



Analyzing Elements of Leading Nonprofit Default Intervention Programs

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Shifting Environment Creates New Challenges

- 30 years ago
 - Access to mortgages was the issue
- Last decade
 - Mortgages have proliferated
 - High-risk borrowers can access credit, at a price, for many purposes
- More risk = more defaults
 - Foreclosures at record levels
 - Concentrated in the same old “redlined” neighborhoods

Overview

- **Trigger events** and default timelines
- **Designing Interventions**
 - Geographic **focus**
 - Making **contact**
 - Types of **counseling** and financial **assistance**
 - **Partnerships**, political leverage and research
- **Challenges**
 - Developing a **revenue** model
 - **Evaluating** effectiveness
 - **Fractured** services
 - Staff **capacity**, technology and program **scale**
 - “Moral hazard”
- **Looking Ahead**

Delinquency From the Borrower’s Perspective

Borrowing Choices

Purchase home with mortgage

Refinance original mortgage

Borrow via home equity loan

Consolidate debt into mortgage

Trigger Event

Random Events

Job loss

Income reduction

Health crisis

Unexpected repairs, taxes, or expenses

Borrower Controlled:

Mismanaged debt payments

Lack of savings

Poor financial choices

Proactive Options

- Sell home to pay off mortgage

- Restore lost income

- Reduce expenses

- Receive financial assistance

Passive Options

- Cease contact with lender

- Wait for foreclosure

Frequently Cited Issues for Troubled Borrower

- 32% Job Loss
- 25% Health Crisis
- 16% Taxes, Utilities or Property Insurance
- 14% Problem with Rental Unit
- 12% High Cost Auto or Consumer Loan
- 10% Disability
- 10% Overspending
- 10% Death in Family

32% involve Chapter 13
bankruptcy

Source: Coded Random Sample of CCRC Database Records for Chicago

Intervention Timeline

Time

slow pay
15-30 days
late
30-90 days
late
60-120
days
90+ days
180 days+

- **Preventing** problems with targeted counseling, phone calls, workshops
- **Making contact** with delinquent borrowers (sooner is better)
 - Hotlines are helpful, but not enough for long-run
- **Managing expenses** to pay mortgages
 - Often consumer just needs help prioritizing
- **Restructuring consumer debt**
 - Debt management plans can help free up cash flow for mortgages
- **Repairs to the home**
 - Unexpected costs of repairs are frequent problem
- **Modifying the loan**
 - If partnership with lender is in place, mods are possible and very helpful
- **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

Four Dimensions of Delinquent Borrower Circumstances	
DURATION OF INCOME LOSS	
Temporary Income Crisis <ul style="list-style-type: none"> • Job loss • Income reduction • High potential to be able to resume payments in 12 to 24 months 	Long-Term Income Loss <ul style="list-style-type: none"> • Disability • Family health crisis • Death in family • Divorce
CREDIT QUALITY	
Good Credit History/Low Debt-to-Income Ratio <ul style="list-style-type: none"> • Qualify for refinance loans • Ability to restructure debt and savings • Potential to reduce expenses 	Poor Credit History/High Debt-to-Income Ratio <ul style="list-style-type: none"> • Past history of foreclosure or bankruptcy • Missed payments • Unqualified for most refinance loans • Reducing expenses or selling home only options
QUALITY OF PROPERTY AND COLLATERAL	
Good Home Value/Condition <ul style="list-style-type: none"> • Well maintained • High possibility of sale prior to foreclosure • Positive net equity 	Poor Home Value/Condition <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • Understand their mortgage • In contact with lender • History of savings and management of expenses 	Poor Knowledge and Personal Financial Management <ul style="list-style-type: none"> • Lack of understanding succession of mortgages borrowed • Avoid contact with lender • No history of savings and expense management

Leading Programs				
Program and Lead Agency	Type of Lead Agency	Strategies	Scale	Borrower Contact
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
CCCS (Atlanta)	Nonprofit consumer credit counseling agency	Debt counseling	Nationwide	Borrower required to contact CCCS in order to qualify for workout
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.
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
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
MOMENTIVE (Indiana)	Nonprofit consumer credit counseling agency	Debt counseling and negotiation with lender	Indiana only	Toll-free hotline

Geographic Focus

- **Local / neighborhood level**
 - Closest to borrowers
 - Relationship-based
 - Most expensive / intensive
- **Regional Level**
 - Usually call centers
 - Combine with lender and community referrals

Making Contact

- **Early contact** – within first 15 days of missing payment best
 - Requires a referral from lenders
- Can provide education counseling in **advance** of delinquency
 - But must be targeted – need incentives
- In early stages borrowers are **triaged**:
 - **Budgeting** problem
 - Short-term **income** problem
 - **Long-term** disruption
 - **Property** problem
- But as many as half of borrowers are **NOT** in contact with lenders
 - “**Head in the sand**”



Types of Interventions

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

Public-Private Partnerships Maximize Impacts

Credit Counselors

- Phone counseling
- Manage hotlines
- Budgeting
- Debt management plans

Lenders / Servicers

- Forbearance
- Loan modification
- Counseling referrals
- Support for collaborations

State Housing Agency

- Referral networks
- Payment assistance
- Emergency loans
- Training for counselors
- Financial support for nonprofits

Nonprofit Housing Counselors

- In-person counseling
- Borrower education
- Housing issues
- Facilitate workouts
- Administer grants/loan

City / State Government

- Hotlines
- Public awareness
- Facilitating collaboration

Partnerships

- **Research documenting foreclosure trends**
 - Often a starting point
 - Foreclosure data not always available
- **High-level political engagement**
 - Not critical, but facilitates coming to the table
- **Collaboration across industry, government and advocates**
 - Lenders provide workout options
 - Government contributes subsidy
 - Nonprofits serve as convener and service provider

Challenge 1: Revenue

- **No clear model ***
 - \$50 fee for borrower workshops
 - » paid by lenders
 - \$100 fee for phone counseling session
 - » paid by lenders
 - \$350 cost of face-to-face counseling
 - » sometimes paid by lenders; often grants
 - \$2,500+ cost of administering financial assistance
 - » mostly grant support; limits supply

Are services being provided in the most cost efficient manner?

** all dollar figures are illustrations only*

Challenge 2: Proving Effectiveness

- **Few recent studies** on default services
 - Research in 1970s regarding FHA
- Most programs track outputs, not outcomes
 - **No formal evaluations have been published**
 - No valid control groups or randomization in place
- Developing sustainable revenues requires **maximum effectiveness for minimum cost**
 - Currently lack sufficient **measures**

Which approaches have relatively stronger effects?

Challenge 3: Getting to Scale

- **Finding right mix of:**
 - regional and local
 - outreach and referral
 - phone and face-to-face
 - crisis counseling and education/skill building
 - property preservation and borrower security
 - lender workouts and public financial assistance
- **Capacity: staff skills, technology, relationships**
- **Predictive modeling: matching clients to services**
- **Collaborative agreements: allows specialization**

What are trade-offs of reaching scale, versus serving local neighborhoods?

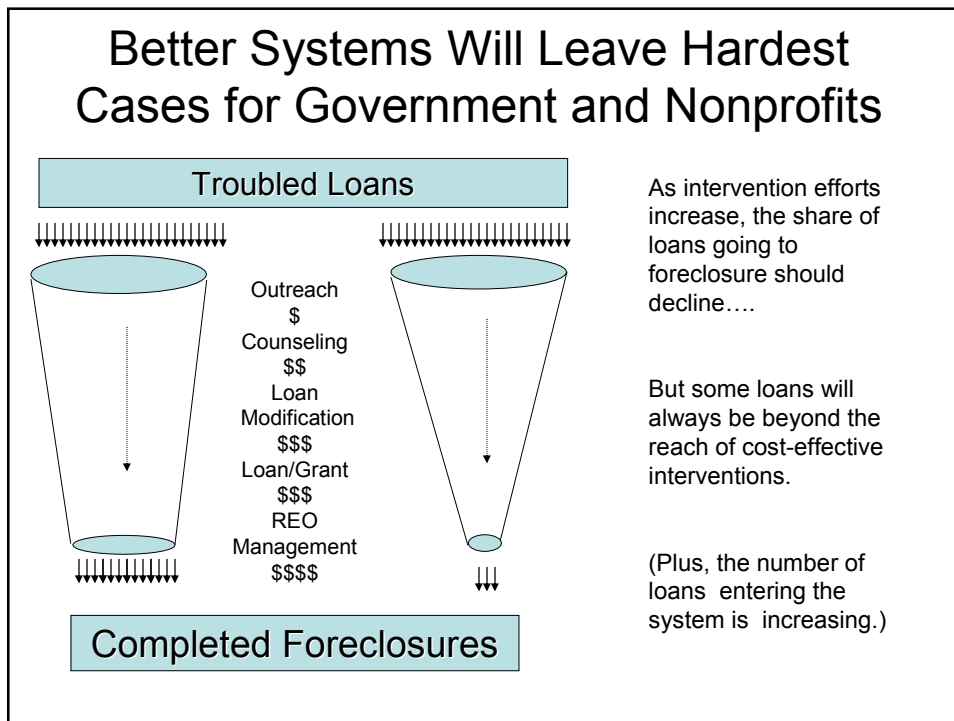
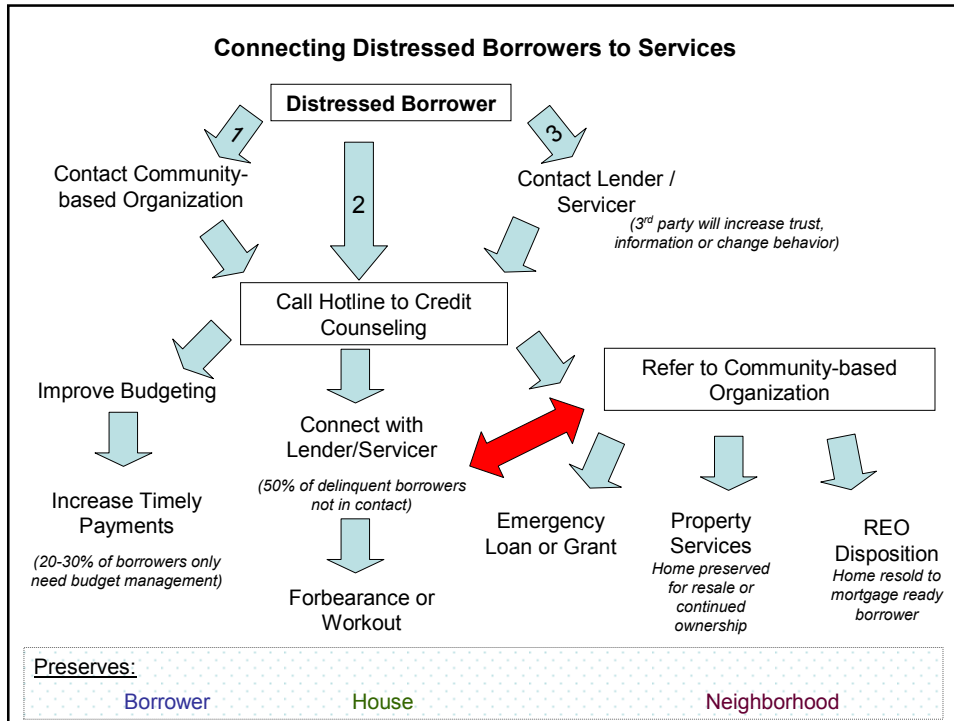
Challenge 4: Perverse Incentives

- **Moral Hazard – creating incentives to alter behavior**
 - Borrower knows they can get a “bailout,” misses payments
 - Lender knows losses will be curtailed, makes higher risk loans
- **Shared costs are important**

Are borrowers and lenders are contributing enough?

Conclusions

- There is not “a model”
 - Still evolving arena
- **More public resources will be needed**
 - Foreclosure cost to lenders: \$50,000 (estimated)
 - Cost to borrower: lost home, equity & ruined credit
 - Cost to community: \$30,000-\$50,000 law enforcement and other costs
- **Collaboration is critical**
- Prevention important, but still need active interventions



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For more details or information, see:

<http://www.policylabconsulting.com/whitepapers.asp>



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