in October, a slight decline from May. The share of counselors suggesting servicing staff are hostile towards their role declined from 10% to 5% from May to October, a signal of improvement.

Figure 5



Source: NHS Default Counselor Surveys 2007

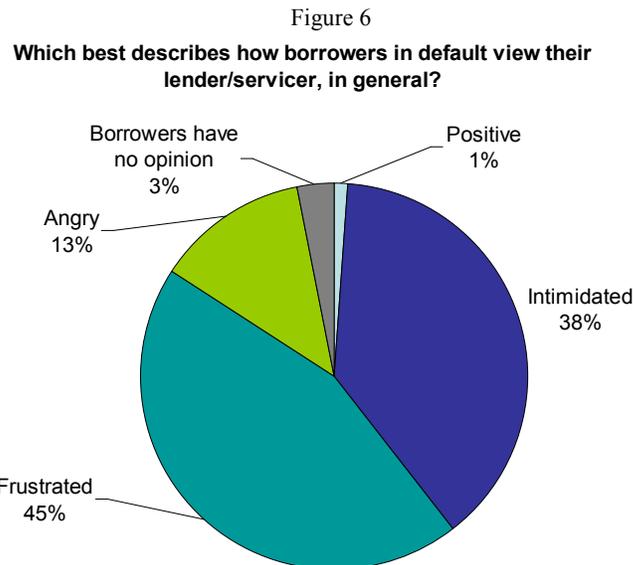
7. Making Contact with Servicing Staff

Both surveys included several opportunities for counselors to write comments about the process of helping clients avoid foreclosure. By far the most frequent complaint was related to borrowers and counselors being placed on hold or stuck in voice mail when trying to contact the lender. Countless counselors shared stories of having a client in the office ready to begin dealing with long-deferred financial problems, but then having to wait 30 minutes or more in order to talk to an appropriate loss mitigation staff person. Counselors described this as a source of frustration for the borrower, as well as costing a significant amount in time and resources. The surveys asked counselors to estimate how much time they spend in hold waiting to connect with a lender when working with a servicer with no special phone number, previous relationship or designated contact person. Then they were asked to estimate this time again for servicers with whom they had a designated contact or special number to call. Comparing these estimates, having a designated contact reduces the time required to connect with lenders by 15.4 minutes per client. This saves a counselor serving 100 clients per year 3.2 days in client service time annually.

Comparing ratings of lending institutions described in section 6, those lenders identified as having special hotlines or designated staff for counselors to call were about 15% less likely to be labeled as fairly difficult or very difficult to work with by counselors. In May and October 99% of counselors responded that having a designated contact was helpful with 53% suggesting “extremely helpful” and another 24% suggesting “very helpful”.

When counselors were asked to speculate why borrowers fail to contact their lender when they have trouble making payments, 53% responded that most borrowers do not understand that lenders can provide options and 26% suggested borrowers are too stressed or depressed to take any action. About 10% of counselors wrote that borrowers avoid their lender because they feel mistreated or belittled during interactions with their lender. One of the key roles of counseling is helping borrowers to understand their options, which can be more challenging if a borrower is anxious and unable to adequately process information about their options.

Figure 6 presents how counselors think borrowers view their lender or servicer in general. Fully 45% of counselors responded that borrowers are frustrated, 38% responded that borrowers are intimidated by their lender and



Source: NHS Default Counselor Surveys 2007

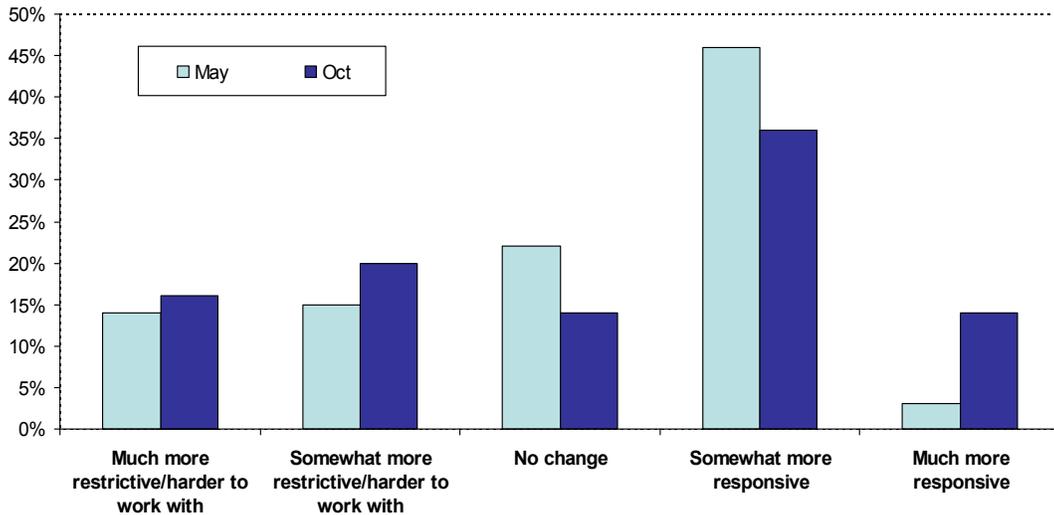
13% suggested borrowers are angry. Only 4% said borrowers had no opinion or a positive opinion of their lender.

Responsiveness of Servicers to Borrower Needs

In order to gauge servicing practices from the perspective of counselors, the surveys asked respondents to characterize changes among lenders and servicers working with borrowers in default. Overall 54% of counselors replied that lenders/servicers were somewhat or much more responsive in October, compared to 49% in May (adding up the rightmost two columns in Figure 7 for each survey). The most significant change from May to October was the rise in “much more responsive” from 3% to 15%. Meanwhile 36% of counselors said lenders were more restrictive in October, compared to 31% in May. The general consensus among counselors was that servicers are becoming more responsive, although yet again there was variation across counselors and perhaps a sense that some lenders are becoming more strict in the face of mounting defaults. Counselors seem to be more likely to have experiences with more progressive lending/servicing operations over time, although 1 in 3 still characterize lenders/servicers as becoming harder to work with as of October.

Figure 7

Which best describes changes you have observed among lenders/servicers working with borrowers in default in the last six (6) months?



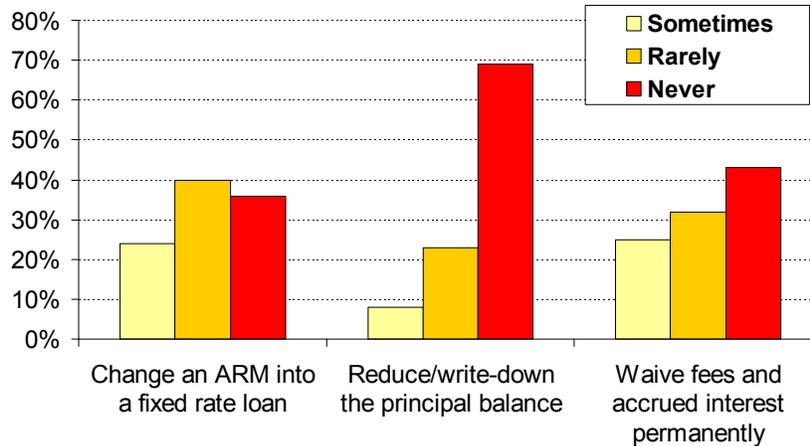
Source: NHS Default Counselor Surveys 2007

Counselors identified three loss mitigation strategies as being very helpful for clients to avoid foreclosure. First is converting an adjustable rate loan into a lower rate loan with a fixed APR. Second is to write down the unpaid principal balance of the loan. Third is to forgive or waive fees and accrued interest. The surveys show all three strategies were being used to some extent. Figure 8 presents counselor’s response that each strategy is sometimes, rarely or never performed for their clients. Nearly 70% of counselors responded that principal write downs

never occur, just over 40% said interest and fees never occur and 37% said that ARM to fixed rate conversions never occur. Many counselors wrote how they wished these options could be used more often and a few even cited positive examples of lenders creating innovative ways to streamline ARM to fixed rate conversions with the help of counselors.

Figure 8

How often will any servicer or lender perform the following with your clients?



Source: NHS Default Counselor Surveys 2007

Recommendations From Counselors

Hundreds of comments were written by counselors between the May and October surveys, ranging from openly hostile critiques laced with frustration, to constructive recommendations, to positive stories of clients who were able to avoid foreclosure. Among the constructive recommendations, a series of four themes emerged across respondents and surveys: (1) counselor-lender communication (2) training for servicers and counselors (3) workout strategies, and (4) borrower behavior. Each is summarized with a sampling of quotes from counselors below.

(1) Counselor-Lender Communication

The most common refrain was that counselors prefer to have a designated contact with each lender or servicer or a “special office” they can call and reliably reach someone who understands the role of the counselor. Counselors related stories of being stuck on hold with a lender’s phone system while a client juggled children or needed to get to work. As one counselor wrote: “phoning a servicer is time lost.” Another suggested simply getting any staff is insufficient: “immediately patch us through to the decision makers rather than wasting our time.”

A few counselors recommended lenders set up designated email addresses and other online communication tools to streamline processes, in addition to phone hotlines. A frequently mentioned complaint was the need to fax documents or information sharing waivers before any

discussions can take place. This delay of a few hours or days was viewed by most counselors to be unnecessary. Counselors would prefer to have general information sharing agreements in order to speed up their efforts to facilitate a solution. One counselor noted that “faxing the release of information form is just a big run around, I think.” Another wrote: “let’s create a better system for accepting authorization forms. A 24-hour delay, in many cases, is too long.”

Other comments focused on what happens when counselors leave messages with servicers. Without a designated contact several counselors wrote that “lenders don’t ever call back... a return phone call is hard to come by.” Many comments surrounded how counselors felt treated by servicers. One counselor wrote a comment reflected frequently by other counselors: “lenders need to realize we can play a ‘broker’ like role because we may have real relationships with people and more accurate information.” Another common refrain was similar to this comment by a counselor: “we are on the same team. The [servicer’s] staff need to be more respectful.”

Overall counselors wanted a pathway outside of the customer call queue to bypass collections departments so that they could reach decision-makers in loss mitigation more rapidly.

(2) Training for Servicers and Counselors

Counselors recommended that servicing staff need more training on how counseling works and the role of the counselor. Others suggested they needed more training on the processes servicers use, and when and how workout options are offered. A few counselors related experiences of attending cross-trainings or co-meetings with lending and servicing staff, including site visits to servicing call centers. By reviewing cases and processes counselors and servicers gained insights. As one counselor wrote “cross-training makes the process much easier.”

Several counselors cited examples of different servicing staff from the same lender offering conflicting responses to the same question. One counselor wrote “I will be told different answers depending on who I talk to. Make sure all phone staff know the full range of options and can exercise them.”

Another counselor summarized the issue as “problems are becoming overwhelming for the counselors as well... we need to work better together.” A few counselors cited examples of lenders not fully supporting the idea of counseling, viewing it as a community affairs activity rather than contributing to the success of borrowers. One wrote, “servicing agents need financial incentives to take time to cooperate with counselors.”

(3) Workout Strategies

In addition to the conversion of ARMs to fixed rate loans, writing down unpaid balances and waiving fees and accrued interest, several counselors suggested that servicers set up expedited workout packages if a nonprofit partner is involved. One counselor observed “create special processes/products if a nonprofit is involved—like we did on mortgage originations.” Others recommended other types of loan modifications, such as extending the loan term to 40 years. Another frequent comment was to offer loan modifications earlier in the default process, and to re-examine restrictions on when modifications can be offered. Yet another issue raised was the

need for clients to pay fees at the time of a modification, at time when borrowers already are cash-strapped.

(4) Borrower Behavior

While counselors tended to be critical of lenders and sympathetic to borrowers in their written comments, several counselors mentioned issues of how borrowers react to their default. Counselors wrote about borrowers having “magical thinking” and generally avoiding their problems. Counselors suggested that lenders notify borrowers that counseling exists before defaults occur, and then aggressively promote borrowers to seek counseling after default. At least one counselor wrote “sending borrowers an 800 number for the HUD hotline is not enough”. Others suggested lenders offer incentives for clients to go into counseling, such as waiving late fees or even gifts.

Many counselors reinforced the idea that even when lenders are able to make contact with borrowers, there are communication problems. Counselors conveyed that they feel their advantage is being able to better communicate with borrowers, often in a face-to-face environment with copies of documents available during sessions. That creates trusts and helps borrowers to both understand their problems and to be more open to solutions. As one counselor wrote, “often borrowers have no clue what the lender has just said.” Another underscored the added value of counseling for workouts, suggesting lenders should see the benefits of having a partner to help restructure troubled loans. “recognize all repayment plans are at risk of falling apart – we can help.”

Finally, there were many comments about borrowers being scared off by their lenders. Counselors recommended lenders and servicers review all parts of their communication process with borrowers in default to be “more customer friendly and less chastising”. Others were more direct, suggesting the primary problem occurs not in loss mitigation departments, but among the collections agents borrowers deal with early in delinquency. Bad experiences at this stage are compounded later. One counselor wrote “we need a way to have our clients bypass the gorillas in collections.” Another simply wrote: “Get rid of the goons”.

Conclusions

Neighborhood Housing of Chicago supported two surveys in 2007 which provide evidence from the front lines of default interventions. The results suggest the counselor-servicer relationship is getting better at least among some institutions, although changes are uneven and slower than most counselors would prefer. Counselors perceive that more loan modifications were being made in the latter half of 2007, but also that a slumping housing market is making other alternatives to foreclosure more challenging. Demand for counseling services is increasing at a rapid rate, leaving counselors frustrated with lender practices that slow down the counseling process. Counselors recommended a number of improvements for servicers and lenders to implement, including better training and communication strategies. Finally, borrowers in default are clearly struggling emotionally as well as financially. Both counselors and lenders need to work to better understand how to best reach and support borrowers in distress.