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Analyzing Elements of Leading Default-Intervention Programs[1]

1.0 Introduction

Preserving homeownership has become an issue of intense interest in the last several years as mortgage foreclosures have increased dramatically in many communities. Factors that are contributing to the rising foreclosure rate range from the emergence of new categories of high-risk lending, to low rates of household savings coupled with high levels of consumer spending, to changes in income and employment due to an economic recession. These factors combine with unexpected "trigger events" in borrowers' lives to result in missed payments. Regardless of the causation, policymakers, financial institutions, community-based housing organizations, social-service providers, and credit counselors are faced with increasing calls for help from troubled mortgage borrowers.

In part because hotspots of mortgage defaults have developed in specific areas, there are few programs targeting foreclosure prevention nationally. There are, however, a number of innovative local and regional efforts. This paper attempts to better understand the components of six leading programs which may be replicable or illustrative for the development of new approaches. Phone interviews with representatives from the leading programs were conducted in March 2005. This report synthesizes findings from these interviews to outline key components of nonprofit foreclosure-prevention programs, as well as tradeoffs and challenges as this industry matures.

2.0 Overview of Foreclosure

Homeownership rates have reached record levels in the last decade. Millions more families are enjoying the benefits of owning their own home, such as enhanced control over their surroundings, increased attachment to their communities, and the ability to accumulate home equity. But as homeownership has expanded and home equity has swelled with rising home prices, more families have found themselves in the 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.

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[1] Researched and written by PolicyLab Consulting Group, LLC, J. Michael Collins (corresponding author) and Rochelle Nawrocki Gorey. Support for this paper provided by the Fannie Mae Foundation.

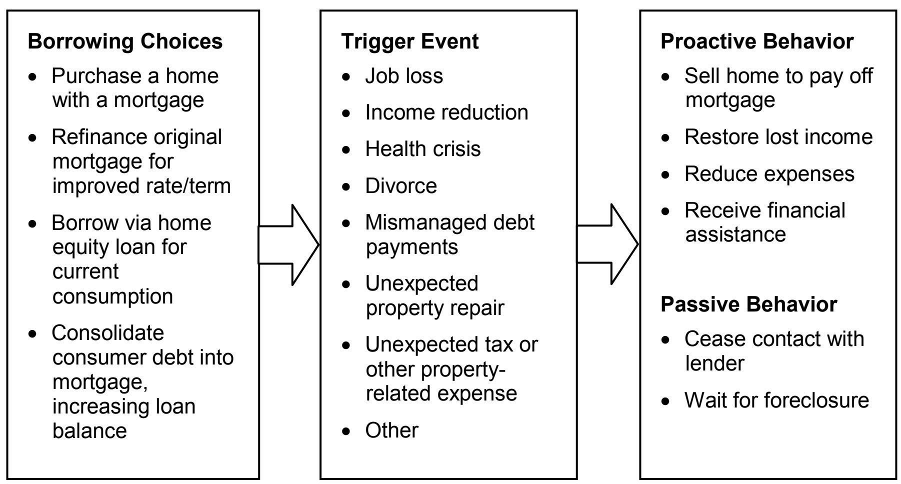
After 90 days, or three missed payments, lenders generally begin aggressive actions to recoup past due payments and lay the groundwork to foreclose on the home. Depending on the state and the borrower's circumstances, borrowers may then have their home sold at a foreclosure auction.

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. The financial industry is rapidly developing innovations in "loss mitigation" efforts to reduce both the incidence and costs of foreclosures.

Meanwhile local communities where foreclosures are concentrated also face significant costs. Homes in the foreclosure process often become vacant, providing a place for crime or other problems in the neighborhood. Estimates of losses to local cities range from $30,000 to $60,000 per foreclosure, depending on the circumstances.[2] There is strong motivation for lenders and local government to work to prevent the number of foreclosures from expanding.

Figure 1 illustrates the circumstances in which intervention programs typically find borrowers. 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.

Figure 1: Typical Borrower Circumstances



Typically some trigger event occurs 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. Finally, how a borrower reacts to the trigger event is very important, particularly whether he or she works proactively with the creditors or puts his or her "head in the sand" avoiding the lender until the foreclosure auction occurs.

A survey of borrowers in foreclosure shows that about one-third faced a job loss, another one-quarter a health-care crisis (personally or in their immediate family), and about 16 percent could

[2] Apgar, Bill, Mark Duda and Rochelle Nawrocki Gorey. "The Municipal Cost of Foreclosures: A Chicago Case Study" A report prepared for the Homeownership Preservation Foundation." 2005.

not pay their mortgage because of impending tax, utility or insurance bills. The remainder could not keep up with their mortgage because of a dispute with a tenant, a disability, high cost consumer loan or credit card debt, or a death in the family.[4]

Most of the programs reviewed focus on a specific niche of borrower situations. For example, programs that are based on referrals from lenders focus on those borrowers who are in contact with their lender. Hotlines, however, 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.

Alternatives to Foreclosure

There are several alternatives to foreclosure for borrowers in financial distress. Typically, borrowers work directly with their loan servicer to develop the appropriate workout solution taking advantage of loss mitigation techniques now standard in the industry.

In forbearance borrowers can pay reduced monthly payments for a period of time, but are expected to cure the delinquency by the end of the forbearance period. Forbearance is financed solely by the servicer of the mortgage and does not change the terms of the underlying loan. Repayment plans typically last 6 months or less, but may extend more than 18 months. Loan modifications involve changes to the mortgage loan documents to reduce the interest rate or extend the loan term, similar to a refinance.

A short sale is when borrowers sell their home prior to foreclosure (a pre-foreclosure sale) but the lender foregoes a portion of the debt not covered by the sale price. The lender often helps the borrower market the home for sale and writes off any loss at the time of settlement. Another alternative is a deed in lieu of foreclosure, where the borrower assigns the property's title to the lender without going through the foreclosure process, avoiding costs and reducing the harm to their credit standing. A short refinance allows borrowers with negative equity to refinance their property for a reduced value; the lender writes off the balance not refinanced. Although rarely used, "short refis" allow borrowers in deteriorated properties or victims of predatory lending and appraisal fraud to remain in their home.

The Foreclosure Timeline

While these loss-mitigation tools all may help to avoid foreclosure, many borrowers do not know their lender provides such alternatives. Moreover, many delinquent borrowers can recover without loss mitigation. By simply becoming more careful in spending and budgeting habits, borrowers can begin to make timely mortgage payments. But the more time passes from a missed payment to an intervention, the more delinquent payments accrue, making it more difficult for

[4] Collins, J. Michael, Federal Reserve Bank of Chicago Presentation, December 8, 2004.

borrowers to become current. The sooner troubled borrowers can take action the more likely their problems can be resolved. Figure 2 provides an overview of strategies by days past due.

Figure 2: Interventions as Delinquencies Progress

Slow pay → *15–30 days* → *30–90 days* → *60–120 days* → *90+ days*

- Preventing problems with targeted counseling, phone calls, workshops
- Making contact with delinquent borrowers (the sooner the better)
- Managing expenses to pay mortgages
- Restructuring consumer debt
- Repairs to the home
- Modifying the loan
- Bridging an income shortfall (short-term)
- Exit strategies if ownership is unsustainable (e.g., health crisis, divorce)
- Managing REO properties to avoid vacancies
  - Maintaining a stable neighborhood
  - Turning over homes to new buyers

Figure 3 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 particularly difficult 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.

Figure 3: 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

3.0 Six Approaches to Foreclosure Prevention

Six programs were specifically selected for this project by a group of nonprofit executives working nationally with the Fannie Mae Foundation on innovations in foreclosure prevention. Most of the programs are led by nonprofit organizations; many include nonprofit Consumer Credit Counseling Service (CCCS) agencies. All programs employ a counseling component, and many also include financial assistance. In general these programs operate at a state or local level, although telephone counseling services in particular are growing to serve much larger geographies. These programs include a mix of strategies to engage borrowers, but not all have a formal involvement with lenders. Most of the programs reviewed rely on public subsidies in some form. Figure 4 provides a summary of the six programs reviewed for this project. More detail on each program is provided in Section 15.

Figure 4: Program Descriptions

Program and Lead Agency	Type of Lead Agency	Strategies	Scale	Borrower Contact	Lender Role	Funding	Leading Innovation
Self-Help Credit Union (N.C.)/ **CCCS-SF** (San Francisco)	Nonprofit consumer credit counseling agency	Debt counseling	Nationwide, but most borrowers in N.C.	Investor (Self-Help) sends borrower names to CCCS; CCCS initiates contact	Notification of program and workout agreements	Fee-for-service from investor	Investor/issuer level referral
CCCS (Atlanta)	Nonprofit consumer credit counseling agency	Debt counseling	Nationwide	Borrower required to contact CCCS in order to qualify for workout	Referrals; fee payment	Lender fees	Call center
FPAP and MMFPA (Minn.)	Mix: State and nonprofit agencies	General counseling and financial assistance	Minn. only	Community-based referral network; 211 hotline; State mandates lenders to send notice of FRAP availability.	State requires lender to refer delinquent borrowers to FPAP	Public funds	Training, tracking and reporting systems
HEMAP (Penn.)	Mix: State and nonprofit agencies	Counseling and financial assistance	Penn. only	Community-based referral network; State mandates lenders to send a notice of HEMAP availability	State requires lender to refer delinquent borrowers to HEMAP	Public funds	Emergency loan funds and payments
HOPI Partnership (Chicago)	Nonprofit agency	General counseling, financial assistance and negotiation with lender	City of Chicago only	Community-based referral network; 311 hotline; lender referrals	Designated contacts; workout agreements; task force and research; referrals; workshops	Public funds: city allocation; lender contributions; foundations	Public-private task force focused on research and development (R&D)
MOMENTIVE (Indiana)	Nonprofit consumer credit counseling agency	Debt counseling and negotiation with lender	Indiana only	Toll-free hotline	Designated contacts; workout agreements	Existing funds	Centralized system for statewide services

It is clear there is *no one model for foreclosure intervention* programs. Each program has evolved to meet the needs of a specific community or institutional relationship. While there are instructive aspects of all of these programs, a universal roadmap for foreclosure prevention does not exist. Ideally borrowers struggling to pay their mortgage would have access to a multi-tiered system of supportive services, including lender referrals, counseling, financial assistance, property services and referrals to other social-service agencies.

Many of the six programs reviewed either provide a comprehensive set of services, or work collaboratively with a network of agencies to provide them. But still other programs narrowly focus on providing services to a specific segment of troubled borrowers. For example, the Atlanta CCCS program targets only those borrowers who have been pre-qualified for a loan modification from their lenders. This contrasts with Minnesota's FPAP program, which lacks a specific lender partnership, but provides access to social services, legal referrals and financial assistance.

Comprehensive programs are among the most complicated, and also require substantial coordination and are not self-sustaining in the absence of government and foundation support. Narrowly focused programs can operate along a fee-for-service model, but risk some borrowers falling through the cracks. Either implicitly or explicitly, programs have to weigh these tradeoffs in their design. Section 4.0 continues with additional design considerations.

4.0 Design Considerations: Geographic Focus

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, nor to the borrower. Borrowers view their loan servicer as a remote entity, communicating only through letters and telephone calls. By referring troubled borrowers to a physical office or having staff come to their home, service providers can build a relationship with the borrower that lenders lack. Having a local presence also provides additional information about the property and neighborhood that a lender or counselor cannot assess over the telephone. A local presence can also increase contact rates especially for those borrowers unreachable by lenders and unwilling to call hotlines. Finally, a local presence with local real estate market knowledge and expertise is crucial for organizations focused on the acquisition and redevelopment of REO properties.[5]

Neighborhood Housing Services of Chicago provides a local presence through its nine neighborhood offices, where it offers face-to-face foreclosure intervention counseling and also conducts "Homeowner's Workshops" in targeted neighborhoods. Workshops connect borrowers with mortgage servicers and provide education about how to manage difficulties in making mortgage payments. NHS sends workshop invitations on behalf of participating servicers, targeting customers who are current to or up to 120 days delinquent, not in bankruptcy, and do not currently have a loan workout in place. Representatives from the mortgage servicing institutions schedule

[5] REO properties are "real estate owned" homes that lenders have taken back from borrowers.

follow up meetings with the homeowners as needed. One financial institution in the NHS HOPI program made face-to-face contact with more than 100 of its customers, a rare achievement in today's heavily automated loan servicing world.[6] Pennsylvania's HEMAP program also relies on the local presence of counseling agencies to assist delinquent homeowners in accessing temporary payment assistance and emergency loans. One counselor interviewed for this project believes working face-to-face with homeowners increases success rates. Lutheran Social Services (LSS) of Minnesota also relies on face-to-face contact with homeowners through its eight branches throughout the state to deliver counseling and loan fund services. LSS estimates that 75 percent of its caseload is handled through direct counseling appointments.

However, the cost of intervention programs is a concern. Face-to-face counseling and locally based programs cannot serve as many borrowers as regional, phone-based counseling programs. The typical call center program can provide counseling services for less than $250 per borrower. Locally based programs often cost twice that amount for the average customer. NHS of Chicago estimates that providing comprehensive services to seriously delinquent (past 90 days) borrowers living in distressed properties costs an average of over $2,000 per client, not including loans or financial assistance.[7]

A theme emerging from interviews is that large-scale, call center–based counseling on a regional or national level may be most appropriate for preventative and early delinquency interventions. The more serious the financial crisis a borrower faces, and the more time that has passed in the delinquency, the more important locally-based services become.

Tapping into a Referral Network

While trigger events, borrower behavior and property conditions can result in delinquency, some borrowers may present issues of fraud, deception or illegal lending practices. In these cases, programs need to make a referral to legal expertise, such as a state attorney general's office or legal services. In cases of broker or appraisal fraud, lenders and investors are generally also eager to support legal action to punish criminal behavior. Other specialized referrals include services for borrowers with tax problems or bankruptcy filings. Often families in the foreclosure process struggle with a family crisis, medical problems or mental health issues. Several programs have developed regular contacts with social-service providers to help address these problems as well, and recognize the value of referral services to long-term sustainability.

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[6] Gorey, Rochelle Nawrocki. "NHS of Chicago's HOPI: Protecting Families, Transforming Houses." NeighborWorks® *bright ideas.* NeighborWorks® America. Vol. 24, No. 2. Spring 2005. pp. 38–41.

[7] Interview with NHS senior staff, April 29, 2005.

5.0 Design Considerations: Making Contact with Borrowers

A simplistic categorization method is that there are two kinds of delinquent borrowers: those who are in contact with their lenders, and those who are not. Programs that rely on lender referrals to delinquent borrowers are not able to serve the estimated one-half of all delinquent borrowers who essentially hide from their lender.[8] Yet even borrowers in contact need services and may especially benefit from debt-management counseling or other third-party interventions. There are several methods for reaching out-of-contact borrower: public awareness campaigns, hotline numbers and networking through community-based organizations. Approaches are needed for both in-contact and not-in-contact borrowers, but making contact with borrowers in denial is a race against the costly foreclosure clock. As the city of Chicago's foreclosure prevention campaign suggests, "every minute counts." The sooner a troubled borrower makes contact with his or her lender and receives help catching up on missed payments, the more likely he or she will be able to recover.

Lenders have the most important information about borrowers: their repayment patterns. Lenders or their servicing agents will make many attempts to contact delinquent borrowers, sometimes beginning only a few days after a regular payment is missed. But borrowers, especially those in crisis, may fear their lender and hope to stave off punishment by avoiding calls and letters. For these borrowers a hotline may provide a trusted third-party source of information without fear of being confronted by their lender. Of course, in many of the hotline models borrowers are in fact put on the phone with their lender or servicer, but only after receiving advice from a counselor. Still other borrowers will even resist calling a hotline, or will simply never learn a hotline exists. For these clients, community-based organizations may represent an important referral source. Based on recommendations from advocacy, faith-based or social-services organizations, borrowers can be connected to counseling services, financial assistance and workout options.

Hotlines

There is a great deal of support among government agencies and financial institutions for hot-lines for troubled borrowers. These 800 numbers, as well as special 211 or 311 lines, are among the more recent innovations in the field. About a dozen states have operational 211 lines that connect callers to social services and other community resources. These hotlines typically are managed by a local United Way. Approximately five cities currently have operational 311 systems, with more in the planning process.[9] These 311 lines are city services hotlines, managed by local city government as a mechanism for citizens to contact the city for non-emergency services.

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8 Crews Cutts, Amy and Richard Green, "Innovative Servicing Technology: Smart Enough to Keep People in Their Houses?" 2004. < http://www.freddiemac.com/news/pdf/fmwp_0403_servicing.pdf >

9 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.

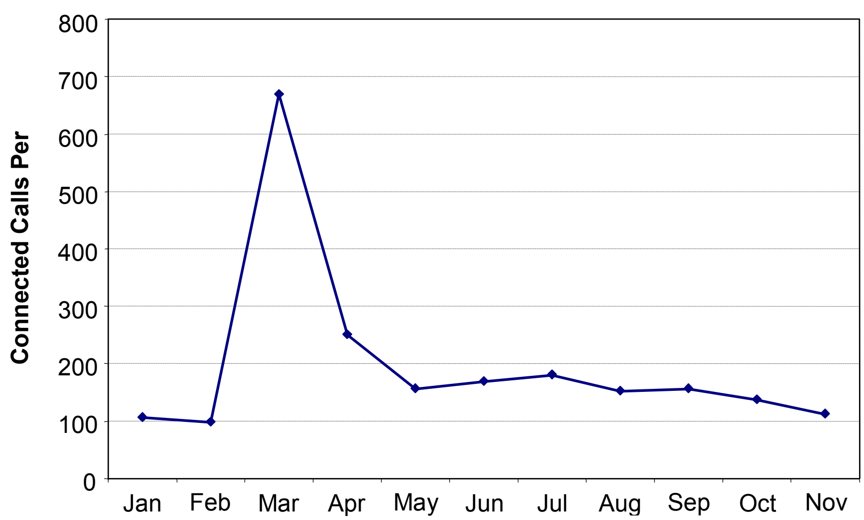
The success of a hotline depends on the willingness of appropriate borrowers to make a call and stay on the line long enough to receive counseling or referrals. Chicago's 311 call center serves as the entry point for delinquent borrowers to access the city's foreclosure hotline. The call center manages hundreds of calls each day for a wide variety of requests (from animal control to street repairs). Those callers requesting foreclosure prevention services are pre-screened and transferred to counseling services provided by an independent third party. Data on calls to Chicago's 311 system show only one out of three callers actually meets the criteria for phone counseling and is eligible for transfer to a live phone counselor. Indiana's helpline, operated by Momentive, and Minnesota's 800 number, also have a central operator to provide a preliminary assessment of callers. This screening function is important and needs to be developed as part of any hotline system.

In many cases, borrowers who are unable to make their payments and have avoided their lender are hesitant to make contact with any third parties about their precarious financial situation. One advantage of 311 city services lines or 211 human services hotlines is that borrowers may perceive the city or United Way not only as a trusted source, but also a provider of financial assistance. This trust combined with the desire to obtain help in getting relief from collections efforts may motivate borrowers to call.

But borrowers need to know that such systems exist. Very few callers to the city of Chicago's 311 Homeownership Preservation Campaign, for example, requested foreclosure assistance before the program was promoted by the mayor and the city posted over 200 ads on transit lines.

Typically, after an initial launch of a hotline, call volume rapidly increases (Figure 5). After the media attention wanes, call volume declines, however. Chicago's 311 hotline experienced nearly 700 calls in the month of the mayor's announcement. Within two months call levels dropped, even with ongoing transit advertisements. This illustrates the importance of promoting foreclosure hotlines and related services continuously. Capitalizing on alliances with the media and the release of foreclosure-related data can help boost public awareness of programs, but doing so requires a concerted effort.

Figure 5: Chicago Hotline Call Volume: February Launch and Publicity Campaign



Hotlines remain an important innovation, especially for connecting with borrowers who are avoiding their lender. However, hotlines are best thought of as part of a broader referral system. And borrowers need constant reminders of the availability of a hotline and the benefits of calling. The city of Chicago has worked with lenders to send postcards to all borrowers in specific zip codes promoting the 311 hotline as an avenue to foreclosure-prevention services, and reminding borrowers that "every minute counts" when facing foreclosure.

Lender Referrals

While hotlines can connect with borrowers not in touch with their lenders, even when borrowers are working with their lender nonprofit counseling agencies can be valuable. Atlanta CCCS and CCCS San Francisco each have developed fee-for-service contracts with specific lenders to provide counseling. CCCS San Francisco's program focuses on budgeting and financial planning for borrowers in early stages of delinquency. This is a unique model where the counselor pro-actively attempts to reach the borrower. Borrowers receive a letter from the lender notifying them CCCS-SF will be calling them. Atlanta's program requires the borrower to call CCCS, but these borrowers, who have all discussed their delinquency with their lender, understand that counseling is a prerequisite for their qualification for a loan workout. The borrower has a strong incentive to contact CCCS and cooperate with monthly follow-up calls.

A frequent concern regarding both of these programs is how privacy regulations could prevent referrals of borrowers to a third-party counselor. This issue appears to be overcome by borrower agreements or contracts between the counselor and lender. One program's staff members suggested that privacy constraints are more often used as an excuse to prevent referrals rather being than a true legal issue.

Minnesota and Pennsylvania have state laws which require lenders to notify delinquent borrowers that foreclosure-prevention services exist. After Minnesota added mandated notice of the hotline, calls to the FPAP statewide hotline increased by 60 percent. Although delinquent borrowers in denial of their situation may not pay attention to letters from the lender, these state laws do help increase awareness of existing programs and hotlines.

Combining Referral Methods

All three categories — lender referrals, hotline callers and community referrals — can be useful in reaching delinquent borrowers. While programs typically focus on one avenue for making contact, a comprehensive foreclosure prevention system requires all three to maximize impact across the full spectrum of borrower types.

Chicago's HOPI program is moving toward a blend of referral systems. In addition to the 311 city-services hotline with targeted marketing by the city in neighborhoods experiencing high rates of foreclosure, lender partners also send information about the hotline to all of their borrowers. NHS workshops delivered in community locations for all borrowers within target neighborhoods help to connect borrowers to servicers, the 311 hotline, or NHS foreclosure prevention services. In addition to these two methods designed to help to reach borrowers not already in contact with their lender, lenders or loan servicers also share lists of delinquent borrowers who are unresponsive. NHS then follows up with these borrowers to offer services.

6.0 Design Considerations: Working Through Financial Difficulties

Many borrowers with short-term difficulties simply need to reprioritize their spending and debt payment patterns. Existing debt-management services from CCCS agencies are well developed and relatively low cost to provide. Providing some form of debt management or financial and budget counseling in addition to foreclosure-intervention counseling can strengthen the sustainability of homeownership for the borrower.

Self-Help's model of early referral to counseling (at 45 days) is promising. Delinquent borrowers receive a letter from their servicer notifying them that they will be receiving a telephone call from a nonprofit counseling agency (CCCS-SF) to discuss to discuss their situation. The program is referred to as a "housing education program" in partnership with their servicer so that any negative connotations with budget or credit counseling are avoided. CCCS-SF then telephones the borrower to perform a standard debt-management session typically lasting less than an hour. The contact rate is over 70 percent, which is higher than reported average contact rates for the industry. CCCS-SF reports that the program had an overall 80 percent "success" rate (defined as clients not filing bankruptcy or foreclosure) during its first two years of operation. In many cases, helping the borrower to budget and prioritize expenses results in a regular payment pattern and avoids foreclosure. In cases where borrowers face long-term income loss, debt counseling can still prove effective to help reduce expenses, refocus a borrower's budget on the mortgage payment, and strengthen opportunities for long-term success. The program costs Self-Help approximately $150 per borrower referred, which the agency feels is a good investment in the performance of its portfolio.

Ohio, Pennsylvania, North Carolina and several other states have seen dramatic losses in manufacturing jobs in recent years. Workers in industries that have closed down face difficult transitions to new jobs. After months of retraining, available work is often limited. For borrowers in these situations, without access to temporary financial assistance, maintaining a mortgage is challenging. Pennsylvania's Homeowner's Emergency Mortgage Assistance Program (HEMAP) was created in 1983 to help unemployed workers. Borrowers must experience a financial hardship due to circumstances beyond their control, such as a loss of employment due to layoff, strike or plant closing, serious medial problems, divorce or separation, to qualify for HEMAP assistance.[10] Borrowers receive assistance either in the form of a continuing or non-continuing loan for a period of up to 24 months. Continuing loans bring the homeowner current by paying arrearage and also providing assistance with future mortgage payments. Non-continuing loans bring the homeowner's mortgage current but require immediate repayment based on the

[10] "Answers to Common Questions About the Homeowner's Emergency Mortgage Assistance Loan Program" Pennsylvania Housing Finance Agency.

applicant's income. Last year, nearly 8,000 applications were submitted, and 2,500 loans were originated.[11]

Chicago's program also offers assistance in the form of emergency loans as well as loans to refinance the borrowers into a loan which they can afford. In the case of a refinance NHS often negotiates with the lender to reduce the amount of principal owed. As the program has evolved, lenders and servicers have established working relationships with NHS counselors and have become more willing to work with borrowers to develop loan workout solutions. Key staff interviewed for this project reported that the need for NHS to originate foreclosure intervention loans has been greatly reduced due to this partnership. This has implications for other loan programs. For example a program like HEMAP could be strengthened by partnerships with lenders and loan servicers. Such contacts may expedite the approval process, facilitate loan payoffs and reinstatements, and also increase the number of borrowers who could be helped with public resources.

Emergency loan programs allow borrowers to keep their homes until they can resolve their financial crises. As a result, families and neighborhoods are more stable and can successfully weather changes in the local economy. But these programs are relatively expensive to operate and capitalize, especially for states struggling economically. Even if governments could afford to appropriate funding for counseling services, typically through grants to nonprofits, the scale of capital required for loans is often more challenging. While debt counseling and partnerships with lenders to provide loan workouts can stretch emergency assistance to serve more borrowers, these programs will still only be able to serve a fraction of delinquent borrowers.[12]

7.0 Design Considerations: Public-Private Partnerships

The lending industry has strong financial incentives to support foreclosure interventions efforts. Delinquent borrowers represent lost revenues, and foreclosures can result in tens of thousands of dollars per property in lost assets to the lender. Most lenders sell off servicing rights or contract with loan servicing firms. Lenders may also opt to contract with even more specialized loan servicing units to deal with delinquent loans. These firms specialize in collections and workouts. The Atlanta, Chicago, Indiana and North Carolina programs all demonstrate that when lenders and loan servicers partner with nonprofits to provide foreclosure alternatives, borrowers can and do avoid foreclosure. The programs further illustrate that such partnerships help maximize scarce resources by encouraging lenders to develop and utilize internal loan workouts to assist home-owners rather than relying on counseling agencies scarce loan dollars. This helps counseling agencies to "reserve" loan funds for homeowners who would not otherwise qualify for a lender

[11] Telephone interview with PA HFA officials, March 17, 2004.

[12] Approximately 18,000 *completed* foreclosures take place annually in Pennsylvania, according to The Reinvestment Fund and the State Department of Banking. HEMAP receives approximately 8,000 applications and provides assistance to 2,500 families, using revolving capital and $6 million in annual appropriations (for fiscal year 2004).

workout but may require intervention because of the specific situation or location of the property in a target neighborhood.

Investors in securitized loans generally do not see a reduction in revenues unless they hold the high-risk portions of the security. However, investors are sensitive to changes in projections for defaults and generally support efforts to reduce risks and increase net revenues from a pool of loans. While often difficult to contact and navigate, financial institutions are a key partner in foreclosure prevention efforts. Self-Help's program is innovative because Self-Help is the investor for the loan portfolios that are subject to the counseling program. Self-Help's program demonstrates how an investor in mortgages can benefit financially from a relatively small investment in debt counseling and can work to encourage its servicers to participate in such programs. Self-Help's leaders understood that it would be cost effective to develop such a program; more money is lost when a mortgage goes to foreclosure than the cost to support a counseling program. Self-Help estimates that preventing just one loss on a property is equivalent to 160 borrowers being referred to counseling. The more institutions and investors are incorporated into programs, the more likely intervention strategies can become incorporated into standard mortgage market practices.

Using Political Leverage

About half of the programs reviewed for this project involved a member of Congress, governor or mayor in some way during their development. A high-level politician can obtain press attention, stimulate calls to hotlines 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 the mayor. Each of these events generates more interest in the foreclosure hotline.

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 problems. Working collaboratively, win-win solutions were created, allowing more borrowers in the city to have access to servicers which also reduced 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 interest in 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 their partnership.

8.0 Challenges: Operational Resources

Foreclosures represent costs to neighbors and local government which are not reflected in the price of a mortgage, creating what economists label an "externality." Determining a model through which foreclosure interventions can develop sources of sustainable revenue is a difficult problem. All of the programs reviewed operate based on a combination of fees, grants and state or federal appropriations. Obviously a borrower near foreclosure lacks the ability to pay for services. Lenders are frequently cited as a source for funding, but lenders generally only provide narrowly defined contracted services rather then general operating support. The high costs of intervention for severely delinquent borrowers with a low probability of success will require contributions from a number of sources.

All of the program staff interviewed for this report recognized the need to push for as much fee-based cost recovery as possible. Many programs have developed partnerships to subcontract specific tasks in order to reduce the overall cost per client. Programs are also beginning to struggle with the current division of tasks among entities within an intervention system. Despite the public's positive perceptions of community-based counseling agencies, these agencies represent one of the higher cost modes of service delivery. This level of service may not be necessary for many customers, especially those already in contact with their lender and in need of simple budgeting advice.

Several program staff interviewed suggested there is an evolving fee-based model for standardized counseling services. Lenders are willing to pay relatively small fees per customer for counseling services provided by a third party if they demonstrably improve workout success rates or improve contact rates with borrowers in denial. Lender referrals for telephone counseling sessions lasting approximately one hour, with follow-up by phone and mail, garner fees of approximately $150. Group workshops for customers of specific lenders can obtain a fee of $50 per customer. The administrative costs of temporary payment assistance, grants or loans, however, remain high and require public or foundation funds. Programs that combine loss mitigation and subsidized loans may be optimal.

Chicago's HOPI program has developed a model of lender contributions in order to join the partnership. Funds go toward the general operating cost of the program. Participating lenders view HOPI as a positive platform for building their reputation in the community, as well as a mechanism to conduct research and development on innovative strategies for intervention. However, without a fee-for-service mechanism in place, HOPI runs the risk of program support drying up as lender commitments and priorities shift. NHS of Chicago understands that in order for its program to be sustainable over the long term, it must develop a fee-for-service model.

Fee-For-Service Model Falls Short for the Toughest Cases

Over time, lenders may increasingly support cost-effective approaches such as telephone counseling. This will reduce the number of borrowers moving on to the next stage of the delinquency process, thus reducing foreclosures. But the most difficult cases will remain — cases that require interventions which will cost more than the potential savings for lenders. There will always be a need for public subsidy to aid these borrowers who go beyond the financial reach of lenders.

Clearly foreclosure interventions will never become fully self-sustaining as long as the goal remains to serve a broad spectrum of troubled borrowers. And as a result, grants from foundations, corporations and government will remain integral to the service-delivery process. Yet the time and resources required for each program to solicit and raise charitable and public funds are substantial. Moreover, not all financial institutions contribute, or contribute at equivalent levels. Many of the program managers interviewed worried that funding from these sources is likely to decline as foreclosure interventions become less of a "hot issue" and the excitement of new partnerships fade.

It will be increasingly important for programs to conduct quality research on the optimal mix of outreach and counseling, including a triage system to most efficiently assign borrowers to phone counseling, face-to-face sessions, financial assistance or other services.

9.0 Challenges: Evaluating Effectiveness

While all of the programs reviewed are financially audited, and all are careful about reporting measures of performance to partners, funders and the public, none of the programs studied have conducted a systematic program evaluation. In truth, most nonprofit programs and many government programs lack formal evaluations. The time and financial cost of such work is typically viewed as detracting resources from day-to-day operations. Meanwhile most nonprofit programs have ample anecdotal evidence of the effectiveness of their work. Stories of families successfully staying in their homes often permeate reports produced by programs. However, lender participation based on anecdotes will not be sufficient over time. Empirical proof of the efficacy of programs would spur wider adoption of programs by public policymakers, as well as provide the documentation lenders and servicers need to justify investing resources in these programs.

The traditional "gold standard" of evaluation is a random assignment model, where customers are blindly chosen to receive various treatment regimens, including denial of services in some cases. Needless to say, none of the programs reviewed found the prospect of random assignment feasible. There are nonrandomized methods which also may be able to prove causality, such as comparisons to clients who drop out of the program or are relegated to a waiting list. Minnesota's programs have a refined tracking and reporting system, and are exploring a more systematic evaluation effort. Likewise Chicago is investing in longer-term evaluations of its HOPI programs. Establishing well-defined reporting metrics, especially among a collaborative of independent programs, is challenging. Government agencies and foundations can play a key role in organizing, funding and implementing data collection for more formal evaluations.

10.0 Challenges: Targeting Services for Maximum Effect

Over half a million homes are sold at foreclosures each year, and over a million loans face foreclosure each year.[13] Existing intervention programs serve only a small share of foreclosures started each year. Many communities lack an organized foreclosure-intervention system, or lack organizations with the capacity to develop programs. Even communities with active counseling agencies may not have the capacity or expertise to manage and deliver modern foreclosure-intervention services. There is also little support for nonprofits seeking to start intervention programs, outside of HUD trainings and FHA-specific services. Lenders and servicers become frustrated with a fractured delivery system which does not match their customer base. Financial institutions would prefer to establish agreements with a handful of regional or national programs capable of delivering services at scale.

The mortgage industry employs extensive models to predict the default risk of borrowers at the time of origination. Similar models are used by mortgage servicers to determine which delinquent borrowers are most likely to resume payments on their own, as opposed to those who will require intervention. While some of the programs reviewed rely on referrals from lenders based on these models, none has developed a similar system to triage its clients. Given the scarcity of resources involved in programs, such modeling could target intensive preventative services to borrowers most at risk even when they are only marginally behind, while bypassing other clients who will cure their loan with less intensive services later in the delinquency. Of course, developing such models requires extensive data on performance as well as more rigorous evaluations of which approaches work best with various types of borrowers.

11.0 Challenges: Capacity and Scale

The type of services provided by nonprofit agencies to troubled mortgage borrowers is quite diverse. Therefore it is difficult to generalize about specific knowledge or skills required to effectively deliver services. Nonprofit housing counselors may be well trained in providing pre-purchase seminars on how to buy a home, but may not be well versed in loan workout options or credit counseling.

However, there are several important subjects for programs to include in their training curriculum. First, many of the program staff interviewed for this report suggested that counselors who work directly with lenders to negotiate loan workouts need to learn the language and mechanics of loan workouts. It is important to understand both what lenders can concede and what they cannot, due to financial or other constraints. Second, staff need to learn to be efficient negotiators on behalf of clients, but not unwavering advocates. Third, counselors need to work to unravel

[13] Based on Mortgage Bankers Association, Mortgage Delinquency Survey, 2005.

client's debt and income obligations, including verifying the accuracy of the borrower's accounts of their financial position. Doing so requires a thorough and often tough approach with the client.

Minnesota has created a statewide infrastructure to provide delinquency counseling training through the Minnesota Mortgage Foreclosure Prevention Association (MMFPA) and serves as a good model for its delivery system. Its standard curriculum, certification and continuing education requirements are also innovative. Minnesota's two-week annual training course also includes detailed case studies. Students work with experienced counselors to methodically review a wide range of cases, receiving coaching on how to reach solutions. Other program staff interviewed expressed interest in this style of applied, focused instruction. Another innovative idea is to establish formal support systems for counselors, including regular clinical supervision and mentoring similar to the system employed by Indiana's Momentive.

The staff of every program reviewed for this project suggested that the technical ability of counselors is very important for success. The language and skills of loan workouts and loss mitigation are highly specialized, and the approaches required are different from those of homebuyer counselors who provide pre-purchase counseling. Because this field is developing rapidly, additional training is required periodically as new approaches and products are developed. Since most programs are local or regional and foreclosure laws vary by state, much of the training also needs to be focused on locally relevant topics. CCCS agencies generally have developed internal training sequences which they provide to their staff as needed.

Existing trainings provided by HUD and other agencies are not viewed as being very effective or relevant; the demand seems to be for higher-level courses with more applied components. There was little consensus among the program staff interviewed on whether new national training courses would be helpful. Some felt that a national training effort would be difficult due to varying foreclosure laws, while others felt that the training that they provide their counselors is sufficient. Likewise, Internet-based courses or publications also were not viewed as being likely to be widely adopted. In part this reflects the diversity among types of agencies involved in these programs, as well as the range of counseling and other programs provided. Unfortunately, while each of these programs has developed expertise in specific aspects of the foreclosure-intervention process, there is no forum for these groups to share their strategies and innovations.

Designating Staff to Work with Lenders

The importance of relationships emerged as a common theme from programs which engage lenders and servicers in loan workout negotiations. Loan servicers have discretion to modify loans, but need to trust both the quality of information being provided and the likelihood that the intervention will lead to sustainability. The perception by lenders is that some housing counselors can become overly committed to advocating for their clients, overlooking crucial problems. On the other hand, troubled borrowers may be willing to reveal more information to a counselor than to a lender. As such counselors can actually help lenders make more accurate assessments of borrowers, if the lender and counselor establish a trusting relationship. One program staff member stated, “when we submit a loan workout package, the lender knows it’s good.”

Because the time, effort and expertise required to develop relationships is substantial, one model is to concentrate the relationship with lenders in one office or position. Indiana’s Mortgage and Foreclosure Helpline refers homeowners to various counseling agencies around the state, but when negotiation with a lender is necessary to achieve a loan workout, that task is centralized within one agency, Momentive, using a standardized process. This accelerates the process, increases the staff’s knowledge and expertise, and has been well received by the financial institutions involved. Several of the programs interviewed for this paper provide allow only specific staff members to negotiate loan workouts with financial institutions. Programs also may require their lender partners to establish designated staff to serve as primary liaisons to counseling staff. This increases the number of workouts and improves program satisfaction of counselors and servicers alike. However, interviewees also suggested that servicing staff need to make the switch from a collection mindset to a workout mindset. One organization suggested that servicing staff be provided incentives to work through what may at first appear to be a slower process.

Technology

Technology is playing an increasingly important role in foreclosure 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 the ability to transfer data with lender servicing 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. It costs an estimated $100,000 to upgrade phone systems to provide the level of support required for a foreclosure hotline.[14]

12.0 Challenges: Moral Hazard

A caution often raised regarding foreclosure intervention programs is that borrowers could try to game the system by feigning a crisis in order to receive assistance or reduce loan commitments. Lenders are very concerned about repeated use of loss-mitigation services. Nonprofit agencies are less concerned about repeat customers, but at least in the case of HEMAP in Pennsylvania, each applicant is closely screened to be sure the crisis is due to no fault of his or her own. The availability of intervention services represents a moral hazard for borrowers: after they have a loan and learn of these programs, they may change their behavior to take advantage of them.

[14] Interview with Momentive, March 10, 2005.

There is little evidence that this occurs; in fact, most foreclosures are related to unavoidable trigger events. But as the visibility of foreclosure-intervention programs increases, more programs will have to face the challenge of generating contacts though mass marketing while insuring that the availability of such programs do not influence non delinquent borrowers.

The same problem can occur for lenders. When lenders know that local or state programs are available to provide financial assistance, they may become less willing to provide workouts or other assistance to borrowers. Several of the program staff interviewed suggested that lenders have to give up their "fair share" to prevent foreclosures. But lenders often lack an understanding of the systems and programs available, and also do not have solid evidence of the effectiveness of these programs. Another concern among advocates is if community-based workout systems become widespread, lenders might begin to make even riskier loans knowing their expected losses could be reduced. Certainly programs must ensure foreclosure prevention does not neglect lender involvement and financial contributions in order to balance these problems.

13.0 Looking Ahead

Changes in the Marketplace

Market trends in credit, savings and lending suggest there will be a growing need for foreclosure-intervention services. Mortgages made through the subprime market increased nearly 60 percent from 2003 to 2004.[15] At the same time, house prices are at or near peak values for the housing market cycle in many areas, foretelling flat or even declining home values in the future. More borrowers are now opting for adjustable-rate loans at a time when interest rates are trending upward (although most expectations are rates will increase at a measured pace). Unemployment continues to be relatively high in some areas despite the economy growing overall. These factors in combination result in an environment where at best mortgage delinquencies and foreclosures will remain at their current levels. More likely, these rates will continue to increase.

The financial industry recognizes these trends and is focusing on loss mitigation with more intensity than ever before. Just as the industry developed systems and products in the early 1990s to promote mortgages for underserved, it now needs to create an enhanced system for servicing high-risk loans, including extensive loss-mitigation components. Just as lenders turned to nonprofit programs to develop and promote innovative loan products, lenders may again rely on nonprofits to support the loss mitigation process. To the extent that nonprofit programs can demonstrate their effectiveness, lenders will embrace innovation that reduces the incidence of foreclosure and reduces the costs of mitigation efforts.

Policy Changes

While demand for foreclosure-intervention services is likely to accelerate from both consumers and industry, there are nagging legal, regulatory and political issues which may hamper the development of more effective programs. One concern cited in nearly every interview is the

[15] SMR Research. *Subprime Mortgage Loans, 2005.* < http://www.smrresearch.com/sml2005.html >

constraint of privacy provisions that financial institutions must now navigate. There are conflicting interpretations of what is an allowable referral to a third party. Several of the program staff members interviewed suggested that the financial institutions they work with do not share names of delinquent clients or make referrals for services because of privacy concerns. Other programs have developed standardized referrals and information sharing mechanisms that do not violate current regulations. The intent of financial privacy rules is to protect consumers from unscrupulous marketing and fraud, not to hamper the provision of services such as foreclosure prevention. This is an issue that deserves closer attention and potentially a formal clarification by regulators.

Recently enacted changes in bankruptcy laws may also impact the foreclosure intervention field. One section of the new law requires consumers seeking to file bankruptcy to obtain counseling services. Recent IRS reports indicate that hundreds of new organizations have been incorporated in the last few months requesting 501(c)(3) nonprofit status in order to capitalize on the presumed growth of demand for counseling services for these consumers.[16] If these agencies prove to provide poor quality services, which strip families in financial distress of resources, this development may sully the entire counseling industry. On the other hand, the growth of this sector might result in greater capacity and wider public knowledge about the existence of services. Other provisions of the revised bankruptcy law will reduce consumer protections during the foreclosure process, although the extent of these changes in practice remains unclear. In any case, these changes should be closely monitored and evaluated by policymakers and practitioners.

Opportunities for Targeting Services

Emerging programs have to balance the need to develop efficiencies of scale with the need to provide services locally. The least impaired borrower will likely succeed with basic financial counseling services easily provided on a large scale by regional or national call centers. The efficiencies of scale of call-center operations are such that few cities can support the infrastructure — both technical and human resources — to justify full implementation on a local level. Large-scale programs can afford high-quality technology, training and 24-hour hotline coverage. However, other client types cannot be served effectively by such centralized, large scale operations. Performing outreach, providing face-to-face counseling services and assessing property conditions are inherently local tasks performed on an individual basis. Reaching unresponsive borrowers requires an on the ground presence.

A frequent comment by loan servicers is they cannot assess the viability of a property from their centralized call center. Local programs provide knowledge of the local real estate market and neighborhood conditions which can guide workout decisions and facilitate needed repairs. These efforts can increase the effectiveness of intervention programs as well as reduce the odds a property in default becomes a problem for the neighborhood.

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[16] Deibel, Mary "New law would require pre-bankruptcy counseling" Scripps Howard News Service, April 08, 2005.

Figure 6 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 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 new programs need to consider as programs are designed. The capacities and skill sets required for each of these strategies are rarely encompassed within one agency or program.

Figure 6: 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

14.0 Implications

Based on interviews with staff of six leading nonprofit organizations, the provision of foreclosure-intervention services is developing rapidly. The industry appears poised to play a key role in helping families to manage financial difficulties and connect to foreclosure-intervention services. As new programs emerge and existing ones refine their approaches, there is much that can be learned from the leading programs reviewed for this report. No one program has a universal solution. The more these programs can innovate and learn from each other, the better all programs will become.

Public-Private Partnerships Predominate

Although the lead agency in the six programs varies from state government to local nonprofits to a national Consumer Credit Counseling Service organization, every program studied involves a partnership effort between nonprofits and financial institutions. Government also plays a key role as a convener, regulator or provider of resources.

Counseling Is a Key Component in All Strategies, but Alone Is Not Enough

Borrowers in trouble often need help to sort through their options, in part because they usually lack the financial expertise to understand the complexities of loss-mitigation options that may be available. In particular, debt-management counseling can in some cases prevent modestly delinquent borrowers from becoming seriously delinquent and can help return the homeowner to good financial standing. But counseling for seriously delinquent borrowers (greater than 90 days) is most powerful when coupled with lender-provided loan workout options or publicly supported emergency loan funds to bring homeowners current on their mortgages. The goal of intervention programs is not simply to increase knowledge levels, but to guide borrowers into more stable overall financial positions.

Need to Drive Down Costs per Client Suggests Large-Scale Solutions

Anecdotal evidence indicates default-intervention programs can be costly, particularly when each delinquent borrower receives intensive one-on-one services. The state of cost accounting in the nonprofit industry is not precise enough to estimate definitive costs per client. For lenders to participate in programs, however, the cost of programs cannot exceed the potential savings from foreclosure avoidance. As foreclosure interventions mature, the value proposition for industry, policymakers and funders will increasingly focus on maximizing impact per unit of resources. Centralization and specialization of counseling services can reduce overhead costs and increase efficiency, as well as expand service delivery to cover longer hours and provide higher-quality counseling. In addition, lenders and servicers will look to maximize impacts through coordinated, large-scale efforts, not time consuming agreements with individual programs.

But a Local Presence Can Be Useful

While economies of scale are an important development, locally based programs still play an important role. Having community-based networks can help connect borrowers to delinquency interventions, as well as provide face-to-face counseling, assistance with properties or other services best managed locally. Locally based intermediaries provide not only proximity, but also a trusted agent with whom struggling borrowers can connect. With its understanding of local market conditions, a local presence is particularly important for programs working with severe defaults and managing properties after a lender retakes possession (REO properties). These programs can help to minimize the often negative effects of distressed REO properties in neighborhoods with high foreclosure levels by reducing the chances of homes becoming vacant and streamlining the improvement and resale of properties to qualified buyers.

Making Contact with Borrowers Is Fundamental to Program Design

Programs that rely solely on lender referrals to delinquent borrowers are not able to serve the estimated one-half of all delinquent borrowers who essentially hide from their lender. Other programs focus more on borrowers not in contact with their lender. Ultimately both approaches are needed. Hotlines can serve an important function, but programs cannot assume "if we build it, troubled borrowers will come." Programs must be marketed; the role of lenders to make referrals and promote the service remains significant.

The Role of Financial Institutions Varies, but Involvement Will Stretch Resources

For borrowers with temporary income disruptions, most lenders view loan workouts, modifications or forbearance as cost-effective options. Most borrowers do not know that such options exist, however. By combining existing financial assistance and emergency loan programs with loan workouts, lenders potentially gain better performing loans. Likewise, programs can stretch their resources by working more intensively to boost efficiency through designated lender contacts and developing standard workout packages, thereby reducing the amount of financial assistance required for each borrower. Finally, referrals by lenders are critical in targeting programs and focusing assistance.

A Proven Funding Model Has Yet To Be Developed

While all of the programs reviewed have proven sustainable to some degree, none of these programs has developed revenues from lenders or fees from operations sufficient to cover all of the costs of providing their services. Costs need to be reduced while the fees collected from borrowers, lenders and public-sector agencies need to be increased. Program impact also needs to be clarified in order to justify the return on investment of foreclosure interventions. Developing consistent revenue streams is important for programs to expand and become embedded as a standard practice in the mortgage industry.

Organizational Capacity and Quality Lead Staff Are Crucial

Interventions for delinquent borrowers must be delivered in a timely manner and employ many of the same skills lenders use when initially underwriting a mortgage. Interfacing with lenders and borrowers requires specific skill sets not typically in place in most nonprofit organizations. Therefore the capacity and training of staff is critical. Also, having designated staff for both the lenders and the counseling agencies is important to build trust and to develop solutions for borrowers. Lenders and loan servicers are more likely to be receptive to a centralized system for engaging counseled borrowers in the loan-workout process.

Market Research Plays a Role in Program Design and Partnership Building

Political leverage is not necessary to start a foreclosure intervention program, but can help bring lenders to the table and attract public awareness. Market research, however, is frequently a prerequisite to attract political and media allies. For many programs it was a piece of research, often in the form of a tabulation of local foreclosure statistics, which 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. Obtaining foreclosure data is often challenging however. While foreclosures are public records, in many communities these records are not available in an electronic form. 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.

Providing Temporary Assistance Loans Is Costly But Important

Short-term loans can help borrowers with temporary problems maintain their mortgages through a crisis. In some cases borrowers with good credit and a quality home could refinance their troubled mortgages, but in general delinquent customers are not good candidates for a refinance loan due to their poor credit status. The cost of underwriting and servicing emergency loans is high and principal losses are to be expected. Thus, it is likely these loan products will require some form of subsidy. While short-term emergency loans are relatively risky, with appropriate support they can develop into revolving loan pools that effectively stretch resources.

Program Evaluations Are Lacking

There is little conclusive evidence of the efficacy of delinquency-intervention programs. Most programs are still evolving and have not had the opportunity to focus resources on evaluation. Adopting intervention programs across the mortgage industry will require a much more systematic effort to evaluate programs in a rigorous manner. Lenders, funders and policymakers are increasingly looking for evidence of effectiveness.

There are strong financial and social-policy incentives for industry and local government to develop solutions for delinquency and foreclosure. These solutions will not include nonprofits unless the efficacy of their services is clear, however. The focus on return on investment is increasing the requirement for programs to minimize costs and maximize effectiveness. At a minimum, programs need to develop more comprehensive data-tracking systems. Ideally controlled studies by third-party researchers will explore the effectiveness of various intervention strategies.

Working Toward Systemic Change

Most programs seek to help individual borrowers while also working to change operations in the larger industry. Yet creating feedback loops among public-private partnerships is difficult. The time and expense of developing regular opportunities for discussion and learning across sectors is formidable. Collaboration among programs in this arena is most important. All of the programs reviewed for the project have unique lessons which will be valuable to others. Investments in opportunities for cross-institutional learning will help yield new innovations. Currently, there are no real opportunities for various sites to share information and best practices. It may be helpful to bring together leading service providers in order to broaden the discussion and lessons learned from each site.

Understanding Trigger Events

There are many causes of foreclosure. Some borrowers are simply unlucky, because they work for an ailing company, or their family is stricken with a health crisis. These are problems that can happen to virtually anyone. Other borrowers contributed to their foreclosure by their own actions, such as by taking out more debt than they could afford. To the extent households plan ahead for the unexpected through savings accounts or insurance policies, they can manage adverse events without assistance. Other families either will not have these resources or face a crisis which exceeds their capacity to manage. Some programs explicitly target delinquent borrowers who lost a job through no fault of their own. Others focus on changing debt management behavior the borrower can control. Often borrowers present cases which blend less than ideal financial choices with unforeseeable negative life events. To the extent foreclosure programs can understand what triggered the borrower's inability to make their mortgage payments, services can be more precisely targeted. More research is needed to better define how borrower behavior, loan terms and unexpected events contribute to mortgage defaults.

Finding "Soft Landing" Exit Strategies

Not all borrowers can or should be saved. For some borrowers finding a graceful exit from homeownership is a success both from the perspective of the borrower (retaining some assets and credit standing) and the neighborhood (avoiding a foreclosed property on the block). Lenders should be encourage to better understand how their REO portfolio affects neighborhoods with high foreclosure rates and seek partnerships with local nonprofits to minimize the negative effects of foreclosed properties.

Conclusion

As difficult as it is to generalize about borrowers in foreclosure or foreclosure interventions, one point is clear: the more delinquent a borrower, the more intensive services are required. Borrowers who live in communities that offer foreclosure prevention services such as those represented by these programs, however, have an advantage. These programs enhance the ability of borrowers in trouble to remain in their home, or retain more of their assets if homeownership is no longer viable. Expanding the continuum of services available to borrowers will be crucial in coming years, especially if dire predictions about the performance housing and mortgage markets come true. The development of effective foreclosure-prevention services will enhance asset-creation and retention for more families and support the preservation of homeownership, goals shared by policymakers, practitioners and the financial industry.

15.0 Program Summaries

Atlanta: Consumer Credit Counseling Service of Greater Atlanta

In September 2003, Atlanta CCCS entered into a foreclosure-prevention pilot program with two national partners to determine whether consumer counseling is an effective tool to improve the success rate of loan modifications.

Strategies: Borrowers assigned by lenders to the program must complete a telephone housing counseling session as a prerequisite to receiving a loan modification. Borrowers are required to contact Atlanta CCCS directly for their counseling session. Counselors work with the borrowers to provide in-depth financial and budgeting assistance and work directly with the loan servicer to tailor the appropriate loan workout. In some cases, borrowers elect to enter debt-management plans with CCCS in addition to their loan workouts. In addition to the initial counseling session, the borrowers are scheduled for follow-up sessions to monitor their status and address any continuing financial challenges for the first six months following the loan modification. CCCS also provides the borrowers with a post purchase package that includes information about how to obtain additional counseling services.

Scale: The program operates nationally. In 2004, 1,650 borrowers were provided with counseling and follow-up interviews.

Borrower Contact: As a requirement for a loan modification, the borrowers are required to contact the counseling agency directly.

Lender Role: The lender determines whether or not the borrowers are candidates for loan modification and refers them to Atlanta CCCS. CCCS has developed a proprietary software system to share financial and loan information, including delinquency or foreclosure status between lender partners and counselors.

Funding: National partners provide funding for the program. Atlanta CCCS staff could not provide information on costs or fees, but suggested a fair fee-for-service for similar services by similar agencies would be in the range of $150 to $200.

Leading Innovation: With the assistance of its national partners, Atlanta CCCS utilizes a sophisticated technology platform to transmit data between partners. This has created program efficiency and the ability to operate and provide services like a call center.

Performance: At the end of the first year, delinquency rates were compared to delinquency rates for clients in prior years that did not receive counseling. Based on six-month loan performance, initial results suggest that counseling did improve the success rate of loan modifications and that the most significant improvement in success rates were achieved among borrowers whose mortgages were obtained through expanded origination programs.[17]

[17] "Foreclosure Prevention Counseling Overview," Atlanta Consumer Credit Counseling Service.

Chicago: Neighborhood Housing Services of Chicago HOPI Partnership

Launched in 2003 the Homeownership Preservation Initiative (HOPI) is a partnership working to help homeowners avoid foreclosure. Partners are also helping to cultivate community-development "best practices" through research and development.

Strategies: The HOPI partnership utilizes several strategies. (1) NHS of Chicago provides face-to-face counseling and loans to bring borrowers current and if necessary assist with property repairs. NHS also acquires and rehabilitates foreclosed properties in target areas. (2) A city-sponsored 311 hotline provides delinquent borrowers with access to phone-based foreclosure-prevention services provided by a consortium of three consumer counseling agencies called CCRC[18]. (3) Enhanced partnerships with loan servicers have been created to allow NHS, city and industry staff the opportunity work together on research and innovations. Meetings of HOPI have resulted in servicers placing staff in local neighborhoods (sharing NHS office space), research on the role of mortgage escrows on loan performance and the creation of neighborhood-based workshops for mortgage borrowers.

Scale: Program services are available to residents of the city of Chicago. Through the development of foreclosure-prevention strategies, HOPI partners hope to bring lessons learned to other communities.

Borrower Contact: Borrowers seeking services can enter the program through three sources: (1) a citywide 311 hotline that connects qualified homeowners to counseling services; (2) a community-based referral network, including word-of-mouth and NHS marketing materials connects homeowners directly to NHS of Chicago; and (3) lender referrals for community-based workshops and counseling services.

Lender Role: Lenders provide designated contacts to negotiate loan workouts, participate in the city's 311 hotline, and refer borrowers to the NHS's Homeowner's Workshops. Participating lenders also work with NHS to develop and test new strategies through HOPI.

Funding: Funding strategies are in development. The city of Chicago, lenders and foundations provide financial support for HOPI. Costs average $550 per counseled borrower at NHS. The city charges lenders $100 per counseling session referred to CCRC through the 311 hotline.

Leading Innovation: NHS of Chicago has created a public-private task force focused on research and development of leading strategies and innovations for foreclosure intervention.

Performance: In 2004, 711 borrowers were counseled in NHS offices, 728 received phone counseling from CCRC and 45 rescue loans were originated by NHS. An estimated 28 percent of callers to the 311 hotline either have cured their mortgage delinquency or pursued an exit strategy such as a short sale, allowing them to exit the property gracefully. Twenty percent who had no previous contact with their lenders or servicers now are actively working with their lenders.[19]

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[18] CCRC is the Consumer Counseling Resource Center- a collaborative of Auriton, Springboard and NovaDebt organized by the HOPE foundation (an initiative of mortgage lender GMAC-RFC).

[19] Gorey, Rochelle Nawrocki. "NHS of Chicago's HOPI: Protecting Families, Transforming Houses." NeighborWorks® *bright ideas.* NeighborWorks® America. Vol. 24, No. 2. Spring 2005. pp. 38.

Indiana: Momentive Consumer Credit Counseling Service of Central Indiana

With the assistance of Congresswoman Julia Carson, Momentive launched the Indiana Mortgage and Foreclosure Helpline in February 2004 to help Indiana residents with delinquency issues.

Strategies: Homeowners needing assistance with their mortgage call the Helpline and speak to a housing counselor who gathers information about their situation. Depending on their needs, the homeowners receive immediate counseling via the telephone or are scheduled for an appointment to meet with a counselor or appropriate agency in their local area. The program offers borrowers the opportunity to receive financial and budget counseling as well as assistance in negotiating a loan workout with their lender. Momentive follows up with program participants after 30 days to review their status. The program also offers referrals to other social-service agencies if a homeowner is experiencing other issues that may contribute to the delinquency.

Scale: The program is free and available to all Indiana residents.

Borrower Contact: Homeowners must call the toll-free helpline to access services. The hotline is marketed by the state's mortgage bankers association and real estate professionals, as well as local organizations.

Lender role: Momentive has developed partner relationships with key lenders and servicers. Partners are required to designate staff to work with Momentive's counselors and adhere to a timeline for response and initiation of a workout.

Funding: Momentive initially launched the Helpline utilizing existing agency funds. The program has expanded with support from lenders, HUD, the Indiana Mortgage Bankers Association, and the Indiana Realtors Association, as well as national foundations. Costs per client are not available, but are likely to be comparable to other phone-based programs.

Leading Innovations: The Helpline serves as a centralized system for statewide foreclosure-prevention services. Calls have been received from 90 out of 92 counties. Callers are directed to qualified local agencies if they exist, or receive services through Momentive. The program also has built successful and productive relationships with servicing staff by providing and demanding designated personnel to staff the program.

Performance: In its first year of operation, the Helpline was responsible for 1,749 loan work-outs. Approximately 40 percent of cases resolve without Momentive needing to contact the lender. Momentive staff attribute this to financial and budgeting counseling, which allows homeowners to better understand their budget choices and thus to make their mortgage payments.

Minnesota: Collaborative System Between the Minnesota Mortgage Foreclosure Prevention Association (MMFPA) and the Foreclosure Prevention Assistance Program (FPAP)

Minnesota provides a variety of services aimed at reducing foreclosures. Foreclosure-prevention counselor training is offered through the all-volunteer organization, 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 housing and counseling agencies located around the state.

Strategies: 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 state of Minnesota requires counseling agencies that administer its FPAP to be certified by the MMFPA.

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. Counseling is available either through the telephone or face-to-face.

Scale: Statewide in Minnesota.

Borrower Contact: Borrowers must contact either the Minnesota Housing Finance Agency (which directs them to a local counseling agency) or the counseling agency directly. Borrower referrals to local counseling agencies come from 211 social-service referral hotlines or other social-service agencies.

Funding: The Foreclosure Prevention Assistance Program receives funds from the state of Minnesota, the Family Housing Fund, the Homeownership Center, and the Greater Minnesota Housing Fund. Two-thirds of the funds come from the state. The MMFPA receives a small amount of funding from member dues and class fees.

Lender Role: Lenders must notify delinquent borrowers about the availability of the FPAP program.

Leading Innovations: With its long history of foreclosure-prevention counseling training, Minnesota leads the way in providing a solid infrastructure for counselor training and certification. Minnesota also has a well developed tracking and reporting system in place for its Foreclosure Prevention Assistance Program.

Performance: About 130 to 150 loans are closed each year under the FPAP program, with an average loan amount of $2,300.

North Carolina: Self-Help Credit Union Secondary Market Partnership (North Carolina) with Consumer Credit Counseling Service (San Francisco)

The Self-Help Credit Union secondary-market program purchases portfolios of loans from private lenders serving low-income and minority mortgage borrowers, and thus is the investor in mortgages originated and serviced by private lenders. Self-Help is committed to responsible lending practices and so provides extensive counseling and education services to its customers. Self-Help has targeted its portfolios with highest delinquencies to participate in an early-delinquency counseling program.

Self-Help sought the assistance of a counseling agency to assist its borrowers with debt management and help prioritizing mortgage payments so that an unplanned event or emergency does not lead to delinquency.

Strategies: Self-Help contracts with Consumer Credit Counseling Service of San Francisco to provide early-delinquency counseling (45 days) to its customers. Homeowners are provided with financial and budget counseling over the telephone. Self-Help receives a summary of the counseling session with the borrower and determines if the borrower should receive additional assistance, such as a loan workout. If so, it works with the servicer to negotiate one. Few homeowners require any additional assistance beyond the initial counseling session with CCCS and workouts under this program are rare.

Scale: Nationwide, but majority of borrowers reside in North Carolina.

Borrower Contact: Homeowners who are 45 days delinquent receive a letter from their servicer informing them that they will be receiving a call from a "housing education program." CCCS of San Francisco initiates the telephone counseling session with homeowner.

Lender Role: Six servicers participate in the program. Servicers send letters informing delinquent customers that they will be contacted by a housing education program. If necessary, servicers work with Self-Help to negotiate loan workouts.

Funding: CCCS of San Francisco receives a fee for service from the investor (Self-Help). Costs and fees were not provided, but are likely in the range of other telephone-based programs.

Leading Innovation: As the investor in the program, Self-Help provides the industry with a model approach for the delivery of early-delinquency intervention. In this program, the role of the investor is to require and provide borrowers with delinquency counseling through its servicers and a third party. As the investor, Self-Help also pays for the counseling, recognizing that funds allocated toward counseling services are less costly than a property that goes to foreclosure.

Performance: In 2004, 800 borrowers received counseling. Nearly 90 percent have avoided foreclosure to date.

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

The state of Pennsylvania provides foreclosure-intervention services through its Homeowner's Emergency Mortgage Assistance Program. 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. Borrowers must be at least 60 days delinquent. The state contracts with nonprofit organizations to provide counseling services for the program.

ACTION-Housing Inc., a nonprofit organization located in Pittsburgh, serves as one of the counseling agencies for HEMAP. ACTION-Housing provides a range of housing services for individuals residing in the city of Pittsburgh, Allegheny County and other portions of Western Pennsylvania. Programs and services include housing development and management of over 1,000 housing units (elderly, family, special needs), weatherization, property rehabilitation, homeless assistance and job development.

Strategies: HEMAP provides funds to counseling agencies such as ACTION-Housing to counsel delinquent homeowners and assist them with their application to HEMAP. Through HEMAP, qualified homeowners may receive either 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. HEMAP makes up the difference between the applicant's monthly contribution and the lender's required payment. Mortgage payments are made by HEMAP directly to the lender on the homeowner's behalf.

Counseling agencies provide counseling and only assist in the preparation of the application to HEMAP. Housing finance agency officials approve and originate loans under HEMAP. Approximately five hours of counseling is provided to each client.

Scale: Pennsylvania.

Borrower Contact: The state requires that lenders send a notice of the program to homeowners at least 60 days delinquent. Borrowers may contact either the Pennsylvania HFA or counseling agencies directly.

Lender Role: Lenders must notify delinquent borrowers about the availability of the program.

Funding: A combination of public funds for loan capital and counseling, as well repayment of aged loans provide funding for the program. ACTION Housing, Inc. receives counseling funds through a variety of sources including the state housing finance agency and HUD.

Performance: In 2004, there were nearly 2,500 approvals for HEMAP program. During 2004, ACTION-Housing counseled and processed 520 clients for assistance through HEMAP. The estimated cost of services excluding loans is $360 per client.

16.0 Interviews

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