

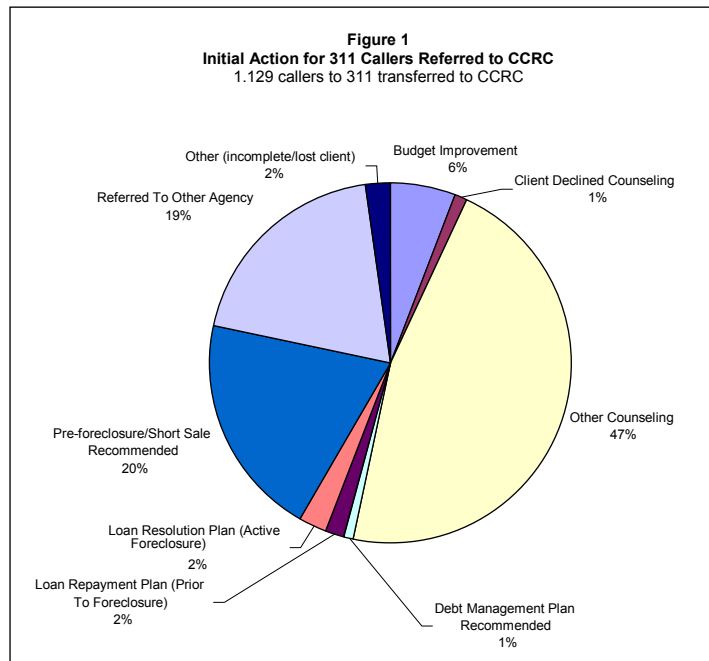
An Interim Report on Chicago’s Default Intervention Counseling Initiatives¹

Chicago’s Home Ownership Preservation Initiative (HOPI) is a unique partnership among Neighborhood Housing Services, Inc. of Chicago (NHS), the City of Chicago, the Federal Reserve Bank of Chicago, the nation’s leading financial institutions and other non-profit and industry leaders to address the rapid rise in the number of foreclosure filings in the city over the last decade.

In November 2003 NHS began to offer targeted workshops for borrowers at risk of losing their home. In January 2004, a mortgage default hotline was launched using Chicago’s non-emergency “311” service. Callers have the opportunity to receive counseling from the Credit Counseling Resource Center (CCRC), a national alliance of HUD-certified housing counseling agencies operated by the Home Ownership Preservation Foundation. Borrowers are then connected to their loan servicer to explore a potential workout, or referred to local assistance as appropriate. This report documents the progress of these two initiatives through May 2005.

Analysis of 311 Mortgage Default Hotline Data

Since the launch of the *Every Minute Counts* “311” mortgage default hotline service in January 2004, through May 2005, 1,129 callers were transferred to CCRC counselors through the program. CCRC counselors provide an in-depth assessment of each borrower’s situation and may also serve as a liaison between the homeowner and the lender. CCRC also provides referrals to local resources including job training, legal or tax assistance, or emergency grants and loans. Figure 1 shows most callers require ongoing help through counseling—provided by CCRC or referred agencies.



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Not every caller transferred from the 311 operator is appropriate for mortgage counseling. Also, in some cases a single borrower may receive several sessions for different loans. Through May 2005, a total of 886 unique clients completed counseling sessions resulting in an action plan. Of these 43 were from callers outside the City of Chicago. Table 1 shows the results of counseling sessions for residents of Chicago.

Table 1

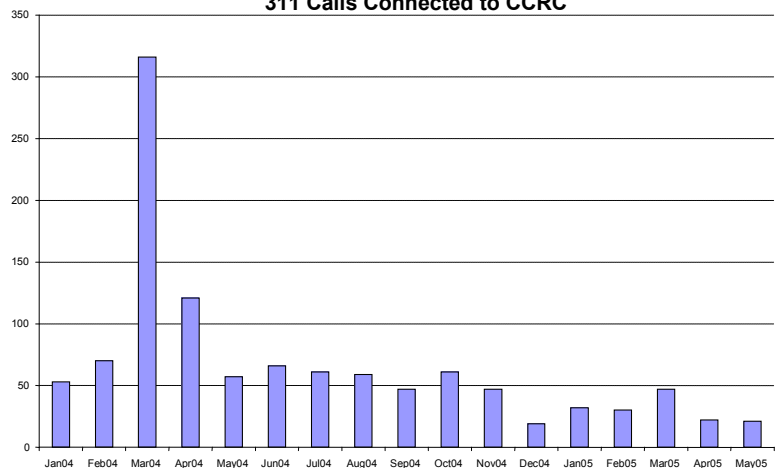
Results of CCRC Counseling: City of Chicago Clients January 2004 through May 2005		
Reported Action	Clients	Percent of Total
Budget Improvement	63	7.5%
Other Action	441	52.3%
Debt Management Plan	5	0.6%
Loan Repayment Plan	14	1.7%
Loan Resolution Plan	9	1.1%
Pre-foreclosure Recommended	162	19.2%
Referred To Other Agency	149	17.7%
Total	843	100.0%

In 19 percent of cases the best option for the borrower is to sell the home to at least partially pay off their loan. With support, these families can hope to move on from this home, clear up their financial troubles, and allow another family to occupy the unit. Almost 18 percent of callers are referred to local agencies for financial assistance, intensive counseling or property services. NHS records suggest most of these clients are referred to NHS, although clients may also be referred to the Chicago Legal Assistance Foundation or other local agencies.

Caller Volume

Caller volumes to the 311 mortgage default hotline were very high when the program was officially launched with press attention and an announcement from Mayor Daley in March 2004. Thereafter, the City sent 65,000 postcards to high foreclosure neighborhoods and funded 200 advertisements for display on 'E' train lines throughout Chicago (see Figure 3, next page, for a sample ad). High call volumes at that time demonstrate that these marketing efforts clearly worked. Figure 2 suggests the number of

Figure 2
311 Calls Connected to CCRC



callers has declined over time, however. The city and HOPI partners recognize further marketing efforts are needed. Borrowers need to be continuously reminded that the 311 city services telephone line has a special program for mortgage delinquencies. Also, by working with lenders in the HOPI program, more borrowers at risk of default can be reminded of the existence of the 311 hotline. The City of Chicago is planning to expand its outreach efforts to promote use of the 311 hotline for mortgage borrowers in the summer of 2005.

Figure 3



The City of Chicago pays a fee of \$100 for each completed session by CCRC. Thus far, \$84,300 in counseling fees have been generated. Through the HOPI partnership, fourteen lenders have agreed to reimburse these fees for their borrowers. Over 55 percent of CCRC fees have been reimbursed by these private sector institutions, reducing the cost of CRCC counseling services to the City to \$33,300. (See addendum for a list of lenders/servicers involved in CCRC.)

Tracking Loan Performance of 311 Default Hotline Clients

In addition to the information recorded by CCRC counselors, a sample of loan performance for approximately 10 percent of borrowers is monitored each quarter by HOPI partner lenders. These data are representative of “311” callers referred to CCRC, and provide an ongoing snapshot of how borrowers fare after receiving services.

The data are not yet sufficient to provide an estimate of loan performance; more time and more borrowers are needed. But the early results are promising. Nearly 40 percent of “311” callers referred to CCRC in the sample have either cured their problem or pursued an exit strategy such as a short sale. Based on the 886 total individual borrowers completing sessions with CCRC through “311” so far, this suggests at least 354 loans may have avoided costly foreclosure proceedings. This represents \$30.1 million in housing preserved, assuming an average home value of \$85,000.

Only 20 percent of loans tracked for at least 4 quarters have moved into foreclosure since receiving CCRC services. Another 32 percent were paid off. Five percent cured—that is transitioned from delinquent to current. Importantly, 36 percent of loans have transitioned from the borrower having no contact with the loan servicer in one quarter, to being in regular contact with the servicer the next quarter after receiving counseling. This is of significant value to lenders—borrowers actively in contact are able to have access to loan workouts and other strategies which lenders cannot employ if the borrower is “in hiding.”

Table 2 (below) shows the average quarterly transition, or “roll rate”, for all loans in the CCRC loan tracking sample for at least two quarters. Again, the sample is small with less than half being in the sample for a full year. Also, borrowers may transition in and out of delinquency or foreclosure. Yet, these caveats aside, transitions from foreclosure to current are twice historic industry averages for subprime loans.²

Nearly two-thirds of borrowers maintain their status as current or nearly current, which suggests some lasting effects of interventions. Payoff rates also exceed industry averages, a sign that lenders and homeowners are able to exit from troubled situations without the costs of foreclosure.

Table 2

Average Quarterly Transition Rates for CCRC Loans in Tracking Sample				
	To:			
From:	30 or current	60-90 days delinquent	Foreclosure	Sold or paid off
30 or current	62%	24%	4%	10%
60-90 delinquent	7%	45%	36%	11%
Foreclosure	6%	0%	82%	12%
<i>Source: DOH Database; mean tabulations of 217 total quarterly transitions from a sample of 75 loans</i>				

Causes of Delinquency Reported to CCRC Counselors

Another valuable aspect of the CCRC database is the ability to code factors which may have contributed to the borrower’s delinquency based on an analysis of counselor notes from the CCRC database. Table 3 (next page) shows most often events beyond the control of the borrower, nor predictable by the lender, are cited as a causal factor. Job loss, health problems, disability and a death in the family are among the trigger events frequently mentioned in counseling sessions.

Other issues raised could suggest a role for interventions. Approximately 16 percent of borrowers cited problems paying taxes, utilities or insurance. These are expenses borrowers can anticipate. In the case of taxes and insurance, escrow accounts can play a

² Citigroup Global Markets, “Delinquency Transitions in Subprime Loans—Analysis, Model, Implications” March 17, 2004.

valuable role. Other issues are more related to borrower behavior and a lack of financial management. In these cases budget counseling and financial education may serve a valuable function.

Table 3

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%
<i>Source: Sample of 75 CCRC cases Jan 2004-Dec 2004. Note: Factors may be combined; percentages exceed 100%</i>	

CCRC records also indicate about one-in-three borrowers seeking services are in bankruptcy, typically Chapter 13. Because of the approvals required by the bankruptcy administrator, these cases require more time and reduce the options available for problems related to the mortgage. The fact that “311” tends to actively engage borrowers with their loan servicer and bring in other resources for borrowers in bankruptcy further underscores the impact of this approach.

Approximately one-in-five borrowers receiving counseling from CCRC are referred to the NHS for further services. NHS records suggest the majority of these borrowers obtained a special loan or workout which resulted in a family being saved from foreclosure. The “311” program provides a unique triangulation between the borrower, CCRC's phone-based counseling and NHS's local presence.

Analysis of NHS Workshop Data

Experts in the mortgage servicing industry stress the importance of establishing a positive relationship with borrowers before a homeowner experienced a delinquency. If homeowners seek help earlier in the process, their chances of a positive outcome increase. NHS, which has a presence and connection in several high foreclosure areas, can help foster these relationships through its “homeowner workshops”.

Working with lenders, NHS sends invitations to mailing lists provided by HOPI partners, seeking to make contact with borrowers and provide preventative education. Homeowner’s workshops provide the borrower an opportunity to interact with the servicer in a non-crisis situation. Homeowners learn what to do when faced with a financial problem even before they might need the information.

Between April 2003 and March 2005, the NHS has offered six Homeowners Workshops, and 531 homeowners have attended. The customers invited to these workshops have

accounts that range from current to 120 days delinquent, but are not currently in bankruptcy or currently have a mortgage workout in place. Workshops are held in targeted NHS neighborhoods in the evenings at a local institution, such as a church. Through contributions by servicers, NHS offers incentives to attend in the form of a meal and a \$25 gift certificate to a local grocery store chain.

In 2005 NHS instituted a survey of the knowledge and perceptions of workshop participants. With each workshop, additional data is being collected, but 75 surveys were completed in the first half of 2005. While again preliminary, these data (below) suggest the value of locally-based outreach efforts. To the extent educational workshops and counseling can help borrowers prepare better for unexpected events and facilitate dialogue with their lenders, the better borrowers will be able to manage difficulties if or when they arrive.

Survey Results:

- 42% have never talked to their mortgage servicer
- 33% of borrowers making late payments have never spoken with their servicer
- 36% did not have an escrow account for taxes and insurance
- Only 22% have an emergency account for expenses in case of illness or job loss
- 80% are interested in having repairs or improvements to their home.

Source: NHS Chicago survey of 75 workshop participants, 2005

Discovering Knowledge Gaps

The workshop survey also asks questions regarding the client's level of knowledge regarding their mortgage. Nearly half (45%) believed that bankruptcy could help save their home from foreclosure, despite that in most cases bankruptcy provides little protection. A slight majority (51%) did not know their lender or servicer might provide alternatives in crisis situations. And nearly a quarter thought their lender would be required to provide the lowest possible interest rate. These findings suggest borrowers have substantial gaps in their understanding. Workshops can help remedy this situation.

Survey Results:

- 45% believed: "If I cannot pay my mortgage, I can declare bankruptcy to protect my house"
- 51% did not know: "My lender may be able to reduce my mortgage payment if I lose my job or become ill"
- 24% believed: "My mortgage lender or broker is required to provide me with the lowest interest rate possible"

Source: NHS Chicago survey of 75 workshop participants, 2005

***On the Horizon:
Follow-up Surveys and Longer-term Impact Measures***

As HOPI expands its research and development efforts, it is clear longer-term follow up is required to better understand the impact of services on troubled borrowers. In late 2005, NHS will conduct a series of consumer follow-up surveys to NHS default intervention clients, “311” callers served by CCRC, and clients referred by NHS to lenders for workouts. These surveys will address issues of the borrower’s perception of the service they received, how they have implemented the counseling, education or financial assistance received, and how well they are able to make their mortgage payments. The surveys should also provide insight into what sort of contact strategy works best in different situations and with different types of borrowers. The goal of this work is to develop a more precise understanding of borrower behavior and knowledge, as well as provide a gauge of how well borrowers are doing.

These surveys will be complemented by focus groups organized by the NHS. Scheduled for late 2005, the focus groups will build on the survey results to document how mortgage borrowers recall making the choices they did, how they perceive their loan servicer and lender, the extent to which they engage in crisis planning or manage trigger events, as well as the use of escrow accounts. This qualitative data will provide further details which will help refine default intervention programs and guide the overall HOPI effort.

Finally, using Cook county courthouse records, NHS will study the impact of HOPI services on properties. By tracking properties known to receive HOPI services, the current owner, the financing and status of the home can be documented. This will allow better evidence of the extent to which HOPI is successfully preserving properties in targeted neighborhoods. It will also provide important lessons in cases where interventions were unsuccessful.

The results from HOPI’s default intervention efforts thus far are promising. With increased marketing and further refinements, these programs will enhance the ability of borrowers in Chicago to avoid foreclosure.

Addendum: Servicers or Lenders Cited by Callers to CCRC

Completed CCRC Sessions: Contracted Servicers Reimbursing Costs		
Servicer³	Completed CCRC Sessions	Percent of Total
ABN/AMRO	7	2%
Ameriquest	48	10%
Bank One	16	3%
Chase Manhattan/JP Morgan	52	11%
Citifinancial	31	7%
Countrywide	75	16%
Household Finance	33	7%
National City Home/Mortgage	19	4%
Ocwen	26	6%
Option One	24	5%
Select Portfolio Servicing	61	13%
Washington Mutual	72	16%
Total	464	100%

Completed CCRC Sessions: Not Contracted to Reimburse Costs	
Servicer	Completed CCRC Sessions
Wells Fargo	36
Unknown	30
A.J. Smith Federal Savings	20
Litton (PIA)	19
HOMEQ	15
Bank of America	14
Midland Credit	12
Saxon Mortgage	11
EMC Mortgage	10
Beneficial	9
PCFS	9
MB Financial	8
US Bank	8
American Servicing Co	6
Aurora Loan Service	5
Irwin Mortgage	5
Mortgage Lender Network USA	5
Wilshire (PIA)	5
CIT Group	4
Eastern Bank	4
First Franklin	4
Freemont Investment Loan	4
Mid-America	4
TCF Bank	4
Greenpoint	3
Harris Bank	3
M & T Mortgage	3
Principle Residential Mortgage	3
Provident	3
South Shore Bank	3
World Savings	3
Other	61
Total	333

³ Note: GMAC-RFC and Homecomings Financial also had 46 clients in total complete counseling. Although not listed as a contracted servicer, the Home Ownership Preservation Foundation and the CCRC collaborative were founded by these companies. These companies led the development of the 311-CRCC project and contribute substantial direct and in-kind support to the effort.