



Partnership Lessons & Results

Three Year Final Report

July 17, 2006



Neighborhood Housing Services of Chicago, Inc.

NEIGHBORHOOD HOUSING SERVICES OF CHICAGO, INC.

Rebuilding Chicago's Neighborhoods

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July 17, 2006

Dear HOPI Partners,

Thank you and congratulations for being a part of the Home Ownership Preservation Initiative (HOPI). Three years ago we set out to stem the tide of foreclosures in the City of Chicago. We have achieved this goal and done so much more. Because of partners like you, thousands of families have received quality education that will help them avoid foreclosure and over 1,300 families have saved their homes from foreclosure. As a result of the work of our partnership, 330 vacant, abandoned or troubled buildings have been reclaimed as homeownership opportunities for Chicago families. We should all be proud and excited about these results.

Three years ago, rising foreclosure rates seemed like a fact of life in Chicago. Even with healthy property values, families were still getting into loans they could not afford and falling behind in their payments at a record rate. The solitary efforts being made by the private, nonprofit, and public sectors were not enough to solve the problem. Through the HOPI partnership we were able to achieve new solutions together that were not possible alone.

The 311 campaign is one of the most successful examples of this partnership. The city made its call center available to Chicago residents so that they could access a trusted third party for help. NHS and the Homeownership Preservation Foundation worked to provide the counseling services that enabled families to work through their financial issues and prevent their foreclosures. Private partners provided direct access for counselors to their loss-mitigation departments, sponsored training for counseling staff, and offered creative solutions to achieve workouts. As a result of efforts like these, 1,304 families were able to stay in their homes, the city saved an estimated \$9 million in policing, fire, security, legal and other services, and financial institutions saved an additional \$77 million in costs associated with foreclosure.

Foreclosures in Chicago are now declining, though our work is far from done. Billions of dollars in adjustable-rate mortgages will reset in the next few years; this may fuel a new wave of foreclosures. We will need the lessons learned and more, new and innovative solutions to meet this challenge. With the HOPI partnership in place, I have no doubt that we will do so.

Again, thank you for your partnership. Neighborhood Housing Services looks forward to partnering with all of you for the next phase of the Home Ownership Preservation Initiative.

Sincerely,



Bruce A. Gottschall
Executive Director

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In 2003, the City of Chicago and Neighborhood Housing Services of Chicago (NHS) launched a campaign to address rising foreclosures in Chicago's low- and moderate-income neighborhoods. The Homeownership Preservation Initiative (HOPI) — a partnership of the City of Chicago, NHS, and key lending, investment, and servicing institutions — seeks to preserve sustainable homeownership for Chicago residents and to reclaim foreclosed homes as neighborhood assets.

After Three Years: Achieving Goals

The pilot phase of HOPI from 2003 to 2006 is complete and has been highly successful. HOPI nearly reached or exceeded all of its goals established three years ago. Here are some highlights:

- More than 4,000 Chicago households have been educated about the issue of foreclosure and what options they have when facing difficulties meeting their mortgage obligation.
- Over 1,300 families were able to avoid foreclosure as a result of the direct activities of the HOPI partnership.
- Over 330 buildings that were vacant or neglected have been reclaimed for homeownership opportunities.
- These efforts have resulted in an estimated \$267 million in collective savings for the City of Chicago, its residents and HOPI lender partners.

Generating Innovations

HOPI has developed many innovative activities, including:

- Cross-training for counseling and servicing staff.
- Workshops with lender partners to prevent borrowers from going into default.
- The 311 counseling telephone hotline linked to 24 hour credit counseling services.
- Intensive one-on-one counseling for borrowers in serious delinquency.
- A faith-based outreach initiative to combat mortgage fraud.

Also, in cases where foreclosure occurs, HOPI has pursued strategies to prevent homes from becoming vacant or magnets for problems in the neighborhood.

A Research and Development Laboratory

HOPI has also supported a number of research and development projects. In addition to research monitoring foreclosure trends in Chicago and other cities, HOPI-sponsored research has also monitored the progress of borrowers receiving counseling. Research projects include:

- Surveys of workshop participants showing low levels of borrower knowledge of foreclosure alternatives.
- Surveys of counseling clients showing generally positive perceptions of counseling, negative perceptions of lenders, and insights into how borrowers behave in default.
- Based on a sample of borrowers tracked with the cooperation of HOPI lenders, borrowers receiving counseling services are more likely to demonstrate improved mortgage repayments than industry benchmarks.
- Focus groups with borrowers in default reveal insights into lender and counseling approaches and communication, including borrowers perceiving conflicting messages from collections and loss mitigation efforts.

There is still a need for more research, but so far HOPI has delivered important lessons for policy and practice.

Applying Lessons Beyond Chicago

HOPI is developing models that can be adopted broadly by the industry to better serve borrowers in default in any community. Through HOPI, lender partners have shared the importance of elevating servicing and loss mitigation programs, as well as developing more community-sensitive methods of dealing with foreclosed properties. In addition, HOPI, in collaboration with CCRC, has set the base for a national hotline effort launched by NeighborWorks[®] America. Several HOPI partners have expressed the importance of HOPI in focusing on key innovations and providing the evidence needed to try new business strategies.

Looking Forward

As the first phase of the HOPI concludes, it is clear there is more work to be done. New topics for investigation include the growth of “exotic” mortgage products, the proliferation of loans with payment reset provisions, the increase in mortgage fraud and rescue fraud, as well as the need to better understand both how borrowers behave under stress and how investor guidelines hamper further loss mitigation innovations.

Over the past three years, much positive change has taken place in combating foreclosures in the City of Chicago. The unique public, private and nonprofit partnership of the Home Ownership Preservation Initiative has been critical in the effort and will be a strong base for future work.

Background

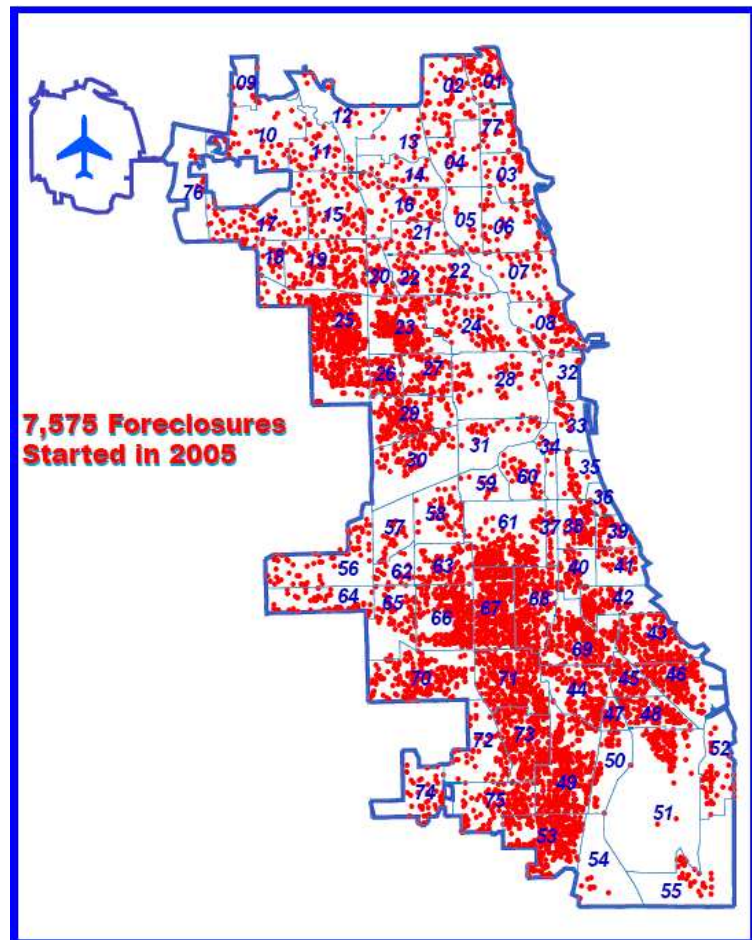
The Foreclosure Problem

Between 1993 and 2002, the City of Chicago experience an unprecedented 91 percent increase in the number of foreclosures initiated, jumping from 4,923 in 1993 to 9,431 in 2002. This problem was compounded by the fact that the increase was not distributed equally, but concentrated heavily in the city's low-income and minority neighborhoods. In the eight neighborhoods NHS serves, the foreclosure rate was nearly seven times the national average of 1.2 percent. Six of NHS's neighborhoods experienced foreclosure rates in excess of 10 percent.

Of the nearly 10,000 foreclosures that were initiated in 2001, close to 3,100 families lost their homes in completed foreclosure actions. Forty percent of these completed foreclosures were in the eight NHS neighborhoods on the city's West and South sides. In these communities, entire blocks changed hands — from long-term homeowners to speculators and absentee landlords. Foreclosures cause devastating financial and psychological impacts on families, safety and blighting problems for neighborhoods, and translate into bottom-line losses for financial institutions.

Despite this, there is some good news about foreclosures in Chicago. In 2003 foreclosure starts in the city dipped for the first time in a decade, posting a 13 percent decline. They did so again in 2004. However, foreclosures are still 69 percent higher than in 1993 and continue to be highly concentrated in the city's low- and moderate-income communities. Data for 2005 shows that the trend toward decreasing foreclosures has reversed slightly, increasing by one percent over 2004 levels.

Figure 1. Foreclosures Started in Chicago, 2005



Source: National Training and Information Center, 2005.

Many factors are at the root of the foreclosure problem. One component is that borrowers are increasingly obtaining high-risk loans without consideration for or understanding of how to manage that debt, or when to ask for help when they are in danger of foreclosure. The market is flooded with hundreds of variations of loan products, with differing levels of fees, terms and other features. Many consumers are not up to the task of shopping around for mortgages, and instead trust mortgage brokers to provide accurate information. Unscrupulous brokers can take advantage of their clients' lack of understanding and lure them into high-cost or fee-laden loans. Given the complexity of current mortgage products, even the most sophisticated borrower can find it difficult to evaluate the details of each mortgage option.

The mortgage industry has also become increasingly complex, with many more players and much more distance between lender and borrower, a situation that created both efficiencies and unintended negative consequences. Gone are the days when loans are originated by local institutions with community-based deposits, held to term and serviced by local staff. Today, most loans are originated by third-parties, funded by Wall Street, and serviced by huge out-of-town entities. When a borrower gets into trouble, the complex web of lender, servicer and investor makes it increasingly difficult to find the right decision-maker who can help.

In addition, securitization of subprime mortgages has increased steadily as origination volumes have grown. By pooling loans into mortgage securities, significant capital can be raised by giving each investor a small portion of principal or interest payments based on mortgages in the pool. Investors often trade mortgage securities, sometimes holding a pool for only a few seconds before reselling it. Because the risk is distributed among many investors, no single foreclosure represents a significant loss to any single investor, and hence it may seem less important to pursue mitigation.

Despite commonly held myths, neither lenders nor investors “make money” on foreclosures. Losses range from 20 cents to 60 cents on the dollar when a loan goes to foreclosure. For mortgage securities investors, defaulted loans represent a direct reduction in cash flow and can reduce the market value of their securities. Foreclosure is also damaging to servicers, who incur significant expense pursuing and attempting to rectify problem loans and securing vacant properties. Finding solutions is in the interest of not only the families that live in the mortgaged properties, but also the financial institutions. In addition, it is in the interest of local and state governments to find solutions to foreclosures so that they are not left with vacant properties that attract crime and reduce neighborhood property values.

Program Overview

In 2003, the City of Chicago, the Federal Reserve Bank of Chicago and Neighborhood Housing Services of Chicago (NHS) launched an aggressive campaign to address the alarming rise in foreclosures in Chicago's low- and moderate-income neighborhoods. The Homeownership Preservation Initiative (HOPI) — a partnership of the City of Chicago, NHS and key lending, investment and servicing institutions — seeks to preserve *sustainable* homeownership for Chicago residents and to reclaim foreclosed homes as neighborhood assets.

Mayor Richard M. Daley and Chicago Federal Reserve Chairman Michael Moskowitz established three goals for the partnership to accomplish over three years:

- **Counsel 3,000** families in danger of foreclosure,
- **Help 1,500** homeowners avoid foreclosure, and
- **Reclaim 300** foreclosed properties.

To meet these goals, HOPI partners developed a four-part strategy:

1. Provide quality prepurchase preparation and homeowner continuing education as an investment in preventing future delinquencies;
2. Provide a range of direct intervention services to assist homeowners who are at risk of losing their homes through foreclosure;
3. Utilize NHS's expertise in single-family housing rehabilitation to reclaim foreclosed housing stock for affordable housing and put it back in the possession of owner-occupants; and,
4. Study the mortgage and servicing industry and its impact on neighborhoods, and the behavior of delinquent borrowers, as a basis for developing best practices and serving as a laboratory for training and replication.

The pilot phase of HOPI from 2003 to 2006 is complete and has been highly successful. Representatives from the partnership have met regularly and include senior and executive staff from 20 financial institutions. HOPI is a platform for innovation — a place where industry, government, regulators, nonprofits and academics can better diagnose issues in the new mortgage market and work collaboratively on solutions. The partnership is actively engaged in applied research and development work on the toughest issues facing the mortgage market: mortgage fraud, vacant homes and delinquent borrowers.

Cross-industry dialogue helps regulators and city government diagnose issues and guides the development of targeted intervention programs. These solutions are available to nonprofit, private and public interests in Chicago and in areas around the country struggling to stem the flow of foreclosures. Already, HOPI partners are applying the lessons and strategies learned in Chicago to their business in other cities. In addition, federal regulators are taking notice and using the partnership as an example of best practices for the institutions they govern.

Program Accomplishments

During the three years of the HOPI pilot, NHS of Chicago led efforts to collect and accurately account for progress toward the goals set out by Mayor Daley and Chairman Moskowitz in 2003. The final results of this data collection and analysis show a program that has produced fantastic results. In two of the three measurement categories, HOPI exceeded the goals established three years ago. In the third, the partnership achieved 87 percent of the goal, a tremendous outcome when considering the complicated nature of reversing a foreclosure already in process. Below are the year-by-year results of the HOPI pilot.

Table 1. HOPI Program Goals and Results

	3-Year Goal	FY2004	FY2005	FY2006	Totals	% of Goal
Counseling and Education	3,000	1,133	1,737	1,458	4,328	144%
Foreclosures Prevented	1,500	506	517	281	1,304	87%
Buildings Reclaimed from Foreclosure	300	80	95	155	330	110%

Source: NHS Chicago, Inc., City of Chicago DOH and 311; NHSRC; CCRC.

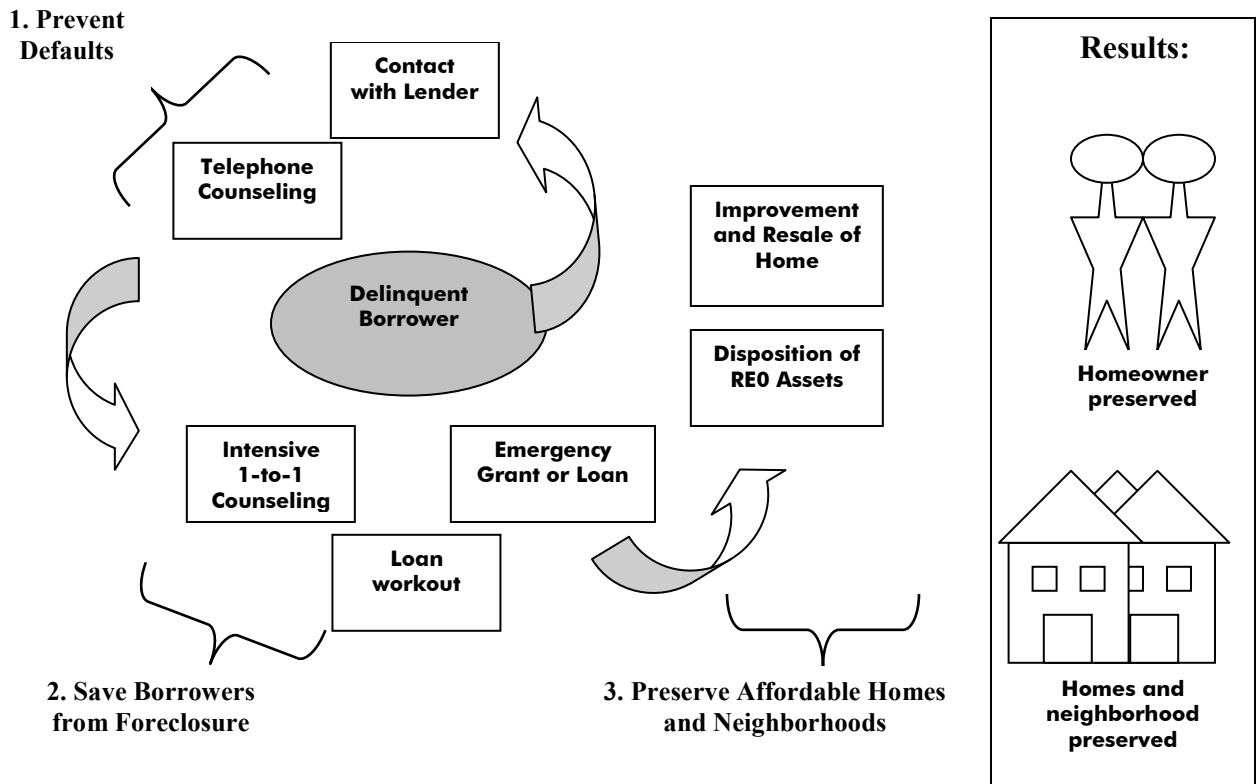
In collecting this information, all members of the HOPI partnership learned what was working, what needed to be adapted, and whether the goals were realistic. For example, during the first year, NHS counted bankruptcies as a foreclosure save.¹ However, many of these families were returning to NHS later as the bankruptcy had only forestalled, not solved, their foreclosure. For FY2005 and FY2006, NHS chose to stop counting a bankruptcy as a foreclosure prevented.

At the end of FY2005, NHS audited the files of foreclosure intervention counseling clients, flagging cases where the counselor recommended that families in foreclosure should sell their home. Typically homeowners do not contact NHS again in these cases, but using public property records in RealInfo, an online database of real estate transactions, NHS found evidence that 82 of these homeowners who took the advice of the NHS counselor and sold their home. NHS was therefore able to capture additional incidences of foreclosure prevention. Taking time to carefully track clients and refine data allows HOPI partners to measure progress towards the goals with increased accuracy.

These numbers are more than just statistics. They represent families, homes and blocks all around the city of Chicago. For the city, the homeowner and the lender they also represent money saved. Every foreclosure has a financial impact on the surrounding community, the city, and the lender or servicer who owns the loan. Recent research has helped to quantify these impacts.

¹ A “foreclosure save” is when a borrower receives a repayment plan, loan workout or prevention loan, or performs a preforeclosure sale.

Figure 2. HOPI: Preserving Individual and Community Assets



Neighborhood Savings: In a recent publication by the Woodstock Institute entitled “There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values,” researchers Dan Immergluck and Geoff Smith analyzed 9,600 property transactions in Chicago during 1999 to determine the impact of foreclosure on property value. Their most conservative estimate indicates that each conventional foreclosure causes a 0.9 percent decrease in property value on properties within one-eighth of a mile of the property, or approximately \$139,000 when averaged across the City of Chicago. Using this as a measure of the impact of avoiding foreclosure suggests that by preventing 1,304 foreclosures, the HOPI partnership saved Chicago homeowners a collective \$181 million in property values over three years.

City Savings: When a foreclosure occurs, the city incurs costs associated with recording, transferring and securing the property or deed that are not reimbursed through fees. In a few cases, this process goes smoothly and the property is never left vacant. In such cases, the total cost to the city can be as low as \$27, according to “Collateral Damage: The Municipal Impact of Today’s Mortgage Foreclosure Boom,” a recent report authored by William Apgar of Harvard University’s Joint Center for Housing Studies. In the more likely event that the home becomes vacant, the total can run as high as \$34,199 in *direct* costs to the city. Not all homes in foreclosure become vacant, but many do require city services. Assuming an

average municipal cost of \$6,937² per foreclosure, the 1,304 saves achieved by the HOPI partners saved the City of Chicago approximately \$9 million over three years.

Lender/Service Savings: A 2005 study by Freddie Mac researchers Crews Cutts and Green cites an industry analysis showing the cost of a foreclosure for the lender averages \$58,800. Based on this cost, and assuming all HOPI clients would have moved into a completed foreclosure in the absence of HOPI services, the prevention of 1,304 foreclosures saved lenders and servicers in the Chicago market \$77 million.

Placing an estimate on the economic benefits of preventing foreclosures is challenging. Based on these assumptions, however, the total projected value of HOPI services to local government, residents and the financial industry is over one-quarter of a billion dollars. NHS and the City of Chicago Department of Housing made investments in HOPI over 3 years of approximately \$4.8 million to provide marketing, counseling, and building reclamation. This figure does not include the investments of the HOPI lender partners or the direct subsidies to reclaim vacant buildings. However, it still represents a significant return on investment.

Table 2. Total Savings for Chicago Residents, Government and Lenders

<i>Category</i>	<i>Formula</i>	<i>Savings</i>
Neighborhood property values	1,304 x \$139,000	\$181 million
City enforcement and processing savings	1,304 x \$6,937	\$ 9 million
Lender/servicer savings	1,304 x \$58,800	\$ 77 million
Estimated total savings		\$267 million

Source: Apgar et al. 2005.

² The number is a weighted average of five common outcomes of properties in foreclosures cited in the Apgar study. This estimate assumes the following outcomes for the 1,304 NHS saves: 50% vacant and secured properties; 20% vacant and unsecured; 15% vacant and unsecured tracked for demolition; 10% abandoned properties; and 5% properties affected by fire.

HOPI Activities and Innovations

Preparation and Prevention

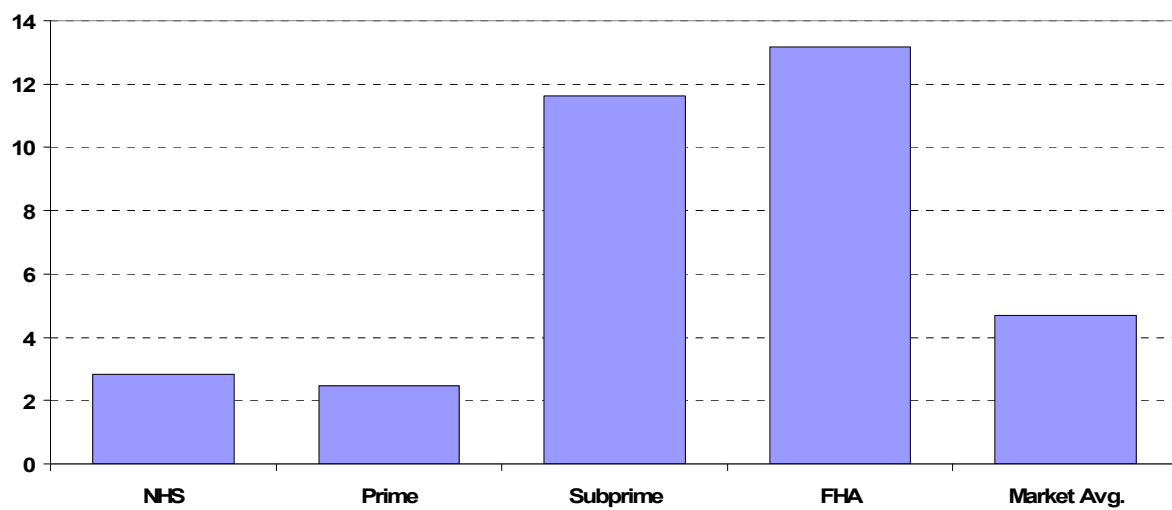
The first line of defense against delinquency and foreclosure is a well-educated borrower who understands his or her mortgage and what to do if he or she faces difficulties. Research conducted on Freddie Mac loans indicates that prepurchase counseling reduces the occurrence of delinquency and foreclosure by as much as 19 percent when borrowers received group counseling and 34 percent when they engaged in one-on-one counseling (Hirad and Zorn, 2001). In addition, classes geared toward existing homeowners provide additional opportunities for educating current mortgage holders on how to handle delinquency. Through the HOPI partnership, NHS is working with hundreds of new and existing borrowers every year — equipping them to avoid foreclosure and delinquency. Between 2003 and 2006, more than 4,000 individuals attended NHS's prepurchase homebuyer classes, an additional 1,000 came to a postpurchase education outreach, and many more came in for one-on-one counseling. These clients represent a significant number of borrowers with a reduced risk of foreclosure.

Prepurchase Education

NHS and other housing counseling agencies have worked for many years to create more educated borrowers in the hope of reducing the likelihood of delinquency and foreclosure. NHS offers an eight-hour training curriculum for first-time homebuyers that includes information on budgeting, credit management and homeowner rights, in an effort to prepare and inform buyers about some of the challenges that may arise in their new role as homeowner. The classes are held four nights a week at four locations around the city. In addition, NHS offers classes in Spanish six times a month at two different locations.

Since NHS began requiring eight hours of education, the incidence of delinquency in the Neighborhood Lending Program loan portfolio of over \$60 million has outperformed its industry index. NHS's delinquency rate (30+ days late) on loans originated in the last three years is 2.8 percent — significantly lower than that of FHA (13.8 percent), which lends to a similar population. In fact, during the fourth quarter of 2005, the delinquency rate for NHS's loan pool was on par with that of the prime market (2.5 percent), despite the fact that the low- and moderate-income neighborhoods where NHS lends are dominated by subprime lenders. See Figure 3, next page.

Figure 3. Comparison of NHS Chicago Delinquency Rates to Industry Benchmarks
(Percent Delinquent, 4th Quarter 2005)



Source: NHS of Chicago, Inc. Finance Committee Reports; Mortgage Banker's Association.

Lender Workshops

One of the concerns for nearly every servicer or lender in the HOPI partnership from the beginning has been contacting and communicating with delinquent borrowers. According to a 2005 Freddie Mac study, servicers are unable to make contact with approximately 50 percent of their defaulted borrowers (Cutts and Green, 2005). Lack of contact restricts the company's ability to offer repayment plans, loan workouts, or find other solutions to the delinquency, which ultimately increases the likelihood of foreclosure. Many lenders and servicers believe that if they can make positive contact early in the process, or even before the mortgage is delinquent, that they could find better solutions for the borrower and lender. An effective way to make such contact, according to the research conducted by NHS (discussed in Section 4) is through partnership with a trusted third party like NHS.

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

The workshops are now offered six times a year in neighborhoods with high rates of foreclosure. Over the past three years, NHS has partnered with six lender/servicers to offer 14 workshops reaching 433 households.

Postpurchase Curriculum

While the workshops hosted with HOPI lender partners serve as an excellent way to make first contact with homeowners and borrowers, the two-hour time frame is insufficient to cover the many questions and issues that are often raised during the sessions. Across the board, attendees at the lender workshops were asking for more information about refinancing, home improvement loans, taxes and insurance. In response, NHS developed a four-part, eight-hour curriculum to address the postpurchase education needs of existing homeowners.

The new postpurchase curriculum was launched in November 2005 and is taught every other week at two locations. NHS of Chicago uses a curriculum developed by NeighborWorks[®] America as the basis for its new postpurchase classes. The four classes listed below provide a time and place to delve more deeply into some of the issues facing current homeowners.

- Class I: How managing your finances can save you time, money and trouble.
 - *Budgeting, credit, saving and recordkeeping*

- Class II: How to protect yourself and your money when refinancing.
 - *Loan terms, preserving equity, predatory lending and foreclosure.*

- Class III: How to handle your property taxes and homeowners insurance.
 - *Property and income taxes, home safety, and homeowners insurance.*

- Class IV: Making sure your home does not become a money pit.
 - *Home improvements and maintenance, energy conservation and record keeping.*

No monetary incentive is offered for these classes and hence the attendance is lighter than the lender workshops. Moving forward, NHS will try new marketing and outreach techniques to existing borrowers to make them aware of this new resource.

Direct Intervention

A certain level of default is inevitable, even with the most educated borrowers, so the HOPI partnership has positioned itself to assist borrowers who are delinquent with strategies to prevent the ultimate foreclosure of their property. Successful intervention requires participation by all sectors in the HOPI partnership. The city has contributed significant resources to raising awareness of the issue, establishing a system for reliable referrals, and providing special foreclosure prevention resources. NHS has become an industry leader at direct counseling, and lender partners are using proactive loss-mitigation systems to achieve lower foreclosure rates. Together, these efforts have created a diverse set of services that reach troubled borrowers in different places and different situations.

311 Referral Program and Marketing

In January 2004, Mayor Richard M. Daley launched an aggressive outreach campaign to encourage homeowners at risk of foreclosure to use the city's 311 non-emergency information phone number. The campaign, dubbed "Every Minute Counts," was intended to communicate to troubled borrowers the need to take action and provide them an easy way to do so. Through the campaign, homeowners having difficulty paying their mortgages were urged to call 311. The 311 operator serves as the first point of contact for a troubled borrower in search of assistance with their mortgage and have been trained by NHS staff to identify key words that indicate the need for foreclosure counseling or interventions.

After an initial screening by the 311 operator, the caller is immediately transferred to a credit counselor for counseling on the telephone. The counselor helps assess the caller's financial situation, reviews possible options, develops a homeowner action plan, makes referrals to city resources, and if appropriate, serves as a liaison between the homeowner and the loan servicer.

Counseling for the 311 program is provided through the Credit Counseling Resource Center. CCRC is an affiliation of four nonprofit credit counseling agencies, including Springboard Consumer Credit Counseling, Novadebt, Auriton and Consumer Credit Counseling Services (CCCS) of Atlanta. Services are provided free of charge to the homeowner. Approximately 60 percent of the counseling sessions were paid for by participating HOPI lenders in 2005. Originally, the City of Chicago paid for the remaining 40 percent, but a recent grant from the Homeownership Preservation Foundation (HPF) now covers the non-HOPI partner portion.

In many cases, the telephone counselor works with the homeowner and the loan servicer to develop a workout strategy. In other cases, the caller is referred to NHS or a Department of Housing delegate agency for a foreclosure prevention loan or mortgage refinance, or to a city agency for help with employment, tax assistance or other needs.

NHS staff have conducted training for CCRC counselors on the services and products offered by NHS of Chicago to ensure that the referrals made are appropriately. 311 referrals make up approximately 20 percent of the NHS foreclosure counseling case load. Cases referred to NHS tend to be more complicated and more difficult to solve and generally require additional time and resources.

The City of Chicago spearheaded marketing for this program, including a mayoral press conference at the 311 Center, a continuing information segment on the "Chicago Works" cable television channel, a six-month advertising campaign on 200 elevated trains and buses, and targeted mailings to zip codes with high foreclosure rates during 2004. The Department of Housing has also promoted the program through housing fairs, expos, aldermen's offices, and newsletters. In February 2006, a follow-up campaign was launched that refocused attention on 311 as a foreclosure resource by running a new "Chicago Works" segment on cable television and doing a second round of targeted postcard mailings to high-foreclosure neighborhoods. Some HOPI partner lenders also sent postcards to their borrowers in high-foreclosure communities.

Over the last three years, 1,100 homeowners have completed a counseling session through the 311 program. Focus groups hosted by NHS gave valuable feedback on the importance of the 311 service. As foreclosure rescue and fraud have grown in the last few years, borrowers expressed that they frequently did not know who to trust when facing foreclosure or delinquency. Homeowners in trouble felt that going through the City of Chicago to find a trusted third part was extremely important service and ensured that they would not fall victim to a scam.

Success Story

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

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

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

One-on-One Counseling

Whether individuals in foreclosure find NHS through 311 or word of mouth, direct intervention usually takes the form of one-on-one counseling with the homeowners. NHS counselors are experienced with assisting delinquent borrowers in exploring all options available to them to maintain homeownership and/or avoid foreclosure. Frequently, the counselor assists the owner in gathering all the needed documentation so that the servicer can correctly judge the workout scenario. Counselors can also help identify fraudulent and abusive loans that can be remedied with legal assistance and cooperation from the lenders.

Most frequently, NHS counselors are able to prevent foreclosure by serving as a liaison between the owner and their lender. In 44 percent of cases, a homeowner is assisted in avoiding foreclosure by working through the NHS counselor with his or her lender to develop a repayment plan, loan modification, or forbearance agreement. Several lender and servicer partners have established expedited communication between nonprofits and their loss-mitigation staff to increase the chance of a successful resolution. In recognition of their efforts, NHS has begun to award outstanding servicing staff with the "Loss Mitigation Professional of the Quarter" award.

Approximately 20 percent of “saves” are achieved with a new loan, usually made affordable with the assistance of NHS grants and special forgivable loans. These small catch-up loans are frequently paired with a refinance, rehab, or reverse mortgage loan to keep the owner in place.

Success Story

Ms. S owned her home for 27 years and had refinanced four times in the previous 10 years. In doing so, her monthly payments had steadily increased from \$800 to \$1,300 a month. When her husband lost his job and was later diagnosed with cancer, they could no longer afford their mortgage payments and the situation looked grim.

Ms. S. came to NHS in 2005, a few months behind on her mortgage. Upon reviewing her file, NHS counselor Flo Bernard discovered that the couple had also defaulted on a bankruptcy payment, were paying for forced-place insurance, their gas service was turned off, and they had not received any of their property tax exemptions.

Flo worked with the lender to put in place a forbearance agreement for six months while the couple and counselor worked on the other financial issues. When the forbearance was up, she helped the couple apply for a loan modification, but was denied. Not put off, Flo called the loan underwriter and pleaded her clients' case. Eventually, the lender agreed to a repayment plan. Sadly, her husband passed shortly thereafter and Ms. S could not afford the repayment plan. She returned to NHS at which point Flo worked with her to obtain a reverse mortgage. Ms. S did not receive any cash out from the reverse mortgage, but she was able to pay off the lender and is now only responsible for insurance and tax payments. She can comfortably live on her fixed income with this arrangement.

Throughout the process Ms. S attended nearly all of NHS'S classes. “The most valuable thing I learned was don't listen to the predatory lenders, they'll put you in a worse mess than where you started” says Ms. S. Her advice to others in similar situations is to, “go to NHS first, get counseling, go to the classes. You don't know what you don't know.”

NHS counselors also frequently must advise a clients to sell their homes so that they can recapture some of their equity, repair their credit, and hopefully become homeowners again in the future. In some cases they are able to work with the lenders to extend the foreclosure time line in order to give the homeowners additional time to sell the property. Review of the FY2005 foreclosure saves revealed that while only 11 percent of “saves” were achieved through property sale, an additional 82 clients decided to go this route after exhausting other options for a total of 40 percent.

To achieve these saves it is necessary for NHS front-line counseling staff to continually improve their skills and find new solutions to foreclosure. NHS has hosted peer-to-peer learning and training sessions with partner loss-mitigation staff and is planning training for counseling staff on advanced methods of foreclosure intervention. These sessions allow NHS staff to share their expertise and perspective with servicing staff and also for servicers to share their decision-making process with the counselors.

Faith-Based Outreach to Combat Mortgage Fraud

One of the most alarming foreclosure trends of the last few years has been the rise in foreclosure and rescue fraud. Families at their most vulnerable are preyed upon by scam artists offering a quick fix to their foreclosure. The assistance provided to the homeowners all too often leaves them in a worse situation, either bilked out of cash through fees or renting their own home back from the scammer, who charges them more than they can afford and eventually evicts them. Some of the worst of these predators market themselves under the guise of faith-based organizations, preying upon peoples' willingness to trust.

To combat this type of fraud, HOPI partnered with a coalition of religious leaders on the South and West sides of the city to get the word out about foreclosures and mortgage fraud. In January 2006, NHS and city staff met with 48 ministers, rabbis, and imams to brief them on the growing problem of mortgage fraud in their communities. The leaders agreed to partake in "Home Ownership Preservation Sunday," a day of concerted outreach to the communities in which foreclosure is having the greatest impact. On "Home Ownership Preservation Sunday," February 12, 2006, these leaders distributed information and literature to their congregations about reputable housing counseling agencies, encouraged congregants to seek help at the first signs of trouble, and recommended that homebuyers and homeowners take proactive steps to inform themselves about their largest single investment. The outreach coincided with the second round of 311 advertising and targeted mailings in these communities.

At the press conference announcing the initiative, City of Chicago Housing Commissioner Jack Markowski said, "Too many of our most vulnerable homeowners fall prey to fraudulent lending practices, and today we are proud to launch this important partnership that will safeguard our neighborhoods by keeping our residents, including seniors and first-time homeowners, in their own homes."

Reclamation of Vacant and Abandoned Buildings

One of the most devastating impacts of foreclosure is the creation of a vacant building, which becomes a magnet for crime and drugs. Without timely intervention, foreclosed housing stock may be demolished or repurchased by investors who under-improve the properties and create another cycle of disinvestment. In other cases, demolished affordable housing stock cannot be replaced — due to high construction costs — and the value of the surrounding homes is diminished with the creation of a vacant lot. When foreclosure is unavoidable, lenders, municipalities and community-based organizations must focus efforts on preserving properties for affordable homeownership by a new owner-occupant.

HUD ACA Program

The U.S. Department of Housing and Urban Development has been an important partner to the City of Chicago and NHS in reclaiming vacant properties for homeownership. NHS Redevelopment Corporation (NHSRC), the development arm of NHS, is a HUD-approved not-for-profit organization, and as such receives a 30 percent discount on HUD-foreclosed properties in revitalization areas. In addition, NHSRC is a participant in several targeted HUD revitalization programs, including the HUD Asset Control Area (ACA) program and the Chicago Rehab Initiative, that provide discounts and right of first refusal for participants.

Through these programs, NHS has been able to achieve targeted revitalization impact and affordable homeownership opportunities for low- and moderate-income families.

Over the course of the HOPI program, NHS has worked with HUD to return 121 properties to homeownership through these efforts. However, as FHA foreclosures decline, NHS must turn to new sources of properties for reclamation.

REO Donated and Discounted Properties Program

Properties in foreclosure, particularly in older cities, often exhibit deferred maintenance and deterioration. Many of these properties have low value for the financial institution's Real Estate Owned (REO) department. The normal foreclosure and property disposition process followed by servicers results in sale of a majority of these properties to investors and speculators at a loss to the lender, which can cause problems and disinvestment in the community. Because of their location within an NHS target area, these properties may be of strategic value to neighborhood revitalization if rehabbed and sold to a new owner-occupant.

Through HOPI, many loan servicers have begun working with NHS to monitor their REO inventory for "low value" and strategically located properties suitable for donation or deep discount to NHS. NHS provides the lenders a zip code list covering the eight NHS target communities, and lenders compile monthly or quarterly REO reports of properties in these communities. Once a property is identified and a price negotiated, NHS acquires the property, rehabs it, and sells to an owner-occupant. The City of Chicago provides appraisal gap subsidy as needed to enhance the amount of rehab that can be completed on the property. The result is a win for all partners. The financial institution can transact a quick sale and remove the trouble property from its balance sheet. The newly rehabbed home provides an affordable housing opportunity for a low- or moderate-income family. Neighborhood market values are preserved, and the block improves.

In February 2006 NHS challenged partner lenders and servicers to engage their REO departments in the following ways.

- Notify NHS, the city, or the Community Investment Corporation when REO departments suspect mortgage fraud may have been the cause of the foreclosure.
- Provide NHS the opportunity to act as a full-service REO broker to market properties to homeowners, thus using the property as a tool for homeownership and neighborhood stabilization.
- Work with NHS on Exclusive Listing Agreements, whereby NHS would be given a 90 day time frame to market property exclusively to owner-occupants utilizing its purchase rehab facility.
- Commit to transfer six properties to NHS under HOPI via the lender donation and discount program.

Many HOPI partners have taken advantage of one or more of these opportunities.

Table 3. REO Donated and Discounted Properties Program, 2003–2005

HOPI Partner	Donated and Discounted Properties
Chase	6
Citigroup	5
Fannie Mae	2
GMAC/RFC/Homecomings	2
Washington Mutual	2
ABN AMRO	1
Bank One	1
GMAC Mortgage	1
Household	1
Option One	1
Total	22

Source: NHS of Chicago, Inc.

Troubled Buildings Initiative II

The goals of the single-family Troubled Buildings Initiative II (TBI2), an initiative of the Mayor’s Office, are to reclaim vacant, abandoned properties for affordable housing, strengthen blocks and neighborhoods by eliminating the blighting effects of vacant properties, and enforce city building code requirements. Funded by the City of Chicago Department of Housing, buildings are referred to the program through city departments, aldermen, community development organizations and concerned citizens. NHS Redevelopment Corporation serves as the administrator of the program for the Department of Housing to perform the following program functions:

- Acquire vacant 1–4 unit properties, rehab them to a safe, marketable condition in compliance with all city building codes, and sell to low- and moderate-income owner-occupants. Properties are acquired from HUD, foreclosing lenders or private owners, or through court proceedings.
- Provide or manage receivership services to repair dangerous and hazardous conditions present at 1–4 unit properties
- Administer TBI appraisal gap subsidy of up to \$40,000 for troubled buildings rehabbed by approved developers.
- Coordinate strategies with city departments at monthly meetings to acquire troubled buildings and/or enforce code violations of troubled buildings.

In the first year of operation, the TBI2 program recovered a total of 133 units in 99 buildings, exceeding the original goal of affecting 120. The cost, including administration, gap

subsidies and receivership costs, has totaled just under \$1.7 million, or an average \$11,000 subsidy per reclaimed unit of housing, a significant savings when compared to the cost of constructing a new affordable housing unit.

One innovative tool that the city and NHS have piloted through the TBI program is the use of receivership, whereby problem buildings are placed under the control of a nonprofit rehabber and brought up to code. Of the 133 units reclaimed through TBI2, 21 have been achieved through the receivership pilot program. When a building is placed in receivership, the nonprofit agent is authorized to begin making repairs to the property and recoup those fees from the owner. More often than not, however, the receivership notice prompts the owner to make the repairs him- or herself, saving the city time and money and achieving the desired outcome of a safe and functional building.

In conjunction with TBI2, the city has also implemented a Slum Nuisance Abatement Ordinance, which enables them to aggressively address problem buildings and preserve affordable housing. The ordinance, which went into effect in 2005, broadened the definition of a public nuisance, added a fine provisions for building owners, agents, managers or lien holders if the property is found to be a public nuisance, and holds lenders liable for code violations if they do not fix slum properties. Owners and lenders of nuisance buildings are forced to either make repairs or relinquish the property. The city hopes that such aggressive tactics will motivate all parties with an interest in a property to take the necessary action to keep that property in good condition. Additionally, it gives the city an option other than demolition when they encounter vacant buildings, which ultimately preserves affordable housing opportunities.

Under the direction of Mayor Richard M. Daley, over the next twelve months NHS and the city will strategically focus on 475 properties identified as vacant and open by the City of Chicago. While all vacant buildings pose problems to a community and especially the blocks on which they are located, the 475 vacant and open buildings are particularly troublesome because of the public safety issues they create. The Police Department is issuing citations to owners of the properties for failure to secure the properties. The Department of Buildings is inspecting all the properties for code violations, and cases are being referred to the Department of Law for prosecution. In all cases, if the owner fails to address code violations, the city will aggressively seek demolition, the appointment of receivers, or forfeiture of title against the owner. The desired outcome on all feasible properties is that they are transferred to responsible owners and rehabilitated as affordable housing.

Figure 4. A Successful Rehab Through the Troubled Buildings Initiative II



A grant from TBI2 and rehab from NHS Redevelopment Corporation transformed the property at 846 North Drake in West Humboldt Park from an eyesore (at left) into an affordable homeownership opportunity (at right).

NHS Purchase Rehab

Another resource for reclaiming vacant and troubled buildings is by assisting would-be homeowners with direct lending. NHS provides such purchase/rehabilitation loans and major rehab services to owner-occupant buyers and borrowers. Individuals interested in purchasing an unimproved home are assisted by a construction specialist who works with them throughout the rehab process to make sure that the work is completed safely and properly. By improving the home, NHS helps eliminate safety concerns, including fire hazards and lead-based paint hazards, and lowers costs by installing more energy efficient systems and replacing windows. The end result is a lower interest rate loan, a safer house, less expensive operating costs, and a great start for the new homeowner. A combination of private funds invested by NHS partners and public funds from the City of Chicago makes these deals affordable and give families a better option than high-priced home equity loans and refinances that may lead to foreclosure. During the last three year, NHS has assisted 76 homeowners to reclaim buildings using this product.

Research and Development: Lessons Learned

The first HOPI meeting was launched based on research using data provided by the National Training and Information Center (NTIC) regarding foreclosure starts and completions in Cook county from 1993 to 2001. By focusing attention on the rapid rise in foreclosures and the concentration of foreclosures in low-income and minority areas, HOPI began to develop strategies for intervention. Over the last three years, NHS and HOPI partners have continued to support and facilitate research on foreclosure issues. Each of these efforts is briefly summarized below; more detail on each is available from NHS and its partners.

Tracking Counseling Data

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

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

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

³ In the 2000 Census, Chicago’s population was 37 percent African American, 26 percent Hispanic/Latino, 31 percent White (not Hispanic/Latino), and 4 percent Asian.

CCRC counselors track clients using a separate online database. Approximately 20 percent of clients are in both NHS and CCRC databases. CCRC data confirms many of the findings of the NHS data, including borrower characteristics and financial situations. These data also have extensive field notes, including information on the causes of foreclosure. These data provide detailed evidence of borrower situations, including descriptions of family problems, health crises, job losses and other issues that can trigger or exacerbate a foreclosure. Approximately 1,300 of these records were filtered and then 800 were coded using specialized software. This analysis shows job loss, health problems and bankruptcy are among the most frequent problems causing a foreclosure, although they often occur simultaneously. While some clients made accusations that their lender or servicer was problematic, very few records, fewer than 1 percent, included any discussion of fraud or predatory lending or servicing. Elderly clients frequently cited multiple problems with health and illness, combined with high expenses. Automobile expenses, utility bills, taxes, insurance and home repairs were also frequently mentioned as expenses that had made it difficult for the borrower to meet their mortgage payments. Many clients suggested they called 311 or NHS for help based on what they heard on TV or from Mayor Daley. Many clients also discussed how much they appreciated the availability of help through the 311 hotline.

Overall, CCRC counselors were able to conduct a full counseling session (generally lasting about an hour) resulting in a plan for repayment with two out of five callers. About one caller in five was referred to NHS, Chicago's Tax Assistance Center or other agency, and another one in five was advised to sell the home prior to foreclosure. Nearly 10 percent also required extensive budget counseling. The remainder pursued other strategies.

Analysis of Caller Volume Data

Caller volumes to the 311 mortgage default hotline were very high when the program was officially launched with press attention and an announcement from Mayor Daley in March 2004. Thereafter, the city sent 65,000 postcards to neighborhoods with high foreclosure rates and funded 200 advertisements for display on 'El' train lines throughout Chicago (see next page for an example). High call volumes at that time demonstrate that these marketing efforts clearly worked. Figure 5, below, indicates that the number of callers has declined over time, however. The city and HOPI partners recognize that further marketing efforts are needed. Borrowers need to be continuously reminded that the 311 city services telephone line has a special program for mortgage delinquencies. HOPI expanded its outreach efforts to promote use of the 311 hotline for mortgage borrowers in early 2006 using local faith-based institutions, community-based agencies and city-sponsored cable TV programs.

Figure 5. Number of 311 Calls Connected to CCRC by Month

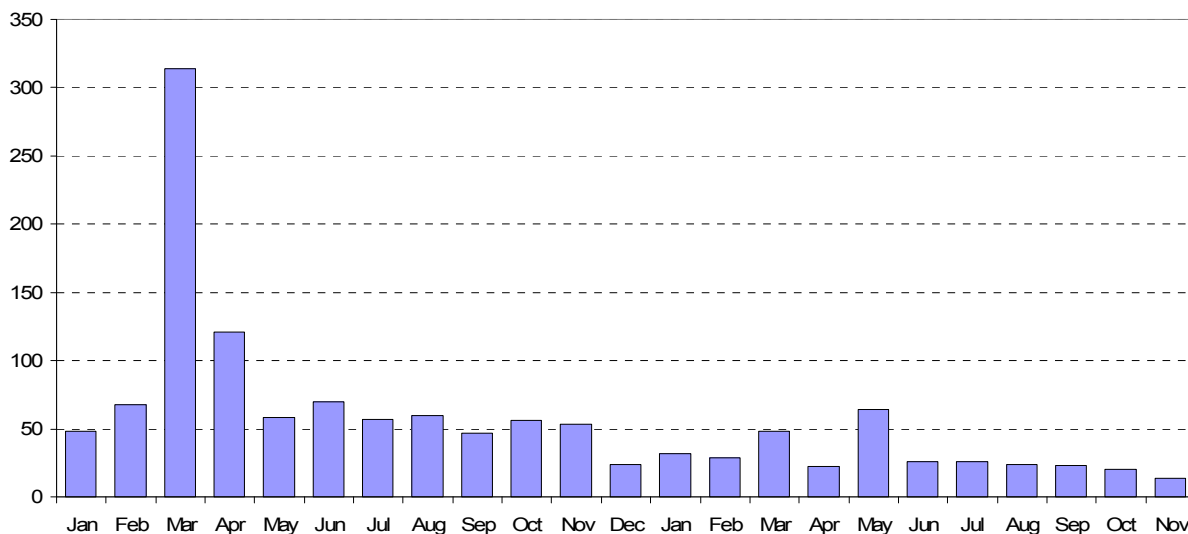


Figure 6. Advertisement for 311 Hotline



Surveys of Workshop Participants

To the extent educational workshops and counseling can help borrowers prepare better for unexpected events and facilitate dialogue with their lenders, the better borrowers will be able to manage difficulties if or when they arrive. In 2005 NHS instituted a survey of the knowledge and perceptions of workshop participants to better understand their understanding of their mortgage and how to manage a default.

These data find workshop participants (borrowers not in default):

- 48 percent have never talked to their mortgage servicer.
- 36 percent of borrowers making late payments have never spoken with their servicer.
- 45 percent do not have an escrow account for taxes and insurance.
- 22 percent have an emergency account for expenses in case of illness or job loss.
- 69 percent are interested in having repairs or improvements made to their home.

The workshop survey also asks questions regarding the client's level of knowledge regarding his or her mortgage. Over one-third believe that bankruptcy could help save their home from foreclosure, although in most cases bankruptcy provides little protection. A slight majority (51 percent) do not know their lender or servicer might provide alternatives in crisis situations. And over a quarter think their lender is required to provide the lowest possible interest rate. These findings suggest borrowers have substantial gaps in their understanding of the way their mortgages are structured and details of their mortgages. Workshops can help remedy this situation.

The Chicago Mortgage Default Counseling Survey

In August 2005, NHS conducted a follow-up survey with 750 clients who had received face-to-face counseling, and with 794 clients who had received telephone counseling from CCRC. In addition to demographic and financial characteristics, the 50-item survey included questions related to:

- default counseling services received,
- the borrower's perception of his or her lender and community programs,
- how and why the borrower took out the mortgage,
- causes of default,
- physical symptoms of stress, and
- financial knowledge.

A total of 299 borrowers fully completed the survey (25 percent of valid addresses). Cook County property records were matched to each respondent, providing information on initial foreclosure filings, the recorded amount of the mortgage lien, and if the home was sold or foreclosed. Among the 293 addresses returned by the post office, an analysis of public records shows 55 percent were foreclosed while 45 percent were sold prior to foreclosure.

Causes of Foreclosure

Respondents were asked what caused them to become delinquent on their mortgage. Results are shown in Table 4. The survey permitted selection of multiple causes, with combinations of employment issues and health problems the most common.

Table 4. Self-Reported Causes of Delinquency
(total exceeds 100%)

Loss of Job	47%
Medical Problem	28%
Unfair Loan Terms	20%
Income Reduction	20%
Home Repair or Improvement	19%
Injury or Accident	19%
Death in Family	18%
Credit Card Mismanagement	15%
Tax Problem	12%
Divorce or Separation	9%

Source: 2005 Chicago Mortgage Default Counseling Survey; n=299.

Credit History

About 27 percent of borrowers report having been through a foreclosure on a mortgage before. An astounding 58 percent say they or their spouse or partner has filed for bankruptcy at some point in their lives. Only 11 percent have a savings account or any funds in case of needed home repairs.

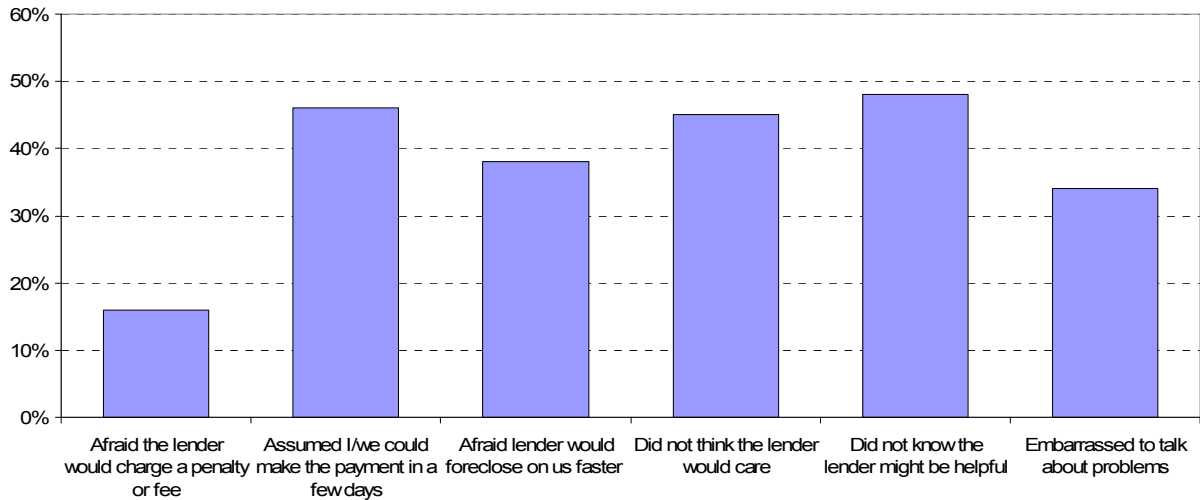
Borrowing History

Although most respondents (73 percent) say they should have been approved for their loan, more than one-third (37 percent) wish they had shopped around before taking their current mortgage. As may be expected, most of the clients surveyed reported having higher-rate mortgages (above 8 percent interest rate), and nearly half also report having an adjustable-rate mortgage.

Borrower Satisfaction with Lenders/Service

Almost half of borrowers (48 percent) rated their lender's willingness to help as "low," and only 9 percent rated their lender's willingness to help as "high." On a four point scale, with 4 being high and 1 low, lenders scored 1.9, equivalent to a score between low and fair. Most borrowers say they did try to contact their lender when they ran into trouble making payments. Among those who did not talk to their lender, most did not know the lender would or could help, or assumed they could solve their own problems, as shown in Figure 7.

Figure 7. Responses to Question “Why Did You Not Contact Your Lender/Service?”



Source: 2005 Chicago Mortgage Default Counseling Survey; n=299.

Stress Indicators

The survey included a number of questions regarding the frequency of various symptoms of stress, including fatigue, headaches, fear of losing control, loss of appetite, stomach or back pain and nightmares. These symptoms were mentioned by many respondents, with almost one in four mentioning that they experience all seven symptoms as frequently as “sometimes” or more.

Table 5. Respondents’ Symptoms of Stress

(0 = never; 1 = rarely, 2 = sometimes, 3 = often; 4 = always)	Average
Frequency of headaches	2.9
Frequency of extreme fatigue	2.8
Frequency of fear of losing control	2.7
Frequency of stomach and/or back pain	2.5
Frequency of embarrassment	2.5
Frequency of nightmares (1-5 scale)	2.4
Frequency of loss of appetite	2.3

Source: 2005 Chicago Mortgage Default Counseling Survey; n=299.

Financial Literacy

The survey also included a series of questions regarding the respondents' self-assessment of financial behavior and knowledge. Respondents view themselves as good at providing for their family but perceive their knowledge about investing and their ability to actually save money as low. A surprisingly large share, given their default status, view themselves as “okay” or better at controlling their spending and knowing their credit rating.

Table 6. Respondents' Self-Reported Financial Literacy

<i>Financial Literacy self-grading on 1 to 4 scale</i>	
Providing for family	3.4
Controlling spending	2.9
Knowing credit rating	2.7
Planning for future	2.3
Finding a mortgage	2.3
Saving money	2.1
Know about investing	1.8

Source: 2005 Chicago Mortgage Default Counseling Survey; n=299.

Counseling Delivery

Clients in HOPI may receive counseling face-to-face, on the telephone, or by both modes of delivery. Out of a total of 299 valid responses, 129 clients received only telephone counseling through CCRC (43 percent), 113 received only face-to-face counseling through NHS (38 percent), and 57 received both telephone and face-to-face counseling (19 percent).

The type of counseling use varies by income. Among clients with incomes over \$30,000, telephone counseling is more frequently used. For higher-income borrowers, the opportunity costs of going to face-to-face meetings or pursuing multiple modes of counseling are relatively large compared to low-income borrowers. Thus for this segment the convenience of telephone counseling may be preferred. Low-income clients have the most significant limitations on their ability to repay even an restructured loan, and are therefore also more likely to seek out more time-intensive counseling.

Most borrowers found counseling useful, although responses varied by the type of counseling involved. Nearly half (46 percent) of telephone clients responded “I already knew or was doing what the counselor suggested,” compared to only 17 percent of clients receiving both phone and face-to-face counseling. Counselors were rated on a four-point scale. The average counselor score was 2.4, which is about a 25 percent higher rating than that given by the same borrowers to their lenders.

Table 7. Counseling Delivery

	<i>Telephone</i>	<i>Face-to-face</i>	<i>Both modes</i>	<i>Full sample</i>
Time counseled (hours)	1.3	2.2	2.6	1.9
Number of counseling sessions	1.5	2.2	2.9	2.2
% “Already Know” counseling content	46%	25%	17%	31%
Rating of counseling helpfulness (1-4)	1.9	2.6	2.8	2.4

Source: 2005 Chicago Mortgage Default Counseling Survey; n=299.

Helpfulness Ratings and Time in Counseling

Based on NHS data and analysis of foreclosure filings, the time in counseling may be an important predictor of success for a client at risk of foreclosure. Survey respondents recall participating in 2.2 counseling sessions for a total of 1.9 hours of counseling. Analysis using various multivariate statistical models shows an additional hour of counseling is associated with higher borrower ratings of services received, controlling for other factors. Each additional hour of counseling provided increases the mean helpfulness rating of 2.4 by 0.4, or an increase of 17 percent. The more severe the borrower’s situation, the less receptive they are to counseling and the likely they are to have negative ratings of their counseling.

Foreclosure Outcomes

Based on public foreclosure records matched to survey responses, the more counseling received, particularly face-to-face counseling, the less likely a borrower is to complete a foreclosure given they have already started the process. However, borrowers receiving both phone and face-to-face counseling are more likely to foreclose, due to the severity of their situations and their seeking out multiple services as the auction draws near. Based on multivariate analysis, an additional hour of counseling reduces the probability of foreclosure within six months by 3.5 percent.

This survey provides insights into mortgage borrowers in default and the role of counseling. There is little evidence of differences in the mode of counseling overall, although face-to-face counseling is more frequently used and rated more highly among low-income borrowers than telephone counseling. In fact both modes serve important roles for some borrowers, especially those with multiple problems, and both are rated highly by some survey respondents. Counseling also has a positive effect on borrower’s ability to avoid foreclosure.

Loan-Level Analysis of Impact

A sample of loan performance for approximately 10 percent of clients calling 311 for foreclosure services was tracked by HOPI partner lenders. These data provide a snapshot of how borrowers perform after receiving services. Results suggest that 37 percent of callers in the sample have either cured or pursued a short sale, and of loans tracked for at least 4 quarters:

- 20 percent moved into foreclosure

- 32 percent were paid off
- 5 percent cured
- 36 percent have transitioned from no contact with the loan servicer in one quarter, to being in regular contact with the servicer the quarter after receiving counseling.

Table 8 shows the average quarterly transition for loans over at least two quarters. While borrowers may transition in and out of delinquency or foreclosure, these transitions from foreclosure to current are twice historic industry averages for subprime loans.⁴ Nearly two-thirds of borrowers maintain their status as current or nearly current, which suggests some lasting effects of interventions. Payoff rates also exceed industry averages, a sign that lenders and homeowners are able to exit from troubled situations without the costs of foreclosure.

Table 8. Average Quarterly Transition Rates for CCRC Loans in Tracking Sample

<i>From:</i>	<i>To:</i>			
	<i>30 or current</i>	<i>60 to 90 days delinquent</i>	<i>Foreclosure</i>	<i>Sold or paid off</i>
30 days or current	62%	24%	4%	10%
60–90 days delinquent	7%	45%	36%	11%
Foreclosure	6%	0%	82%	12%

Source: Tabulations of 217 total quarterly transitions from a sample of 75 loans.

Borrower Focus Groups

Building on the counselor case notes analysis and the Chicago Mortgage Default survey, in May 2006 NHS conducted focus groups to explore borrower experiences, perceptions and motivations when in delinquency or default. The findings help inform lenders and counselors on why borrowers lose contact, what can be done to encourage positive payment behavior, and guide outreach strategies. Five focus groups with five to eight participants, each lasting approximately 90 minutes, were held at a professional focus group facility. Each group had a different target demographic, from NHS or CCRC clients who brought their mortgage current, to those still behind, to those who started counseling severely delinquent. A transcript and video of the sessions provides a number of insights, including:

- Feelings of trust for NHS stem from the relationship with the City of Chicago and word-of-mouth reputation of NHS as a service provider.
- Many feel their broker misled them, although they mostly blame themselves for taking out their loan (or feeling so desperate they had to take out a loan).
- NHS was viewed positively by clients, although it varied by the staff person they worked with and how well NHS staff laid out the process and informed the client’s expectations.

⁴ Citigroup Global Markets, “Delinquency Transitions in Subprime Loans—Analysis, Model, Implications” March 17, 2004.

- CCRC phone counseling provided through 311 was viewed as helpful advice provided in a convenient format; the more severe the situation, the less useful phone counseling was perceived.
- Borrowers are under a great deal of stress, which has emotional and physical symptoms, and leads them to avoid phone calls and ignore mail.
- Borrowers feel no sympathy or empathy from their lender, although more severely delinquent borrowers dealing with loss-mitigation staff (not collections departments) had more favorable opinions.

The following quotes were typical:

How did you deal with missing a payment?

- “My problem was I started hiding my bills. My company went under. No one would hire me. I got more depressed and well, I did not know what to do. When I came out of depression... I am going ‘what the hell are these bills?’ ”
- “I was always week to week. I get paid, I pay my bills. I get paid, I pay my bills. Then it’s not there. Then you’re in trouble. I didn’t know which way to turn. I didn’t know there was help out there.”
- “To me, it was such an embarrassment. I didn’t even want to go to anybody. I felt embarrassed. I had been a very together young lady, work wise, financial wise. I’ve had a financial planner. I’ve worked a steady job. I pay my bills. But then you get embarrassed and you don’t even want to tell anybody.”

How did your lender treat you?

- “The people that call you when you owe... If I had money, I would pay you. And they keep asking you the same questions over and over and then finally I just go “okay fine — click.”
- “I had twenty people call my house. Out of that twenty, the twenty-first person actually listened to what I was telling her and said ‘wait just a minute, this department can help you.’”
- “Evidently the right hand doesn’t know what the left hand is doing... it just seems like the preservation department, they should send something that says ‘Okay, you can stop calling this lady’s house.’”
- “They make you feel like a deadbeat... the way they interrogate you, they seem like they want to catch you in a lie because the questions are repetitious. It seems like I’m a recorder now. Just turn me on and the only thing I’m going to say is blah, blah, blah. I’m not lying. I need help. This is what happened.”
- “You see their name on the caller ID. You don’t even pick up.”

Why do you trust NHS?

- “They’re connected somehow with the City of Chicago so I trust the City of Chicago because they give services and all of that. I’m familiar with that. Another thing I like about NHS is they really try and help low-income people.”
- “They have no ulterior motives. They have nothing to gain and nothing to lose. They’re just ‘this is it; this is it, now you do something.’”

- “They’re a lot more compassionate...you don’t feel like you’re being put down. Even though they could hang up the phone and laugh, oh I just got finished talking to this, whatever. I don’t feel that.”

Why did you call 311?

- “I just don’t have the time; I work from 9:00 to 5:00; with all that stress; by the time we get settled in fixing dinner or whatever, it’s 8:00...with a 24 hour hotline — most people don’t sleep from stress of losing their house — they can call and receive information. So a 24-hour hotline is really good.”

Why did you refinance?

- “The first four times it was a lower rate with a lot of money. And then you get greedy.”
- “I had a NHS loan with three percent and I should have stayed. My house would be paid for...My husband and I were like ‘let’s pull some money out.’ We did some upgrades to the home. We took vacations and we bought cars and we did all this other stuff, not really intellectually realizing what we were doing. We could have paid for the house and still did that stuff without having the money out of your pocket to down pay a bigger mortgage loan. So I’ve learned.”

If you were a lender, how would you do things differently?

- “I would be more compassionate. Just go that extra mile, you know, out of compassion.”
- “The bottom line is people want to keep their home. If you’re going to talk to me, you want to keep your home. But just say what is it you need for me to help you to keep this home. (pointing) He needed time. He needed understanding. She just needed compassion because she was going through two deaths. I needed more education with terms of doing it a different way. She had never done it before. Every person goes through their own thing. But they really just need you to say to them, ‘what is it that we need to do as a company to help you keep this house and catch up with your payments?’”
- “...They’ll be like look, let’s work this out. And that’s what we don’t hear from them.”

Additional Research

Monitoring Foreclosure Trends

Each year, the NTIC updates its analysis of foreclosure filings from public records. This data has allowed HOPI to watch the leveling off of foreclosure starts and completions, as well as a change in the mix of types of loans going into foreclosure. This observed change includes a recent rise in foreclosures among conventional/conforming loans with adjustable rates or short-term interest-only payment periods. In addition, HOPI supported research by Bill Apgar and Mark Duda to examine foreclosure data in Atlanta, Los Angeles and other cities, further documenting patterns of foreclosures as well as differences in filings across communities. Foreclosures tend to be concentrated in low-income and minority communities in each analysis, although the location of these communities and the ability of borrowers to find alternatives to foreclosure differs. Most notably, in strong real estate markets such as Los Angeles, initial foreclosure filings (notices of delinquency) more rarely result in a completed foreclosure than in a softer housing market, such as the South side of Chicago.

Escrow Study

At meetings of lenders, servicers and NHS staff, a recurring topic has been the impact of property tax liabilities for borrowers. In 2004, a subcommittee of HOPI focused on delinquency prevention proposed further study of how escrow impacts a borrower's ability to manage mortgage payments. As data from 311 line callers (discussed previously) began to suggest that tax and insurance payments are a contributing factor for as many as one in seven troubled borrowers, HOPI partners decided to focus on the use of escrow accounts.

Traditionally borrowers have worked with their lenders to establish escrow accounts to accumulate sufficient savings to pay for annual, semi-annual or quarterly payments for taxes, property insurance or other predictable expenses related to the home. The home equity lending industry historically has not established escrow accounts for borrowers, in part due to the genesis of this type of loan product as a second mortgage. As home equity loans evolved into first-mortgage refinance loans, the practice of not establishing escrows continued.

HOPI-sponsored tabulations of the Federal Reserve Board's 2001 Survey of Consumer Finances show that the use of escrow is in fact uneven. Only 40 percent of lower-income borrowers have an escrow account, compared to 46 percent of all non-FHA borrowers with loans between \$25,000 and \$300,000. Only 19 percent of borrowers with mortgage rates of 9 percent or higher have escrow accounts. Twelve percent of lower-income borrowers have escrow accounts, compared to 26 percent of higher-income borrowers with rates in that same range. Since 90 percent of borrowers of FHA loans have an escrow account, these loans have been excluded from these tabulations. Borrowers aged over 55 are less likely to have escrow accounts established, except for those with high-interest-rate loans.⁵

Omitting escrow makes monthly payment burdens appear smaller, and therefore is more attractive to cash-strapped borrowers. However, borrowers who cannot afford a monthly escrow payment are also unlikely to be able to budget for payments for property taxes and property insurance. HOPI partners have discussed the challenges of requiring escrow in the nonprime market for home equity and refinance loans. Individual lenders competing for borrowers may be at a competitive disadvantage relative to other lenders who do not require escrow.

In order to illuminate the potential benefits to the lending industry for wider adoption of escrow accounts, NHS engaged researchers Mark Duda and Bill Apgar to analyze the use of escrow and the influence of escrow provisions on the performance of single-family mortgage loans. Unfortunately, legal constraints made it difficult to collect the level of data necessary to conduct this research. Still, the preliminary research into this area suggests potential for affecting foreclosure rates through increasing the use of escrows.

⁵ Tabulations of 2001 SCF data.

Municipal Cost Survey

The HOPE Foundation, a HOPI partner, released a report on the costs of foreclosures in Chicago at the 2005 Conference of Mayors meeting. This report focuses on the costs of foreclosure for municipalities by developing a typology of costs under various scenarios.⁶ The study calculated the costs of five typical scenarios using Chicago and Cook County budget and administrative data for 2003 and 2004 for each of 26 foreclosure-related activities. The report suggests that a single foreclosure, especially one that leaves the home vacant and unsecured, can impose tens of thousands of dollars of costs on cash-strapped public agencies.

Table 9 shows that direct municipal costs in some cases exceed \$30,000 per foreclosed property. The report also finds nearby homes and businesses also stand to lose if a rash of foreclosures brings down property prices, accelerating the decline of an entire neighborhood. The City of Chicago is now working to streamline the foreclosure process and ensure that lenders pay their fair share of foreclosure-related costs.

Table 9. Five Common Foreclosure Scenarios

<i>Scenario</i>	<i>Estimated Municipal Cost</i>	<i>City Agencies Involved</i>
Vacant and secured properties	\$430	7
Vacant and unsecured properties	\$5,358	9
Vacant, unsecured properties tracked for demolition	\$13,452	11
Properties abandoned before foreclosure is completed	\$19,227	12+
Abandoned properties damaged by fire	\$34,199	15+

Note: Costs are net of any funds recovered for foreclosure-related services.

Source: Apgar et al. 2005.

Monitoring Other Research in the Field

HOPI research is done in conjunction with many other institutions and partnerships. Staff of the Federal Reserve Board and regional banks in Chicago, Minneapolis, Buffalo and Philadelphia, as well as the NTIC, the Woodstock Institute, Harvard's Joint Center for Housing Studies, Self-Help Credit Union, Fannie Mae Foundation and other national leaders in research on community development regularly participate in HOPI meetings or have cited HOPI-developed reports. NHS staff and consultants regularly communicate with these institutions and review other research projects related to mortgage default, delinquency and foreclosure in order to guide HOPI's efforts.

⁶ See www.hpfonline.org.

Need for More Research

While much has been achieved through HOPI in terms of research and development, existing work has suggested further avenues of inquiry. These include the following topics:

- forms and scale of mortgage fraud,
- the process and economics of foreclosure sales,
- borrower contact rates and understanding borrower's psychology under stress,
- lender-specific surveys and focus groups,
- impact of new regulations in Illinois on nonprime lending,
- the role of disclosures in borrower risk assessment and choice, and
- borrower help-seeking behavior and the potential for lender referrals to local services.

Additional research on default counseling also needs to be conducted, including which borrower populations select into counseling and which decline counseling. More structured studies comparing counseling outcomes to a control group will also clarify the impact of default counseling. An analysis of the economic costs and benefits of default counseling by various modes and durations would also provide useful evidence to guide the design of counseling programs.

As a partnership between NHS and the public and private sectors, HOPI has created a platform for innovations — a forum that industry leaders and advocates can use to test ideas and to pilot strategies. It is this partnership, and the ability of private-sector lenders and servicers to translate the lessons of HOPI into standard business practices, that is at the heart of the mission and goals of the initiative. In the past three years, there has been a widespread shift in the industry recognizing the need for more proactive anti-foreclosure strategies. While HOPI has not been the singular cause of this shift, it has played a key role as a stimulus for innovation and change.

Elevating Servicing and Loss Mitigation: GMAC-RFC, Homecomings

Homecomings Financial and GMAC-RFC helped in the formation of HOPI by providing high-level leadership and resources. Homecomings Financial, the servicing arm of GMAC-RFC, placed two of its loss-mitigation staff in the NHS of Chicago offices to provide face-to-face access to clients. These staffpeople also learned new strategies for loss mitigation from NHS homeownership counselors. “By having staff at the NHS office we have learned about the philosophy and strategies of NHS. It is valuable that NHS is in the neighborhoods where the customers live; they really know the neighborhood,” explains Javid Jaber, Managing Director, ESG with Homecomings Financial.

Since that time, Homecomings and NHS staff have met regularly to work on specific foreclosure-intervention cases, develop new strategies, and plan outreach workshops. “We continue to learn from [NHS of] Chicago and our other local presence the value of face-to-face meetings with consumers. We want to not just find a solution for the borrower, but create a relationship. We are trying to create a culture where the borrower feels comfortable, like they do with NHS,” adds Jaber.

Building Counseling into the System: The Homeownership Preservation Foundation

In addition to experimenting with staffing arrangements in Chicago, GMAC-RFC and Homecomings helped develop the Homeownership Preservation Foundation, the leading resource for default counseling.

“The HOPI experiment brought resources and attention at just the right time,” according to long-time industry leader and Homeownership Preservation Foundation board member Walt Fricke. Three years ago the Credit Counseling Resource Center (CCRC) was newly formed, and Chicago’s 311 “Every Minute Counts” hotline became an ideal place to implement telephone counseling through the CCRC. From Chicago’s HOPI pilot, the national 1-888-995-HOPE national homeowner assistance line was developed, as well as targeted initiatives in Dallas and Detroit. This initiative later developed into a national effort with NeighborWorks[®] America. According to Fricke, “HOPI helped the industry to think more broadly about the impact of foreclosures on communities — that it is not just the borrower’s problem,

or the lender's problem, but the *community's* problem." The 311 and CCRC efforts led by HOPI helped servicing professionals begin to think differently about the role of counseling for borrowers, and the importance of community-based partnerships. "Clearly if something like half of borrowers in default are not talking to us, we have a problem," Fricke says.

Most lenders have bolstered their servicing operations in recent years, creating more streamlined systems for loan modifications, payoffs, short sales, reduced payment plans and other now-typical strategies for borrowers in default. "While still not ideal, the situation is much improved. Servicers that have been part of HOPI have recognized the value of becoming more specialized, more cooperative...and more focused on communication."

Continued Fricke, "as the industry expanded product offerings for borrowers with lower credit and we have moved to using brokers removed from any risk, it is in a difficult position." HOPI has worked to highlight the problems of commission-based brokers and the separation of responsibility between owners of mortgage risk and originations. In the future, HOPI will have to continue to push further both on the limitations to loss mitigation by investors of mortgage securities, as well as down to the origination process.

Working with REO Properties: Citigroup's Asset Disposition Innovations

In some cases a borrower cannot sustain homeownership, a home sale is not possible, and foreclosure is the only option. As lenders take possession of homes into their REO, they are faced with pressure to liquidate the property as quickly as possible for the maximum value. But in some distressed neighborhoods and for distressed properties, homes are difficult to sell and can become a magnet for community problems.

As one of the nation's largest mortgage lenders, Citigroup and its affiliates have a great deal of experience in managing foreclosed properties. "Some nonprofits come to us and say 'show me your REO list' and then ask for properties as a donation. While we recognize the neighborhood preservation issues involved, it is not sustainable to give away REO assets," according to Heidi Coppola, Senior Securities Regulatory Counsel at Citigroup. "HOPI helped move the discussion to think outside the box. We were able to come to them and explain our business needs; NHS was able to design a program within the confines of the reality of our business." Citigroup has learned the importance of being strategic with REO-related programs to make the best use of foreclosed homes. It has pilot programs to provide exclusive marketing relationships with nonprofits for a set period so that qualified buyers might purchase REO properties. In other programs, the nonprofit purchases the home outright in order to rehab the property and resell it to a first-time buyer. In one innovative program in Indiana, Citigroup REO properties are being donated to a nonprofit using them as a work project to train released offenders in construction trades. "The costs foregone when donating or discounting an REO asset are significant," continued Coppola. "NHS has set a good example in documenting how the property was handled and can trace its impact on revitalization."

"HOPI has showed us how to challenge other communities to make the best use of foreclosed homes. Not all of these projects work...we are pushing the envelope, but we are learning what works. And when it does not work, we try something else. That's how we can make

progress,” according to Coppola. HOPI has led the way on creating partnerships between nonprofits and lenders for loss mitigation, and continues to develop new approaches that use the partnership model to stimulate better solutions to REO properties for lenders that also revitalize neighborhoods.

Creating New Servicing Systems:

Chase and the Homeownership Preservation Office

In merging Chase and Bank One, the combined company recognized the need to address issues of mortgage default and foreclosure mitigation. The result was the creation of the Homeownership Preservation Office. The Office bridges Chase’s Homeowner Assistance Department (servicing) and locally based counseling and services. One of the first major local initiatives of the HPO was HOPI. “As we expanded to other cities, it was always valuable to come back to the HOPI model. Local leaders in other markets had done their research and knew the Chicago model was worth following,” said Bonnie Boards, a Homeownership Preservation Officer at Chase.

The Office has established local partnerships in eight cities or states, while providing its toll-free phone number to nonprofit organizations nationally as a single point of entry into the servicing department. The Office plans to build the capacity of mortgage counselors, including phone consultations on potential workout resolutions, and regional workshops and training sessions. So far the Office has conducted 31 sessions, training over 1,000 counselors from nonprofit agencies. Meanwhile, more than 400 borrowers have been assisted through phone consultations provided through the Office’s toll-free number for nonprofit counselors. “HOPI helped us understand the issues that nonprofits are dealing with, and what they needed to improve...HOPI has also targeted key policy and regulatory issues, especially how secondary market mandates can limit the options available to homeowners,” continued Boards.

The Office is often viewed as a leading innovation among lending institutions; several HOPI partner institutions have created similar support systems to facilitate HOPI-like nonprofit partnerships in other cities. “With HOPI and other partnership systems in place, we now need to begin to look at what other innovations we can do,” Boards said.

In the coming year, the industry is likely to face challenges as cases of rescue fraud increase and more borrowers face interest-rate and/or payment resets. But efforts such as the Homeownership Preservation Office provide ample opportunities to develop new approaches.

Weeding Out Origination Problems and Providing Rescue Funds:

HSBC’s Ineligible List and Rescue Fund

HOPI lender partner HSBC has been a leader in discovering brokers and appraisers who are at the root of cases of mortgage fraud. In addition to holding up high expectations and standards for the mortgage professionals who work with HSBC, the company has created an ineligible list of mortgage brokers who violate their guidelines. The list, after a careful review, is posted publicly on the Internet. Brokers placed on the list are prohibited from any activity through HSBC’s Decision One broker system. “Any brokered loan in our system has to adhere to all company guidelines including broker licensing requirements and statement of

business principles. Each loan also must include a signed statement by the broker and the borrower that the loan provides a benefit to the borrower,” said Loretta Abrams, Vice President for Consumer Affairs. An independent unit at HSBC is responsible for approving brokers, monitoring their compliance status and watching for complaints. The system has not only caught bad actors, but also discourages unscrupulous brokers from making loans at all.

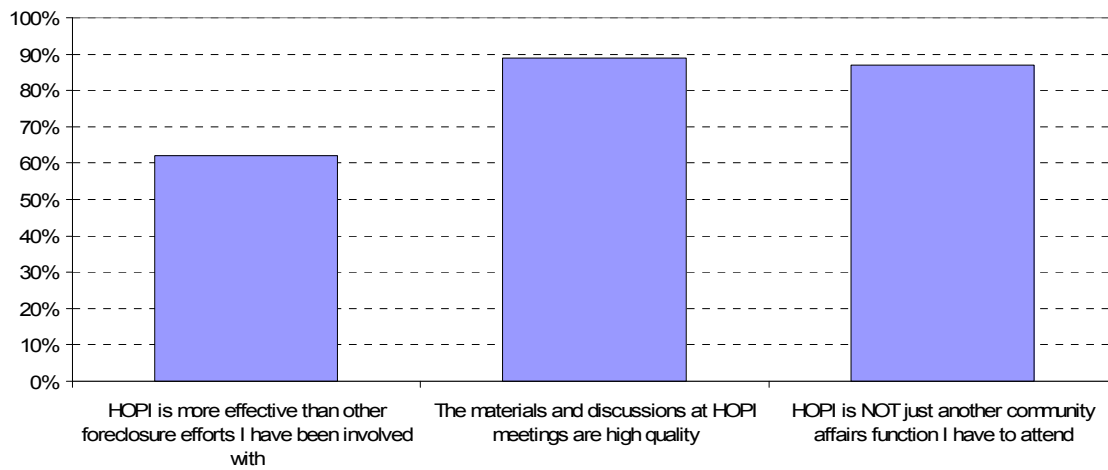
In addition to this effort to confront mortgage fraud, HSBC is helping borrowers having problems. When borrowers have a change in circumstances that results in a significant drop in income or increase in expenses, their current mortgage, however well designed, may no longer be sustainable. HSBC has funded a \$25 million rescue loan fund to refinance borrowers in these situations, providing them with a fresh start regardless of the credit situation. These refinance loans, provided only to non-HSBC borrowers and available in 17 states (including Illinois), carry no points or fees and offer below-market interest rates for qualified borrowers. Borrowers may not take any cash out or consolidate debt. “We have learned if borrowers have sufficient income, including regional differences in utility and other costs, they can keep their home,” said Abrams. For more information on the fund see <http://fairlending.com>.

“HOPI has been *the* model for the industry. Because we have all parties working collaboratively and cooperatively, including a credible, community-based organization in NHS, lenders who share the same goal of keeping families in their homes, and a city with strong infrastructure, HOPI is a nearly perfect program.” Continued Abrams, “we hope our other efforts nationally with NeighborWorks[®] and others are as successful as HOPI.”

HOPI Partner Survey

In May 2006, NHS sponsored a Web-based survey of HOPI lender partners regarding their opinions of the HOPI pilot after three years. The results were strongly positive. HOPI meetings, research and services provided to clients all were rated as being of high value. More than three-quarters of partners believe HOPI delivers more benefits than it costs. Figure 8 displays results to several of the questions. These responses and the changes that HOPI partner lenders are making to their own business operations are evidence of the useful impact of the partnership.

Figure 8. HOPI Survey of Lender Partners Program



Emerging Trends and Next Steps

The HOPI partnership has set the standard for foreclosure-intervention partnerships for the last few years. Activities, methods and the measurements established are now the industry standard for finding and implementing solutions to foreclosures. But the work is far from done. In May 2006, the Chicago *Tribune* reported that “In Illinois during the first three months of 2006 nearly 13,700 properties entered foreclosure, up 32 percent from the fourth quarter of 2005 according to an analysis by property tracker RealtyTrac Inc.” (Yerak, 2006).

This partnership model and the programs created will be essential as the industry moves to the next frontier of foreclosure. HOPI partners have already identified some aspects of the next phase of work needed, including addressing the impact of exotic mortgage products (including no-interest, payment option, piggy-back, and adjustable-rate loans); finding ways to stop mortgage fraud; increasing contact with borrowers before foreclosure; increasing the involvement of mortgage-backed securities investors; and finding creative solutions for families in default.

Addressing Exotic Loan Products

In an effort to expand homeownership in an environment where housing costs have escalated for over a decade, mortgage lenders around the country have turned to more creative and flexible mortgage products, including interest-only and adjustable-rate mortgages. Interest-only loans accounted for 17 percent of originations in the second half of 2004 and adjustable-rate mortgages (ARMs), not including interest-only ARMs, accounted for an additional 46 percent of originations (Simon and Hagerty, 2005). An estimated 82 percent of subprime debt is in adjustable-rate loans (*Business Week*, 2005).

When the payment reset occurs, borrowers can be unprepared for the initial shock to their budget. Foreclosures for prime ARMs were 87 percent higher than fixed-rate loans in the first quarter of 2006, although less when comparing subprime fixed and adjustable loans. Notably, many newspapers around the country are highlighting stories of owners facing foreclosure because no affordable refinancing option was available to them at the time of reset.

HOPI partners are already working with NHS to address these issues and will continue to do so into the next phase of the partnership. Over the last three years NHS has had success with workshops geared towards homeowners that cover a wide array of topics including foreclosure, taxes, home improvement and refinancing. NHS is now piloting workshops geared toward borrowers with specific types of loans. The first of these workshops is being targeted at borrowers with adjustable-rate mortgages that will reset within the next six months. Such workshops allow borrowers with a specific set of issues to hear information geared precisely toward their situation. Lender partners will assist NHS staff in the presentation and be available to clients for appointments at the end of the session.

These efforts are a good first step toward stemming the possible deluge of foreclosures in the upcoming year. However, more services will be necessary to assist additional, hard-to-serve families who have nontraditional mortgages.

Finding Solutions to Fraud

The FBI recently reported a 75 percent increase in mortgage fraud complaints during 2005, according to a recent article in *Secondary Marketing Executive* (Prieston, 2005). Mortgage fraud comes in a variety of packages — fraudulent appraisals, documentation of income or identity, or dishonest lending practices. NHS has identified four major types of mortgage fraud that appear to be affecting the target neighborhoods which receive its services. They include:

- **Fee for Service Loss Mitigation:** Individuals posing as “foreclosure helpers” offer to make contact with a borrower’s lender on his or her behalf to arrange a workout. They usually request payment up front and never provide any services. Fees range from \$500 to \$1,500, which are small by comparison to other frauds, but which diminish the resources available to the borrower for a real workout and decrease the likelihood of making real contact with his or her lender.
- **Buy–Lease Back Scams:** Some of the most insidious types of foreclosure rescue scams are those that involve buy–lease back deals. In these situations, groups of investors usually represented by a “rescuer” offer to purchase the home of an owner in foreclosure with the option for them to repurchase the home at a later date. The owner continues living in the home while paying rent. These deals are almost always designed to fail. The pay-off for the owner tends to be far less than market value and the transaction costs siphon off most of the owner’s remaining equity. The repurchase agreement sets a price for the home that the current owner can not meet. In addition, the rent is generally set so high that the resident finds him- or herself evicted within a matter of months.
- **No-Doc Loan Fraud:** Traditionally, low- and no-documentation loans were reserved for high-income or wealthy individuals who worked on commission or lived off investments. Today, they are increasingly being sold to low-income individuals who would not qualify for a mortgage if they were honest about their income. NHS has seen an increase in these types of loans, especially with immigrant borrowers in low- and moderate-income communities. While these loans are not necessarily fraudulent, NHS has seen several cases where the broker encouraged the borrower to lie about his or her income or even created false documents on their own to qualify the borrower for a larger loan — and thus to earn themselves a larger commission.
- **Property Flipping and Default:** This type of fraud requires several players acting in concert to defraud the lender. In most cases, a straw buyer purchases a home, generally for a very low sum of money. Shortly thereafter, the owners get a new, false appraisal indicating that the value of the home is significantly higher than the original purchase price. The straw buyer resells the home to a second fraudulent buyer and the two pocket the difference between the two loans. No payments are ever made on the

new mortgage and the building falls into disrepair. In one Chicago neighborhood, NHS staff found four properties where the name of the first seller was the same, all of which were in some stage of foreclosure.

In addition to drawing the attention of HOPI partners, mortgage fraud has also attracted the interest of regulators and lawmakers. The state of Illinois recently passed legislation that will make the most egregious types of rescue fraud illegal, but it will not go into effect until January 2007. The law, which is modeled on a statute already in place in Minnesota, requires foreclosure “rescuers” to provide clients with a contract explaining their services and prohibits the collection of fees until these services are rendered. In addition, companies offering “lease/buy backs” are required to pay the seller no less than 82 percent of the market value of their home and create a buy-back price and rental agreement that is reasonably achievable by the seller.

In response to a *Chicago Tribune* series on mortgage fraud, Senator Barak Obama also introduced federal legislation to address several types of mortgage fraud. This legislation will create a list of fraudulent mortgage actors that lenders and local law enforcement officials can use to avoid repeat offenders. Should the legislation pass, it will be an important step toward weeding out bad players. However, it is unlikely to help identify and prevent fraud before it takes place.

NHS staff are uniquely positioned to identify emerging fraud trends in low- and moderate-income communities, and through the HOPI partnership, to work with industry leaders to identify solutions. HOPI can serve as a forum for industry and community leaders to exchange information about fraud trends and develop strategies to combat them. Currently NHS is working with the Mortgage Bankers Association’s fraud task force to host a round-table discussion on fraud between NHS frontline staff and MBA members with expertise in fraud. NHS can also work collaboratively with lender/servicers, municipal government and other regulatory entities to bring its expertise to bear on helping mitigate these issues.

Understanding Borrower Psychology

In the last decade, mortgage origination systems have made significant advances in targeting mortgage products, services and advertising to traditionally underserved markets. Low-income, immigrant and minority borrowers have been researched and analyzed, leading to the creation of niche strategies to make capital available to new borrowers. One major lesson of this process has been that these emerging markets were different. African American borrowers had different needs and trusted different actors than Hispanic or Latino borrowers, for example. Yet in loan servicing and loss mitigation, differences in culture and background have not been as closely explored. A better understanding is needed of the types of reactions of borrowers in different circumstances.

In addition, NHS is planning follow-up surveys and focus groups to better understand why some borrowers seek out assistance while the majority do not. This research will include information on contact borrowers make with both their lenders and third-party counselors. In addition, NHS is working on piloting customer satisfaction surveys for partner lenders to gauge the effectiveness of lender and servicer outreach.

Engaging Wall Street

In the modern mortgage market, loans are bought and sold in packages to investors. This sharing of risk makes more money available to more people, but it also makes it difficult to deal with individual mortgages. In working with servicing and loss mitigation staff on individual cases, frontline staff often find that the servicer is restricted by the securitization agreement for the loan. This means that even when a creative and economically beneficial alternative to foreclosure is found, it may be ruled out as a solution. More work needs to be done to understand the extent to which security regulations and agreements hamper loss-mitigation activities.

In order to overcome securitization obstacles to loss mitigation, investors in mortgage-backed securities must engage in the discussion on foreclosure prevention and intervention. As adjustable-rate mortgages reset and foreclosures increase, this will be particularly important. While recapture agreements between lenders and investors may protect the financial stake for the investor, each loss represents a family in need of a solution who should not be overlooked. In addition, as discussed earlier in this report, each foreclosure also represents a reduction in area housing values, which ultimately means fewer mortgages for lower amounts and decreased returns on these investments. Further, foreclosures and the situations surrounding them are increasingly a problem for the reputations of institutions.

Investors and intermediaries also have an increasing interest in technology to monitor fraud. When used effectively, current systems have the potential to screen out bad actors among mortgage brokers, or flag loans for more scrutiny — but many holes remain. As new systems are developed, their impact on neighborhoods will be important to monitor. HOPI's experiences on the ground can help refine these models, identify key indicators of problematic loans, and connect the dots to understand when and how fraud is perpetrated.

Industry analysts are predicting softening real estate markets, large numbers of adjustable-rate mortgages with resets, and rising interest rates — all of which are expected to result in rising mortgage defaults. Mortgage investors and ratings agencies may begin to recognize the need to find more effective strategies that can fit within the security structure and mitigate the costs of mortgage foreclosures. The proliferation in recent years of new types of loans entailing increased credit risk suggests even more potential for HOPI-developed services for borrowers in distress.

Conclusion

Since the creation of the HOPI partnership three years ago, much positive change has taken place in combating foreclosures in the City of Chicago. This change would not have been possible without the unique public, private, and nonprofit partnership of the Home Ownership Preservation Initiative.

Lender partners brought expertise and experience in the foreclosure process and the willingness to adapt their business processes to prevent foreclosures. The City of Chicago used its voice to raise awareness and promote resources for Chicago families facing financial crisis, as well as to identify vacant and abandoned buildings. NHS harnessed its 30 years of experience with counseling and redevelopment to both prevent foreclosures and reclaim vacant and abandoned buildings.

Through these efforts, more than 1,300 families avoided foreclosure, 330 buildings were reclaimed, and 4,000 people were educated about how to avoid foreclosure. Across the city, foreclosure starts are declining and more and more Chicagoans are armed with knowledge about how to handle the threat of foreclosure.

This unique partnership model is already being replicated around the country as more and more communities face foreclosure crises. Having carefully researched and documented its work, HOPI is now providing a template for how to start and run foreclosure prevention and intervention programs.

However, we are far from finished. As the mortgage market changes, these strategies must continue to adapt to address the new challenges that arise. In the coming years, billions of dollars in adjustable-rate and interest-only mortgages will reset and new families with new problems will need comprehensive counseling to address their situations. While certain types of predatory lending have declined, new versions of old fraud are already beginning to emerge and will require the attention of the city and its partners. The good news is that we have the tools and partners in place to take on these new challenges.

HOPi Participants, 2003–2006

HOPi Supporters

ACC Capital Holdings/Ameriquest Mortgage Company
Bank of America
J.P. Morgan Chase
The Chicago Community Trust
Citigroup
Countrywide Home Loans, Inc.
Federal Home Loan Bank of Chicago
First American Title Insurance Company
GMAC-RFC/Homecomings Financial Services
Lloyd A. Fry Foundation
HSBC North America
LaSalle Bank
Lehman Brothers Bank
MB Financial Bank
National City Bank
NeighborWorks[®] America
New Century Mortgage Corporation
The Northern Trust Company
Ocwen
Option One
Polk Bros. Foundation
TCF Bank
Washington Mutual
Wells Fargo Housing Foundation

Additional HOPi Participants

The City of Chicago
City of Chicago Department of Housing
City of Chicago 311 Center
Credit Counseling Resource Center
Fannie Mae Corporation
Fannie Mae Foundation
Federal Depository Insurance Corporation
Federal Reserve Bank of Chicago
The Homeownership Preservation Foundation
Litton/C-Bass
The John D. and Catherine T. MacArthur Foundation
National Training and Information Center
Select Portfolio Servicing
Suntrust Mortgage

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